

Class Warfare Fact and Fiction

Myth 4: Over the course of their lifetimes, Americans are highly likely to enjoy upward economic mobility

By Bernard Wasow



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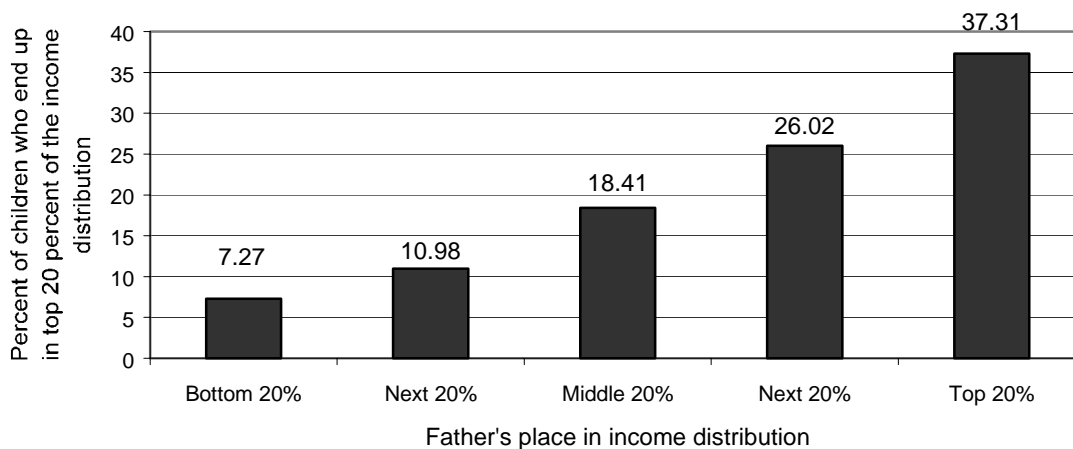
“To properly assess the ‘fairness’ of a tax cut then, lifetime income is a better measure, and one that resonates with a certain American spirit. A great majority of the people of this country believe—and rightly so—that their fortunes will improve over time. A marginal tax rate cut rewards that ambition.”

—R. Glenn Hubbard, *Wall Street Journal*, January 8, 2003

Few ideas are more deeply held and popular in this country than the notion that opportunity is almost limitless in America; each individual is the master of his or her own destiny and prosperity. If someone is down and out today, they might be prosperous tomorrow. Such optimism is admirable, and of course, rags-to-riches stories are not made from whole cloth.

But inspiring examples must not be confused with likely outcomes. In general, economic mobility is more limited in the United States than people like to believe. A person’s lifetime income and status strongly reflects that of his or her parents (see Figure 1).

Figure 1. Income Mobility in America: Chance of Ending Up in the Top 20 Percent of the Income Distribution



Source: Thomas Hertz Rags, “Riches and Race: The Intergenerational Economic Mobility of Black and White Families in the United States,” working paper, November 2002.

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Headquarters: 41 East 70th Street * New York, NY 10021 * 212.535.4441 * 212.535.7534 (fax) * info@tcf.org

DC Office: 1755 Massachusetts Ave., NW * Washington, DC 20036 * 202.387.0400 * 202.483.9430 (fax) * info@tcf.org

www.tcf.org

Overall, an American has one chance in five (20 percent) of ending up in the top 20 percent of the income distribution. But as Figure 1 shows, those odds change a lot depending on what sort of a family you were born into:

- If your father was in the bottom 20 percent of the income distribution, you have about one chance in fourteen of ending up in the top 20 percent, roughly a third of the overall chance.¹
- If your father was in the top 20 percent, the chance that you will also end up there is about two in five, roughly double the overall chance.
- A child born to a father in the top 20 percent of the income distribution is about five times as likely to end up in the top 20 percent as the child of a father in the bottom 20 percent.

In fact, recent research for the U.S. population shows that the exact opposite of Glenn Hubbard's claim is true: while a child's income might deviate from that of his family for a few years, the longer one compares economic outcomes, the more the experience of the children reproduce that of their fathers.

Studies of economic mobility typically predict the son's or daughter's income on the basis of father's income, correcting only for the age of parent and child.² As recently as 1988, economists thought that a father's earnings were only weakly correlated with his children's income. Recently, however, new data sources have permitted studies that look at ten times as many father-children pairs (3000 versus 300) for periods as long as sixteen years.³ These studies show that the longer the period over which income is averaged, the higher the correlation between the incomes of fathers and children. That is to say, there is indeed a lot of year-to-year income variation over a worker's lifetime. But averaged over many years, the income of the father is a very strong predictor of the income of the son or daughter. The correlation is even higher for families with low wealth—the poor—than for the wealthy; it is also higher for black families than for white.⁴

Recent analysis suggests that lifetime earnings of fathers and their children are highly correlated, three times as highly correlated as earlier research had suggested.⁵ Far from disappearing in three generations, as earlier work had optimistically suggested, the new results imply that income differences based on family background are likely to persist for many generations.

¹ The incomes of fathers and of children in the figure are averages over about ten years.

² The father's income, rather than family income, is used in these studies because it is much easier to track the incomes of two individuals than of families, which form, dissolve, and reform.

³ See Bhashkar Mazumder, *Earnings Mobility in the U.S.: A New Look at Intergenerational Inequality*, Federal Reserve Bank of Chicago, WP-2001-18.

⁴ Thomas Hertz of American University shows that among whites, mobility is more likely from bottom to top, while for blacks, mobility is more likely from top to bottom in *Rags, Riches and Race*, working paper, November, 2002.

⁵ Early research suggested that, if father *A* had double the income of father *B*, then son *A* could be expected to have 20 percent more income than son *B*. The new results suggest that the difference in the son's (or daughter's) income is more like 60 percent.