The American Dream in Historical and International Perspective

Economics of Public and Social Issues

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Plan for today

1. Historical comparison of intergenerational mobility
2. International comparison of intergenerational mobility

Historical comparison of intergenerational mobility

Trends in Mobility Over Time

- Thus far, we have focused primarily on a snapshot of rates of upward mobility for children growing up in America today
- As we just discussed, a historical perspective is often useful in understanding determinants of current outcomes
- We cannot yet study trends in mobility by neighborhood, but we have made progress in understanding mobility over time at the national level

A Historical Perspective on the American Dream

- Historically, American Dream has been defined as the aspiration that children should have higher standards of living than their parents
- When asked to assess economic progress, children frequently compare their earnings to their parents [Goldthorpe 1987]
- Obama (2014): "People's frustrations are partly rooted "in the fear that their kids won't be better off than they were"
- What fraction of children earn more than their parents, and how has this changed over time?
  Reference: Chetty, Grusky, Hell, Hendren, Manduca, Narang. "The Fading American Dream: Trends in Absolute Income Mobility Since 1940." Science 2017.

Data issues

SOCIAL MOBILITY MEMOS
How many people are better off than their parents? Depends on how you cut the data.
Dimitrios Halikias and Richard V. Reeves · Wednesday, August 10, 2016

Measuring the American Dream

- Key challenge: don't have data linking parents to kids historically
- Chetty et al. (Science, 2017) develop a method of estimating historical rates of mobility even in the absence of parent-child links
- First describe basic results and then explain methodology

Percent of Children Earning More than their Parents

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Percent of Children Earning More than Their Parents, by Birth Cohort

Methodology: Constructing Historical Estimates of Mobility

- Researchers are able to get reliable estimates of mobility even though we do not have historical data linking kids to parents
- Fundamental reason: almost all kids born in 1940 earned more than all parents does not matter which kids are born to which parents

Household Income Distributions of Parents and Children at Age 30 (Children in 1940 Birth Cohort)

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- Fundamental reason: almost **all** kids born in 1940 earned more than **all** parents $\rightarrow$ does not matter which kids are born to which parents
- This is **not** the case for kids born in 1980s, but fortunately we have data linking kids to parents for that generation

Household Income Distributions of Parents and Children at Age 30 (Children in 1980 Birth Cohort)

What Policies Can Increase Absolute Mobility?

- Two major changes in American economy since 1940: lower total economic growth rates and less equal distribution of growth

Growth in Real Mean Family Income by Income Quintile

1947-1973

Source: Goldin and Katz (2007)

Growth in Real Mean Family Income by Income Quintile

1947-1973 vs. 1973-2013

Source: Goldin and Katz (2007)

Income growth by percentile

Note: Inflation-adjusted annual average growth using income after taxes, transfers and non-cash benefits.

Share of Income Going to Households in the Top 1%, by Year

What Policies Can Revive Absolute Mobility?

- Two major changes in American economy since 1940: lower total economic growth rates and less equal distribution of growth
- Consider two hypothetical scenarios for children born in 1980:
  1. Higher growth: growth rate since birth corresponding to 1940 cohort, with income distributed as it is today
  2. More broadly shared growth: Same growth rates as today, but distributed across income groups as in 1940 cohort

Percent of Children Earning More than Their Parents: Hypothetical Scenarios

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Percent of Children Earning More than Their Parents: Hypothetical Scenarios

International comparison of intergenerational mobility

Trends in Upward Mobility: International Comparisons

- Recap of last lecture: fraction of children earning more than their parents fell from 90% for those born in 1940 to 50% for those born in 1980
- Two-thirds of this decline was due to changes in the distribution of growth and one-third was due to slowing overall growth rate of American economy
- How does the American experience compare to other countries?
- Berman (2018) applies methodology of Chetty et al. (Science, 2017) in other countries to answer this question

Mobility in the US

Mobility in Denmark

Mobility in Nordic Countries, UK and US

Mobility in the Canada and Continental Europe

Restoring the American Dream

- Main lesson: restoring the American Dream of high rates of upward mobility will require more broadly shared economic growth
- Need policies that will increase incomes in the bottom and middle of the income distribution

Restoring the American Dream: Two approaches

- Two broad approaches: redistribution (taxes/transfers, min wages) or increasing skills of lower-income Americans ("human capital")
  1. Piketty and Saez: reductions in top income taxes and erosion of unions and minimum wages have led working-class Americans to fall behind
  2. Goldin and Katz: race between education and technology – need education to keep pace with technological change to increase wage rates

What is education?

- We will discuss both tax policy and education in greater detail in later lectures
- Important note: "education" is not just about technical skills
- Deming (2018) demonstrates this by investigating how wage rates vary with technical and social skills over time

Growth in Real Hourly Wage Rates by Occupation Task Intensity

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- Policies to improve such skills could range from changes in education and training programs to housing voucher policies

Is Increasing Social Mobility Desirable?

- Thus far we have assumed that our goal should be to increase mobility
- But policies that increase mobility may not be desirable from an efficiency perspective
- Random college admissions would maximize social mobility
- But would violate principle of meritocracy and would likely reduce total economic output and growth
- Next large topic: Human capital accumulation (role of education)