What We Know About Economic Inequality and Social Mobility in the United States

Research from the Russell Sage Foundation
The Russell Sage Foundation (RSF) has a long-standing research program on economic inequality, social mobility, and the relationship between the two. This brief draws on research on economic mobility by economists, sociologists, and political scientists funded by the foundation over the last decade. Russell Sage publications referenced in this brief are listed at the end, along with some recent studies on inequality and mobility that were not supported by RSF.1

**Key Points**

- Inequality in the U.S. is high, with families at the very top of the income distribution making particularly large gains over the past several decades.
- Social mobility in the U.S. appears to be lower than prior research suggests.
- The children of affluent parents are more likely to remain well-off and the children of poor parents are more likely to remain near the bottom of the economic ladder.
- Large socioeconomic disparities in mobility-relevant school readiness skills emerge before kindergarten.
- Education does not significantly reduce or eliminate early socioeconomic skills gaps.

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Introduction

The American Dream, or the idea that anyone can prosper through hard work, persistence, and sacrifice and create greater opportunity for one’s self and one’s children, is a hallmark of American society. The notions of “equality of opportunity” and “opportunity for all” are basic organizing themes of the American psyche (Bradbury et al. 2015, 1–3). For much of U.S. history, the road from low-income struggle to middle-class comfort was a frequent path, but in recent years, this path has become more difficult for many families (Duncan & Murnane 2011). Although many Americans still believe that working hard is essential for getting ahead, greater proportions have begun to question whether their children will be financially better off than they are.

Economic inequality refers to the differences in the financial well-being between those at the bottom of the economic ladder and those at the top. Economic inequality in the U.S. has been increasing for four decades and many scholars have examined its causes and consequences (e.g., Neckerman 2004). Political theorist John Roemer suggests that some inequalities are acceptable, while others are not (e.g., Bradbury et al. 2015, 78–79). To the extent that some individuals exert more effort and work harder than others, it is widely accepted and desirable that they should be differentially rewarded for their efforts. However, inequality becomes problematic if it arises from the circumstances into which someone is born rather than from his or her work effort.

There are unresolved questions regarding the extent to which rising inequality affects social mobility. Is upward mobility still a defining characteristic of American society or has increased inequality diminished opportunity and weakened social mobility? How likely is it that children born into the bottom of the income distribution will be able to move up the economic ladder? What factors contribute to a more mobile society? To what extent can public policies foster greater economic mobility? These are the central questions addressed in this review.
Economic Inequality

Economic inequality has grown since the late 1970s, with much of the increase due to gains at the very top of the income distribution. During this period, the benefits of economic growth have not been widely shared.

The quarter century following World War II was a time of rapid economic growth and educational expansion, characterized by relatively stable levels of economic inequality. Figure 1 shows trends in family income inequality from 1947 to 2014 using the Gini coefficient (shown in red circles; scale on right vertical axis). The Gini coefficient is a common summary measure of income inequality ranging from 0, which represents perfect economic equality where everyone has exactly the same income, to 1, which represents perfect inequality in which one person has all of the income and everyone else has none. As the figure shows, family income inequality was relatively stable from the late 1940s through the early 1970s, ranging from 0.35 to 0.38. Since the mid-1970s, however, inequality has steadily increased as the Gini reached 0.45 by 2014.

FIGURE 1 | Inflation-Adjusted Family Income at 20th, 80th, and 95th Percentiles, and Family Income Gini Coefficient, 1947–2014 (Reported in 2014 $).
Figure 1 also shows differences in inflation-adjusted family income between families near the top (80th and 95th percentiles) and bottom (20th percentile) of the income distribution. Families at the 80th percentile ($45,613) in the immediate aftermath of the war had about three times the income of families at the 20th percentile ($14,691), and the income of the 95th percentile ($74,865) was about five times that of the 20th. Between 1947 and 1977, inflation-adjusted incomes roughly doubled for families at all levels of the income distribution. In 1978, a family at the 80th percentile ($96,252) still had about three times that of the 20th ($30,006), and one at the 95th percentile ($154,433) still had about five times that of the 20th. This relative equality in income growth gave rise to the notion that “a rising tide lifts all boats,” and that the fruits of economic growth were being widely shared.

However, since 1978, the economic fortunes of those at the top and the bottom of the income distribution diverged dramatically. Families at the bottom saw no income growth, whereas those at the 80th and 95th percentiles experienced 35 percent and 53 percent income growth respectively. By 2014, the income of those at the 95th percentile had increased to about eight times that of the 20th percentile. And although not shown here, Duncan and Murnane (2011) report that families at the 99th and 99.9th income percentiles experienced the greatest gains—90 percent and 300 percent increases respectively. The benefits of economic growth have not been widely shared for almost two generations.

It is difficult to evaluate the effects of rising inequality on individuals and society, even though many have suggested that it could have negative effects for life outcomes and economic mobility, beginning early in life (Neckerman 2004). As an example, increased inequality may reduce access to high-quality childcare and early education for those at the bottom of the economic ladder and negatively influence the schools they attend and the neighborhoods in which they live. Increased inequality may also negatively affect family structure and children’s and parents’ expectations about college attendance and employment (Duncan & Murnane 2011, 10–11).

In contrast, at the top of the income distribution, families can invest in high-quality childcare, private education, after-school tutoring, the best healthcare, social and learning activities such as summer trips and camps, and better residential neighborhoods. Increased inequality then, suggests that affluent children have increasing access to greater resources and the greater opportunities for adult attainments those resources provide, while more disadvantaged children do not.
The Link between Inequality and Mobility

Countries with higher rates of economic inequality tend to have greater intergenerational persistence of advantage and, by implication, lower social mobility.

Socioeconomic status, and thus various dimensions of mobility, can be assessed by focusing on an individual’s occupation, education, income/earnings, or wealth. Here we focus on economic mobility, measured by an individual’s income or earnings.

The relationship between parent and child economic status, that is, the transmission of advantage from one generation to the next, is commonly measured by the “intergenerational elasticity” (IGE) in income between parents and children. The income IGE measures the strength of the association between the incomes of parents and those of their adult children (Mazumder 2005). Income IGEs range from 0, which represents no association between parent and child income, and 1, which represents a perfect association. The IGE measures the percent change in the adult child’s income given a 1 percent increase in parental income (Miknik and Grusky 2015, 3). Mobility is measured as the inverse of the IGE. Higher IGEs suggest less social mobility and greater transmission of advantage from parent to child, while lower IGEs indicate higher social mobility.

Although the cross-national evidence is mixed, it suggests that greater inequality is associated with lower mobility. Figure 2 shows that for Western industrialized economies, countries with higher economic inequality (Gini coefficient) also have a greater intergenerational persistence of advantage (IGE) and, by implication, lower social mobility. Sweden, Finland, and Norway, depicted at points in the lower left of the graph, are low-inequality countries (Gini about 0.2 on the horizontal axis) with modest levels of intergenerational mobility. Denmark has greater inequality but very high levels of intergenerational mobility. In contrast, the U.S., Italy, and France on the upper right, are higher-inequality countries that have lower levels of mobility.

To what extent has increased inequality affected social mobility in the U.S.? Recent evidence suggests that mobility rose during much of the 20th century, but stabilized during the decades in which inequality increased. This finding poses the interesting question as to why mobility hasn’t fallen in light of rising inequality. Although inequality and mobility are correlated as shown in Figure 2, the mechanisms underlying that association remain unresolved.
FIGURE 2 | Estimates of Intergenerational Income Elasticities for Fathers and Sons Plotted With Gini Coefficients for Eleven Developed Countries During the Early 1980s.

Drawn from Ermisch, Jantti, and Smeeding (2012), Figure 1.1.
Intergenerational Mobility

The children of affluent parents are more likely to remain well-off and the children of poor parents are more likely to remain near the bottom of the economic ladder.

Research on economic mobility in the U.S. has reported a wide range of IGEs—from a low of 0.2 to a high of 0.6 (Mazumder 2005; Mitnik et al. 2015). Data limitations are the primary reason for this wide range of estimates. But the recent availability of large-scale administrative data has provided new evidence on mobility.

A recent study of economic mobility by David Grusky and Pablo Mitnik (2015; also see Mitnik et al. 2015) is illustrated in Figure 3. Using data from the Internal Revenue Service, they find IGE’s of 0.52 for men and 0.47 for women, indicating that about half of parental income advantages are passed on to children. They also find that children from the low (10th–50th percentiles) and high (50th–90th percentiles) ends of the income distribution have very different income trajectories. Figure 3 shows that children from families in the top half of the income distribution have larger IGEs, indicating that about two-thirds of parental income differences persist into the next generation.

**FIGURE 3 | Income IGEs by Parents’ Income Percentile for Men and Women.**

Data drawn from Grusky and Mitnik 2015, Figure 1.
Transition matrices, which show movements across different parts of the income distribution, also measure intergenerational mobility. Mazumder (2005) compared the earnings deciles of sons to those of their fathers. Figure 4 shows the transitions for the top- and bottom-earnings deciles. Among sons born to the top 10 percent of fathers (red bars), 26 percent were top-decile earners themselves in adulthood. Substantial downward mobility is rare for the children of the rich—only 3 percent of the sons of top-decile fathers fell to the bottom decile in adulthood.

Rapid upward mobility is also rare; 22 percent of sons born to bottom-decile fathers remained in the bottom decile as adults (grey bars); another 18 percent (data not shown) moved up just one decile; only 7 percent make it to the top decile as adults (also see Corak, Curtis, and Phipps 2011).

In short, positions at the top and bottom of the income spectrum are quite sticky, with the children of more affluent parents likely to remain well-off and the children of poor parents likely to remain near the bottom of the economic ladder.
Family background and the characteristics of parents and their environment strongly influence the early experiences of children and can have profound long-term consequences for child wellbeing. Because family characteristics and socioeconomic status are correlated, the children of low-educated parents are doubly disadvantaged—their parents are both less likely to be married and more likely to have lower levels of education.

What factors are associated with the intergenerational transmission of advantage? One influential model suggests that children develop skills and abilities in age-appropriate stages that build on one another (Ermisch et al. 2012, 9, Figure 1.2). These skills involve both cognitive and socioemotional skills. The latter, labeled “non-cognitive,” include characteristics like behavior regulation, impulsivity, the ability to get along with others, and social-emotional adjustment. James Heckman concludes that “skills beget skills,” that is, skills and competencies developed during childhood stages feed into the skills and competencies developed during later life stages, which ultimately influence future abilities and outcomes (Bradbury et al. 2015, 4).

However, these skills and abilities do not develop at random—they are acquired in response to public and private investments that occur throughout the life course. Families invest in their children’s futures with the time they spend with them, the care they exert, or the opportunities they provide through private schools, extracurricular activities, and social networks, just to name a few. Public investments determine the availability and quality of public schooling, starting with daycare and preschool through college; neighborhood resources such as parks, libraries, and community centers; or financial resources that affect children’s lives such as cash support, nutrition assistance, and health insurance for low-income families.

Inequalities in both private and public investments can make a significant difference in the attainment of the next generation. As an example, higher-income and better-educated parents are more likely to have the time and understanding to read to their preschool children (Bradbury et al. 2015). As a result, these children are likely to have larger vocabularies and fewer difficulties learning to read once they enter school. Better reading skills are likely to lead to better school performance, increasing one’s chance of going on to college and obtaining better jobs.

Recent research supports this model by documenting that large gaps between the children of high- and low-SES parents in school readiness skills, such as reading and math, are evident at the time children enter kindergarten (Bradbury et al. 2015; Waldfogel and Washbrook 2011; Bradbury et al. 2012; Magnuson, Waldfogel, and Washbrook 2012). Figure 5 examines gaps in math skills, drawing data from two related studies (Duncan and Magnuson 2011; Farkas 2011). The bars on the far left of the figure demonstrate that the gap between children of the bottom and top 20 percent of income earners is more than a standard deviation at school entry, with comparable gaps for students in the fifth, eighth, and twelfth grades. Socioeconomic disparities are significantly greater than those associated with race, ethnicity, and gender. Similar disparities exist for reading skills (data not shown).
Bradbury and his colleagues (2015) follow birth cohorts of students from kindergarten through age 11 in the U.S., the U.K., Australia, and Canada and document that large gaps in performance at school entry persist through school. In the U.S., from kindergarten through age 14, low-SES students with high scores at school entry lost ground relative to their higher-SES peers by eighth grade, while low-performing high-SES students gained ground relative to their low-performing low-SES peers. These findings suggest that education, the preferred mechanism for providing opportunity, does little to ameliorate socioeconomic-based differences in children’s skills.

Socioemotional skills are also important to success in school, labor markets, and relationships. These skills, involving characteristics such as attention, impulsivity, and problem behavior, are correlated with math and reading scores and also show significant disparities by socioeconomic status (Duncan & Magnuson 2011, 47–69).

School achievement gaps have widened in recent decades as inequality has increased. Figure 6 shows that test score gaps between children at the top and the bottom of the income distribution have increased substantially while black-white test score gaps have declined (Reardon 2011). In addition, as financial resources have become more unequal and the costs associated with higher education have increased, the proportion of college students from high-income families relative to those from lower-income families has also increased (Bailey and Dynarski 2011).

What factors might influence these growing gaps? Increased inequality gives more affluent families greater ability to invest resources in their children. Kaushal, Magnuson, and Waldfogel (2011) find that higher-income families invest substantially more than do lower-income families in child enrichment expenditures such as trips, sports activities, computers, private schools, and child care. Waldfogel and Washbrook (2011) report that parenting differences are associ-
ated with cognitive gaps, with greater warmth and sensitivity of mother-child interactions, as well as greater frequency and quality of engagement with children in activities such as reading and out-of-home activities, being particularly important.

The neighborhood environment in which a child grows up can influence a variety of education, health, and well-being outcomes. Recent studies suggest that the degree of neighborhood segregation between blacks and whites has lessened somewhat over the last several decades, but that Hispanics and Asians are as segregated now as they were in 1980. Blacks and Hispanics live in poorer neighborhoods than do whites or Asians of similar income levels.

Economic segregation is on the rise, as the rich are increasingly residing in separate and privileged neighborhoods and communities. This increasing isolation of the rich may result in decreased public and private investment in resources and services, such as schools, parks, community services, and other public goods that benefit low- and middle-income families.

Family background and the characteristics of parents also shape the early experiences of children and have profound long-term consequences for their wellbeing. In the U.S., 83 percent of highly educated parents are married, while only 52 percent of low-educated parents are. This means that the children of low-educated parents are doubly disadvantaged—their parents are both less likely to be married and more likely to have lower levels of education (Bradbury et al. 2015, 53–54). In addition, the neighborhoods where children live are associated with differences in their access to safety, social connections and networks, and labor markets (Alexander, Entwisle, & Olson 2014, 50–62; Harding et al. 2011, 277–296).

**FIGURE 6** Estimated Gaps in Reading Achievement between High-Low Income (90/10 Ratio) and Black-White Students, by Birth Year, 1940–Present.

Drawn from Duncan and Murnane 2011, Figure 1.3; adapted from Reardon 2011, Figures 5.4 and 5.7.
Promoting Equality of Opportunity

Programs designed to increase the quality of parenting through better and more active engagement with children, as well as access to high quality early education, have potential to improve child development and promote social mobility.

Ermisch and his colleagues (2012, 479) note that “...we will never be able to eradicate SES differences in child outcomes, especially in highly unequal societies, and we will never be able to, or wish to, override parental autonomy. However, evidence does indicate that policy can help reduce barriers to intergenerational mobility and increase equality of opportunity, even in the United States.” However, there are many public and private policies at different stages of the life course that seek to promote mobility for those at the bottom by intervening to affect the family, schools, neighborhoods, and the labor market. For example, increasing family income is associated with better child academic outcomes, which are associated with higher educational attainment and better jobs and higher incomes in adulthood.

Given that socioeconomic disparities arise very early in life, increasing the quality of parenting through better and more active engagement with children has the potential to improve child development.10 Home visitor programs, such as nurse-family partnerships, seek to educate parents about child development and effective parenting practices and have shown substantial reductions in child maltreatment.11 Work-family policies, such as parental leave, guaranteed sick leave, and subsidized child care, are associated with improved maternal employment outcomes through more continuous employment and potentially higher earnings.12 Other policies directly affect parental income through refundable tax credits like the Earned Income Tax Credit.13 Work support programs like Milwaukee’s New Hope program, which provided a variety of resources to low-income families including earnings supplements to increase family income and subsidized childcare and health insurance, show promising results.14 Not only did family incomes rise, but evidence supported positive impacts on children’s school achievement and behavior. Other mechanisms of increasing cash support for low-income families hold the potential to attenuate the effects of child poverty and increase investments in children.15

Education is a popular mechanism for increasing social mobility, from pre-K through secondary and postsecondary schooling. Access to high-quality early education has received a great deal of attention and is associated with reduced behavior problems and crime, particularly among boys (Duncan and Murnane 2014; Furstenberg 2011, 471).16

Although existing evidence suggests that workforce development programs have only modest impacts, some programs have been effective.17 Holzer (2009) suggests that workforce development may be best viewed as one piece of a comprehensive strategy that includes income supplements, additional work supports, and a range of educational interventions.
Summary

The rise in economic inequality over the past four decades calls into question the notion that anyone, regardless of the status of their parents, can achieve the American Dream. Recent studies imply that America is a less mobile society than in the past and confirm that the U.S. has less social mobility than comparable industrialized nations.

Because education is a favored mechanism for promoting economic opportunity, recent research which finds increasing SES-related gaps in test scores, increasing disparities in college enrollment and completion between the top and bottom income quartiles, and the persistence of the early achievement gap as children progress through school is a troubling indicator that the U.S. remains far from being a “land of equal opportunity for all.”
References


Non-RSF Publications


Endnotes

1. An exhaustive list of the work is not possible here, but interested readers might see: Black and Devereux 2010; Chetty et al. 2014a, 2014b; Corak 2004, 2013; Grusky, Smeeding, and Snipp 2015; MacLean and Grusky 2016; Morgan, Grusky, and Fields 2006; Torche 2015.


3. Figure 1 is an updated and revised version from Figure 1.1 in Duncan & Murnane 2011, 4.

4. In practice, the Gini ratio can exceed a value of “1,” for example, if some part of the population being measured contributes negative income. However, the likelihood of this occurring is small as population size increases.

5. For a more detailed discussion of IGEs and their meanings, see Mazumder 2005 and Mitnik and Grusky 2015. In addition, although the IGE could be greater than 1 and less than 0, these values are unlikely.

16. Bradbury et al. 2015; Ermisch et al. 2012b; Duncan and Murnane 2014.
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