Fostering Upward Economic Mobility in the United States

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Executive Summary

While the national conversation continues to focus on income inequality and the minimum wage, the level of opportunity for economic mobility in the United States is astonishingly low. In a recent paper, Harvard University economist Raj Chetty and his colleagues find that upward mobility in the United States has stagnated in recent decades, despite periods of economic growth and an expansion of welfare programs. Another study found that 70 percent of Americans born into the bottom two quintiles will not make it to the middle class. Other developed nations offer more opportunity and mobility than the United States.¹

In this paper, we review the literature on the state of intergenerational mobility in America. Most studies find that a parent’s level of income is a significant determinant in a child’s income level. The causes for persistence identified by the literature include (1) segregation, (2) income inequality labor market challenges, (3) welfare programs, (4) education, and (5) family structure. We provide policy proposals in each of these areas.

Segregation and geography are important factors in mobility because low-income households living in isolation no longer have the benefit of interaction with good peer groups. There are various approaches to overcoming segregation, such as encouraging the in-migration of richer households into poorer areas or improving public transit routes into poor areas. We propose building the human capital of disadvantaged city residents through a greater degree of school choice, which has been shown to counteract many neighborhood disadvantages.

Having a job is the surest way out of poverty. There is an immediate need to encourage more participation in the labor force following the Great Recession. We propose experimenting with a wide variety of policies to encourage employment, such as work-sharing arrangements, relocation vouchers for those in hard-hit communities, and customized job-training programs with employers.

Welfare programs that incentivize work have been far more successful in boosting incomes and mobility than simple cash assistance programs. The US Census Bureau estimates that the earned income tax credit (EITC) lifted 5.4 million people out of poverty in 2010 alone.² We propose expanding the EITC to childless adults, reducing the marriage penalty by adding a second-earner deduction, and reducing the disincentives to work in other welfare programs.

High-school dropout rates are highly correlated with low upward mobility. We propose a “milestone” credit that would give low-income teenagers a cash bonus upon receiving their high-school diploma. We propose linking welfare payments to a requirement that dependents are enrolled in school. We also propose implementing pilot programs that experiment with the timing of Federal Pell Grant disbursements to encourage graduation.

Family structure is perhaps the strongest indicator of intergenerational mobility. Since the 1980s, there has been a staggering decline in the traditional family as the number of families headed by a single mother has doubled. We propose reforming the childcare tax credit to make it easier for single mothers to reenter the workforce, leave welfare, and climb the ladder of opportunity for themselves and for their children. We also propose ways to encourage child support.

While mobility is possible for some, it may be beyond the reach of others. One of the most startling recent trends in welfare is that payments have shifted away from the truly poor and toward those with higher incomes. We propose streamlining existing tax credits and means-tested benefits to improve take-up rates for the poor and limit how high up the income distribution means-tested programs go.
The status quo is not working. The United States spends nearly $800 billion every year on antipoverty programs, yet upward mobility is not improving. A child born into a low-income family is likely to stay low income. Federal policies are needed to encourage work, education, and stable family structures to improve upward mobility and reduce the cycle of dependence.
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Introduction

Intergenerational mobility is defined as the extent to which a future generation is able to move out of the socioeconomic class of its parents. It is generally measured as the change in incomes earned by individuals relative to their parents. A large body of academic work has been devoted to understanding issues of intergenerational mobility in the United States. This literature has been reviewed in a study by Solon, a study by Grawe and Mulligan, and a study by Black and Devereux.  

In general, the literature suggests that a person born into a low-income household is also likely to have a low income, and this has changed little over the years. Most studies find that the intergenerational correlation of income is near 0.4, which means that a 1 percent increase in parent income translates to a 0.4 percent increase in child income. Recent research for Pew Charitable Trusts suggests that 70 percent of Americans raised in the bottom two quintiles will never even make it to the middle quintile. Two recent papers by Chetty and colleagues use tax records data for US citizens over the period 1996–2012, concluding that intergenerational mobility has stagnated in the United States over the last few decades and many other developed countries have more mobility than the United States. Moreover, they find that there is substantial variation in mobility across US geographic regions.

The causal mechanisms underlying mobility have been the subject of significant research. Solon’s study using a simple but rich model to illustrate the intergenerational transmission of earnings shows that transmission primarily occurs through the importance that family decision makers place on their children’s future earnings, the return to human capital investment, the parents’ endowments in terms of earnings, and nature and nurture and their intergenerational transmission.

Roemer and Veneziani’s study considers three categories of circumstances through which parents may give their children an advantage. First, parents may influence their children’s lifetime earnings through monetary and nonmonetary investments that shape skills, aptitudes, beliefs, and more. Second, they may facilitate access to jobs and schools through social connections. Third, there may be genetic transmission of innate ability, personality, and some aspects of health that are valued in the labor market. Corak’s study shows that children of top earners are more likely to grow up to be top earners; as a consequence, income inequality may worsen intergenerational mobility outcomes. Chetty and colleagues conclude that there may be several factors correlated to mobility, including residential segregation, the availability of good quality schooling, and stable family structures.

In this paper, we explore the role of these factors and possible policy responses that could boost mobility across the country. In the first section we briefly review the literature. In the second section we consider several policy options that might address specific correlates of mobility.

Literature Review

Research has attempted to quantify the magnitude of intergenerational mobility by estimating intergenerational correlations and elasticities in earnings and the...
causal mechanisms that underlie this relationship. Using tax record data from the period 1996–2012, Chetty and colleagues identify intergenerational mobility by regressing log child income on log parent income, which means comparing the change in a child’s income to the change in a parent’s income. Using this specification, they find that the intergenerational elasticity is approximately 0.34. In other words, a 1 percent increase in parent income translates to a 0.3 percent increase in child income (measured at age 30). Using a marginally different specification that involves ranking the parents of children in the same birth cohort by income and ranking the children based on their income relative to their own birth cohort, they find that a 10 percentile point increase in the parent rank is associated with a 3.41 percentile point increase in child income rank. Parent income is also positively related to children’s college attendance and teenage birth rates: a 10 percentile point increase in parent income is associated with a 6.7 percentage point increase in college attendance rates and a 3 percentage point reduction in teenage birth rates for women.

Another interesting finding from Chetty and colleagues is that mobility varies by geographic region. For example, the probability that a child reaches the top fifth of the income distribution conditional on having parents in the bottom fifth is 4.4 percent in Charlotte, NC, compared with 10.8 percent in Salt Lake City, UT, and 12.9 percent in San Jose, CA. Location matters most for children from low-income families. Spatial differences in college attendance rates and teenage birth rates with respect to parent income are very similar to the pattern in intergenerational income mobility. The fact that these spatial differences emerge before children enter the labor market suggests that the differences in mobility are driven by factors that affect children when they are growing up.

In a separate study, Chetty and colleagues use tax records for the 1971–93 birth cohorts to assess the probability that a child reaches the top quintile conditional on the parents’ quintile.13 Their broad conclusion is that for the most part, intergenerational mobility in the United States has not changed significantly over time. For example, the probability that a child whose parents are in the bottom quintile will reach the top quintile of the income distribution is 8.4 percent for children born in 1971, compared with 9 percent for children born in 1986. Moreover, mobility is fairly stable over time within each of the nine census divisions of the United States even though, as highlighted in the introduction, mobility varies significantly across the divisions.

Mayer and Lopoo use the Panel Study of Income Dynamics (PSID) to estimate the intergenerational elasticity for each cohort of sons born between 1949 and 1965.14 This paper finds that the intergenerational elasticity is negative, but the estimates are imprecise and not statistically significant. Other papers, such as one by Levine and Mazumder, use the National Longitudinal Survey (NLS) and Generalized Social Survey (GSS) in addition to the PSID.15 The NLS and the GSS show a significant increase in intergenerational elasticity while the PSID shows no significant trends. A more recent study by Lee and Solon using a longer panel from the PSID shows that for cohorts born between 1952 and 1975, intergenerational mobility has not changed dramatically over the last two decades.16

From a policy perspective, understanding the causal mechanisms for this persistence is extremely important. Bowles and Gintis conclude that IQ and educational attainment can explain at most
three-fifths of the intergenerational transmission of earnings.\textsuperscript{20} Chetty and colleagues identify five broad factors that are correlated to intergenerational mobility.\textsuperscript{21} The strongest indicator of low mobility is family structure, measured by the fraction of single parents in the area. They also find a strong negative correlation between standard measures of racial and income segregation and upward mobility. Education likewise plays an important role. In general, areas with higher test scores, lower dropout rates, and smaller class sizes have higher rates of upward mobility. According to a study by Putnam, social capital indexes, which are proxies for the strength of social networks and community involvement in an area, are strongly correlated with mobility.\textsuperscript{22} Finally, income inequality in an area also plays a role in mobility, although it is relatively weak compared to the other indicators.

Much of the divergence in outcomes between children from low- versus high-income families emerges early on, which we will discuss later in this paper. Chetty and colleagues find that children's college attendance rates and teenage birth rates are also linearly related to parent income rank.\textsuperscript{23} A 10 percentile point increase in parent income is associated with a 6.7 percentage point increase in college attendance rates and a 3 percentage point reduction in teenage birth rates. College attendance rates are 67.5 percentage points higher for children of the highest-income parents than children of the lowest-income parents, similar to the estimates reported by Bailey and Dynarski using survey data.\textsuperscript{24}

In the next section, we discuss each of these factors in detail and provide possible policy suggestions that aim to improve outcomes along these fronts so that mobility from bottom to top quintiles is increased.

**Policy Suggestions**

**Segregation Issues.** Segregation is an important factor influencing economic mobility. Chetty and colleagues find that low-income families experience negative effects from living in isolation from high- and middle-income families.\textsuperscript{25} First, this isolation means that children do not have the benefit of interaction with a good peer group. Second, segregation can lead to poor-performing schools with little parental involvement. Finally, segregation can result in individuals living in large, sprawled-out areas, meaning longer commutes to work, which affects their ability to match with good jobs. Indeed, Chetty and colleagues find higher upward mobility in areas with less sprawl.

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Similar findings emerge in a paper by Pew, which finds that neighborhoods matter for economic mobility.\textsuperscript{26} Children growing up in poor neighborhoods are more likely to move down the economic ladder. Another Pew study also finds that some states, primarily in the midwest United States and New England, have higher mobility than the national average; other states, primarily in the South, have lower mobility.\textsuperscript{27} It further highlights the role economic segregation plays in economic mobility. US metro areas, with distinct pockets of poverty and wealth, have worse mobility outcomes than places where those pockets are more integrated.

In a recent paper, Boustan delineates three types of policies to overcome the problem of residential segregation: place-based, people-based, and indirect approaches.\textsuperscript{28} Place-based policies attempt to improve the housing stock of poor or minority neighborhoods to encourage in-migration of richer households. Ellen advocates using “community betterment projects” in black neighborhoods—such as improving school buildings, reducing crime rates, or investing in neighborhood infrastructure—to encourage integration.\textsuperscript{29} Survey results suggest that this may be ineffective.

People-based policies help individual homebuyers or renters gain access to existing neighborhoods. These involve lending to low-income borrowers irrespective of the characteristics of the neighborhoods in which they are purchasing a home. This approach is typified by the Community

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Reinvestment Act of 1977. Friedman and Squires find that this program was marginally successful in reducing residential segregation.  

Indirect policies are aimed at combating the consequences of residential segregation rather than root causes. These policies include extending public transit routes into poor areas (as discussed by Holzer, Quigley, and Raphael) or subsidizing car ownership to connect black neighborhoods to job opportunities (as discussed by Raphael and Stoll).

Others have proposed investment in early childhood development and education to improve educational attainment, decrease reliance on welfare, and increase lifetime earnings, especially for low-income children. However, studies show that the efficacy of prekindergarten programs is mixed.

One of the strongest ways to build the human capital of disadvantaged neighborhood residents is through a greater degree of school choice. In a recent paper, Hastings and colleagues find that school choice has an important impact on student test scores and attendance rates. For students who were assigned their first-choice schools, truancy rates declined by 21 percent for those entering high school. In addition, there was a significant improvement in test scores for students entering their first-choice schools. Students in charter schools had gains in reading and writing, and public and magnet school entrants had gains in reading and math.

This adds to evidence that school choice programs can effectively raise test scores of those participating both by the intrinsic effect that offering choice has on student motivation and effort and through the benefit of attending a higher-performing school. Even students who do not go to charter schools experience gains. Holmes, DeSimone, and Rupp find that charter school competition raised composite test scores both in district schools and charter schools.

To increase school choice, states and localities can implement “open enrollment” policies for a certain geographic neighborhood or district. This would allow students to choose their school regardless of their neighborhood. If a school is oversubscribed, then a lottery could be used to determine which students get in, ensuring that the process is random. Deming and colleagues find that students from low-quality neighborhood schools benefit greatly from choice and that lottery winners are more likely to graduate from high school, attend a four-year college, and earn a bachelor’s degree.

Labor Market Challenges and Income Inequality. An interesting finding from the literature is that intergenerational mobility is primarily correlated with middle-class inequality and not with the extreme—upper-tail inequality that has increased dramatically in recent decades. This is in line with the segregation results discussed earlier, where the poor are made worse off as a result of a lack of integration with the middle class, rather than a separation from the rich. In general, a larger middle class reduces poverty and increases economic mobility.

Growing the middle class requires efficient investments in education and human capital so they can be productive participants in the labor market and earn high returns. An immediate need is to encourage more participation in the labor force, evidenced in historical levels of unemployment during and after the Great Recession. Historically, increasing the unemployment rate by 1 percentage point has been shown to increase the poverty rate by 0.4 to 0.7 percentage points.

Policies that encourage economic growth—such as tax reform, immigration reform, reduced regulation, and trade—likely would reduce the unemployment rate. However, these policies take time and thus cannot be the entirety of the solution. Examples of more immediate labor market policies to get the unemployed back to work include work-sharing arrangements, wage subsidy programs to get the long-term unemployed matched with good jobs, rolling back licensing requirements, relocation...
vouchers for those in hard-hit communities, and expanding the EITC.

Apprenticeship programs and training opportunities may also help teenagers and disadvantaged youth transition to jobs after college or high school. One example is the National Job Corps Study program, which was designed to provide employment and training to disadvantaged youth and young adults. While the program may have modestly increased participant earnings and employment rates, LaLonde finds that the long-term benefits of the program are not sufficient to justify the steep costs. A more market-based approach would be to allow employers to develop customized job-training programs based on their needs. Such programs could be financed through state-based grants. An experiment along these lines will be tried in Wisconsin this month through the Wisconsin Fast-Forward Initiative. This program allows employers to apply for grants for worker training, requiring that the employers hire the workers being trained. This enables employers to hire workers and provide them with the skills training they need to be productive on the job.

Reforming the EITC. Programs that incentivize work are likely to be far more successful in boosting incomes and mobility than simple cash assistance programs, primarily because people are able to become productive participants in the labor market. The Census Bureau estimates that the EITC lifted 5.4 million people out of poverty in 2010 alone. Neumark and Wascher contend that the EITC is a more effective antipoverty program than the minimum wage or welfare. Economists have also consistently estimated a positive effect of the EITC program on the employment of single mothers.

An improvement to the EITC would be to expand the size of the credits for childless individuals. Currently, the majority of the benefits go to individuals with children, leaving out childless adults, who are among the least served individuals in the current welfare system. Childless adults are currently eligible for a maximum $500 credit and are not eligible for other support programs such as TANF. While some research suggests that the majority of these childless adults are men or noncustodial parents who are already working, extending credits to childless individuals may still be an effective means to transfer resources to another segment of the poor without significantly discouraging work. Expanding the EITC to childless adults would also improve the ability of single fathers, who are not the primary caretakers of their children, to provide child support.

There are significant marriage penalties in the EITC because credit is based on family income rather than individual income. As a result, a married woman with a husband who works full time faces
significantly higher tax rates with the EITC than without it. Also, according to Eissa and Hoynes, married women with children face much higher tax rates than single women with children. Holtzblatt and Robelein conclude that the least expensive option to ease the marriage penalty would be to allow for a second-earner deduction. This would reduce the amount of income subject to a tax for a two-earner family, thus extending and flattening the phase-out region. This would be more cost effective than the approach adopted in the American Recovery and Reinvestment Act, which extended the plateau of the EITC schedule for joint filers.

Lastly, the high marginal tax rates faced by individuals in the phase-out region of the EITC may discourage hours worked. Eissa and Hoynes show that for women who are already working, an increase in hours worked would result in an increase in effective tax rates, creating an incentive to cut down on hours worked in the phase-out region. Therefore, reducing the tax penalties by phasing out at a slower rate may be one improvement, though the trade-off would be that the EITC would be extended to higher-income individuals as well.

High-Quality Schooling. Chetty finds that income-adjusted test scores and dropout rates are highly correlated with upward mobility. The magnitude of the correlation between both measures and upward mobility is nearly 0.6. These results are consistent with the hypothesis that the quality of schools plays a role in upward mobility. Areas with greater upward mobility tend to have high college attendance rates for children from low-income families, suggesting that attending college is an important pathway for moving up in the income distribution. Low-income students drop out of high school at five times the rate of middle-income families and six times that of higher-income families, according to the US Department of Education. More than 30 percent of households headed by someone without a GED are impoverished, compared to less than 10 percent of households headed by someone with a GED or higher.

To increase high-school graduation rates, The Hamilton Project of the Brookings Institution has proposed a law requiring students to complete high school. Currently, students are legally required to stay in school only through 10th grade. Enforcement of the current requirement is mixed, ranging from no punishment (Maine) to sending a notice to parents (Oregon) to a misdemeanor (Minnesota and Mississippi) to a $500 fine for a parent (Arkansas) to imprisonment (New York). However, many of these punishments are likely too small to keep a student in school, especially if the family is disengaged. Therefore, expanding the law without realigning incentives is unlikely to increase graduation rates.

At minimum, we propose that TANF programs in all states impose an eligibility requirement that school-age dependents be enrolled in school. This would likely be a significant incentive for parents on welfare to ensure that their children go to school, since there are thousands of dollars at stake. Currently, 15 states do not have such requirements.

We propose a milestone credit that would give low-income teenagers a cash bonus upon receiving their high-school diploma.

We also propose a milestone credit that would give low-income teenagers a cash bonus upon receiving their high-school diploma. There is a growing body of research on using financial incentives to motivate educational goals. The Accelerated Study in Associate Programs granted full tuition-waiving for full-time college at the City University of New York. This was found to increase graduation rates. Roland Fryer of Harvard has found that financial incentives can be a “cost-effective strategy for raising achievement among even the poorest minority students in the lowest-performing schools” if properly structured. Fryer’s research shows that payments for inputs (for example, for reading books) are more effective than payments for performance (for example, for good tests or good grades).

The milestone credit should begin as a pilot program to test its efficacy in improving graduation rates, the size of the credit required, and the impact
on lifetime earnings. To our knowledge, such a pilot program has not been tried. The cost-effectiveness of the program on a larger scale would depend on policymakers’ ability to target areas with high dropout rates. To encourage learning beyond high school, the milestone credit could be increased if the student goes on to technical school.

Encouraging college completion would greatly improve the mobility of low-income students.

According to Avery and Kane, many low-income individuals are unlikely to pursue a college degree because they do not have enough information about college and the Pell Grant program. These compliance costs fall most heavily on low-income individuals, which may deter them from applying because benefits are uncertain. Simplifying the application process could reduce costs and improve the efficiency of the program.

College aid should also be reformed. The appropriate amount of aid is a topic of much debate, and we do not recommend a specific level in this study. However, to the extent that aid is given, it should be concentrated on the students who cannot afford college. In 2012, the federal government spent $33.4 billion on Pell Grants, which are needs-based grants for low-income students. However, according to the CBO, roughly 7 percent of Pell Grant recipients are above 250 percent of the poverty line. Resources should be transferred from those students at the upper end of Pell Grant eligibility to students below the poverty line.

Aid should also be given with an incentive for students to graduate. Pell Grants amount to very little societal (or individual) benefit if students do not complete their degree. Yet a study by Bailey and Dynarski shows that students from the lowest income quartile are historically six times more likely to not complete college than students from the highest income quartile.

Pilot programs should experiment with the timing of Pell Grant disbursements to encourage graduation. One option is to provide lower payments on a semester-by-semester basis, with the bulk of the grant given upon graduation. To our knowledge, this has not been tried. Additionally, a recent CBO report proposes restructuring the Pell Grant program as a loan program. A student would receive a direct loan at the beginning of a term that would be forgiven at the end of the term upon completion of the class, giving students an incentive to stay enrolled for a longer period. Encouraging college completion would greatly improve the mobility of low-income students. According to the Bureau of Labor Statistics, in 2012 the average unemployment rate for someone with only some college was 7.7 percent, above the 6.8 percent national average. The average unemployment rate falls to 4.5 percent with the completion of a bachelor’s degree.

Family Structure. According to, for example, a study by Becker and two studies by Murray, family stability plays a key role in children’s outcomes. Since the 1980s, there has been a staggering decline in the traditional family, as the share of homes headed by a single mother has doubled. Single mothers have a much higher rate of poverty (37 percent) than two-parent families (10 percent) or childless families and individuals (19.5 percent). Hoynes and colleagues report that changes in family structure may account for the entire increase in poverty from the 1980s to 2004. Chetty and colleagues evaluate the effect of family structure on mobility using three measures of family structure: (1) the fraction of children living in single-parent households, (2) the fraction of adults who are divorced, and (3) the fraction of adults who are married. All three measures are highly correlated with upward mobility, suggesting a key role for family structure. In other research, Lee also finds that the increase in family instability is an important factor in explaining rising family inequality. McLanahan and Sandefur argue that children who grow up in single-parent families or stepparent families have lower educational attainment than those who grow up with both biological parents. Gruber investigates the effects of changes in state divorce laws on outcomes for children. The timing of the “divorce revolution”—the transition from fault-based divorce
to divorce by mutual consent to unilateral divorce—varied from state to state. Using this state variation, Gruber finds that unilateral divorce has a significant negative effect on children’s educational attainment.

One of the reasons for changes in family structure is the increase in teen pregnancy rates leading to single motherhood at very young ages. Traditional prevention methods have included more birth control and sex education in schools. However, nontraditional methods are also worth exploring. Isabel Sawhill at the Brookings Institution recommends a social marketing campaign on teen pregnancy, citing a recent study by Melissa Kearney and Phillip Levine that found that MTV’s 16 and Pregnant show was responsible for one-third of the reduction in teen pregnancy rates in an 18-month period.65

Enhancing the EITC would encourage noncustodial parents to work and improve their ability to provide child support.

One of the surest ways to lift single mothers out of poverty is to encourage them to participate in the workforce. Lemke and colleagues find that increased childcare subsidies for low-income households significantly increase the probability that current and former welfare recipients will work.66 The tax code provides a care credit for children or dependents that is equal to 20 to 35 percent of eligible childcare costs. However, the amount of costs for which the credit may be claimed is limited to $3,000 for one child and $6,000 for two or more children. These limits are only 1.5 times the 1976 values, considerably less than the rate of inflation or the growth in childcare costs. And the credit is nonrefundable, which presents a challenge for low-income families who might not have income tax liability against which to claim the credit. Additionally, single parents cannot claim the credit for childcare costs that enables parents to attend school, which likely limits single parents’ upward mobility.

At minimum, the amount of the credit should be raised to make it commensurate with childcare costs. Additionally, Congress should consider making the childcare tax credit refundable and reforming eligibility so that single parents continuing their education can claim it for a limited period of time. While there is clearly a revenue loss associated with this reform, higher education is associated with higher earnings, which might prevent individuals from being on welfare for as long or at all.67

Furthermore, single mothers are more likely to leave and stay off welfare as the amount of child support increases. But the rate and level of child support is troubling. Sorensen and Zibman found that 64 percent of noncustodial fathers do not pay child support.68 Of those, 23 percent are poor and 42 percent had not finished high school, suggesting they might not be in an economic position to support a child. As previously discussed, enhancing the EITC would encourage noncustodial parents to work and improve their ability to provide child support. Aizer and McLanahan find that strengthening child-support enforcement leads men to have fewer out-of-wedlock births.69

Concentrating Resources to Help the Truly Poor.
While mobility is possible for some, it may be beyond the reach of others. For these people, the government has a responsibility to provide an adequate level of care. However, one of the most startling trends in welfare is that payments have in recent years shifted away from the truly poor and toward those with higher incomes. This is true across demographic groups Between 1984 and 2004, support for individuals and families below 50 percent of the poverty line fell, whereas support for individuals and families above the poverty line increased.70 According to Hoynes and colleagues, as a result of this trend and the incentives against work and family in the current welfare system, increased welfare spending has produced only modest reductions in poverty over the last four decades.71

We propose redirecting resources from the middle class to concentrate support on the truly poor. This can be accomplished in two ways: reforming tax credits and reforming benefits. Hassett, Lindsey, and Mathur show that the bewildering array of tax credit programs that are primarily aimed at low-income
individuals are not properly targeted. In 2006, the government paid out about $25 billion to those with annual incomes above $50,000 and more than $4 billion to individuals in the $100,000–$200,000 income range. These numbers are likely to be much higher today and do not include other tax credit programs. A possibility is to combine various credits into one simple credit. If the credit were targeted at low-income individuals, then its cost could match the current cost of credits and maintain distributional and revenue neutrality. Extensive work on simplification of these credit programs has been done by the President’s Advisory Panel on Federal Tax Reform and by Carasso, Rohaly, and Steurle; Sawhill and Thomas; Sawicky, Cherry, and Dent; Ellwood and Liebman; and Steurle. Additionally, as mentioned earlier, many of the 92 antipoverty programs should be combined into a few programs. There are currently 24 federal education and job training programs; 20 housing assistance programs; 17 food aid programs; 8 health care programs; 5 different cash assistance programs; and multiple social-services programs, energy assistance programs, and veterans’ programs. The sheer number of programs results in duplication and eligibility confusion for participants and obfuscates who is being helped and how. Combining some of these programs would provide a more transparent view of the distribution of current welfare benefits, including where gaps in coverage exist and where high marginal tax rates occur because of the expiration of benefits. Moreover, policymakers would be able to more effectively redirect resources to support the truly poor and limit how high up the income distribution means-tested programs go.

Conclusion

While the national conversation continues to focus on inequality and the minimum wage, upward mobility in the United States is behind other nations. Several studies—such as those by Bjorklund and Jäntti, by Jäntti and colleagues, and by Corak—have found that mobility in the United States is significantly lower than in other developed countries. Moreover, most studies conclude that there has not been a significant improvement in economic mobility in America over the last several decades. In this paper, we have reviewed the evidence on economic mobility, highlighted some of the causal mechanisms that are found to depress or improve it, and summarized a set of policy options that may help individuals move up the ladder of economic opportunity. The most important challenges going forward are creating stable family structures that will invest sufficiently in the education and upbringing of children and providing the right kind of high-quality education. We propose several reforms to existing welfare and workfare programs and incentives for teenagers and youth to attain higher education. If we can address some of these challenges, America may remain a land of opportunity for generations to come.

Notes

5. Our paper focuses on intergenerational mobility. However, there is also substantial evidence showing that mobility...
throughout a worker’s lifetime is also limited. Bradbury and Katz’s study transitions between income quintiles across successive one-decade intervals and finds that a worker in the top or bottom 20 percent of the income distribution has a 50 percent chance of remaining in that quintile one decade later. They find a large amount of churning among the middle three quintiles, which is to be expected given the year-to-year volatility in earnings. They also find that there is only a 3 percent chance that a worker will move from the bottom to the top or from the top to the bottom. Gottschalk and Danziger find similar results looking at two-decade spans. They also find no upward trend in mobility that would mitigate increased cross-sectional inequality. If anything, they find that mobility has decreased in the last 20 years. See Katherine Bradbury and Jane Katz, “Are Lifetime Incomes Growing More Unequal?: Looking at New Evidence on Family Income Mobility,” Regional Review 4 (2002): 2–5, www.bostonfed.org/economic/neri/rr2002/q4/issues.pdf; and Peter Gottschalk and Sheldon Danziger, “Family Income Mobility: How Much Is There and Has It Changed?” (working paper no. 398, Department of Economics, Boston College, Chestnut Hill, MA, 1997).


23. Chetty “Where is the Land of Opportunity?”

24. Martha J. Bailey and Susan M. Dynarski, “Gains and Gaps: Changing Inequality in U.S. College Entry and Completion” (working paper no. 17633, National Bureau of


43. Eissa and Liebman as well as Meyer and Rosenbaum have directly estimated the effects of the EITC on the labor supply of single women with children. Both papers find that the expansion of the EITC raised work activity among this group.


46. Eissa and Hoynes, “Behavioral Responses to Taxes.”


53. The program also included other incentives such as career counseling and finances for books and transportation, which may have influenced graduation rates. See Susan Scrivener and Michael Weiss, *More Graduates: Two-Year Results from an Evaluation of Accelerated Study in Associate Programs (ASAP) for Developmental Education Students* (MDRC, 2013), www.mdrc.org/sites/default/files/More_Graduates.pdf.


58. Congressional Budget Office, *Federal Pell Grant Program*.


60. See Hoynes, Page, and Stevens, “Poverty in America: Trends and Explanations.”

61. Ibid. Another new study authored by Chetty finds that rates of single parenthood at the community level are linked to children’s economic opportunities over the course of their lives.


63. Sara McLanahan and Gary Sandefur, *Growing Up with


65. See Isabel Sawhill and Joanna Venator “Three Policies to Close the Class Divide in Family Formation,” Social Mobility Memos, www.brookings.edu/blogs/social-mobility-memos/posts/2014/01/21-3-policies-to-close-family-formation-class-divide-sawhill#. A significant downside would be if the show induced abortions, although the study’s authors assert that teen abortion rates also fell during this period. See Melissa Kearney and Phillip Levine, “Media Influences on Social Outcomes” (working paper no. 19795, National Bureau of Economic Research, Cambridge, MA, 2014), www.nber.org/papers/w19795.pdf.


67. This is unlikely to duplicate support from welfare programs. Only 3 percent of total TANF funds are spent on childcare, and 27 states spend no TANF funds on childcare, which likely decreases the ability of a welfare recipient to return to work.


74. At least 92 US antipoverty programs that cost a combined $799 billion in fiscal year 2012 form a complex web that often contributes to keeping people poor, according to a report from the House Budget Committee. It is important for the childcare credit to stand on its own. This is because it provides powerful work incentives that could be lost if combined with other credits. See US House Budget Committee, The War on Poverty: 50 Years Later.