



ECONOMIC MOBILITY OF OF FAMILIES ACROSS GENERATIONS

EXECUTIVE SUMMARY

ECONOMIC MOBILITY
DESCRIBES THE
ABILITY OF
PEOPLE TO MOVE
UP OR DOWN THE
ECONOMIC LADDER
WITHIN A LIFETIME
OR FROM ONE
GENERATION TO
THE NEXT.

“Doing better” than one’s parents has long been a key element of the American Dream. Not only can people earn more, but they can move up the ladder compared to others. The story, embedded in our history and our literature, suggests any person can start from humble beginnings and achieve great wealth, or at least reach the middle class. But how are Americans doing today? Are they better off than their own parents were and how much does their eventual success depend on their family background?

The report takes a comprehensive view of economic mobility, asking questions about both *absolute* and *relative* mobility. The first key question is, “To what extent do American families improve their incomes over a generation?” Each generation should have higher income than the last, assuming economic growth, so the issue here is the amount of growth and how it is distributed across society. A less frequently asked question is “How often do individual Americans end up with higher family incomes than their own parents, either because economic growth has boosted their income or because that individual has moved up or down the economic ladder?” A third question ignores the overall increases due to economic growth and focuses exclusively on relative mobility: “To what extent does where one ends up in the income distribution depend on where one began?” Put differently, are the economic fortunes of children tied to that of their parents or is there a lot of movement up and down the economic ladder from one generation to the next?

To answer these questions, the report’s author, Julia B. Isaacs of The Brookings Institution, uses a widely respected national data source that enables direct matching of family income of parents in the late 1960s to their children’s family income in the late 1990s to early 2000s.¹ The report concludes with a four-part mobility typology, developed in collaboration with John E. Morton and Ianna Kachoris of Pew’s Economic Mobility Project.

¹ All data presented in this summary are the results of tabulations using the Panel Study for Income Dynamics (PSID). The report focuses on family cash income and does not include the effects of non-wage compensation, taxes or non-cash benefits. For further discussion of income measures and the PSID, see the full report. All income data presented here are in 2006 dollars, using the CPI-U-RS to adjust for inflation.

The report's findings are as follows:

The current generation of adults is better off than the previous one but their incomes are more unevenly distributed.

- ★ Real income growth makes the current generation better off than the previous one. Median family income for adults who were children in the late 1960s and are now in their 30s or 40s increased 29 percent, from \$55,600 for parents to \$71,900 for their children, adjusting for inflation.² Moreover, family sizes have shrunk over this same period (from 3.1 to 2.3 individuals between 1969 and 1998), so higher incomes are spread over fewer people.
- ★ Income growth has not been evenly divided. The biggest gains have occurred at the top of the distribution and the smallest at the bottom.

Two out of three Americans have higher incomes than their parents, while one third are falling behind.

- ★ After data are adjusted for inflation, 67 percent of Americans had higher levels of family incomes than their own parents.
- ★ Compared to their parents, they also live in families or households that are smaller and where there is more often a second earner.
- ★ It is easier to surpass parental income if one's parents are low on the income ladder, because then one's income can increase both because of economic growth and because of moving up the ladder relative to one's parents. Indeed, four out of five children whose parents were in the bottom fifth of the income distribution end up with higher incomes than their parents.

Contrary to American beliefs about equality of opportunity, a child's economic position is heavily influenced by that of his or her parents.

- ★ Forty-two percent of children born to parents in the bottom fifth of the income distribution remain in the bottom, while 39 percent born to parents in the top fifth remain at the top.
- ★ Children of middle-income parents have a near-equal likelihood of ending up in any other quintile, presenting equal promise and peril for those born to middle-class parents.
- ★ The "rags to riches" story is much more common in Hollywood than on Main Street. Only 6 percent of children born to parents with family income at the very bottom move to the very top.

² Family incomes are somewhat higher in the PSID sample than in traditional Census Bureau statistics, for reasons discussed in the full report.

FAMILY SIZES HAVE SHRUNK, SO HIGHER INCOMES ARE SPREAD OVER FEWER PEOPLE.

Americans have higher incomes than a prior generation, but that does not necessarily mean they are moving up the economic ladder compared to their parents or to other families. Only one third are what the report calls “upwardly mobile.” Another one third is “downwardly mobile.”

The report classifies Americans into the following four categories, based on their change in income levels and their movement across five equal sized income groups (or quintiles) that range from bottom to top of the income distribution:

- ★ **“Upwardly mobile”**—One third (34 percent) of Americans are “upwardly mobile,” surpassing their parents’ income and their parents’ economic ranking (by one or more quintiles). This means that of the 67 percent of families who make more money than their parents, only half move ahead enough to place them in a new position on the income ladder.
- ★ **“Riding the tide”**—About one quarter (27 percent) are “riding the tide”, making more than their parents’, but remaining in the same economic position as their parents.
- ★ **“Falling despite the tide”**—A small group of individuals (5 percent) surpass their parents’ income, yet fall behind their parents in economic standing, and are “falling despite the tide.”
- ★ **“Downwardly mobile”**—Another third of Americans (33 percent) are “downwardly mobile,” making less than their parents and failing to rise above their parents’ economic position.

**THE “RAGS TO RICHES”
STORY IS MUCH MORE
COMMON IN
HOLLYWOOD
THAN ON MAIN
STREET.**

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All Economic Mobility Project materials are guided by input from the Principals' Group and the project's Advisory Board. However, the views expressed in this report represent those of the author and not necessarily of any affiliated individuals or institutions.

ABOUT THE PROJECT

The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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ECONOMIC MOBILITY OF FAMILIES ACROSS GENERATIONS

BY JULIA B. ISAACS, THE BROOKINGS INSTITUTION

For most Americans, seeing that one's children are better off than oneself is the essence of living the American Dream. Indeed, much of the American spirit is grounded in the belief that with determination and hard work, one can rise from humble beginnings and achieve a comfortable, middle-class life, if not great wealth.

Do children in America, in fact, advance beyond their parents in terms of family income? Do children from different family backgrounds have an equal shot at rising in society?

This report seeks to answer these two central questions about the economic mobility of families across recent generations. To explore these questions, the analysis focuses on measures of absolute mobility, or how overall trends in economic growth lead to increased economic well-being, and measures of relative mobility, or how easily Americans of different family backgrounds move up or down the income ladder, in relative economic standing.

A Note about Method

As found in previous reports of the Economic Mobility Project, economic

mobility has increasingly become a family enterprise. Accordingly, this study focuses on family incomes of both the parents and children in this sample. In reports that follow, outcomes by gender, race and education will be analyzed for these same families.

The primary source of data for this analysis is a nationally representative sample of children who were ages 0–18 in 1968. These children and their parents have been tracked for more than 36 years through the Panel Study of Income Dynamics (PSID), allowing comparison of the children's income as adults with their family's income in childhood.

Specifically, total family income of the now-grown children averaged across five recent years (1995, 1996, 1998, 2000 and 2002) is compared with the five-year average of their parents' income in 1967–1971. (Further methodological discussion of the PSID data sample and how family income is defined is provided in Appendix A).

Any analysis that seeks to comprehensively assess the health of the American Dream and economic opportunity must consider both

absolute and relative mobility. Traditional measures of absolute mobility involve comparisons of growth at different points in the income distribution. The report introduces a new measure of mobility that directly compares children and parents when assessing growth in real income. For analysis of relative mobility, parents and children are ranked by family income and then divided into five equal-sized groups, or quintiles. The analysis then measures the extent to which families move from one quintile to another.

In addition to analyzing absolute and relative mobility independently, the study introduces a new typology that integrates these two key concepts and describes how Americans experience economic mobility in America today.

REAL INCOME GROWTH: CURRENT GENERATION IS BETTER OFF THAN PREVIOUS ONE

Adults who were children in 1968—those who were in their 30s and 40s at the end of the century—tend to have more income than did their parents' generation.

Median family income rose by 29 percent between the two generations, from \$55,600 in inflation-adjusted dollars to \$71,900.¹ Mean or average family incomes, which are more strongly influenced by incomes at the top of the income distribution, grew even more rapidly, from \$61,600 to \$88,000 (a 43 percent increase).

Income growth occurred not only at the median but throughout the income distribution, as shown in Figure 1. When parents and children are each ranked by family income and divided into quintiles, the dividing lines between groups are always higher for the children's generation than the parents' generation.

For example, those parents in the top fifth in 1967–1971 have family income of \$81,200 or higher; the comparable benchmark is \$116,700 or higher for the adult children's generation. Parents with a family income of \$50,000 place in the

middle-income group, but in the next generation, that family income ranks in the second-to-bottom quintile.

Further, as many observers have pointed out in recent years, the amount of growth has been unevenly distributed over the past few decades, with the most rapid growth concentrated at the top of the income distribution. This trend is also visible in Figure 1, which shows income growth at the median of each fifth of the income distribution. Median family income in the top quintile grew by 52 percent, compared to only 18 percent for the bottom fifth. (Note that this figure does not directly compare adult children with their own parents: families who are in the top fifth of the children's generation may not have been in the top fifth in the parents' generation.)

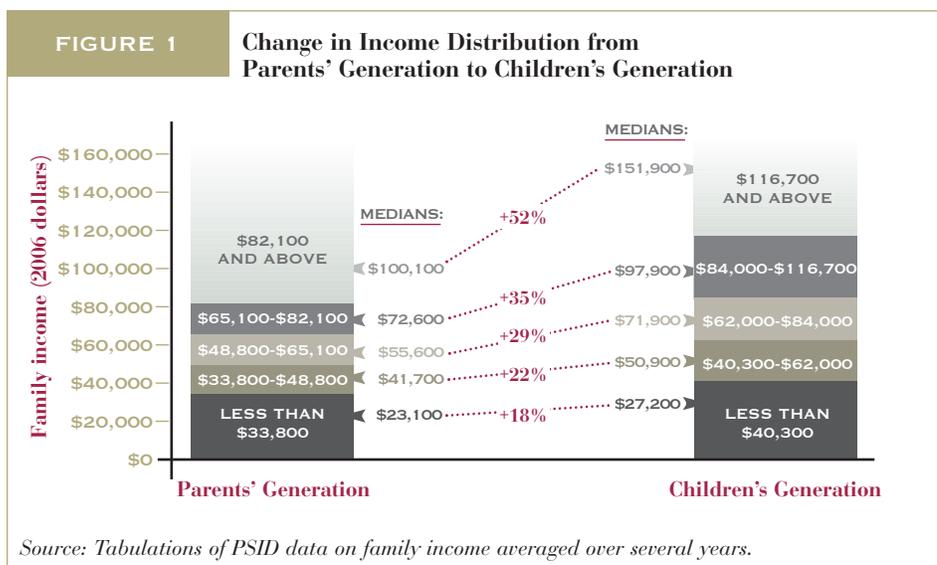
Other data sets with more detailed information on individuals at the very top suggest that growth rates were even higher at the top 1 per-

cent. The Congressional Budget Office found that income of the top 1 percent rose 176 percent, based on after-tax personal income between 1979 and 2004.²

Four important points about the overall increases in income should be noted:

(1) Incomes and income growth are particularly high in this report, which is based on a sample of native-born adults at prime earning ages. Family incomes in the PSID sample were measured in 1967–1971, when parents had an average age of 41 years and again in 1995–2002, when their adult children had an average age of 39 years. The growth in median family income between 1969 and 1998 was only 9 percent when using the Census Bureau's Current Population Survey, which includes a greater age range and immigrants. When CPS data are restricted to native-born family heads of prime-earning ages, the growth rate in median family income is similar to the 29 percent observed in the PSID data.³

(2) The growth in family incomes over this time period was accompanied by a shrinking in family size. According to Current Population Survey data, the average number of individuals per family shrank from 3.1 to 2.3 individuals between 1969 and 1998. Taking into consideration the smaller family size



as well as the growth in family income, families are generally better off economically today.⁴

(3) Much of the growth in family income is because more women have gone to work. Moreover, average earnings have increased for those women who do work.

In contrast, earnings of men in their 30s have remained surprisingly flat over the past four decades. (See, in this series, “Economic Mobility of Men and Women.”)

(4) Non-cash contributions may affect upward mobility.

These analyses of changes in family income do not include the effects of fringe benefits, such as employer-provided health insurance and retirement benefits, nor do they include the effects of taxes and non-cash benefits such as food stamps. Data constraints prevent these variables from being easily added to the detailed analysis, but there is some evidence to suggest that upward mobility over the past four decades would be somewhat higher if these non-cash contributions were included. (For further discussion of non-cash contributions to economic well-being, see Appendix B).

ABSOLUTE MOBILITY: MOST AMERICANS HAVE MORE INCOME THAN THEIR PARENTS

While a comparison of median family incomes suggests how one generation is faring relative to earlier generations, it does not describe how

individuals fare relative to their own parents. To address this question, levels of family income were compared between matched pairs of children and parents, rather than between aggregate statistics for one generation and an earlier one. The simplest version of this new measure is a “yes/no” determination of whether children have higher income than their parents.

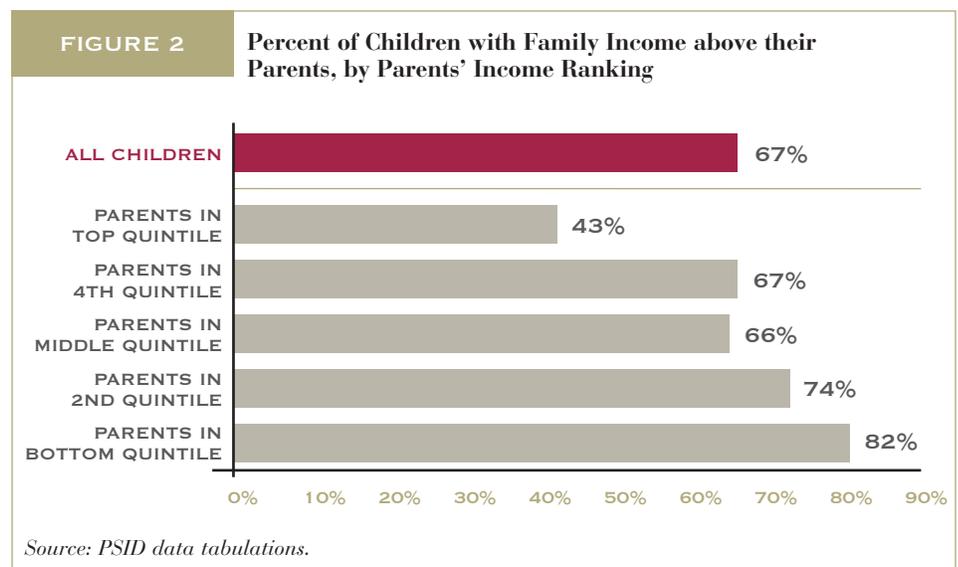
Two out of three Americans have higher family incomes today than their own parents had some 30 years ago.

More specifically, 67 percent of Americans who were children in 1968 had higher levels of real family income in 1995–2002 than their parents had in 1967–1971 (see Figure 2).⁵ The remaining one-third of Americans had income equal to or less than their parents’ income, after adjusting for inflation. Americans’ optimistic views about mobility and opportunity in America may stem from the fact that two out of three children

have higher levels of absolute income than their parents. That family incomes rise over a thirty-year period is not surprising. In fact, more children might have advanced beyond their parents’ income if economic growth had been higher and more equally distributed over the past 30 years.

While it would be instructive to compare this statistic to earlier generations, the PSID only began collecting data in 1968. Nor has this type of measure been done for other countries to allow for international comparisons. It is thus hard to say whether it is “good news” that two out of three children have incomes above the income of their parents, or “bad news” that the statistic is not higher.

Children born to parents in the bottom fifth are more likely to surpass their parents’ income than are children from any other background. More than four out



of five children born to parents in the bottom quintile have greater family income than their parents. In contrast, less than half (43 percent) of those whose parents are in the top fifth of income surpass their parents. The higher one's parents' income, the less likely one is to rise above it.

An associated view of income growth is provided in Figure 3, which shows the extent to which children of parents in each quintile surpass their parents' income. This approach provides a picture of the economic performance of the typical child from each of the five groups of family background.

The higher the parents' income, the higher the income of the adult child. If there were no connection between parents' and their children's income—that is, if there was perfect mobility—the median family incomes for each group of children would be \$71,900, the same as the median family income for the overall

population. Instead, the incomes of adults whose parents were in the top fifth of the income distribution exceed the incomes of children from all other economic backgrounds, and each subsequent group has somewhat lower income. Those whose parents are at the bottom of the income distribution have less than half as much family income as those whose parents were at the top (\$46,100 compared to \$99,700).

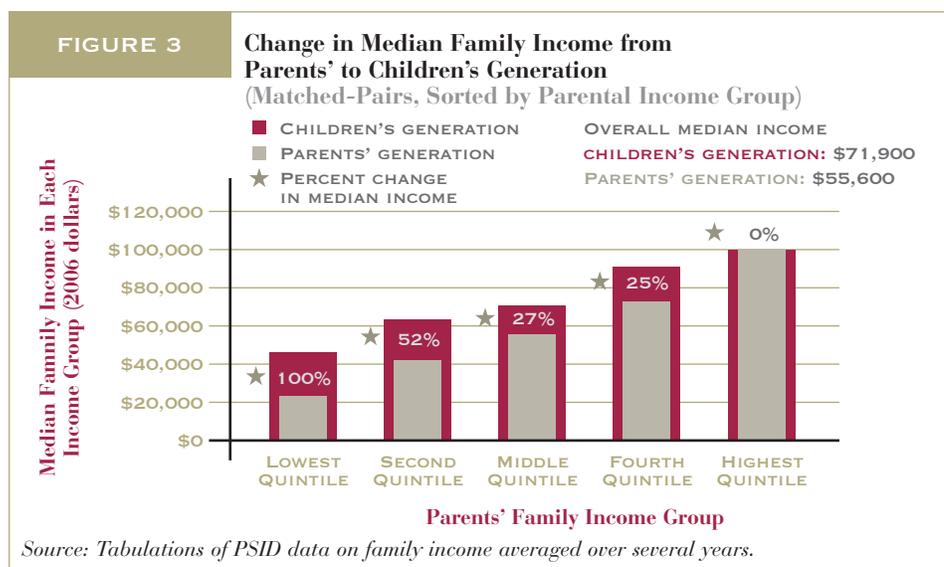
However, the higher the parents' income, the lower the amount by which children surpass their parents. Median family income for children of parents in the highest income group is actually the same as their parents' median family income. Economically privileged children usually grow up to have high incomes relative to other adult children, but not relative to their own parents. At the other end of the spectrum, children whose parents were in the bottom fifth have almost twice as

much income as their parents—though not enough to bring them abreast of their contemporaries.⁶

Comparisons of parental and adult child incomes in actual dollar levels provides a basic measure of mobility that may be consistent with how many people think about their own economic progress. Such measures are strongly affected by overall levels of economic growth, and how this economic growth has translated into income growth. However, a child with an income that is \$10,000 above his or her parents may not be doing well if most of his or her childhood peers have gained \$20,000, because the child may perceive he or she has fallen in relative economic status. Thus it is also important to examine relative mobility, a topic of considerable study by economists and sociologists.

RELATIVE MOBILITY: CHILDREN'S PROSPECTS ARE LIMITED BY FAMILY BACKGROUND

Do children from different family backgrounds have an equal shot of rising to the top or falling to the bottom of the income ladder? Measures of relative mobility address the question of how children move up and down in social rank, relative to their initial starting point or family background. For this analysis, individuals were assigned to one of five income groups, from lowest to highest, first according to their parents' income and then according to their own



income as adults. The two rankings were then compared to see if children have moved up or down in income ranking.

All Americans do not have an equal shot at getting ahead, and one's chances are largely dependent on one's parents' economic position. A graphic representation of the probabilities of transitioning from one income group to another over a generation is presented in Figure 4, which shows that the probability of ending up in a particular income quintile as an adult depends on where one's parents were in the income distribution.

Children born to parents in the top quintile have the highest likelihood of attaining the top, and children born to parents in the bottom quintile have the highest likelihood of being in the bottom themselves. This phenomenon is referred to as “stickiness” at the ends of the income distribution.

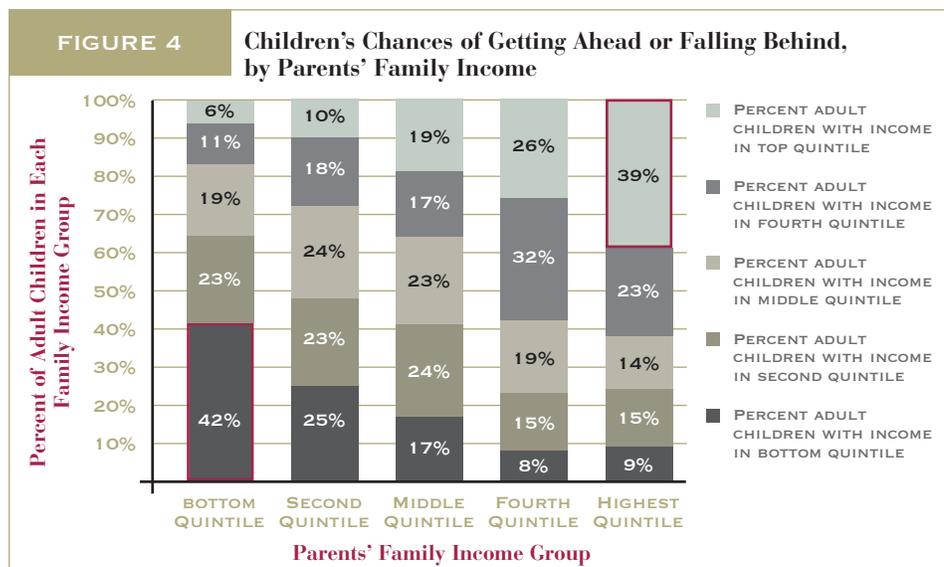
As shown in Figure 4, it is fairly hard for children born in the bottom fifth to escape from the bottom: 42 percent remain there and another 42 percent end up in either the lower-middle or middle fifth. Only 17 percent of those born to parents in the bottom quintile climb to one of the top two income groups. At the other end of the distribution, 39 percent of children born to parents in the top fifth attain the top themselves with an additional 23 percent landing in the fourth highest quintile.

Surprisingly, American children from low-income families appear to have less mobility than their counterparts in five northern European countries, according to a recent international study of earnings of fathers and sons. Whereas 42 percent of American sons whose fathers had low earnings themselves, the comparable percentages ranged from 25 to 30 percent in Denmark, Finland,

Sweden, Norway, and the United Kingdom (see report on cross-country comparisons of economic mobility, forthcoming in this series).

The chances of making it to the top of the income distribution decline steadily as one's parents' family income decreases. Middle-income children are only half as likely as children from the top fifth to climb to the top themselves (19 percent compared to 39 percent). Moreover, only 6 percent of children born to parents with family income in the bottom fifth move to the very top of the distribution, indicating that the “rags to riches” phenomenon of moving from the bottom to the top of the income ladder is infrequent.

Nonetheless, there is a fair amount of mobility, and those born at the top of the income distribution have no guarantee of staying there. While 39 percent of those born into the top fifth of the income distribution stay there, more than half—the remaining 61 percent—move downward in the income ranking.⁷



Source: PSID data tabulations of family income averaged over several years and reported in 2006 dollars.

Note: The bars show the probability of reaching an income ranking for children of a certain parental ranking. For example, the first bar shows that 42 percent of those whose parents were in the bottom quintile ended up in the bottom quintile themselves, 23 percent of them ended in the second quintile, 19 percent in the middle quintile, 11 percent in the fourth quintile and 6 percent in the top quintile.

Children born to middle-income parents are close to the “perfect mobility” condition of being equally likely to move to any quintile in the income distribution.

Children whose parents are in the middle quintile are about as likely to stay in the middle (23 percent) as to jump to the top (19 percent) or fall to the bottom (17 percent). One reason that children in the middle show more mobility than those at the tails of the distribution is that one can move either up or down from the middle, whereas those who start at the top or bottom can move in only one direction.

A number of other researchers have found similar results when analyzing intergenerational mobility through a transition matrix such as one presented in Figure 4.⁸ Researchers also have developed summary statistics that capture intergenerational mobility information in a single number that summarizes the society-wide relationship between parent and child incomes. The most common such measure, the “intergenerational

elasticity coefficient” ranges from 0.0 in a hypothetical society where parental income has no effect on a child’s economic prospects to 1.0 where there is a one-to-one correspondence between parental income and adult child income.⁹

Recent estimates of the intergenerational elasticity in the United States range from about 0.4 to 0.6, meaning that about half of the difference in income between families in one generation persists into the next generation.¹⁰ This aggregate measure of relative mobility is particularly useful when comparing the United States to other countries, or when comparing different points in time and will be used in forthcoming reports in this series. However,

it measures income of both parents and children relative to the average for their own generation and is silent on absolute growth across generations.

A NEW TYPOLOGY: ONE THIRD OF AMERICANS MOVE UP IN BOTH ABSOLUTE AND RELATIVE TERMS

Since many Americans think of the American Dream in terms of both gaining higher incomes and rising in society, it is important to demonstrate how Americans move beyond their parents in both absolute and relative terms.

To examine the chances that children’s movement consists of *both* changes in absolute income

	PARENTS’ FAMILY INCOME RANK					ALL FAMILIES
	BOTTOM QUINTILE	SECOND QUINTILE	MIDDLE QUINTILE	FOURTH QUINTILE	TOP QUINTILE	
Upwardly mobile Higher income and up 1 or more quintiles	58	52	36	26	N/A ⁽¹⁾	34
Riding the tide Higher income and same quintile	24 ⁽²⁾	20	23	32	34 ⁽¹⁾	27
Falling despite the tide Higher income and down 1 quintile	N/A ⁽²⁾	1	7	9	10	5
Downwardly mobile Lower income and lower/same quintile ⁽³⁾	18	26	34	33	57	33
Total all children’s families	100	100	100	100	100	100

Notes: (1) Those in the top quintile cannot meet this definition of “upwardly mobile,” because there is no quintile above the top quintile.¹¹

(2) Those in bottom quintile cannot meet this definition of “downwardly mobile,” because there is no quintile below the bottom quintile.

(3) Any observation with income exactly equal to parents is also classified as downwardly mobile.

levels and relative economic standing, the mobility measures used for this analysis were combined in a new, four-part typology, presented in Table 1.¹²

This typology suggests that while many Americans are getting ahead in absolute terms, they are not necessarily moving up the income distribution. As incomes have grown, the whole distribution has shifted upward over time.

One third of all children are “upwardly mobile” under the new typology. These children are getting ahead of their parents in real family income and also moving up ahead of their parents in economic ranking (by one or more quintiles). This means that of the 67 percent of Americans who have higher family incomes than their parents, only half move ahead of their parents in income ranking. About half of the children in the bottom and second quintiles are upwardly mobile.

About one quarter of children are “riding the tide.” The next generation is getting ahead of their parents’ income in absolute terms but remaining in the same economic position as their parents. Making up 27 percent of Americans overall, those riding the tide are more likely to be in the two top quintiles.

A small group of children, 5 percent, are “falling despite the tide.” They get ahead of their parents’ income in absolute terms but fall below their parents’ economic position.¹³ Close to one tenth of individuals born into the middle, fourth and top quintiles are falling behind despite having more income than their parents. This trend may contribute to the much-discussed anxiety of middle-class Americans today.

One third of Americans are “downwardly mobile.” The next generation is falling behind their parents in both real family income and relative rank. One third of the families in the middle and fourth quintiles are downwardly mobile, and more than half of those in the highest income group are downwardly mobile.

CONCLUSION

Traditionally, studies of economic mobility have looked at either absolute or relative mobility, but not both. Both types of mobility are important to assessing the health of the American Dream.

By all measures, many Americans do get ahead of their parents in real income. Assessing absolute mobility across these two generations reveals that median family income has increased, as would be expected in a period of a growing economy. Moreover, a direct intergenerational comparison shows that two thirds of

Americans make more family income in real terms than their parents did. However, the other one third fails to surpass the income of their parents, leaving room for further improvement.

Economic position is strongly influenced by parental economic standing. Children of low-income parents and middle-income parents are much less likely to make it to the top quintile than are children born to parents in the top quintile. Further, a high percentage of low-income children remain in the bottom fifth, calling into question the dream that all children have equal chances of achieving economic success.

A new typology of mobility that integrates elements of absolute and relative mobility reinforces the finding that some Americans experience an increase in real income over their parents without moving up in relative standing. This typology indicates that only half of the two thirds of Americans who make more family income than their parents are upwardly mobile in the sense of also moving up one or more quintiles. Another one third of Americans are either “riding the tide,” that is, moving up in income without changing relative standing, or falling in relative rank despite making more than their parents in family income. Finally, one third of Americans are actually downwardly mobile in both income and economic rank.

APPENDIX A The PSID Sample and Family Income

The **sample** for this analysis is 2,367 individuals who were between the ages of 0 and 18 in 1968 and have been tracked into adulthood through the Panel Study of Income Dynamics (PSID), an annual survey collecting information on family income and other characteristics. The PSID core sample includes an oversampling of low-income households (commonly referred to as the Survey of Economic Opportunity (SEO) sample) in addition to a regular cross-sectional national sample (the Survey Research Center (SRC) sample). Both components of the sample were included in the analysis, although two thirds of the low-income sample observations were dropped from the sample in 1997 as a cost-savings measure and thus were excluded from the analysis.

The **unit of analysis** is the individual child. Individual **survey weights** were used to adjust for the likelihood of sample selection (given the purposeful oversampling of low-income households and the subsequent sample reduction) and also to adjust for non-random attrition. Despite these adjustments, the sample may suffer from non-random attrition, that is, individuals who have dropped out of the sample may differ from those who remain in the sample. The sample does not include immigrants who entered the country since 1968, nor does the analysis focus on generations born before 1950 or after 1968.

Family cash income is the focus of the analysis, including taxable income (such as earnings, interest and dividends) and cash transfers (such as Social Security and welfare) of the head, spouse and other family members. The PSID definition of family, used in this analysis, includes single-person families and unmarried cohabiting couples who share resources, in addition to families related by blood, marriage or adoption. As discussed in Appendix B, family cash income does not include the value of non-cash compensation such as employer contributions to health insurance and retirement benefits, nor does it include the effect of taxes or non-cash benefits such as food stamps. All incomes are reported in 2006 dollars, using the CPI-U-RS to adjust for inflation.

Parental family income is based on total family income averaged over five years, 1967–1971, following family income for the head of the family in which the child resided in 1968. This income is referred to as the child's parents' income, although the sample includes children living with grandparents or other relatives and it includes income of all members of the family (head, spouse, and other family members). Average age of the children's parents was 40.9 at the time of survey interview (1968–1972). Five-year averages are used as a proxy for life-time income.

Children's adult income is based on total family income (of the family in which the adult child resides), averaged over five years of income. Because the PSID shifted from annual to biennial data collection in the mid 1990s, the five years of data are collected over a seven-year interval (income in 1995, 1996, 1998, 2000, and 2002). Family income data are collected at ages 27–34 for the youngest children in the sample (those born in 1968) and ages 45–52 for the oldest children (those 18 in 1968). Average age of the children was 39.4 at the time of survey interview (1996–2003).

Negative and zero incomes are bottom-coded to \$1, and individuals with missing data for two or more years in either five-year period were dropped. As noted above, this restriction resulted in dropping the portion of the SEO sample that was discontinued in 1997.

APPENDIX B Non-Cash Contributions to Family Economic Well-Being

Economic mobility is measured in this series by tracking changes in families' cash income. While more comprehensive than earnings, family cash income does not account for fringe benefits, taxes, non-cash assistance and other factors affecting economic well-being. To what extent would mobility trends differ if these contributions were included?

- Absolute mobility would be higher with inclusion of the value of **fringe benefits** such as employer-provided health insurance, retirement benefits, vacation and sick leave. Employer contributions to retirement and health insurance were higher in the children's generation than the parents' generation, totaling 7 percent of wages and salaries in 1967–1971 and 13 percent in 1995–2002 according to aggregate national data.¹⁴ The inclusion of these benefits would increase upward mobility the most for those at the top; jobs at the top of the income distribution are more likely to provide these health and retirement benefits. Workers in the bottom half of the distribution have suffered from substantial declines in health insurance and pension coverage since 1979.¹⁵
- Overall mobility is largely unchanged after an adjustment for federal **taxes**, but inequality is somewhat lessened. Taxes reduce disposable income, with the effect varying by family income. On average, federal taxes reduced average family income by 22.4 percent in the 1995–2002 time period, varying from 27.5 percent for the top fifth to 5.7 percent for families in the bottom fifth, according to the Congressional Budget Office (CBO). The effective federal tax rate has fluctuated somewhat over time, but was roughly the same in 1979, the earliest year in the CBO study as in 1995–2002 (22.2 compared to 22.4 percent). In other words, overall mobility is largely unchanged after adjustment for federal taxes, but inequality is somewhat lessened. Families at the bottom have experienced the largest reduction in tax rate, due to the expansion of the Earned Income Tax Credit.¹⁶ State and local sales, property and income taxes take a further bite out of family income, with a tax burden that is more evenly distributed across the income distribution.¹⁷
- **Non-cash transfers**, such as food stamps and subsidized housing, increase disposable income for the poorest families. Federal spending on food and housing benefits increased dramatically during the five-year period in which parental income was measured (1967–1971) and has continued to grow since then. Spending per household on food and housing benefits grew by 53 percent between 1973 and 2003, a growth rate slightly higher than that for family incomes in the PSID sample.¹⁸ In 2002, 5.6 percent of households received food stamp benefits averaging \$1,784 over the year, 7.1 percent of households received a school lunch benefit averaging \$695 and 4.6 percent of households received housing assistance averaging \$2,390.¹⁹
- **Other adjustments** that are included in some measures of disposable income can be both positive (such as returns to home equity and capital gains) and negative (such as child care and other work expenses).

In sum, these additional measures add some refinement to the mobility picture. Comprehensive measures that include fringe benefits and non-cash government benefits suggests slightly higher growth rates than seen from cash income alone. In addition, post-tax, post-transfer measures suggest somewhat less inequality than depicted by pre-tax measures.

However, the broader income measures show similar trends to cash income measures, namely, average family incomes have grown between the generations, with the most rapid income growth at the top fifth of the income distribution. For example, the CBO measure of after-tax, comprehensive household income shows a growth in annual income of 41 percent between 1979 and 2004, with a rate of 69 percent for the top fifth and 6 percent for the bottom fifth. Mean household income under CBO's disposable income measure was \$62,900 in 2004, ranging from \$14,700 for the bottom-fifth to \$155,200 for the top fifth.²⁰

NOTES

¹Unless noted otherwise, all incomes are reported in 2006 dollars, using the CPI-U-RS to adjust for inflation. Family incomes are somewhat higher in this PSID sample than in traditional Census Bureau statistics, for reasons discussed in footnote 3.

²Congressional Budget Office, 2006. Though using a somewhat different income measure and time period, the Congressional Budget Office finds a similar pattern of higher growth at the top than the bottom. Specifically, CBO reports that between 1979 and 2004, after-tax income rose by 69 percent for the richest one fifth and 176 percent for the top 1 percent, compared to 41 percent overall and only 6 percent for the poorest fifth of the income distribution. See footnote 20 for fuller description of the after-tax income measure used in the CBO analysis.

³Comparisons of the PSID and CPS indicate that the PSID estimates of income are generally higher than those in the CPS, but follow similar trends over time. (See Gouskova and Schoeni, 2007; Yong-Seong Kim and Stafford, 2000). Also, family incomes and income growth are high in this analysis because it focuses on families with children in the United States in 1968, excluding the elderly and very young adults, as well as those without children in 1968 and the large number of immigrants who have arrived since 1968. (For information on immigrant mobility, see, in this series, “Immigration: Wages, Education, and Mobility”). While the CPS has lower incomes, it has similar growth rates when the analysis is restricted to a subsample of CPS families that resemble the PSID families in age, presence of children, and native-born status, as shown in the table below:

Family Income Comparisons

	MEDIAN FAMILY INCOME AND FAMILY SIZE		CHANGE IN FAMILY INCOME
	EARLY YEARS 1967-1971 (PSID) 1969 (CPS)	LATE YEARS 1995-2002 (PSID) 1998 CPS	PERCENT
PSID Longitudinal Sample of Those who Were Children in 1968	\$55,600	\$71,900	29
CPS Cross-Sectional Samples of Family Heads ages 30-48, who have children and who are native-born	\$48,003	\$63,233	32
CPS Cross-Sectional Sample of All Family Heads (including unrelated individuals as head of family of one).	\$38,022	\$41,463	9

⁴Family income adjusted for family size (by dividing family income by the square root of family size) grew by 33 percent after inflation, from \$22,400 to \$29,800, according to CPS data for all families in 1969 and 1998.

⁵The percentage of children who are better off than their parents would increase from 67 percent to 81 percent if family incomes were adjusted for family size, because the children’s generation has smaller family size. Also note that the same analysis was done on a restricted sample, of adults ages 33–48 (instead of 27–52), to explore the sensitivity of the results to the age range at which the incomes of adult children were measured. Under the tighter age sample, the number of adult children who exceeded their parents’ income was slightly higher but still rounded to 67 percent.

⁶Note that the analysis classifies individuals into five groups based on parental income status, and then measures change from that parental income status. One would therefore expect some increase from the lowest parental income status, consistent with a tendency called “regression to the mean”; those with extreme scores at one point in time due to random chance or luck will tend to have less extreme scores when measured later. Some of the parents who are classified into the bottom category may be experiencing atypically low income in those five years, relative to their life-time experiences or the experiences of their children. Using five years of income rather than one introduces fewer distortions, as the one year might represent abnormally low income.

⁷This downward movement by 61 percent of children born at the top helps explain the finding (presented in Figure 3) that the adult family median incomes of children from the top fifth is slightly below the median income for their parents. This occurs despite the fact that the 39 percent who remain at the top are doing extremely well—recall from Figure 1 that income growth was highest at the top of the income distribution. However, the downward mobility of the others brings down the median income of this group, particularly when compared to their parents, 100 percent of which are, by definition, at the top fifth of the parental generation.

⁸See Hertz, 2005 and Jantti, Bratsbert, Roed, Raum et al., 2006 for two recent analyses using the PSID data; see Peters, 2002 for similar analysis using data from the National Longitudinal Survey of Youth (NLS). Administrative data offers another opportunity to track incomes longitudinally, but such analyses are generally limited to individual earnings, not family income.

⁹The intergenerational elasticity coefficient (IGE) comes from a linear regression equation estimating the relationship between children’s and parents’ income, with both child and parental income expressed in logarithmic measures. It measures the percentage difference in expected child income associated with a one percent difference in parental income. The same technique can be used to measure the intergenerational elasticity of earnings as well as income. In societies where there is more inequality in the children’s generation than the parents’ generation, the IGE can fall outside the 0 to 1 range. To interpret the IGE, imagine a group of parents whose income is 80 percent higher than average. If they are in a society with an IGE of 0.5, then their children will, on average, have incomes that will be 40 percent higher than average (80 percent x 0.5). If they live in a society where the IGE is only 0.2, then their children’s income would average only 16 percent above average (80 percent x 0.2). And at the extreme of an IGE of 0, any large group of children would have average incomes unrelated to the income of their parents.

¹⁰Corak, 2006; Sawhill and McLanahan, 2006.

¹¹A more detailed analysis finds that the 34 percent in the top quintile who are “riding the tide” includes 8 percent who move upward to the top decile from the ninth decile. Similarly the 24 percent in the bottom quintile percent with higher income and the same quintile includes < 1 percent who move down from the second to the bottom decile.

¹²John E. Morton and Ianna Kachoris of Pew's Economic Mobility Project collaborated with the author in developing the typology presented in Table 1.

¹³Imagine, for example, a family where the parents made \$50,000 and the children made \$60,000. Despite a \$10,000 increase in absolute income, such a family would drop in ranking, from the middle fifth in the parents' generation to the second-to-bottom fifth in the children's generation, as shown in the display of quintiles in Figure 1.

¹⁴Council of Economic Advisers, 2007, Table B-23, p. 262. If one adds in employer contributions to government insurance, the ratio of non-wage compensation to wage compensation rises from 11.6 percent in 1967–1971 to 20.7 percent in 1995–2002.

¹⁵See Katz and Autor, 1998, Section 2.3, "Total Compensation Inequality vs. Wage Inequality"; see also Pierce, 2001.

¹⁶Congressional Budget Office, 2006.

¹⁷McIntyre et al., 2003.

¹⁸Author's calculations based on expenditures from Congressional Research Service, 2006, Table 5 and population data from Census Bureau, 2007, Table 57.

¹⁹Census Bureau, 2004, Table 7. Income of Households from Specified Sources, by Poverty Status: 2002.

²⁰Congressional Budget Office, 2006. Incomes are reported in 2004 dollars. The after-tax measure incorporates the effects of four major federal sources of revenue: individual income taxes, social insurance (payroll) taxes, corporate income taxes, and excise taxes. Comprehensive cash income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and retirement benefits plus taxes paid by businesses (corporate income taxes and the employer's share of Social Security, Medicare, and federal unemployment insurance payroll taxes) and employee contributions to 401(k) retirement plans. Other sources of income include all in-kind benefits (Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance).

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The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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