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Intergenerational Income Mobility

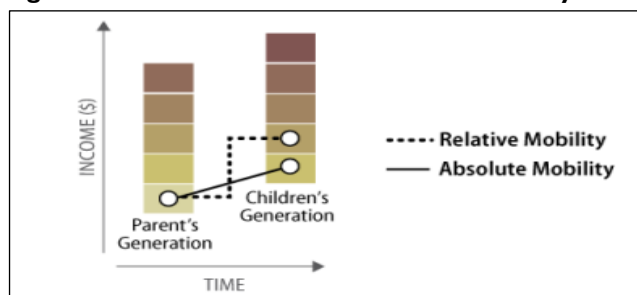
In a mobile society, individuals' incomes and income rank rise and fall over time. *Intergenerational income mobility* describes these patterns across generations; specifically how children's incomes in adulthood compare with their parents' incomes in the past. There are several ways to assess the degree of intergenerational mobility, but fundamentally, a society exhibits *more* intergenerational mobility where children's incomes are *less* determined by their parents' income or rank. By contrast, where income mobility is lacking, individuals are more likely to remain at the economic position of their upbringing; the rich stay rich and the poor stay poor.

Strong intergenerational income mobility is generally appealing because it means that children are not entirely constrained by the resources or economic status of their childhood. Instead, building blocks of economic prosperity (e.g., education, health, credit, and job markets) are broadly available, and effort, education, investment, and talent can generate economic success regardless of a child's starting point. Optimism in the United States about broadly shared economic opportunities has waned recently and concerns about declining mobility have been bolstered by new research findings that indicate a falling trend in the share of children who have higher incomes than their parents did, when compared at similar ages.

Measuring Intergenerational Mobility

In broad terms, intergenerational income mobility measures can be grouped into two categories: *absolute measures* describe children's income levels (in inflation-adjusted dollars) relative to their parents' at similar ages, and *relative measures* compare children's rankings in the (contemporary) income distribution to their parents' placement in a past income distribution (i.e., the family's rank during childhood).

Figure 1. Absolute and Relative Income Mobility



Source: Congressional Research Service.

Absolute and relative income mobility measures do not necessarily have the same magnitudes nor must they move together over time. Because distributional rank describes one's placement *relative to others*, it is possible for incomes to rise in absolute terms but distributional rank to remain

unchanged or decline. This is illustrated in **Figure 1**, which depicts an individual (solid line) who is mobile across generations in absolute terms (i.e., higher income), but not in relative terms (i.e., rank is unchanged). The dashed line indicates an individual who is mobile across generations in both relative terms and absolute terms.

Empirical Challenges

Efforts to estimate the degree of intergenerational income mobility in the United States have encountered several empirical hurdles, including a paucity of datasets that track incomes across generations, small sample sizes, and imprecise measurement of incomes. In addition, analysts must decide how to define incomes and select methods to ensure that child-parent comparisons are meaningful. These choices include selecting a price deflator to inflation-adjust parents' incomes, identifying the ages at which children and parents were at comparable life stages, and accounting for changing trends in household size and composition, the value of non-cash benefits (e.g., employer-sponsored health insurance), and work-related costs associated with dual-earner households (e.g., child care).

Prominent Data Sources

Many studies use data from the Panel Study of Income Dynamics (PSID), which has collected information from a large-scale nationally representative sample of families since 1968. Important to mobility research, the PSID continues to collect information on children who reach adulthood and leave their parents' home. It also contains information on education and other factors that may help discern drivers of the parent-child income connections.

A recent and promising development to intergenerational mobility measurement is the publication of a detailed set of mobility estimates by researchers at the Equality of Opportunity Project, based on a large sample of federal income tax records. A 1986 change to the U.S. tax code that required tax return filers to provide dependents' Social Security numbers allowed for a direct comparison of the income distribution rankings of families in 1987-1998 to later rankings of children from those families in 2000-2012.

Recent Research Findings

Recent studies indicate that large shares of children have higher incomes (in adulthood) than their parents did at similar ages (i.e., indicate upward absolute mobility), but also offer some evidence that this share has declined among children born between 1940 and 1984. In terms of relative mobility, the share of children who rise to a higher distributional rank than that held by their parents is lower, but does not appear to have changed discernibly for individuals born between 1971 and 1982.

Absolute Mobility Estimates

Table 1 summarizes recent estimates of the share of children who had higher incomes as adults than their parents did at similar ages, using PSID data. Estimates are between 63% and 84%, with the wide range reflecting differences in data years, sample studied, and definitions.

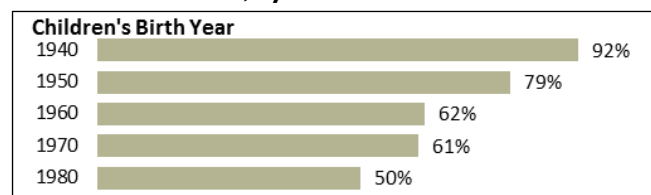
Table 1. Absolute Upward Intergenerational Mobility Estimates, Based on PSID Data

Study	Children with Higher Incomes than Their Parents	Birth Cohorts
Urban (2016)	63%	1963-1968
Pew (2012)	84%	1950-1968
Brookings (2008)	67%	1950-1968

Source: Urban Institute, *What Would Substantially Increased Mobility from Poverty Look Like?*, 2016. The Pew Charitable Trusts, *Pursuing the American Dream: Economic Mobility Across Generations*, 2012. The Brookings Institution, *Getting Ahead or Losing Ground: Economic Mobility in America*, 2008.

A recent study—using new methods and a combination of federal tax records and Census data (i.e., not PSID data)—finds that upward mobility, measured in absolute terms, has declined markedly among individuals born between 1940 and 1984. **Figure 2** summarizes this main result, and shows that, whereas 92% of children born in 1940 earned higher incomes at the age of 30 than did their parents, this share dropped to 50% for children born in 1980.

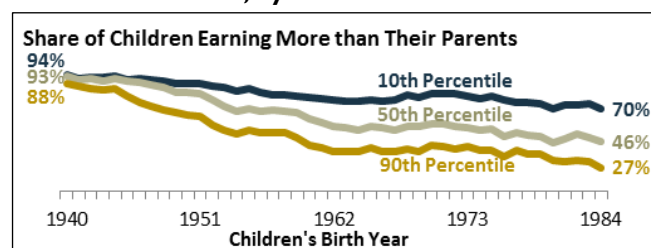
Figure 2. Share of Children with Greater Incomes Than Their Parents, by Children's Birth Year



Source: R. Chetty, D. Grusky, and M. Hell, et al., *The Fading American Dream: Trends in Absolute Income Mobility Since 1940*, National Bureau of Economic Research Working Paper 22910, 2016.

The same study also finds that the degree to which absolute mobility declined is larger for individuals raised in higher income families (**Figure 3**).

Figure 3. Share of Children with Greater Incomes Than Their Parents, by Parent's Income Rank



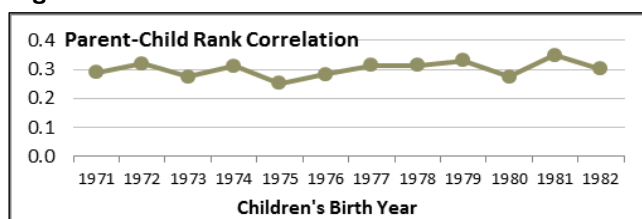
Source: Chetty et al., 2016.

Intuitively, the higher a parent's income, the harder it is for a child to surpass it; consistent with the recent sharp rise in incomes at the top of the distribution, this hurdle has increased over time. A comparison of results for the 1940 and 1984 birth cohorts (**Figure 3**) indicates that the share of children who earned more than their parents fell by 60.4 percentage points for children from families ranked at the 90th percentile of the income distribution, whereas the decline was 23.9 percentage points for those from the 10th percentile.

Relative Mobility Estimates

Parent-child rank correlations measure the degree to which parents' past placement in the income distribution are related to children's rank. If no relationship exists (i.e., a perfectly mobile society), this correlation is zero; where parental rank perfectly predicts a child's rank, the correlation is one. A recent analysis of linked federal tax records produced statistically significant parent-child rank correlations of about 0.3 for the 1971-1982 birth cohorts, indicating that (1) parents' past ranking in the income distribution is related to a child's ranking in adulthood, and (2) relative intergenerational mobility has not increased or declined across the birth cohorts examined (**Figure 4**).

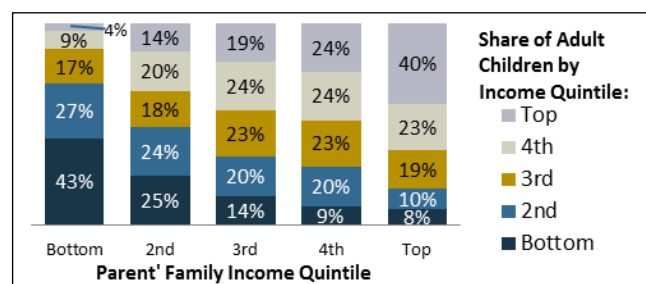
Figure 4. Estimated Parent-Child Rank Correlations



Source: R. Chetty, N. Hendren, and P. Kline, et al., "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility," *American Economic Review*, vol. 129, no. 4 (2014).

Relative mobility can also be assessed by the share of children who achieved a higher distributional rank than their parents. **Figure 5** shows that among the 1950-1968 birth cohorts (in PSID data): (1) fewer than 60% of children raised in each of the bottom four income quintiles achieved a higher distributional rank in adulthood, and (2) the odds of moving upward decrease with family income rank.

Figure 5. Relative Intergenerational Mobility, 1950-1968 Birth Cohorts



Source: The Pew Charitable Trusts, 2012.

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