

## U.S. Economic Mobility: The Dream and the Data

BY LEILA BENGALI AND MARY DALY

Economic mobility is a core principle of the American narrative and the basis for the American Dream. However, research suggests that the United States may not be as mobile as Americans believe. The United States has high absolute mobility in the sense that children readily become richer than their parents. But the nation appears to fall short on relative mobility, which is the ability of children to change their rank in the income distribution relative to their parents.

*This Economic Letter is based on a presentation given by Mary Daly in April 2012. For a video of the lecture please visit: <http://www.frbsf.org/education/teachers/economics-in-person/economic-mobility-in-the-united-states.html>.*

Economic mobility, or the ability of individuals to move up or down the income distribution, is a fundamental value in the United States, one that defines the American Dream. According to a recent study by the Pew Charitable Trusts, over 40% of Americans consider hard work, ambition, and drive to be among the most important factors for economic advancement (Pew 2011). In contrast, just over 10% believe that coming from a wealthy family is one of the most important determinants of success. International surveys suggest that Americans stand out in their belief that individual effort is the key determinant of success (International Social Survey Programme 2009).

This *Economic Letter* examines whether the reality of mobility in the United States matches the dream. U.S. mobility data suggest that the answer is mixed, depending importantly on exactly how mobility is measured. The United States scores well on the percentage of individuals who are able to surpass the absolute level of income of their parents. But when the metric is relative economic mobility, the picture is less clear. The data show that when the population is divided in fifths, the middle three groups of the income distribution are fairly mobile. For this middle group, where one is born in the distribution does not determine where one will end up. But for those born in the bottom or the top fifth, mobility is much more constricted, suggesting that birth circumstances play more of a role in lifetime outcomes. (For analysis of these issues, see the Pew Charitable Trusts Economic Mobility Project, [www.economicmobility.org](http://www.economicmobility.org).)

### Definitions, data, and measurement

Much of the debate about U.S. economic mobility centers on the right way to measure it (for example, see Fields and Ok 1999). For some, economic mobility means that each generation achieves a higher economic status than the prior generation. This is known as absolute mobility. Societies that have high absolute mobility are those in which economic growth raises the entire population's standard of living from generation to generation. A society's amount of absolute mobility can be measured as the percentage of adults whose incomes are higher than that of their parents at the same age.

Another form of mobility is relative mobility. This is the extent to which individuals can change rank in the income distribution relative to their parents. Societies that have high relative mobility are those in which income position at birth is not a strong predictor of position as an adult. The untethering of adult income position from birth circumstances allows individuals the possibility of altering their situation through effort, initiative, and investment. Relative mobility can be measured by calculating the percentage of adults who are in a different income rank from that into which they were born.

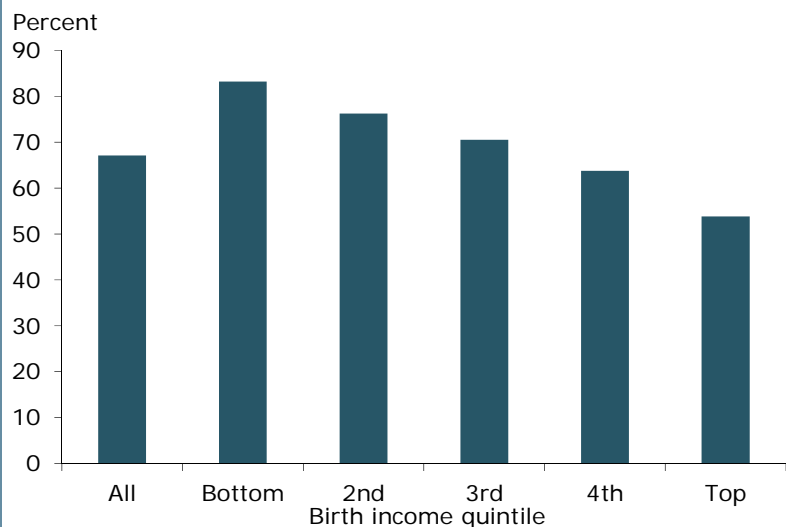
To get a broader picture of U.S. economic mobility, we look at both absolute and relative mobility using data from the Panel Study of Income Dynamics (PSID), a longitudinal survey. The PSID began in 1968 with a sample of 5,000 families. Every year from 1968 to 1996 and every other year since 1997, the survey has collected data on income as well as individual and family characteristics. The survey followed children from the original families as they became adults and started their own families. Thus, the survey has compiled a long history of families and their incomes that allows us to compare parents and their children as adults.

We use the PSID's measure of family income, which includes both taxable income and transfer payments. Following methods of Isaacs, Sawhill, and Haskins (2008), we compute absolute mobility as the percentage of adult children who have higher family income than their fathers did at the same age. Specifically, we adjust family income for inflation and family size, and compare families with fathers age 36 to 40 with those of their children when they reached the same age bracket.

To compute relative mobility, we place parents and adult children in five income brackets, or quintiles, based on their position in the national income distribution. Parental rank is based on average family income during the first 15 years of their now-adult child's life. For adult children, we assign rank based on their average family income from age 36 to 40. To quantify relative mobility, we compare parental income rank when the child was young, labeled "birth income quintile," with the child's rank as an adult. Results are weighted to be representative of the U.S. population.

Based on absolute mobility, the United States seems highly mobile. Figure 1 shows absolute mobility for all adult children and for the same group broken into birth quintiles, that is, parental income rank when the child was young. The figure shows that, over the sample period, 67% of U.S. adults had higher family incomes than their parents had. Absolute mobility is greatest for those in the lowest birth quintile. For example, 83% of those in the lowest birth quintile had larger adult incomes than their parents had. This falls to 54% for children born into the top quintile. Overall, these results show that most Americans are able to

**Figure 1**  
**Absolute mobility**  
Percent of children better off than fathers



Source: PSID and authors' calculations.

achieve the American Dream in the sense that their standard of living is greater than that of their parents, although we don't know whether it is a lot or just a little higher.

With relative mobility, the picture is less clear. Figure 2 shows relative mobility by birth quintile. For each birth quintile, five bars describe the distribution of income rank as adults. For example, for all those born into the bottom quintile, 44% are still in that quintile as adults. About half as many, 22%, rise to the second quintile by adulthood. The percentages go down from there. Overall, children born into the bottom quintile are more likely to stay there.

Similarly, those born into the top income quintile are relatively likely to remain in the top. Among children born into the top quintile, 47% are still there as adults. Only 7% fall to the bottom quintile. The experiences of those born into the middle three quintiles are quite different. The distribution among income quintiles as adults is much more even for those born in these three middle groups, suggesting significant mobility for these individuals. For example, among those born into the third quintile, the one in the middle of the income distribution, only about 22% are still there as adults.

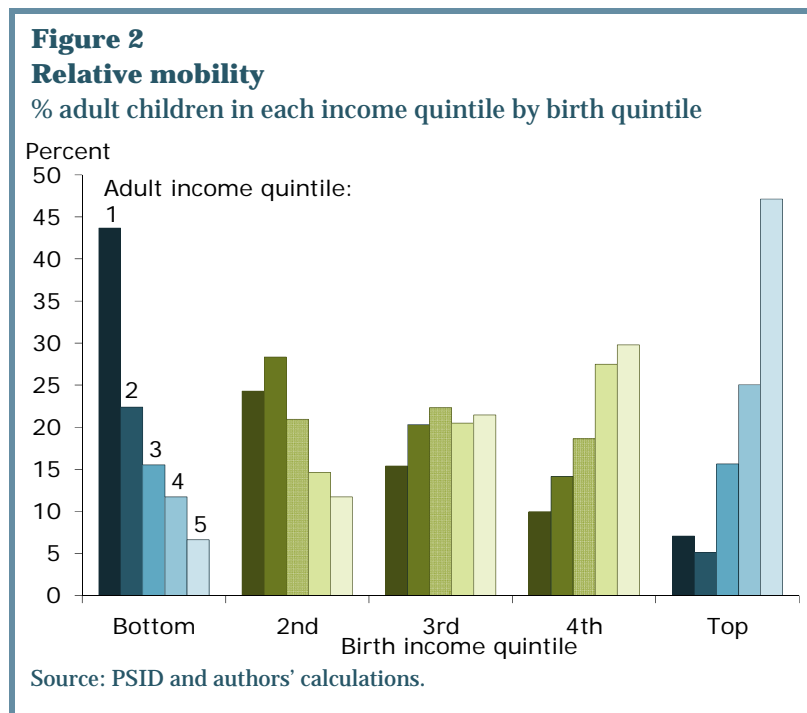


Figure 2 shows that those born to parents in the middle seem to move more freely across income quintiles, unlike those born to parents in the top or bottom of the income distribution. This pattern has led researchers to conclude that the U.S. income distribution has a fairly mobile middle, but considerable "stickiness at the ends," according to Isaacs, Sawhill, and Haskins (2008).

### Education or birthright?

Children can't change the income of their parents. But individuals may be able to overcome the circumstances of their birth. One way might be through education. To examine this, we analyze relative mobility separately for college graduates and nongraduates. Since stickiness is most pronounced at the top and bottom of the distribution, we examine individuals born into the top and bottom quintiles.

Figure 3 shows that a college education can counter the effects of birthright. For example, only 5% of children born into the bottom quintile who don't graduate from college end up in the top quintile. By contrast, 30% of bottom-quintile children who graduate rise to the top quintile. The pattern is different for children born into the top quintile. Most stay in or near the top quintile regardless of whether they graduated from college. Still, the tendency to stay at the top is much more pronounced for those with a college degree. The distributions among income quintiles are similar for children born to parents in the bottom quintile who complete college and for children born into the top quintile who do not get a degree.

This suggests that a child born to a bottom quintile family who graduates from college has similar mobility to a child born to a top quintile family who does not finish college. One interpretation is that education is a way for individuals to overcome birth circumstances.

However, it's important to note that access to college is not equal across income distribution. Over half of children born into the top quintile graduate from college. By contrast, only 7% of those born to parents in the bottom quintile get a college degree. College may help reduce disparities in mobility opportunities. But access to college varies according

to socioeconomic background. This indicates that birth circumstances contribute to the stickiness at the top and bottom of income distribution, either directly or through differential access to education.

## Conclusion

The results show that whether one views the American dream as fact or fiction depends largely on how that dream is interpreted. For some, the American Dream means becoming richer than one's parents. By that standard, the results are reassuring. But if the American Dream means rising in rank in the income distribution, then the findings are not so encouraging. In this case, an individual's ability to reach the highest economic ranks of society seems at least partially determined by the income rank into which they were born.

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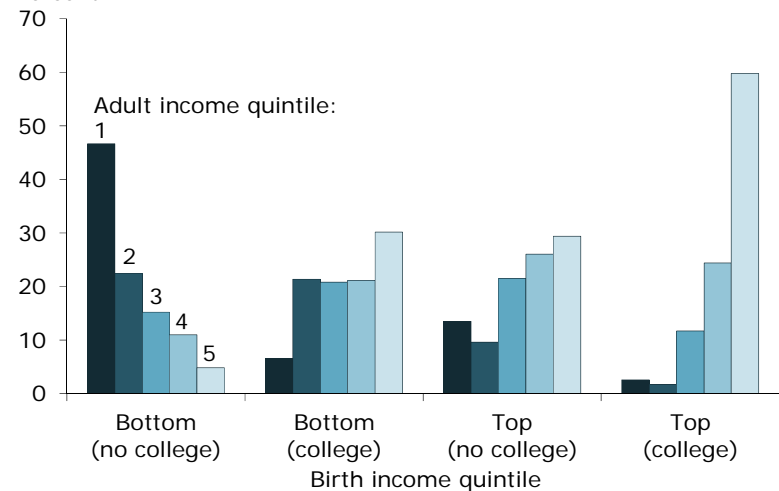
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**Figure 3**  
**Education and relative mobility**

% adult children in each income quintile from bottom/top  
Percent



Source: PSID and authors' calculations.

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