



Which Trend in Intergenerational Income Mobility?

Regression-Based Measures of Intergenerational Income Mobility in the Panel Study of Income Dynamics (PSID)

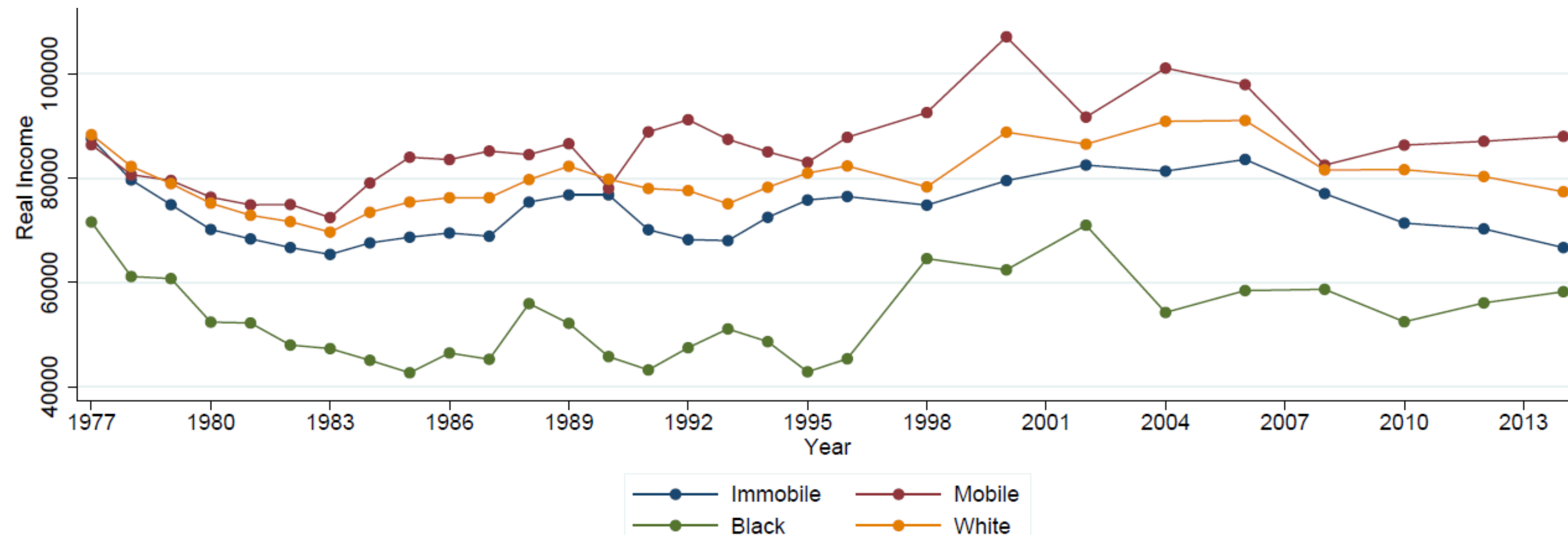
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Abstract: I present evidence on static estimates and time trends in intergenerational income mobility for the US using survey data by the dominant regression-based measures: the intergenerational elasticity of income and intergenerational rank-rank association. I find the intergenerational income elasticity and rank-rank association to be estimated around 0.4 and 0.3 respectively, and evidence regarding changes across the income distribution and across demographic groups to be less conclusive. A negative trend is found by both measures 1980-2014, in contrast to previous studies. Lastly, I consider what these results mean for studies that attempt to show trends in mobility in our dynamic and changing economy, with application to between group comparisons and using survey data in the study of intergenerational mobility.

Introduction:

- We live in a society with growing income inequality, and there is a growing worry that intergenerational mobility is decreasing as a result. Does the “Great Gatsby Curve” exist for the US 1980-2014?
- I produce a labour economic research paper that uses two similar measures of mobility to show any trends over time. The data set is the Panel Study of Income Dynamics (PSID), the largest longitudinal data-set which matches children in the sample to their parents. Extends methods presented by Lee, Solon (2009) a further 14 years and to rank-based measures, as presented by Chetty et al (2014).



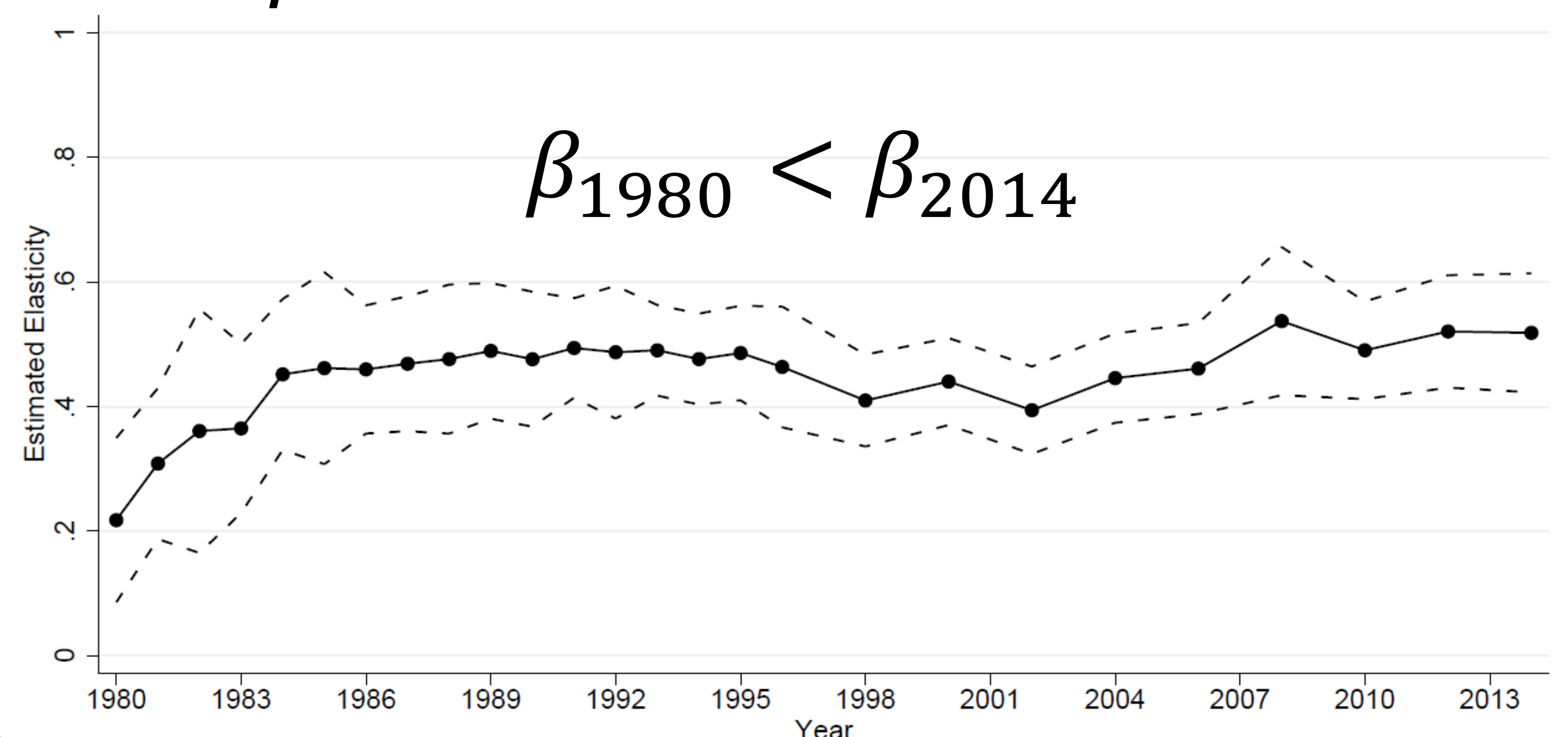
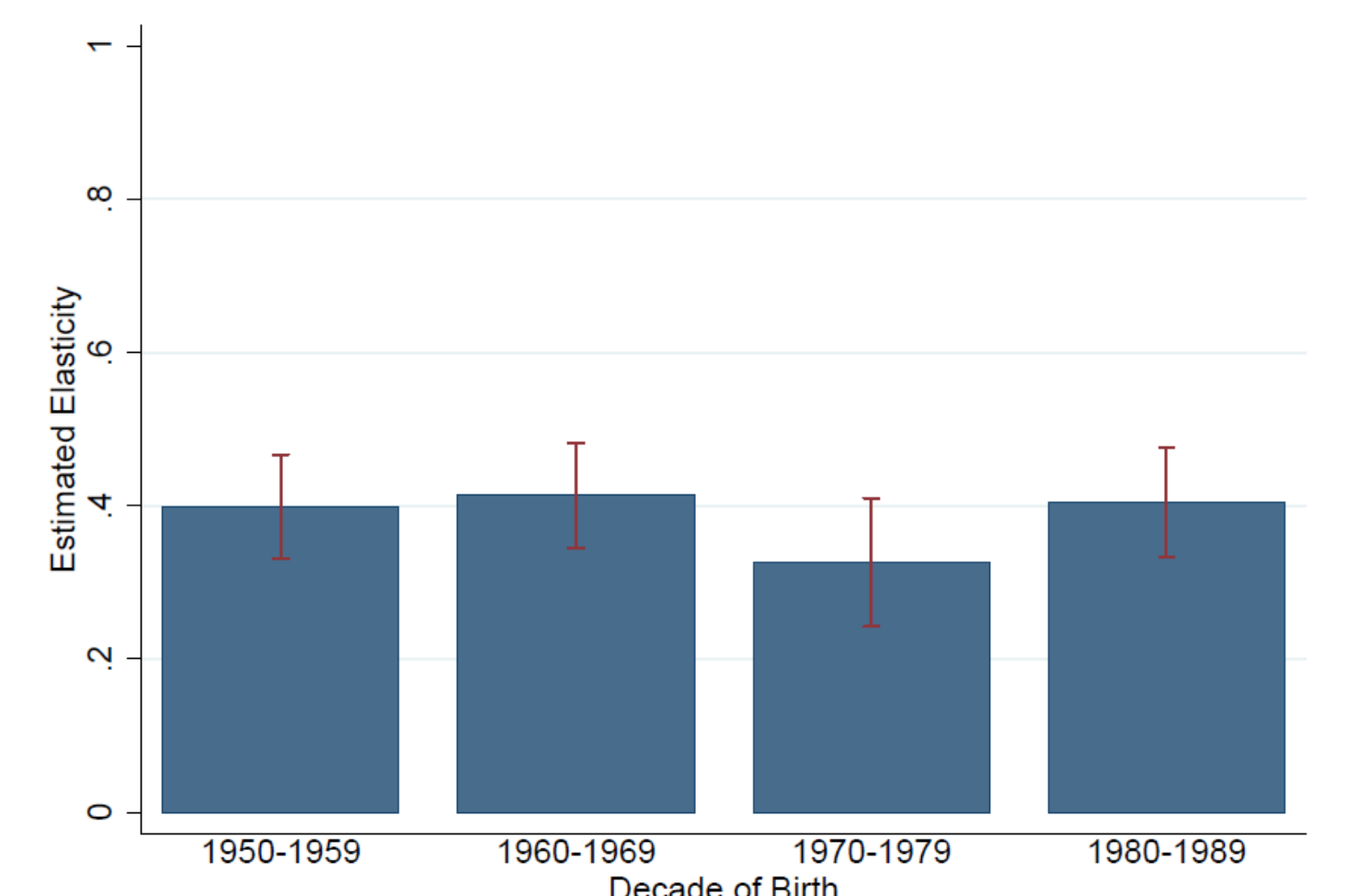
- Analysis across comparison groups, black vs white and geographically mobile vs immobile (see above), demonstrate the difficulties that studies on mobility using survey data run in to.

Intergenerational Income Elasticity (IGE):

Let Y be the log function of a long-run income measure for children, X for their parents.

$$Y = \alpha + \beta X + \varepsilon$$

$$\Rightarrow \beta \approx 0.4$$

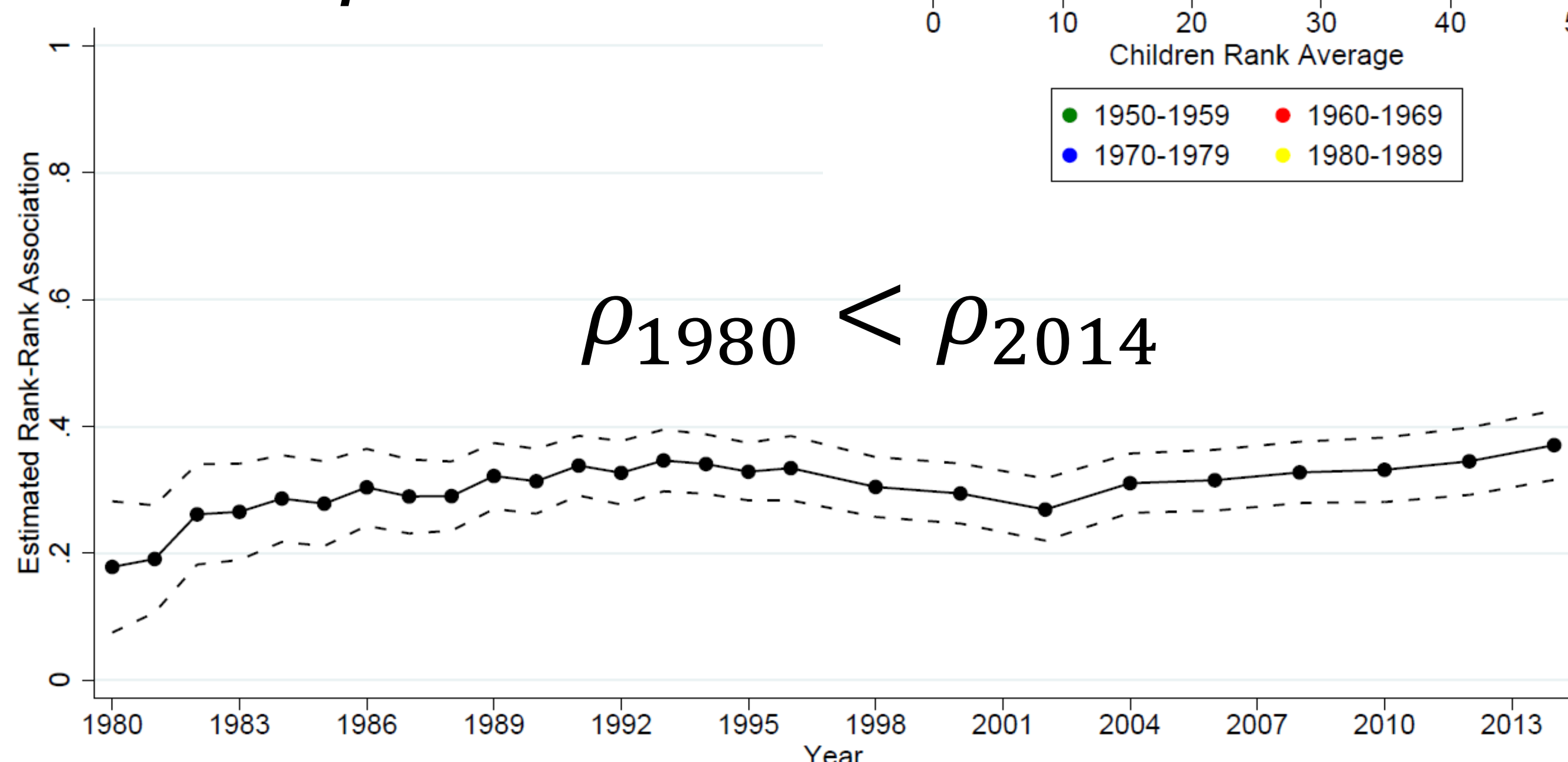
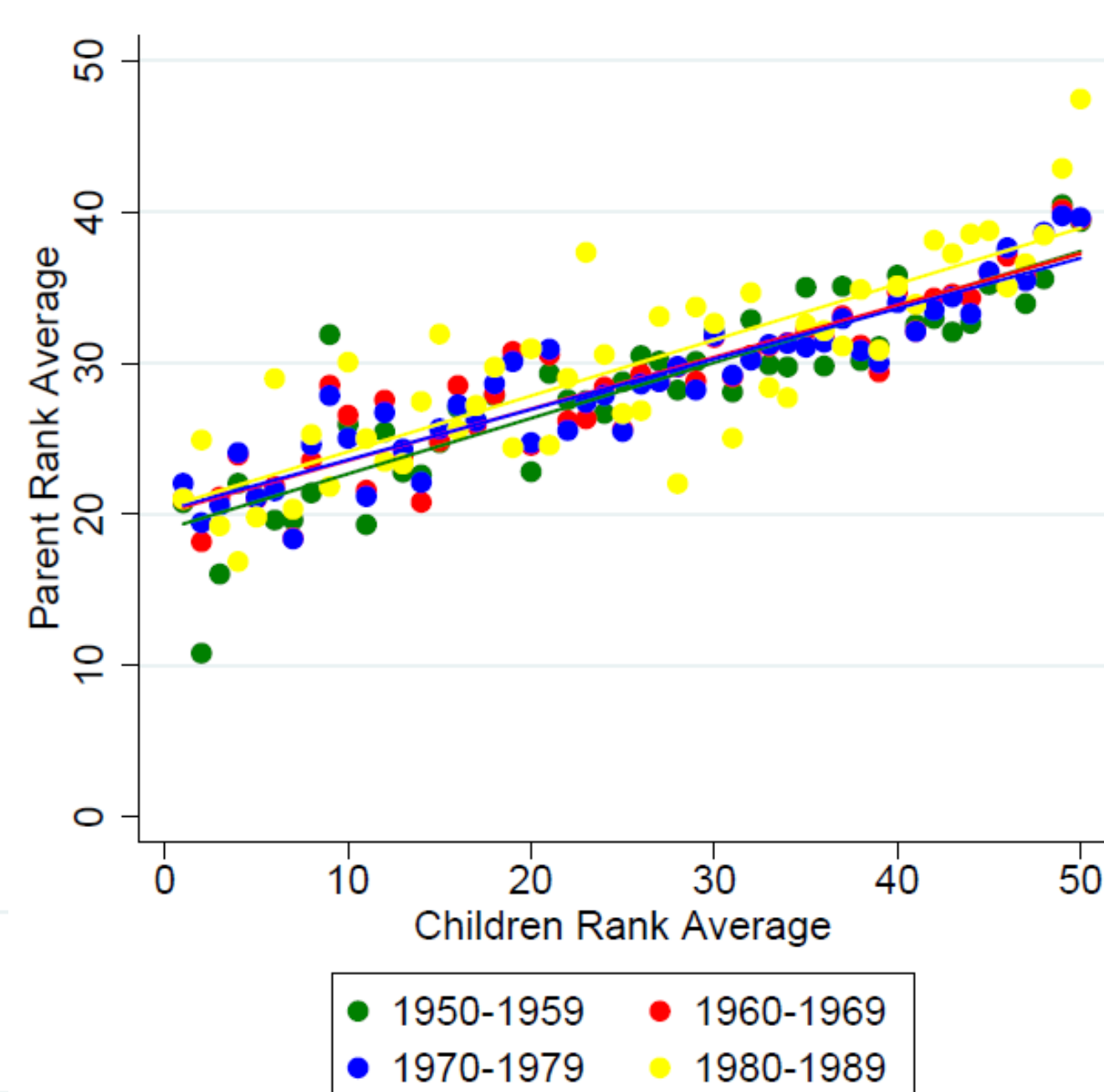


Intergenerational Rank-Rank Association (IRA):

Let U be the rank of children's long-run income in the distribution, V for their parents.

$$U = \eta + \rho V + \varepsilon$$

$$\Rightarrow \rho \approx 0.3$$



Conclusion:

- Intergenerational income mobility, measured by $1 - \beta$ and/or $1 - \rho$, declined for 1980–2014.
- These results happen simultaneously with a drastic rise in income inequality.
- In-group comparisons in regression-based measures are inconclusive in survey data, demonstrating the vast sample selection issues for survey data – even for methods produced by Lee, Solon (2009) to limit these problems.
- Repercussions for equality of opportunity; is intergenerational mobility an appropriate instrument for opportunity?

Bibliography:

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- Corak, Miles. "Do poor children become poor adults? Lessons from a cross-country comparison of generational earnings mobility." *Dynamics of inequality and poverty*. Emerald Group Publishing Limited, 2006. 143-188.
- Lee, Chul-In, and Gary Solon. "Trends in intergenerational income mobility." *The Review of Economics and Statistics* 91.4 (2009): 766-772.