

MIP CONFERENCE ON SOCIAL MOBILITY

Conference Report

November 4 to 5 2014



HUMAN CAPITAL AND
ECONOMIC OPPORTUNITY
GLOBAL WORKING GROUP

Social mobility across generations is a long-standing concern both among researchers and the broader public, but has recently taken center stage in the media thanks to academic efforts toward gathering new data on intergenerational mobility.

This conference directly addressed the core mission of the Human Capital and Economic Opportunity Global Working Group's Measurement, Interpretation, and Policy (MIP) network. The event brought together prominent scholars in the field of intergenerational mobility to weigh in on the network's titular aims: interpreting different measures of mobility as well as uncovering mechanisms of mobility toward the aim of informing policy.

The conference was organized with the aim of drawing from both empirics and theory in building an understanding of social mobility. The morning sessions tackled the issue of measuring mobility through various approaches, while the afternoon sessions proposed and evaluated a range of potential drivers of social mobility. This combination proved remarkably fruitful and many references across the sessions were made. The structure of the sessions also reinforced a central theme of the conference: integrating diverse analyses of intergenerational social mobility.

SHORT SUMMARY

“Intergenerational Mobility, Intergenerational Effects, Sibling Correlations, and Equality of Opportunity: A Comparison of Four Approaches” Anders Björklund, *Stockholms Universitet*

Björklund opened the conference with a review of four approaches toward analyzing intergenerational mobility. The estimates based on intergenerational correlations (IGC) and elasticities (IGE) generally suggest high mobility, and small intergenerational effects from family background seem to reinforce this. On the other hand, sibling correlations, especially between identical twins, suggest that family background plays a large role.

Björklund further noted that the above three approaches do not directly address inequality of opportunity. A separate literature focuses on an categorization of factors into “circumstance” and “effort”, based on Roemer’s conception of personal responsibility.

This led to a discussion on how one should determine the types of inequalities that are acceptable. Björklund concluded that future research using any one of the approaches needs to address the other approaches in a bid to tackle the apparent disparity in the interpretation of empirical results across the approaches.

“Intergenerational Mobility in the United States” Bhashkar Mazumder, *Federal Reserve Bank of Chicago*

Mazumder introduced the use of mobility curves that capture rank mobility, absolute mobility, and income share mobility (a mix of relative and absolute mobility) throughout the income distribution. He produced estimates for the three types of mobility curves for birth cohorts from 1957-64. He also showed that rank persistence increased and that rank mobility declined in the US when comparing cohorts born from 1942-52 to those born from 1957-64.

He presented cross-country analyses showing that the US is similar to Germany, Norway, and Sweden between the 35th to 60th percentiles but at higher income percentiles, the US is more mobile and at lower income percentiles the US is less mobile. Mazumder further documented racial gaps in mobility for the US, with attention to Hispanics, a group that has been neglected in the literature, and demonstrated that regional differences in mobility during that period were partially driven by racial differences.

“Measuring Intergenerational Mobility with Tax Return Data”

Pablo Mitnik, *Stanford University*; Victoria Bryant, *Internal Revenue Service*; David Grusky, *Stanford University*; Michael Weber, *Internal Revenue Service*

Grusky examined several assumptions often made in the literature to estimate income IGEs. First, he proposed the IGE of expected child’s income as an alternative to the standard IGE of the geometric mean of child’s income and showed that it was more robust to various assumptions regarding non-earners among children. Second, he adopted multiple ways for dealing with potential non-linearities in the elasticities over the distribution of parental income. Using these approaches, he reported income persistence of roughly two thirds for middle to upper-middle class families. Grusky also showed that the disparity in earnings and income IGE estimates for females is

explained by both higher marriage probabilities and higher earnings from future spouses.

“Comment on Measuring Intergenerational Mobility with Tax Return Data”

Nathaniel Hendren, *Harvard University*

Hendren lauded the efforts of Grusky and coauthors in rethinking the standard geometric mean estimator for IGEs. He noted that the standard estimator and the one presented by Grusky were different ways of weighting quantile-specific elasticities. The weights proposed by Grusky would be more sensitive to measurement error at the top of the income distribution while being robust to the treatment of non-earners. Hendren concluded that the appropriate estimator to use depended on the precise question one sought to answer.

“Intergenerational Mobility and Assortative Mating”

Aldo Rustichini, *University of Minnesota*

Rustichini’s presentation integrated genetic heritability and assortative mating with the Becker-Tomes model of intergenerational human capital transmission. The extended model made explicit the assumption that heritability stays constant when comparing IGE estimates across groups (for example, cross-country IGE comparisons). Rustichini noted that this depended on the degree of assortative mating in the population.

Rustichini went on to lay out predictions from the model. He noted that while the Hardy-Weinberg equilibrium for stable genetic composition assumes random mating, it is possible to retain similar patterns with strong assortative mating on phenotypes such as income as long as the phenotype depends on a large number of genes. The genetic literature in fact suggests that this is the case for important phenotypes such as education. Rustichini closed by emphasizing the importance of integrating genetics and socioeconomic models of intergenerational transmission.

“Some Microfoundations of the Gatsby Curve”

Steven Durlauf and Ananth Seshadri, *University of Wisconsin-Madison*

Durlauf combined social influences and market frictions with the Becker-Tomes model to link cross-sectional income inequality with intergenerational persistence. These alternate mechanisms act as complements to existing human capital driven theories of

inequality. In this model, human capital of the next generation is determined at the neighborhood level, with average parental education and educational input in the neighborhood as production factors. The model generates a Gatsby-like curve where the variance of income is positively correlated with the intergenerational income correlation.

Durlauf showed that families in the model prefer higher income neighbors and that neighborhoods would stratify by income. Further, children in higher income neighborhoods would have higher expected income growth than those in lower income neighborhoods, with the possibility of a permanent divide in income between the highest and lowest income families. Finally, he noted that the non-transferable social influences could lead to inefficiency in assortative matching in the sense that average income for a given generation would not be maximized by assortative matching in previous generations.

“Multigenerational Mobility”

Gary Solon, *Michigan State University*

Multigenerational mobility refers to associations in socioeconomic status across three or more generations. Solon framed his review of the long history of empirical multigenerational studies in terms of regressions of offspring status on the status of both parents and grandparents. Many such studies estimate negligible grandparental coefficients, while some others find evidence of positive grandparental coefficients.

Solon proceeded to possible theoretical interpretations of the empirical patterns. The canonical Becker-Tomes model predicts small negative grandparental coefficients, which leads to the question of how the model needs to be extended to account for contrary empirical evidence. Solon discussed three specific extensions: (1) direct grandparental influences (such as role-modeling effects when the grandparents are present in the children’s lives); (2) group effects (such as race effects from discrimination against African-Americans); and (3) estimation biases from measurement error. Solon gave particular attention to a variant of the measurement-error story due to economic historian Gregory Clark, and concluded that the Clark hypothesis is rejected by straightforward empirical tests. That negative result, however, has an encouraging broader implication: further empirical research can shed more light on the mechanisms underlying empirical multigenerational patterns.

“Intergenerational Mobility in Norway, 1865-2011”

Jørgen Modalsli, *Statistisk Sentralbyrå*

Modalsli analyzed intergenerational occupational mobility in Norway over the period of 1865 to 2011. The case of Norway is of particular interest due to the large transitions in that period, from agrarian to industrial, from unequal to equal, and from low mobility to high.

Modalsli showed that 19th century Norwegian mobility was similar to the UK, but rose dramatically over time with the exception of the farming sector. He also found that geographic mobility (within Norway) was correlated with occupational mobility, but not with local emigration rates or local income growth.

“Inheritance and Mobility”

Facundo Alvaredo, *École d'Économie de Paris*

Alvaredo tackled the Kotlikoff-Summers-Modigliani (KS-M) controversy regarding the estimated share of inherited wealth as a fraction of total wealth for the US, where estimates ranged from 20-30% (M) to 80-90% (KS), both estimated off a single year of data from 1962. Alvaredo proposed a simplified version of the Piketty-Postel Vinay-Rosenthal (PPVR) definition of inheritors and savers to generate a formula that can estimate the share of inherited wealth using just macroeconomic data.

He estimated the share of inherited wealth to be in between the Kotlikoff-Summers and Modigliani estimates, hovering around 50-60% across the period 1880 - 2010. He showed that the simplified version underestimates the share compared to the PPVR definition, which could happen if individuals save differentially depending on their income sources. He also noted that his estimates differ dramatically from self-reported data from the US Survey of Consumer Finances, likely due to reporting biases.

“Credit Constraints and Mobility”

Lance Lochner, *University of Western Ontario*

Lochner presented evidence for the existence of early childhood gaps in human capital and parental investments across different levels of parental income. He examined multiple potential mechanisms consistent with the data, namely intergenerational correlations in ability, a consumption value of schooling, poor information on the part of parents, and credit constraints.

Lochner worked through implications from model variations that capture each of the alternate mechanisms and compared them with stylized facts regarding the technology of human capital production, investment patterns, and birth order effects. The comparisons suggest that most mechanisms were inconsistent with at least one set of stylized facts, with the exception of credit constraints.

“The Evolution of Social Mobility: Norway over the 20th Century”

Kjell G. Salvanes, *Norwegian School of Economics*

Salvanes shared the first results of a broader project studying the extent to which patterns in intergenerational mobility in Norway can be attributed to government policy versus other factors such as economic growth and structural change. He focused on the period when the welfare state was developed using novel data and a wide array of mobility measures including many discussed previously in the conference.

Salvanes documented increases in intergenerational mobility for cohorts from the 1930s to the 1970s. These increases were robust to the various measures of mobility, and particularly pronounced for families around the middle of the income distribution. These changes coincided with the building of the welfare state but also with other factors. Further work in progress examines the impact of specific policy reforms.

“The Evidence on Family Influence on Child Outcomes”

James J. Heckman, *The University of Chicago*
Rasmus Landersø, *Aarhus Universitet*, Stefano Mosso, *The University of Chicago*

Mosso started the session by drawing from similar empirical facts as Lochner, showing that child outcomes correlate with family incomes. He emphasized the importance of complementarity between early and late investments (dynamic complementarity). He showed evidence in the literature suggesting that credit constraints might influence the timing of investments and hence interact with dynamic complementarity to affect child outcomes. However, given the magnitudes of empirical estimates in the literature, their role is often exaggerated. He also showed evidence of stronger effects from targeted interventions as compared to results from general increases in parental income. He concluded that these channels are promising explanations for

the link between family income and child outcomes.

Landersø presented results from the US and Denmark to analyze mechanisms that drive similarities and differences in social mobility between the two countries. He showed that there are only minor cross-country differences between parental income and wealth gradients in educational outcomes once levels of cognitive and noncognitive skills are taken into account. Moreover, he documented strong positive responses of parental investments, such as nurture and private schooling, to birth endowments and parental resources for the US and weak or no responses for Denmark. The effectiveness of parental investments on skills are greater in the US while parental investments through nurture are more effective in Denmark. Taken together, his results suggested that the role of direct parental investments is larger in the US. In Denmark, however, other sources of investments relating to parental income differences seemed to matter, such as variation in public schooling quality.