

# INTERNATIONAL

# COMPARISONS OF ECONOMIC MOBILITY

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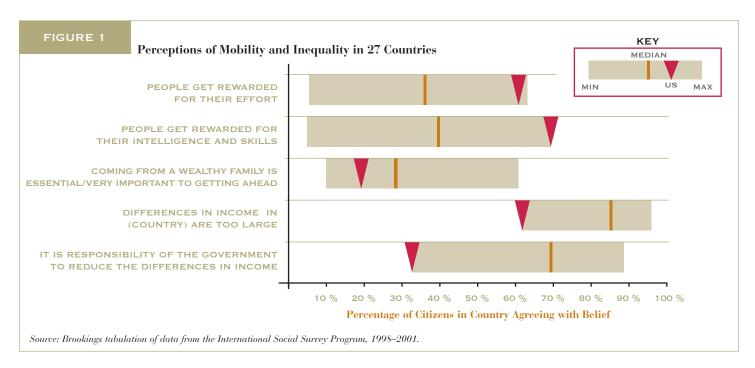
reedom from the constraints of aristocratic society lured many of our ancestors to cross the ocean to the New World. European visitors such as Alexis de Tocqueville marveled at the economic dynamism and social mobility of American society in the first half of the nineteenth century. More recently, immigrants continue to cross our boundaries in search of the promise of the American Dream. Given this history, many Americans believe that the opportunities for moving up the economic ladder are greater in the United States than they are

in other countries. But is this widely held assumption of greater economic mobility in the United States borne out by the evidence? A review of international surveys and crosscountry research on economic mobility yielded the following answers to this question.

AMERICANS ARE
MORE OPTIMISTIC
THAN OTHERS ABOUT
THEIR CHANCES OF
GETTING AHEAD

Americans have more faith than do people in other countries that

they will receive economic rewards for individual effort, intelligence, and skills. About two-thirds of Americans (69 percent) agree with the statement that "people are rewarded for intelligence and skill," the highest percentage across 27 countries participating in an international survey of social attitudes conducted between 1998 and 2001.<sup>2</sup> As Figure 1 indicates, only about one-fifth (19 percent) of Americans believe that coming from a wealthy family is essential or very important to getting ahead; the median response among all countries was 28 percent.



Widespread belief in one's ability to get ahead may explain why Americans are more accepting of economic inequality than are people in other countries. While there are large gaps between rich and poor in the United States, and a majority of Americans (62 percent) agree with the statement that income differences in this country are too large, in other countries much greater majorities hold this belief: 85 percent is the median response and 96 percent is the maximum response. Another strong cultural difference is that Americans are less likely than others to believe that the government should take responsibility for reducing income disparities; only one-third of Americans (33 percent) hold this view, compared to percentages ranging from 46 percent (in Canada) to 89 percent (in Portugal) in the other countries.

# ECONOMIC MOBILITY OF FAMILIES ACROSS GENERATIONS IS LOWER IN THE UNITED STATES THAN IN MANY OTHER COUNTRIES

While Americans have an optimistic faith in the ability of individuals to get ahead within a lifetime or from one generation to the next, there is growing evidence of less intergenerational economic mobility in the United States than in many other rich industrialized countries, at least according to the relative mobility measures commonly used in economic research.

The earnings of American men are more closely tied to the earnings of their fathers than are those of men in other countries.

Both the United States and the United Kingdom stand out as having higher associations between fathers' and sons' earnings—and therefore less economic mobility—than do seven other industrialized countries, according to a comprehensive review by Corak. After reviewing dozens of studies of the earnings relationship between fathers and sons in the United States and other countries, and adjusting the statistics for comparability to the extent possible, Corak ranked the nine countries in the order shown by the bars in Figure 2.

### • Low-mobility countries.

In the United States and the United Kingdom, about half (50 percent) of parental earnings advantages are passed onto sons. If trends hold consistent, it would take an average of six generations

### **Caveats Regarding Cross-Country Comparisons of Intergenerational Mobility**

Most studies of intergenerational economic mobility focus on *relative* mobility, measuring the extent to which fathers who are low (or high) in the overall earnings distribution tend to have sons who also are low (or high) in the earnings distribution. Hence, the research ignores the question of cross-country differences in *absolute* mobility, that is, the likelihood that individuals in a given country will have higher standards of living than their parents due to national rates of economic growth.

In general, intergenerational economic mobility research is based on longitudinal surveys or administrative data records that follow the same families within countries for several decades, permitting data linkages between individuals and their parents. Estimates of mobility are quite sensitive to the way that data are collected and measured in each country and the methodological decisions made by researchers.<sup>†</sup> Moreover, little is known about the experience of immigrants to different countries, because the available data sets focus primarily on native-born citizens.<sup>5</sup>

Two recent studies that have attempted to carefully address issues of cross-country comparability are summarized in this chapter. Both studies, like most international reviews, have a primary focus on the earnings of fathers and sons, because data sets on male earnings are more readily available and comparable than data sets on family income. While these studies represent the best available evidence to date, there is still margin for error around the precise estimates and the exact rankings of countries by mobility status.

for family economic advantage to disappear in the United States and the United Kingdom.

Mid-range countries. France,
 Germany, and Sweden were in
 the mid-range of mobility measures
 for these nine countries.<sup>6</sup>

### • High-mobility countries.

Paternal earnings had the least effect on sons' earnings in Canada, Norway, Finland, and Denmark, where less than 20 percent of income advantages are passed onto children. The implication of these statistics is that in these countries it would take three, not six, generations, to essentially cancel out the effects of being born into a wealthy family.

Recent studies suggest that Italy may be in the same "low-mobility" range as the United States and the United Kingdom, while both Spain and Australia join the list of countries with higher rates of mobility than the United States.<sup>7</sup>

The notion of "American exceptionalism" is given new meaning in a second international study that also finds less—not more—mobility in the United States.

Markus Jäntti and a team of researchers also found that relative mobility across generations is lower in the United States, based on a recent study that used standardized data sets and a consistent approach to measure mobility in each of six countries.<sup>8</sup> While the research team's efforts to follow a common methodology strengthens the credibility of their findings, the study group is limited to Denmark, Finland,

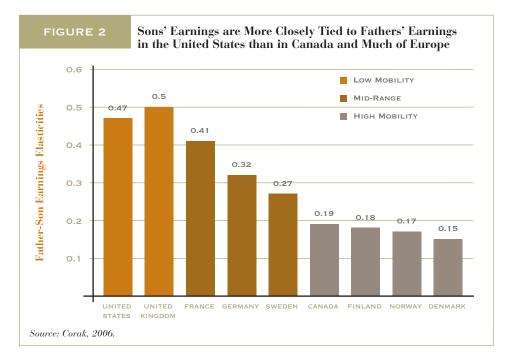
Norway, Sweden, the United Kingdom, and the United States.

For the most part, Jäntti et al. provide similar estimates of the association between fathers' and sons' earnings as Corak's statistics shown in Figure 2.9 The one exception is that the United Kingdom was in the mid-range of mobility in the six-country study, more closely resembling Sweden than the United States.

In their in-depth analysis, Jäntti et al. were able to probe beneath the surface and examine how the relationship between earnings of parents and children varies for individuals at different rungs on the economic ladder. Consistent with the mobility matrices presented in other chapters in this volume, they find there is more stickiness at the top and bottom of the earnings ladder in all countries. That is, men whose fathers have particularly low earnings are more likely than other men to have low earnings themselves, and men whose fathers are at the top of the earnings distribution are likely to attain that top status themselves.

Starting at the bottom of the earnings ladder is more of a handicap in the United States than it is in other countries.

What is new and striking about these findings, however, is a particularly high amount of stickiness at the bottom



for American males. Specifically, men born into the poorest fifth of families in the United States in 1958 had a higher likelihood of ending up in the bottom fifth of the earnings distribution than did males similarly positioned in five Northern European countries—42 percent in the United States, compared to 25 to 30 percent in the other countries (see top half of Table 1).10 Furthermore, in the United States, only 8 percent make the "rags to riches" climb from bottom to top rung in one generation, while 11 to 14 percent do so in other countries.<sup>11</sup> However, when making this comparison, it is important to note that the

Americans who climb from bottom to top in one generation are climbing further in absolute dollars than their counterparts in Europe, given the broad income dispersion in the United States. Still, according to this measure, rising on one's own bootstraps is harder in the United States than it is in several northern European countries.

There also was stickiness at the top for American men: 36 percent remain at the top quintile. However, this finding was typical of all six countries studied; the percentage ranged from 30 to 37 percent across the countries, as shown in bottom half of Table 1.

Workers in the middle of the earnings distribution were fairly mobile across all countries, and daughters generally had more earnings mobility than sons, as well as fewer cross-country differences (data not shown).<sup>12</sup> The authors speculate that the high relative mobility of middle-class workers in the United States, combined with overall increases in the standard of living over time, may help explain the mobility assumptions held by many Americans. In addition, in an earlier paper, two of the authors summarize sociological evidence suggesting that occupational mobility appears to be higher in the United States than in Europe, even as economic data indicate lower economic mobility. 13

### The mobility literature does not tell us which country has the highest rates of income growth between fathers and sons.

As noted above, the economic literature on cross-country comparisons of mobility focuses on relative mobility measures that examine the ranking of individuals in economic status relative to others in their own generation. Such measures do not factor in the important effects of economic growth. For many Americans, "getting ahead" may mean enjoying a higher standard of living than one's parents, regardless of whether one is high or low in the income distribution.

Between 1973 and 2001, the U.S. economy expanded at an average rate

# Mobility Outcomes for Men Whose Fathers Are at the Bottom and Top of the Earning Distribution

PERCENT OF MEN WHOSE FATHERS WERE IN BOTTOM FIFTH OF THE EARNINGS DISTRIBUTION:

	REMAINED IN BOTTOM FIFTH	CLIMBED 1 TO 3 INCOME POSITIONS	CLIMBED TO TOP FIFTH
Denmark	*25 %	61 %	*14 %
Finland	*28	61	11
Norway	*28	60	*12
Sweden	*26	63	11
United Kingdom	*30	57	*12
United States	42	50	8

## PERCENT OF MEN WHOSE FATHERS WERE IN TOP FIFTH OF THE EARNINGS DISTRIBUTION:

	DROPPED TO BOTTOM FIFTH	DROPPED 1 TO 3 INCOME POSITIONS	REMAINED IN TOP FIFTH
Denmark	*15 %	48 %	36 %
Finland	*15	50	35
Norway	*15	50	35
Sweden	*16	47	37
United Kingdom	11	60	30
United States	10	55	36

<sup>\*</sup> Statistically different from outcome in the United States. (Statistical testing was not done on the middle column). Row percentages may not total to 100 due to rounding. Sons in all six countries were born near 1958 (1957-1964 in the United States), and earnings of both fathers and sons were estimated near age 40. Sons' earnings are generally measured between 1992 and 2002 (in 1995 and 2001 in the United States). Source: Jäntti et al., 2006, Table 4, p. 18 and Table 12, p. 33.

of 2.9 percent a year, a higher annual growth rate than most western European economies. However, when measuring growth on a per person basis, there was little difference—both the United States and Western Europe experienced per capita growth of about 1.9 percent annually between 1973 and 2001. And 2001.

Still, one might wonder whether economic growth would lead American men to advance beyond men in other countries, in terms of absolute increases above what their fathers earned. The answer might vary depending on where men lie on the earnings distribution, given the uneven distribution of economic growth in the United States in recent years. It would be useful if future research on mobility in different countries compared absolute growth in earnings as well as relative mobility up and down the economic ladder.

# INTERGENERATIONAL MOBILITY IS LOWER IN SOME DEVELOPING COUNTRIES

The influence of family background may be even higher in some developing countries than it is in the United States and other rich nations, although the data are scarce and the evidence is still emerging. Parental economic status is more influential in Ecuador and Peru than in the United States,

according to a careful comparative study by Grawe.<sup>16</sup> Brazil is a third Latin American country with low relative mobility, with the elasticity between fathers' and sons' earnings estimated at about 0.7, considerably higher than the levels shown in Figure 2.<sup>17</sup> Other developing countries appear more similar in mobility levels to the United States. For example, Grawe estimated that parents in Pakistan and Nepal provide their sons with an earnings advantage that appears to be within the range of that transmitted to sons in the United States.<sup>18</sup>

Note that mobility statistics for less developed countries are even more uncertain and difficult to estimate than those presented in Figure 2 because developing countries do not have longitudinal surveys spanning three or more decades. Parents' income therefore has to be estimated using various extrapolations. These cross-country comparisons are further hampered by such measurement challenges as comparing studies conducted independently by researchers using different approaches, varying estimates for individual countries, and differences in the ages at which earnings are measured.<sup>19</sup> Still, the available evidence suggests that while the United States ranks low in mobility when compared with many European countries, it ranks high compared with some less developed countries, including at least three countries in Latin America.

# THE UNITED STATES RESEMBLES OTHER COUNTRIES IN SHORTERTERM MOBILITY MEASURES

While most of this volume focuses on mobility over generations, this review of cross-country comparisons concludes by examining intragenerational mobility—mobility within a lifetime.

# The United States falls in the mid-range for rates of mobility over 5- or 10-year periods.

A number of studies have found that the United States has fairly similar rates of relative mobility to other countries when measured over a 5- to 10-year period. For example, a seven-country study by the Organization for Economic Cooperation and Development (OECD) found the United States was in the middle with regard to 5-year mobility patterns between 1986 and 1991. About half (49 percent) of full-time workers in the United States were in the same relative place in the earnings distribution after five years, with the other half moving up or down one or more quintiles. The percentage who stayed in the same place in the seven European countries ranged from 44 percent in Finland to 57 percent in France.<sup>20</sup> Another study, by Mercedes Sastre and Luis Ayala, found that the United States fell into the intermediate range of income mobility in a study tracking income mobility between 1992 and 1996 in the United States and five European countries.<sup>21</sup> Earlier studies using data from the 1980s

also found overall similarities in mobility patterns over 5- and 10-year periods, in studies comparing the United States to Germany or to Scandinavian countries.<sup>22</sup>

The two studies comparing workers in Europe and the United States also examined how much earnings and income increased in absolute terms over 5-year periods. The OECD study found that full-time workers in the United States generally experienced more absolute growth in earnings and income than their European counterparts. However, low-paid full-time workers in the United States had less earnings growth between 1986 and 1991 than low-paid full-time workers in the European countries. Sastre and Ayala also found a mixture of good and bad news. Rates of income and earnings growth between 1992 and 1996 were higher in the United States than in other countries for middle-income individuals, but lower for low-income individuals.23 Again, the cross-country comparisons suggest an American pattern of low mobility at the bottom of the income ladder.

#### CONCLUSION

The findings from cross-country research challenge the traditional view of the United States as a land with more mobility and opportunity than other countries.

While cross-country comparisons of relative mobility rely on data and methodologies that are far from perfect, a growing number of economic studies have found that the United States stands out as having less, not more, intergenerational mobility than do Canada and several European countries. American children are more likely than other children to end up in the same place on the income distribution as their parents. Moreover, there is emerging evidence that mobility is particularly low for Americans born into families at the bottom of the earnings or income distribution.

Though based on shakier evidence, mobility rates in less developed countries appear to be lower than in the United States in some instances, but not significantly different in others. There are fewer differences between the United States and European countries when examining mobility within a worker's career, as opposed to the transmission of economic status between parents and children. Overall, American workers seem as likely as European workers to move up or down the earnings ladder in a 5- or 10-year period. However, there is again evidence of a troubling pattern of less upward mobility for Americans starting at the low end of the economic ladder.

The existing literature does not speak to the opportunities for income growth across the generations or the economic assimilation of immigrants in different countries. Nor does this review consider how cross-country differences in income distributions, labor market and compensation policies, educational systems, and other institutional factors may contribute to the observed differences in mobility. These are all important topics for further research.

# NOTES

- <sup>1</sup> Alexis de Tocqueville, *Democracy in America*, cited in Ferrie, 2005.
- <sup>2</sup> The 27 countries participating in the 1999 Social Inequality III module of the International Social Survey Program (ISPP) include Australia, Austria, Bulgaria, Canada, Chile, Cyprus, Czech Republic, Denmark, France, Germany, Great Britain, Hungary, Israel, Japan, Latvia, New Zealand, Northern Ireland, Norway, Philippines, Poland, Portugal, Russia, Slovakia, Slovenia, Spain, Sweden, and the United States. The polling data were collected in 1998–2001 (2000 in the United States); more recent data are not available.
- <sup>3</sup> The most common statistical measure of relative mobility, intergenerational elasticity (IGE), comes from a linear regression equation estimating the relationship between children's and parents' earnings (or income), with both child and parental earnings expressed in logarithmic measures. It measures the percentage difference in expected child earnings associated with a one percent difference in parental earnings. The *earnings* elasticity measure is calculated and interpreted in the same way as the *income* elasticity measure reported in previous chapters. To interpret the IGE, imagine a group of fathers whose earnings are 80 percent higher than average: if they are in a society with an IGE of 0.5, then their children would, on average, have earnings 40 percent higher than average (80 percent x 0.5). And at the extreme of an IGE of 0, any large group of children would have average earnings unrelated to the earnings of their parents.
- <sup>4</sup> Estimates are quite sensitive to such decisions as the age at which earnings are measured and whether earnings are measured over one year or averaged over multiple years.
- <sup>5</sup> As discussed in "Immigration: Wages, Education, and Mobility" another chapter in this volume, earnings data suggest that second-generation immigrants to the United States close about half the gap between their parents' earnings levels and median earnings for native-born Americans. The intergenerational mobility studies reviewed in this report are silent on the question of whether immigrants to other countries have more or less mobility across generations than is observed in the United States.
- <sup>6</sup> With an earnings elasticity of .41 (and a range of reasonable estimates ranging from 0.35 to 0.45) France could be classified as a low-mobility country if one used 0.4 to 0.5 as range for identifying lower-mobility countries: see Corak, 2006. More generally, there is a range of estimates for each country, and so data and methodological refinements could lead to some adjustment to the precise ranking shown in Figure 2.
- <sup>7</sup> Piraino, 2007; Mocetti, 2007; d'Addio, 2006, p. 33 (drawing on Hugalde for Spain); Leigh, 2007.
- <sup>8</sup> Jäntti et al., 2006. To increase consistency, the team focused on a cohort of sons born near 1958 (the exact year differed by country) and measured fathers' earnings in one year (when the son was age 16 if possible) and the sons' earnings as an adult in two years (as close to ages 33 and 41 as possible). Some cross-country variation remained. One notable difference is that in the United States, sons' position in the earnings distribution was compared to parents' position in the family income distribution, whereas the other five countries had earnings information for both sons and fathers. However, husbands' earnings were a large component of family income for most families in 1978.
- <sup>9</sup> The intergenerational elasticities for father-son earnings in this study were .52 for the United States, .31 for the United Kingdom, .26 for Sweden, .17 for Finland, .16 for Norway and .07 for Denmark. The six-country study included a comparison of daughters' earnings to fathers' earnings; cross-country differences were smaller, but again the United States had less mobility than the other countries.
- <sup>10</sup> Jäntti et al., 2006. The authors report that stickiness at the bottom among males persists in the United States, even when excluding black and Hispanic families. The percentage of the non-Hispanic whites remaining at the bottom is 38.1 percent.
- <sup>11</sup> A somewhat smaller (6 percent) estimate of the climb from "rags to riches" is presented in the chapter on "Economic Mobility of Families Across Generations." The two estimates are based on different data sets, population groups, and time periods: The 6 percent estimate is based on Panel Study of Income Dynamics family income data for men and women born in 1950-1968 while the 8 percent estimate is based on National Longitudinal Survey of Youth earnings data for men born between 1957 and 1964.
- <sup>12</sup> See "Economic Mobility of Men and Women" for further discussion of the fact that while men and women in the United States have similar rates of overall income mobility, women have more earnings mobility, partly due to their more intermittent participation in the labor force.
- <sup>13</sup> Björklund and Jäntti, 2000. The authors contrast the growing body of economic literature, which is finding that the United States ranks low compared to European countries in terms of earnings and income mobility, with the considerable body of sociological research, which finds that the United States ranks fairly high in terms of both class and occupational mobility (e.g., sons are less likely to hold the same occupation as their fathers in the United States than in Europe). This apparent contradiction suggests that the association between fathers and sons in earnings levels in the United States is partly driven by unobserved factors other than occupation. The authors also argue that both sociologists and economists could benefit from greater study of each other's approaches to the study of intergenerational mobility.
- $^{14}$  The average growth rate in Western Europe was 2.2 percent overall, and Norway was the only country in Table 1 that grew at a faster rate (3.3 percent) than the United States. Maddison, 2003, Table 8b, p. 640.
- <sup>15</sup> Maddison, 2003, p. 643.
- <sup>16</sup> Grawe, 2004. Grawe estimated the intergenerational earnings elasticity between fathers and sons in Peru and Ecuador to be 0.67 and 1.13, respectively, measured at the median.
- <sup>17</sup> Dunn, 2007; and Ferreira and Veloso, 2003.
- <sup>18</sup> Grawe, 2004. The estimates of 0.46 and 0.44 for Pakistan and Nepal are based on Table 4.8, which excludes business and farm income.
- <sup>19</sup> Corak, 2004, pp.17-19.
- <sup>20</sup> OECD, 1996. See especially chapter 3, "Earnings Inequality, Low-Paid Employment and Earnings Mobility."
- <sup>21</sup> Sastre and Ayala. 2002. The five European countries were France, Germany, Italy, Spain, and the United Kingdom.
- <sup>22</sup> Burkhauser, Holtz-Eakin, and Rhody, 1997; and Aaberge, Björklund, Jäntti et al., 2002.
- <sup>23</sup> Low-paid was defined as below 65 percent of median earnings in the OECD study; low-income was defined as below 75 percent of mean income in the study by Sastre and Ayala, 2002. In both studies, absolute gains were measured relative to percentages of median or mean income in each country, rather than absolute dollar levels.

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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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