Reality Check

Rags to Riches?

The American Dream Is Less Common in the United States than Elsewhere

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The American Dream Is Less Common in the United States than Elsewhere

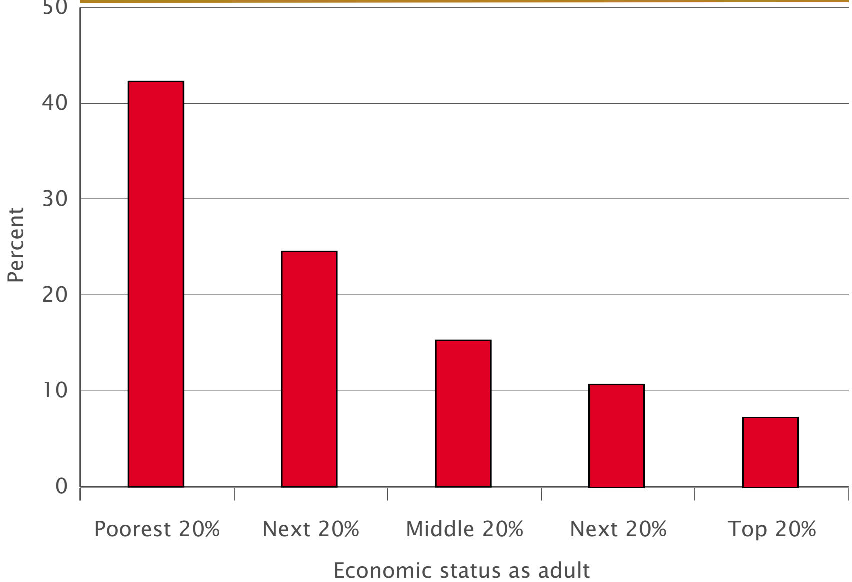
How many times have you heard "you can be what you want to be if only you work for it"? The American dream has brought millions to our shores, legally or surreptitiously, in search of upward economic mobility. And, over the decades, millions of children of immigrants or of working-class Americans have prospered and advanced in our competitive economy.

But how easy is it for the children of poor parents to become prosperous? Recent evidence shows that there is much less mobility in the United States than most people assume. Horatio Alger notwithstanding, rags to rags and riches to riches are now the norm in this country to a greater degree than in many other developed nations. Our current education system, antidiscrimination laws, and other public policy tools that aim to give the children of poor parents a fair shot at a high income are not getting the job done. We may all believe in the American Dream, but we have a lot of work to do if we are to make that dream a reality.

Studies show that life chances differ profoundly depending on the circumstances into which a child is born (see Figure 1, page 2). Only a small share of the children of the poor end up earning high incomes—most remain in or near poverty.

The columns in Figure 1 show the income quintile (five groups in 20 percent increments) that people end up in as adults if they were born into the bottom 20 percent of the income distribution. Of those born into the bottom fifth of the

Figure 1. Where Those Born into the Poorest 20 Percent of the Population End Up as Adults



Note: The study followed more than 6,000 individuals, including parents and children, where the children were born between 1942 and 1972 and were observed both as children or young adults in a household they did not head and then later as adult heads of households or adult spouses.

Source: Data from Thomas Hertz, "Rags, Riches and Race: The Intergenerational Economic Mobility of Black and White Families in the United States," in *Unequal Chances: Family Background and Economic Success*, ed. Samuel Bowles, Herbert Gintis, and Melissa Osborne (New York: Russell Sage Foundation and Princeton University Press, forthcoming), Table 10, available at http://academic2.american.edu/~hertz/HERTZ%20Rags%20Riches%20and%20Race%20April%202003.pdf.

income distribution, 42 percent end up where they started—at the bottom. Another 24 percent of those born into the bottom fifth move up slightly to the next-to-bottom quintile (still below the average). Only 7 percent of those born into the bottom fifth end up in the top tier—providing the relatively rare rags-to-riches stories that Americans celebrate.

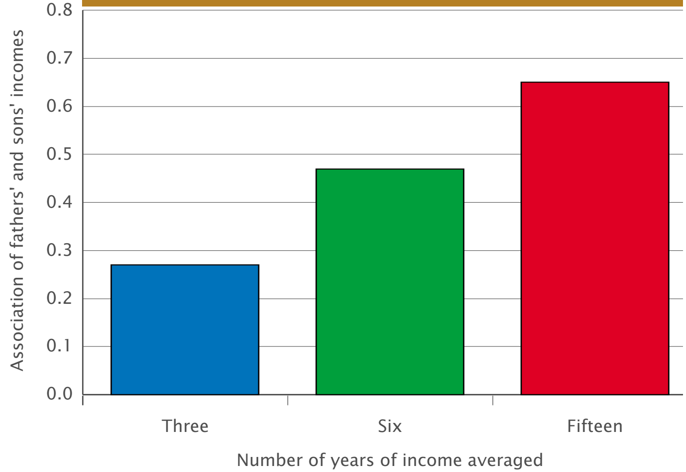
Conversely, nearly 40 percent of those who are born into the top quintile remain there, while barely 6 percent of those born into the top 20 percent end up in the bottom fifth. So a person born into the top quintile is more than five times as likely to end up at the top as a person born into the bottom quintile.

Research also shows that sons and their fathers might have very different incomes some years (as one would expect if there were a lot of income mobility), but the more years one averages, the more closely sons' incomes match their fathers' incomes. Father or son may have a few unusual years, but if one averages fifteen years of a father's income, there is a close association with his son's income (also averaged for several years). Figure 2 shows how the association rises as the comparison period is extended.[1]

How can we explain the close association of fathers' and sons' incomes? There seems to be little economic mobility in the United States. But could this interpretation be wrong?

- Maybe the obstacles to mobility are unrelated to economic and social forces. The lack of movement across income levels might be attributable to inheritance of intelligence, with capable families ending up at the top and weak performers at the bottom.

Figure 2. The Longer We Look, the More Sons Look Like Their Fathers



Source: Results from calculations done in Bhakshar Mazumder, "Earnings Mobility in the U.S.," in *Unequal Chances: Family Background and Economic Success,* ed. Samuel Bowles, Herbert Gintis, and Melissa Osborne (New York: Russell Sage Foundation and Princeton University Press, forthcoming).

1. If the association were 1.0, a father and son would be expected to have the same income. An association of 0.0 would mean that the son's income bears no relationship to the father's. The closer the value is to 0.0, the greater the income mobility.

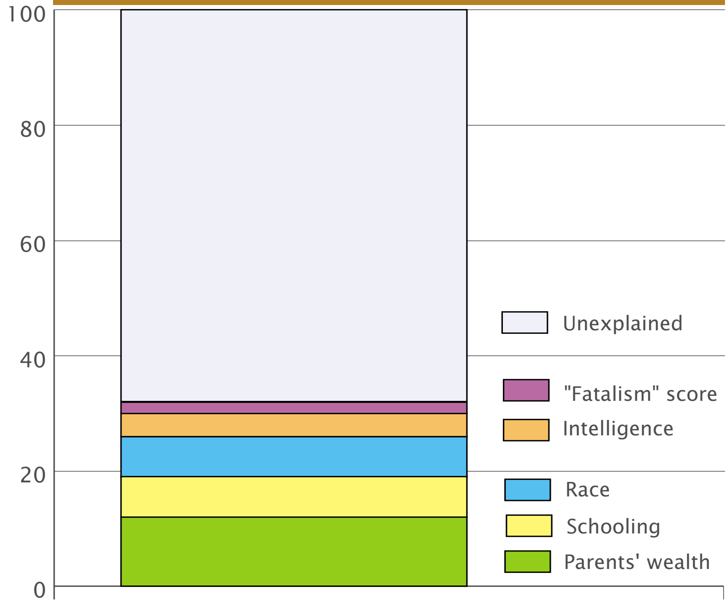
Alternatively, perhaps mobility is limited by social and economic obstacles:

- Maybe the children of the poor (at every level of ability) obtain less and inferior schooling compared to the children of the rich.
- Maybe wealth passed on during life and at death gives the children of rich parents their advantage.
- Maybe social networks and other aspects of social class drive opportunity toward children of people in similar social circumstances.

Economists have employed sophisticated techniques to try to disentangle many of these possible explanations as to why people tend to remain at income levels comparable to those of their parents. But the best research explains remarkably little about the strong association between fathers' and sons' incomes.

Figure 3 shows the results of work by Samuel Bowles and Herbert Gintis, which concludes that similarities in intelligence can account for only about 4 percent of the similarities in income between fathers and sons. So the similarity in income of fathers and sons is not the result of the inheritance of intelligence. Race (also an inherited trait) accounts for only 7 percent of the correlation. Schooling and parents' wealth are more important, together accounting for 19 percent. Very likely, other sociological characteristics of class and culture are important, but, so far, research can account for only about one-third of the correlation between fathers' and sons' incomes. The evidence all points to the conclusion that economic mobility in the United States is limited for reasons we do not understand.

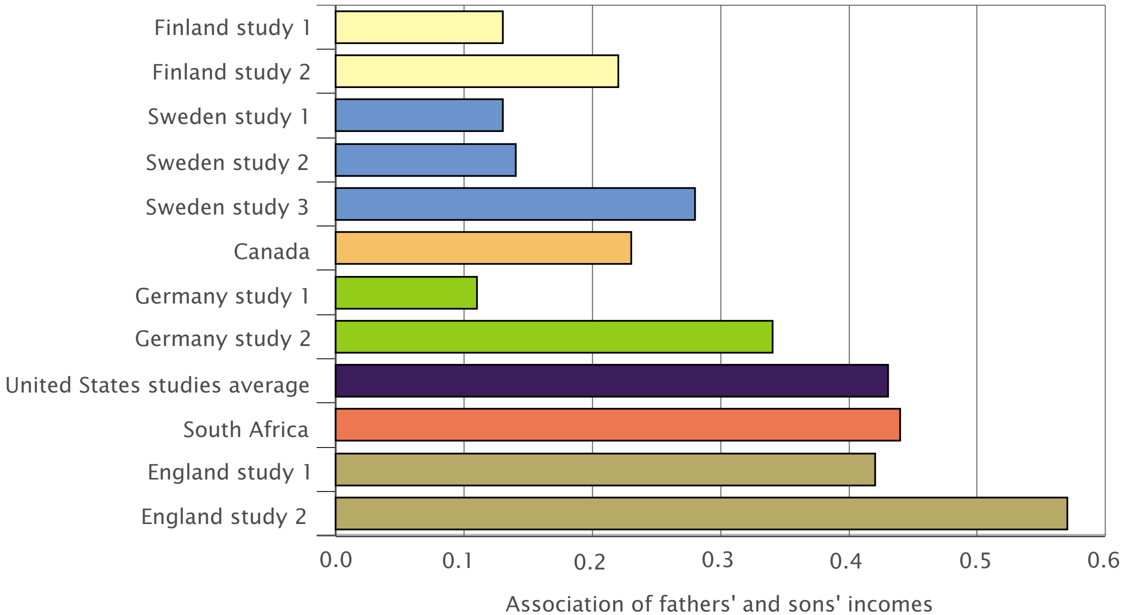
Figure 3. Causal Channels of Intergenerational Transmission of Income



Source: Data from Samuel Bowles and Herbert Gintis, "The Inheritance of Inequality," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002): 3–30, Table 3.

Perhaps most surprising is substantial evidence that citizens of other advanced countries are more likely to climb the economic ladder successfully than Americans. Figure 4 illustrates results from a variety of studies in other countries. As in the United States, different studies come up with different numbers because

Figure 4. Mobility in Other Countries



Source: Data from Gary Solon, "Cross-Country Differences in Intergenerational Earnings Mobility," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002): 59–66, Table 1.

they use different data and, more important, because they average fathers' and sons' incomes over different periods of time. As Figure 2 illustrates, the association between fathers' and sons' incomes in studies conducted in the United States ranges from less than 0.3 to more than 0.6, where 0.6 implies a high association of fathers' and sons' incomes—that is, low economic mobility—while 0.3 implies somewhat greater mobility. One survey reported an average value in many U.S. studies of 0.43. In Figure 4, the studies for Scandinavia, Germany, and Canada suggest greater mobility than in the United States. These results are not conclusive because of differences among the studies in data sources and methods, but it is likely that economic mobility in the United States is lower than in the Scandinavian countries, Germany, and Canada.

In the end, we are left with a double challenge: Why is economic mobility in the United States so limited, and what policies can improve the prospect that people born into low-income families will be able to earn substantially more than their parents? This is an important question not only because we want a fair society but also because we want to make good use of the potential of all of our citizens.

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