Improving Opportunities for Economic Mobility in the United States

Testimony for the

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by

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The United States is often hailed as the "land of opportunity," a society in which a child's chances of success depend little on her family background. However, opportunities for upward income mobility in the U.S. are lower than in other countries (Corak 2013). For example, a child born to parents in the bottom fifth of the income distribution has a 7.5% chance of reaching the top fifth of the income distribution in the United States. But in Denmark, a child born in the bottom fifth has an 11.7% chance of reaching the top fifth – a 50% higher rate of realizing the "American Dream" of moving up the income ladder than children in America.[1]

Improving the rate of upward income mobility is an important issue for policy makers not just because it is one of the core principles of American society but also because improving mobility can have substantial economic payoffs. Unlike other issues that involve sharp tradeoffs, increases in absolute upward income mobility are likely to benefit everyone in society. Children from disadvantaged backgrounds naturally benefit directly from higher levels of upward mobility. But affluent individuals benefit as well, because upward mobility contributes to economic growth and reduces the number of individuals receiving transfers from the government, saving taxpayers money.

This testimony discusses recent research that offers lessons about how to improve economic mobility in the United States. It draws primarily on evidence from the Equality of Opportunity Project, which presents comprehensive statistics on mobility in the United States based on millions of anonymous earnings records. These statistics reveal that mobility has been low in the U.S. relative to other developed countries for the past several decades. While mobility has been stagnant over time, there is substantial geographic variation in mobility within the U.S., with some areas offering rates of upward mobility comparable to the most mobile countries in the world, such as Denmark. Based on this evidence, I discuss a set of policies – including place-based initiatives and investments in improving the quality of primary education – that can increase upward mobility.

Trends in Mobility

I begin by discussing trends in intergenerational mobility in the U.S. In a recent paper (Chetty et al. 2014a), we find that percentile-based measures of intergenerational mobility have not changed significantly between the 1971-1993 birth cohorts (see Figure 1 below). For example, the probability that a child reaches the top fifth of the income distribution given parents in the bottom fifth of the income distribution is 8.4% for children born in 1971, compared with 9.0% for those born in 1986. Children born to the highest-income families in 1984 were 74.5 percentage points more likely to attend college than those from the lowest-income families. The corresponding gap for children born in 1993 is 69.2 percentage points.

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[1] Other measures of mobility – such as the probability of reaching the middle class or the correlation between parent and child income – exhibit similar patterns to those discussed in this testimony. I focus on the probability of moving from the bottom to top fifth for simplicity.

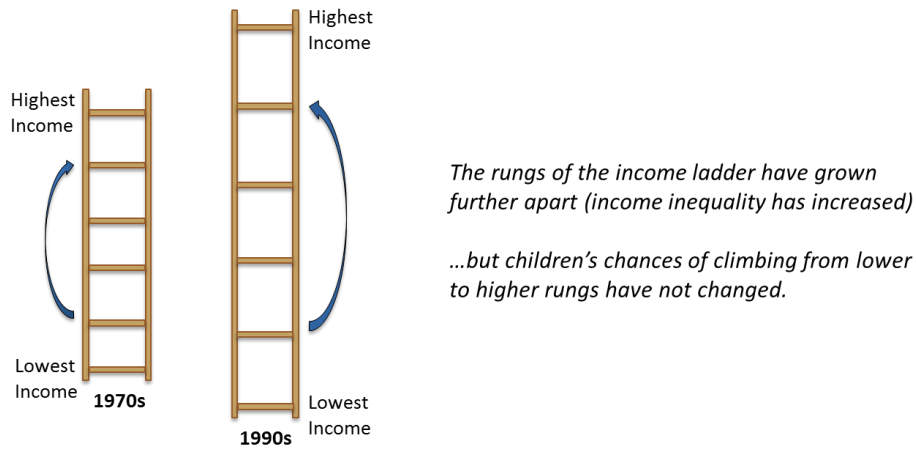**Figure 1. Time Trends in Intergenerational Mobility in the U.S.**
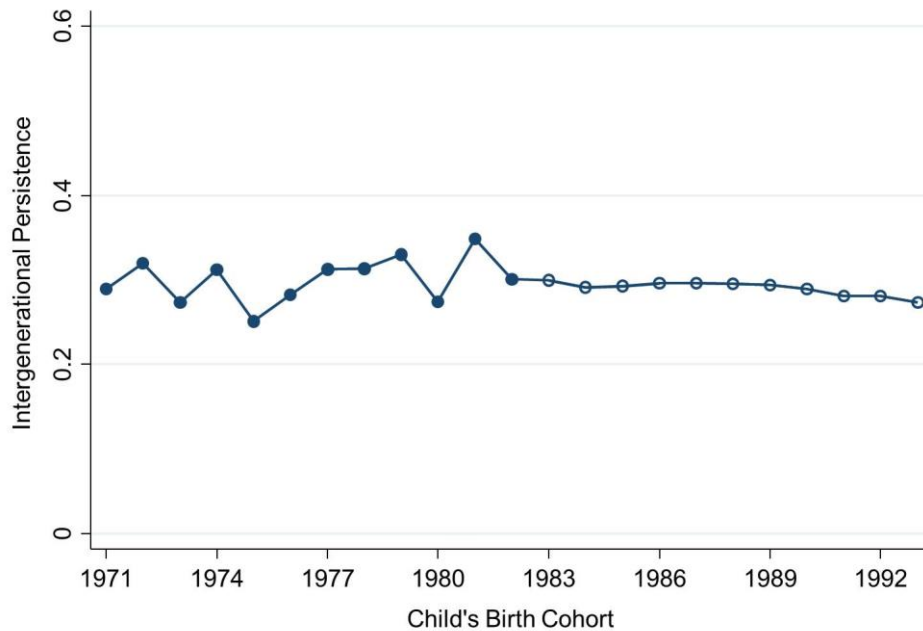
This figure plots the difference in average income percentiles for children born to low vs. high-income parents in each year from 1971-1993. On average, children from the poorest families grow up to be 30 percentiles lower in the income distribution than children from the richest families, a gap that has been stable over time. For children born after 1986, estimates are predictions based on college attendance rates.

Putting together these results with evidence from Hertz (2007) and Lee and Solon (2009) that intergenerational mobility did not change significantly between the 1950 and 1970 birth cohorts, we conclude that rank-based measures of social mobility have remained stable over the second half of the twentieth century in the United States.

Although rank-based measures of mobility remained stable, income inequality increased substantially over the period we study.[2] Hence, the consequences of the "birth lottery" – the parents to whom a child is born – are larger today than in the past. A useful visual analogy (shown in Figure 2) is to envision the income distribution as a ladder, with each percentile representing a different rung. The rungs of the ladder have grown further apart (inequality has increased), but children's chances of climbing from lower to higher rungs have not changed (rank-based mobility has remained stable).

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[2] This result may be surprising in light of the well known cross-country relationship between inequality and mobility, termed the "Great Gatsby Curve" by Krueger (2012). However, much of the increase in inequality has come from the extreme upper tail (e.g., the top 1%) in recent decades, and top 1% income shares are not strongly associated with mobility across countries or across metro areas within the U.S. (Chetty et al. 2014b). Moreover, other countervailing trends – such as improved civil rights for minorities, greater access to higher education, and the war on poverty – may have offset the impacts of increased inequality.

Figure 2. Changes in the Income Ladder in the U.S.

Highest
Income

Highest
Income

The rungs of the income ladder have grown further apart (income inequality has increased)

...but children's chances of climbing from lower to higher rungs have not changed.

Lowest
Income   **1970s**

Lowest
Income

1990s

Combined with the increase in inequality, the stability in rates of mobility means that children's economic prospects depend more heavily on their parents' income today than in the past. The fact that mobility is significantly lower in the U.S. than in most other developed countries (Corak 2013) is thus a more imperative problem today than it was half a century ago.

The stability in mobility over time had led some to question whether social mobility can be meaningfully influenced by policy (Clark 2014). Is mobility in the U.S. destined to be low relative to other countries because of its unique characteristics? Next, I turn to evidence on differences in mobility across communities within the United States, which paints a much more positive picture and suggests that mobility can in fact be improved in the U.S.

Geographical Differences in Mobility

In Chetty et al. (2014b), we characterize geographical variation in intergenerational mobility across the United States. We construct measures of intergenerational mobility for 741 "commuting zones" (CZs). Commuting zones are geographical aggregations of counties that are similar to metro areas but also cover rural areas. We assign children to a CZ based on their location at age 16 (no matter where they live as adults), so that their location represents where they grew up. When analyzing local area variation, we rank both children and parents based on their positions in the national income distribution. Hence, our statistics measure how well children do relative to those in the nation as a whole rather than those in their own particular community.

We find substantial variation in mobility across areas, as illustrated in Figure 3. This heat map shows the probability that a child who grew up in a bottom-quintile income family reaches the top-quintile of the income distribution across areas of the U.S. In some parts of the U.S. – such as the Southeast and the Rust Belt – children in the bottom quintile have less than a 5% chance of reaching the top quintile. In other areas, such as the Great Plains and the West Coast, children in the bottom quintile have more than a 15% chance of reaching the top quintile.

Figure 3. The Geography of Intergenerational Mobility
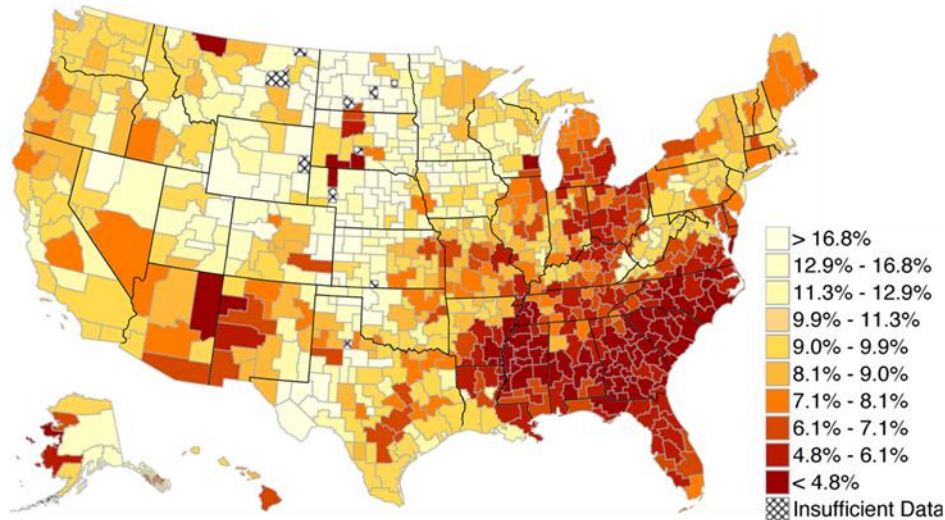
This map shows the probability that a child who grew up in bottom-quintile income families reaches the top-quintile of the income distribution across areas of the U.S. Lighter colors represent areas where children from low-income families are more likely to move up in the income distribution.

Table 1. Upward Mobility in the 50 Largest Metro Areas: The Top 10 and Bottom 10

Rank	Commuting Zone	Odds of Reaching Top Fifth from Bottom Fifth	Rank	Commuting Zone	Odds of Reaching Top Fifth from Bottom Fifth
1	San Jose, CA	12.9%	41	Cleveland, OH	5.1%
2	San Francisco, CA	12.2%	42	St. Louis, MO	5.1%
3	Washington DC	11.0%	43	Raleigh, NC	5.0%
4	Seattle, WA	10.9%	44	Jacksonville, FL	4.9%
5	Salt Lake City, UT	10.8%	45	Columbus, OH	4.9%
6	New York, NY	10.5%	46	Indianapolis, IN	4.9%
7	Boston, MA	10.5%	47	Dayton, OH	4.9%
8	San Diego, CA	10.4%	48	Atlanta, GA	4.5%
9	Newark, NJ	10.2%	49	Milwaukee, WI	4.5%
10	Manchester, NH	10.0%	50	Charlotte, NC	4.4%

There is substantial variation in upward mobility even amongst large cities that have comparable economies and demographics. Table 1 lists upward mobility statistics for the 50 largest metro areas, focusing on the 10 cities with the highest and lowest levels of upward mobility. Cities such as Salt Lake City and San Jose have rates of mobility comparable to Denmark and other countries with the highest rates of mobility in the world. Other cities – such as Charlotte and Milwaukee – offer children very limited prospects of escaping poverty. These cities have lower rates of mobility than any developed country for which data are currently available.

In ongoing work, we find that if a child moves from a city with low upward mobility (such as Milwaukee) to a city with high upward mobility (such as Salt Lake City), her own income in adulthood rises in proportion to the time she is exposed to the better environment. This finding shows that much of the difference in upward mobility across areas is driven by a causal effect of differences in the local environment rather than differences in the characteristics of the people who live in different cities.

The variation in economic mobility across cities in the U.S. is reason for optimism. If we can make every city in America have mobility rates like San Jose or Salt Lake City, the United States would become one of the most upwardly mobile countries mobile in the world. This naturally leads to the next question: what makes some places in America have much higher rates of upward mobility than others?

Correlates of the Spatial Variation in Mobility

To understand the determinants of mobility, in Chetty et al. (2014b), we explore the correlations between upward mobility and various factors that have been discussed in prior work by sociologists and economists.

The first pattern we document is that upward income mobility is significantly lower in areas with larger African-American populations. However, white individuals in areas with large African-American populations also have lower rates of upward mobility, implying that racial shares matter at the community rather than individual level. One mechanism (among many others) for such a community-level effect of race is segregation. Areas with larger black populations tend to be more segregated by income and race, which could affect both white and black low-income individuals adversely. Indeed, we find a strong negative correlation between standard measures of racial and income segregation and upward mobility. Moreover, we also find that upward mobility is higher in cities with less sprawl, as measured by commute times to work. These findings lead us to identify *segregation* as the first of five major factors that are strongly correlated with mobility.

The second factor we explore is *inequality*. CZs with larger Gini coefficients have less upward mobility, consistent with the "Great Gatsby curve" documented across countries (Krueger 2012, Corak 2013). In contrast, top 1% income shares are not highly correlated with intergenerational mobility both across CZs within the U.S. and across countries. Although one cannot draw definitive conclusions from such correlations, they suggest that the factors that erode the middle class hamper intergenerational mobility more than the factors that lead to income growth in the upper tail.

Third, proxies for the quality of the K-12 *school* system are also correlated with mobility. Areas with higher test scores (controlling for income levels), lower dropout rates, and smaller class sizes have higher rates of upward mobility. In addition, areas with higher local tax rates, which are predominantly used to finance public schools, have higher rates of mobility.

Fourth, *social capital* indices (Putnam 1995) – which are proxies for the strength of social networks and community involvement in an area – are very strongly correlated with mobility. For instance, high upward mobility areas tend to have more religious individuals and greater participation in local civic organizations.

Finally, the strongest predictors of upward mobility are measures of *family structure* such as the fraction of single parents in the area. As with race, parents' marital status does not matter purely through its effects at the individual level. Children of married parents also have higher rates of upward mobility if they live in communities with fewer single parents. Hence, single parenthood itself is not a key predictor of differences in upward mobility; rather, living in a community with many single parents is associated with lower upward mobility.

We find modest correlations between upward mobility and local tax and government expenditure policies and no systematic correlation between mobility and local labor market conditions, rates of migration, or access to higher education.

While these correlations suggest that differences in local policies and community structures could have important effects on upward mobility, it is very important to recognize that the correlations cannot be interpreted as causal effects. For instance, areas with high rates of segregation may also have other characteristics that could be the root cause driving the differences in children's outcomes. Hence, one cannot draw policy lessons directly from these correlations without further research into causal pathways. However, the evidence discussed above does shed some light on the types of policies that can improve mobility. I turn to these implications in the next and final section.

Policy Implications

Combined with other evidence from research, the results summarized above yield several lessons for policies to improve upward mobility in America.

1. *Place-Based Initiatives.* Since rates of upward mobility vary widely across cities, place-based policies that focus on specific cities – such as Charlotte or Milwaukee – may be more effective than addressing the problem at a national level. Such policies may include targeted tax credits, efforts to revitalize local communities via efforts such as "promise zones," or funding for improvements in local schools and investments in infrastructure. For example, the federal government could provide matching grants to local communities that undertake specific initiatives to improve mobility in their area with demonstrable impacts.

2. *Focus on Childhood Environments.* The data show that much of the spatial variation in children's outcomes emerges before they enter the labor market. In particular, children in areas with low income mobility also have higher teenage birth rates and lower college attendance rates. These findings indicate that the differences in mobility are driven by factors that affect children while they are growing up. Hence, it is important to prioritize investments that change childhood environments rather than focusing exclusively on providing jobs and ladders of opportunity for adults who are already working.

3. *Invest in Improving the Quality of Education.* Among the factors correlated with mobility discussed above, improvements in the quality of education have the clearest causal effects on

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upward mobility. For example, in a study that tracked more than 1 million children from childhood to early adulthood (Chetty, Friedman, and Rockoff 2013), we find that better teachers – as measured by test-score based value-added metrics – substantially increase students' earnings and college attendance rates. We estimate that an excellent teacher generates more than $1.4 million of earnings gains for a single classroom of students over their lives. These findings imply that programs that increase teacher salaries and provide incentives for local school districts to recruit and retain higher quality teachers are likely to be valuable. Similarly, other studies have presented evidence from randomized experiments showing that investments in improving pre-schools (e.g., Heckman et al. 2010) and reducing the size of classrooms (e.g., Chetty et al. 2011, Fredriksson et al. 2013, Dynarski et al. 2013) can also have significant long-term payoffs. Importantly, such investments in education have substantial returns throughout childhood, not just in the earliest years.

4. *Disseminate Information on Local Performance.* Perhaps the most cost-effective way to improve mobility may be to publicize local statistics on economic mobility and other related outcomes. Simply drawing attention to the areas that need improvement can motivate local policy makers to take action. Moreover, without such information, it is difficult to determine which programs work and which do not. The federal government is well positioned to construct such statistics at minimal cost with existing data. The government could go further by offering awards or grants to areas that have substantially improved their rates of upward mobility. Shining a spotlight on the communities where children have opportunities to succeed can enable others to learn from their example and increase opportunities for economic mobility throughout America.

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