



DREAM HOARDERS

HCEO Summer School on Socioeconomic Inequality

University of Chicago

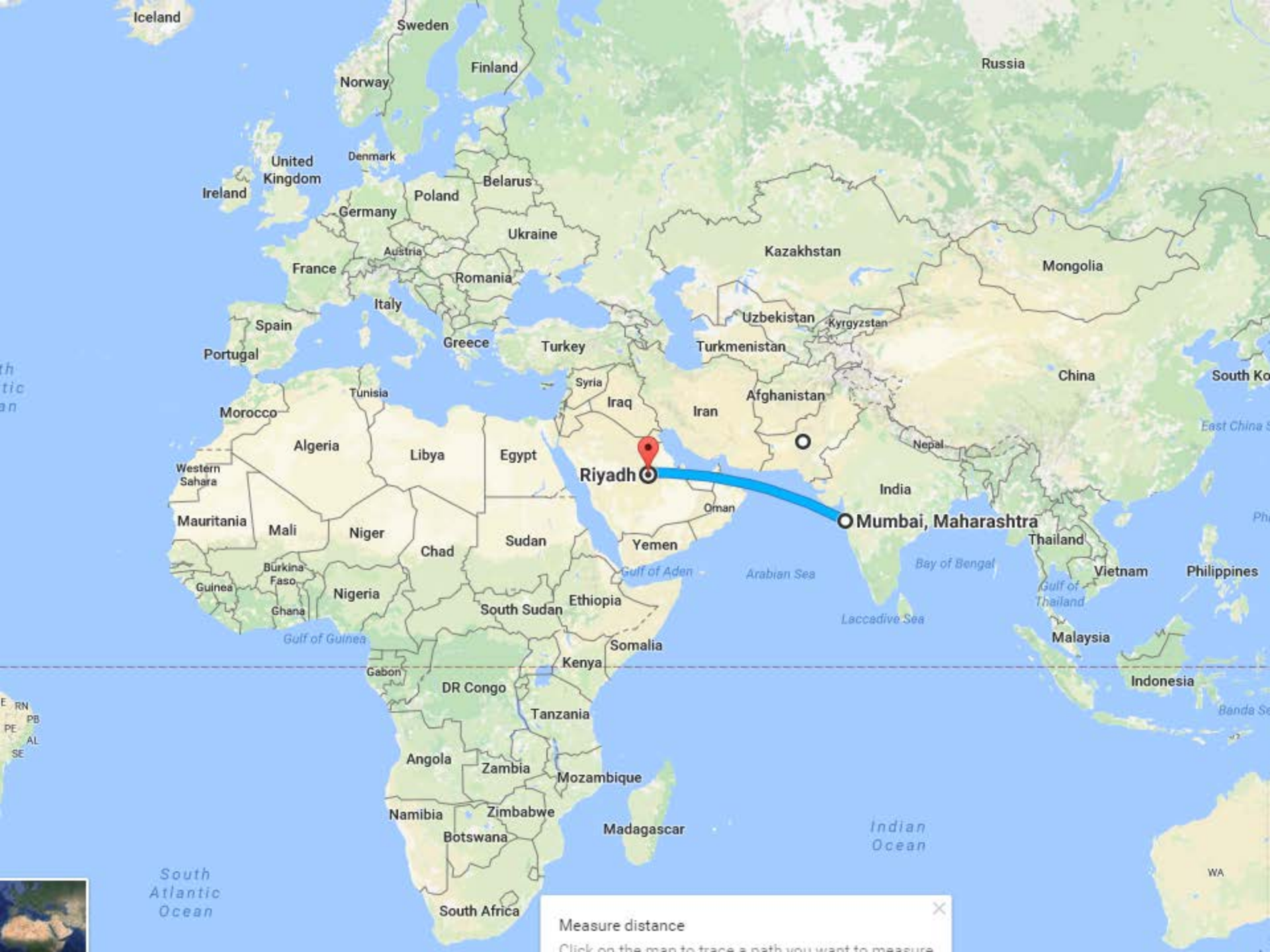
August 2nd 2018

Richard V. Reeves, Brookings Institution

 @richardvreeves























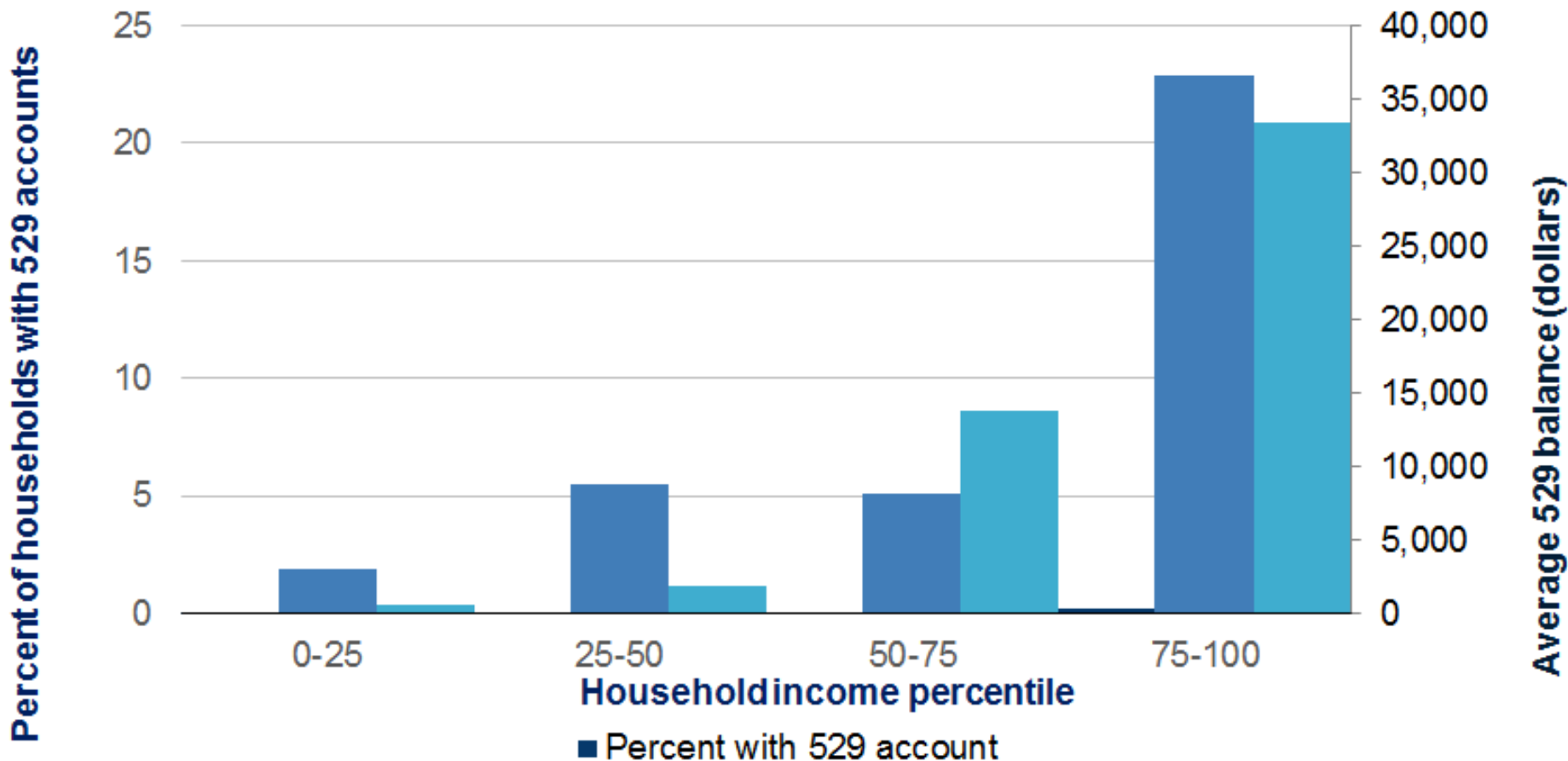


White House: Plan to end 529 tax benefits
'was a distraction'



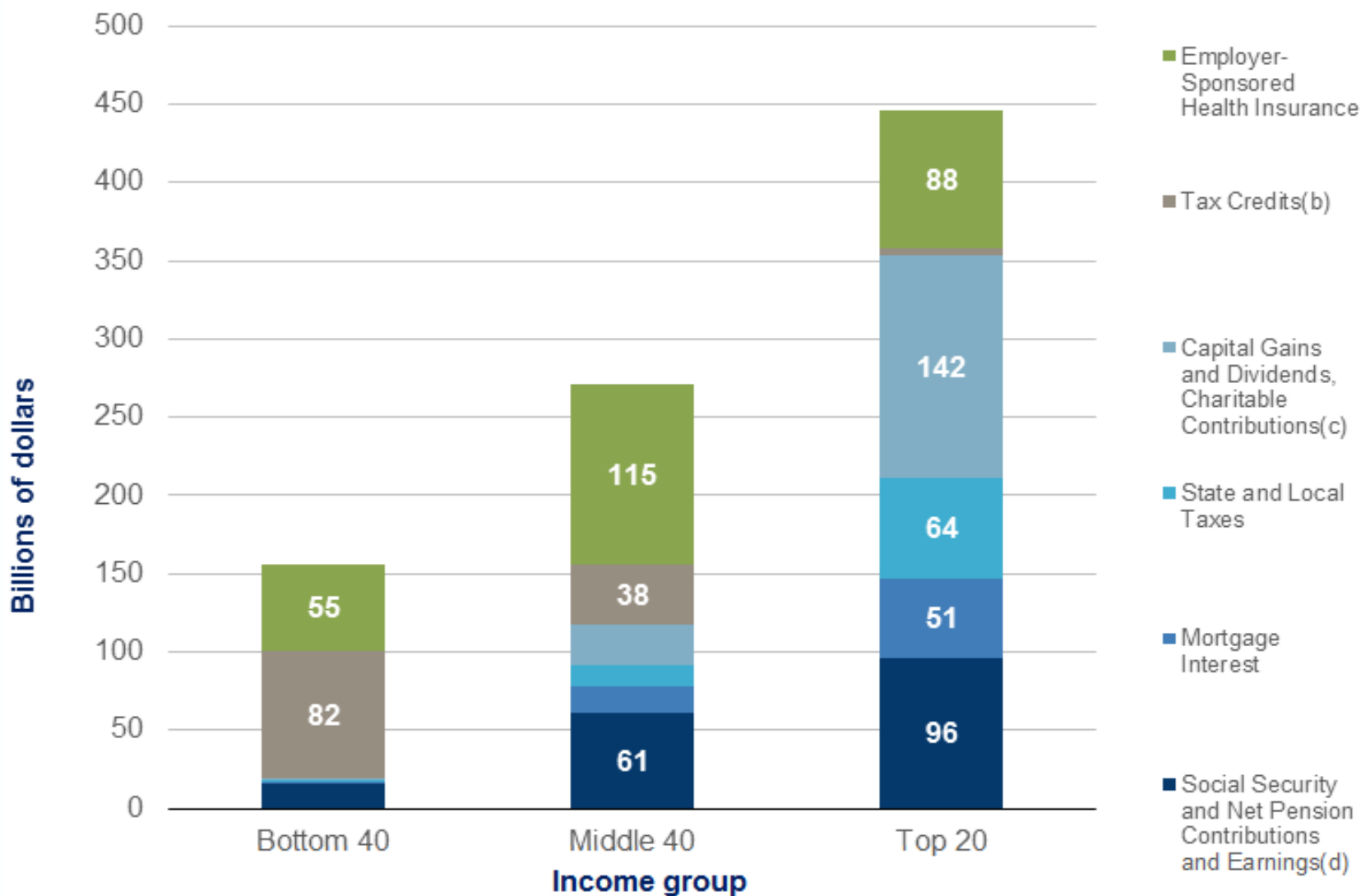
 **Play Video** 2:03

Distribution of 529 holders



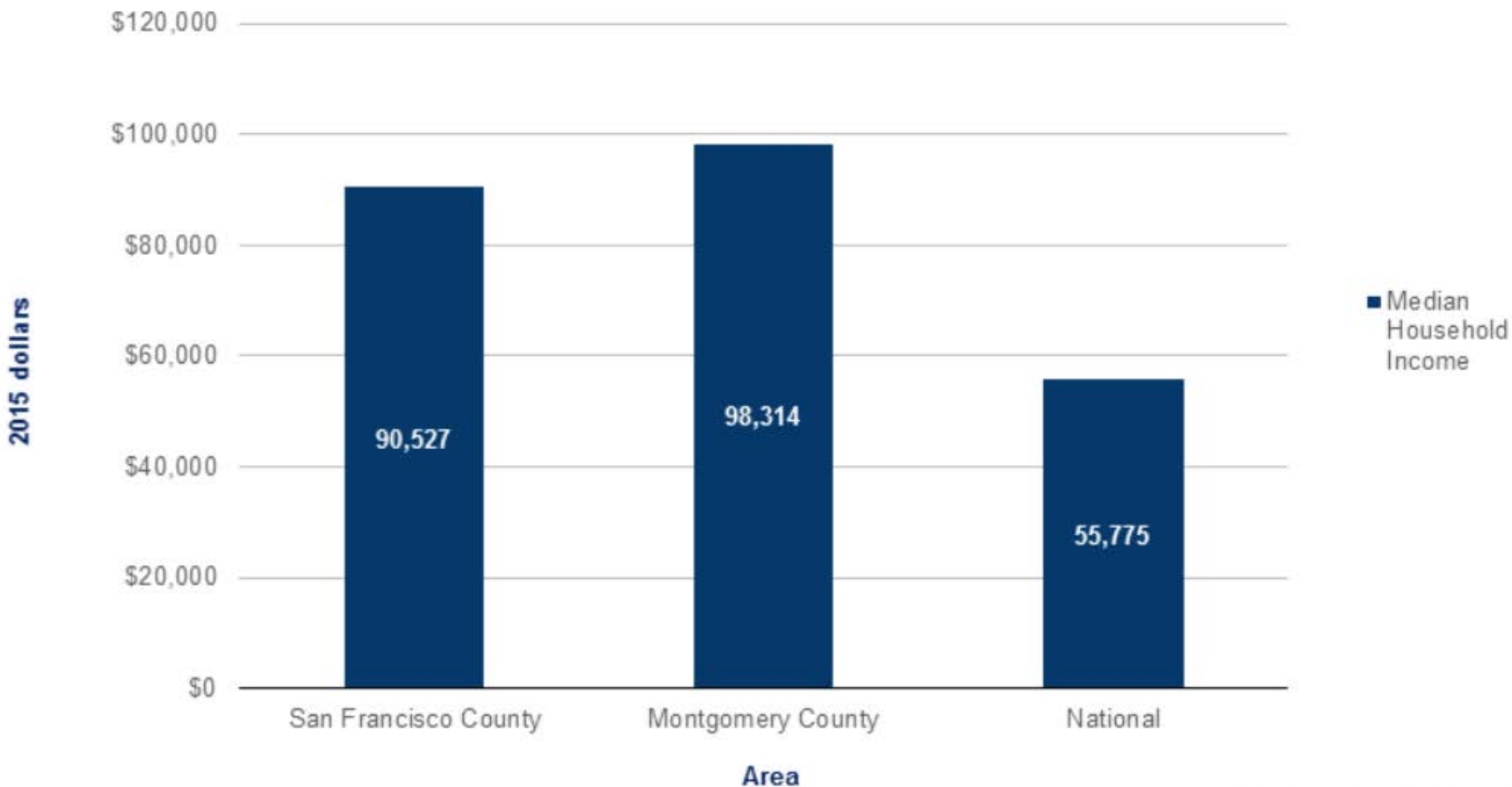
Source: U.S. Department of the Treasury, "An Analysis of Section 529 College Saving and Prepaid Tuition Plans," September 9, 2009, Table 7.

Thanks, Uncle Sam!



Source: The Distribution of Major Tax Expenditures in the Individual Income Tax System. May, 2013. Congressional Budget Office.

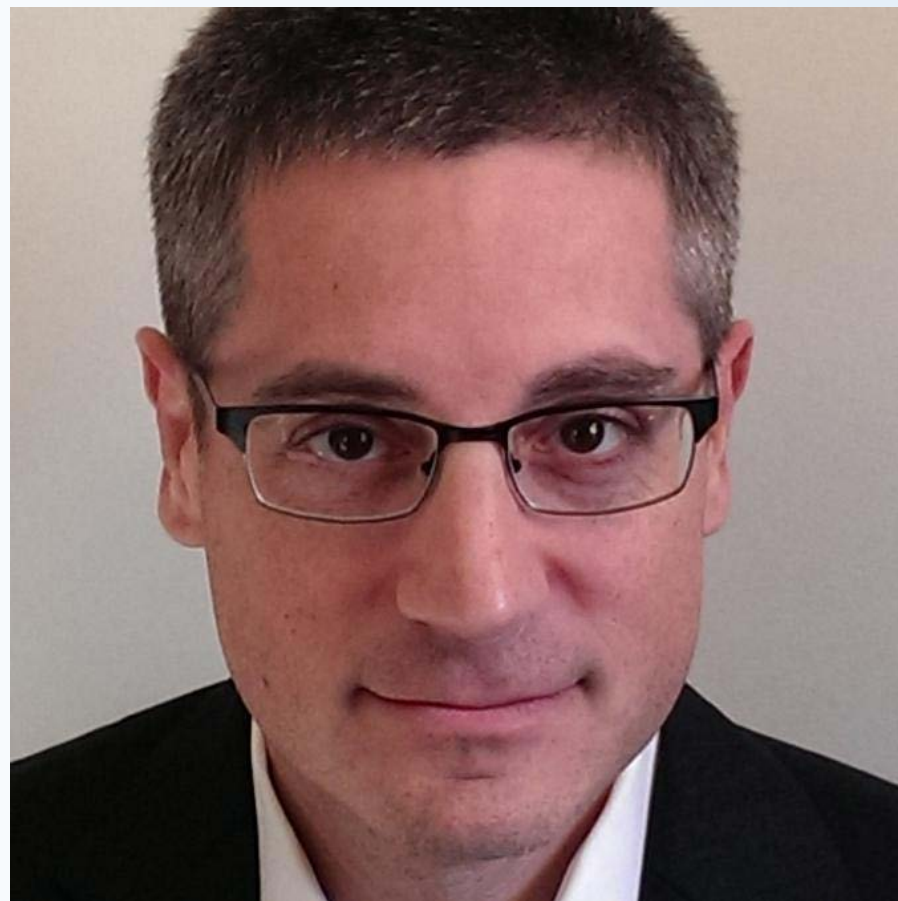
Pelosi/Van Hollen: Affluent, liberal districts



Source: US Census Bureau Small Area Income and Poverty Estimates. San Francisco County roughly approximates CA-12 while Montgomery County roughly approximates MD-8.

“This proposal was targeted at what may be the single most dangerous constituency to anger: the upper middle class - wealthy enough to have influence, and numerous enough to be a significant voting bloc.”

Paul Waldman,
Washington Post





RICHARD V. REEVES

DREAM HOARDERS

HOW THE AMERICAN
UPPER MIDDLE CLASS

IS LEAVING EVERYONE
ELSE IN THE DUST,

WHY THAT IS A PROBLEM,
AND WHAT TO DO ABOUT IT

Structure

Lecture 1: Class Separation & Immobility

- UMC is separating from the majority
- Inequality endures across generations
- F.E.R.G. (Family, Education, Race, Geography)

Lecture 2: Market Meritocracy & Opportunity Hoarding

- Mechanism 1: Market meritocracy/Education
- Mechanism 2: Opportunity hoarding
- Solving the “I’m Not Rich” problem first

Structure

Lecture 1: Class Separation & Immobility

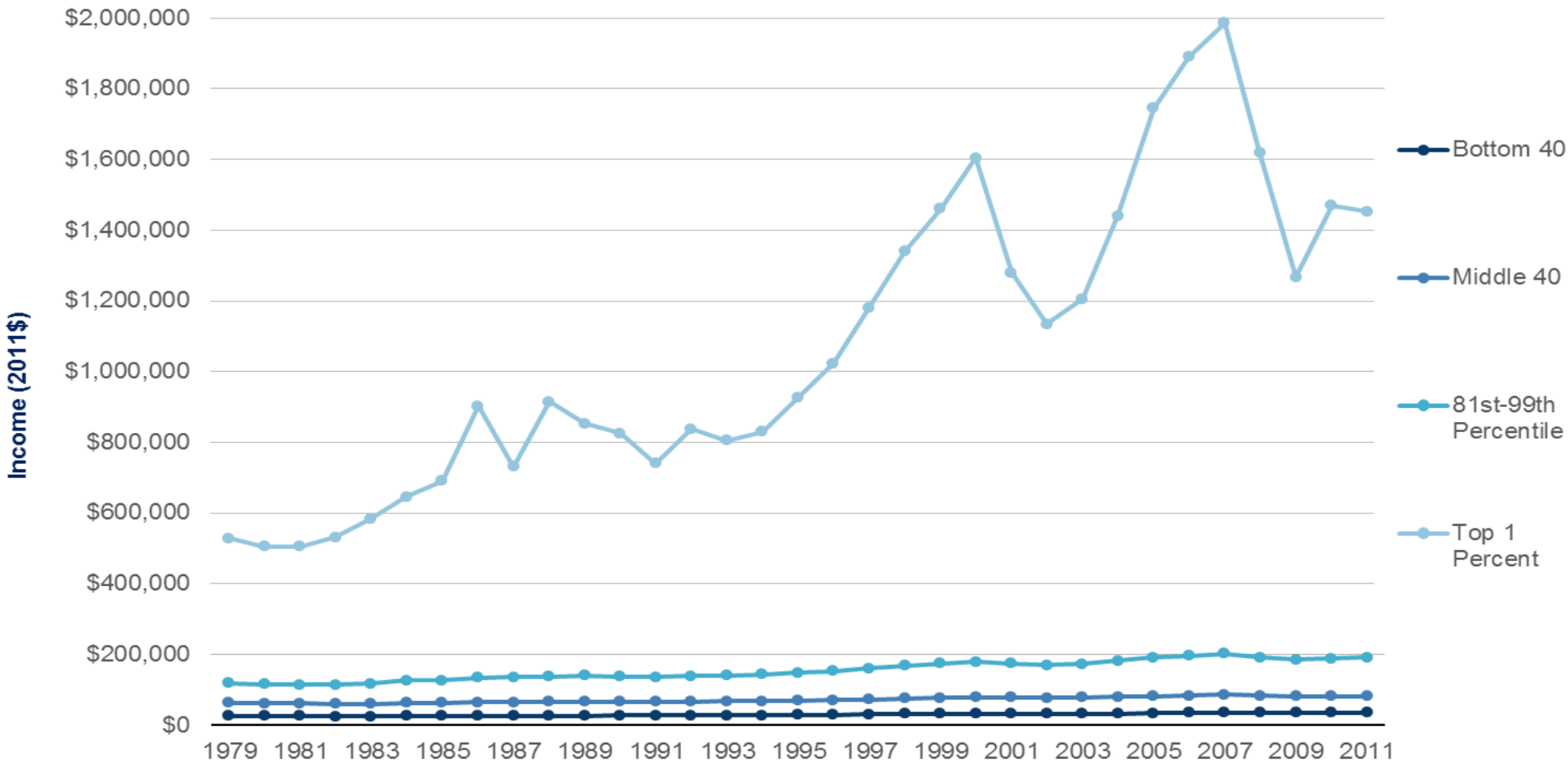
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We are the 99%!

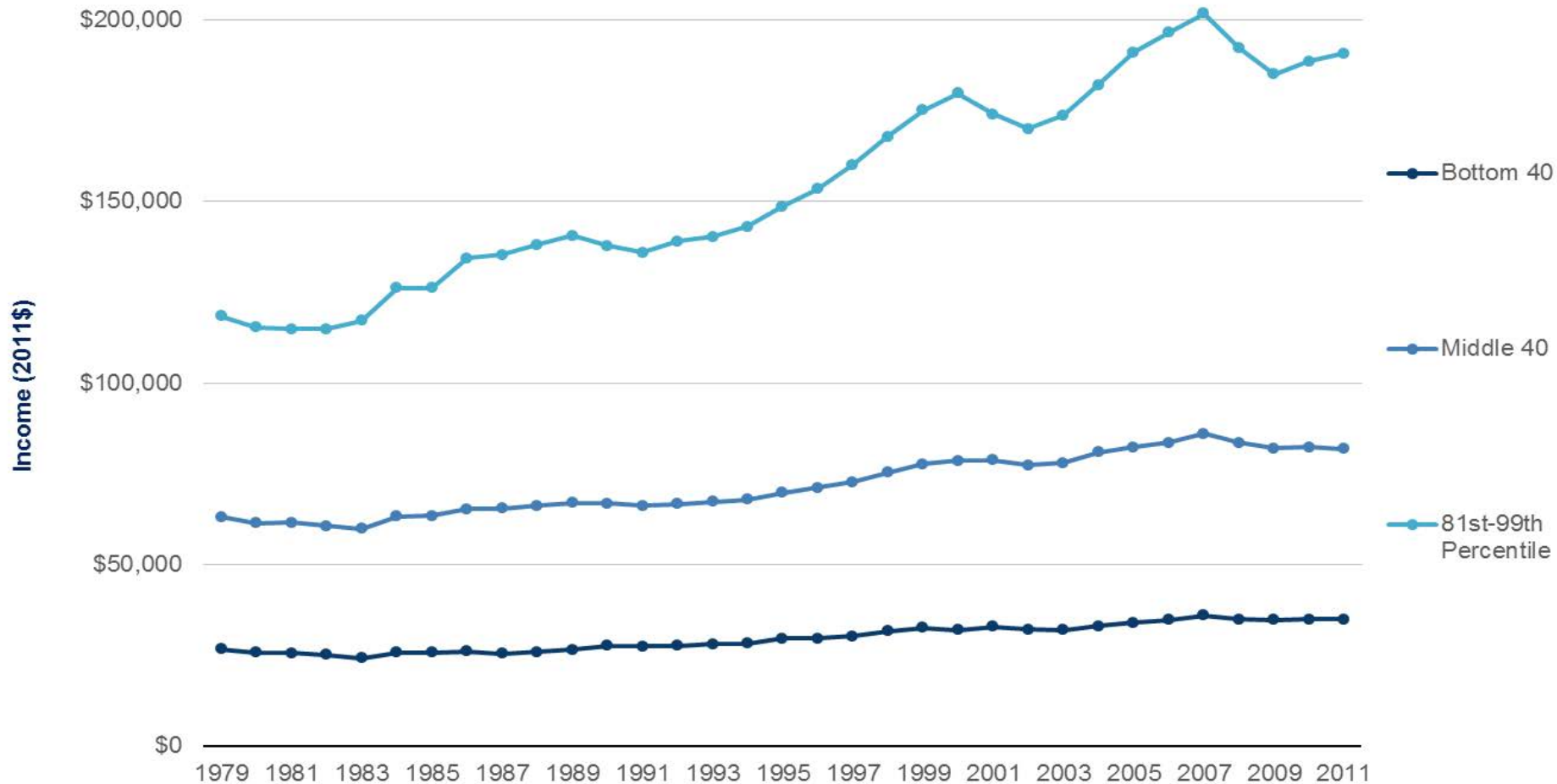
Average real household income, 1979-2013



Source: CBO
 Note: Income is pre-tax.

Or not?...

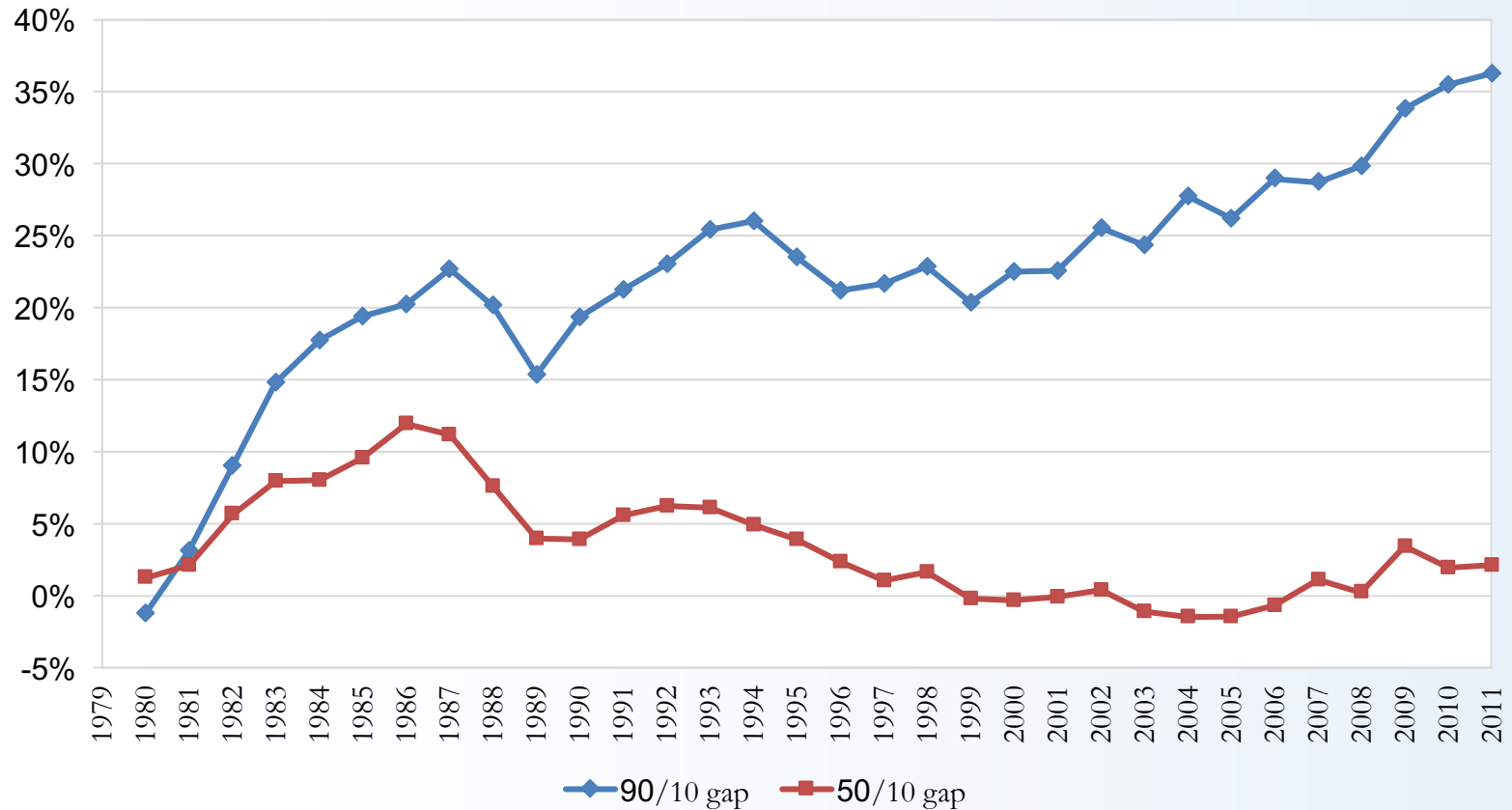
Average real household income, 1979-2013



Source: CBO
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Wage Gap is Middle v. Top

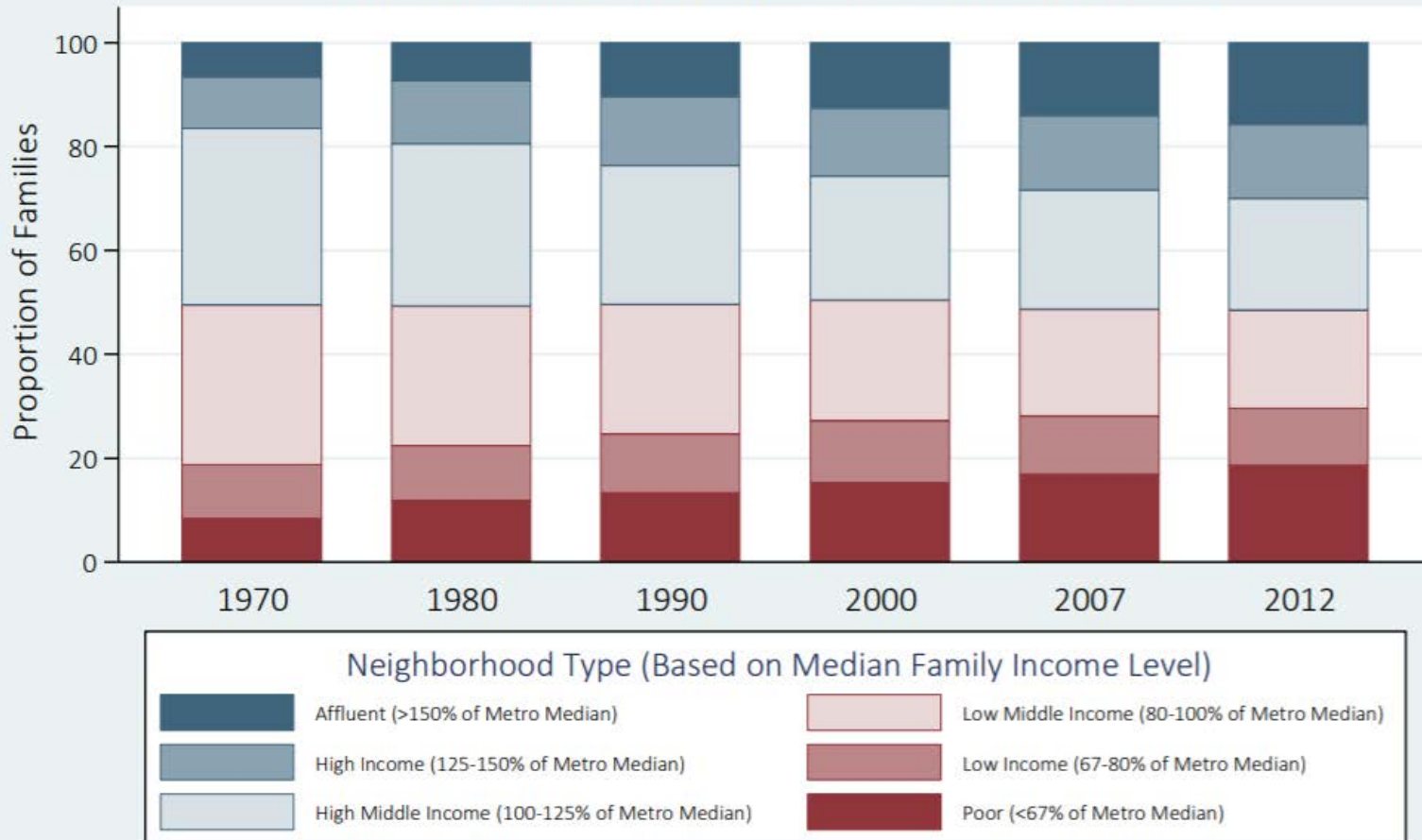
Cumulative change in 90/10 and 50/10 wage gap for men



Source: Lawrence Mishel, Josh Bivens, Elise Gould, and Heidi Shierholz, "The State of Working America, 12th Edition." Economic Policy Institute (November 2012).

Growing residential segregation by income

Proportion of Families Living in High-, Middle-, and Low-Income Neighborhoods
Metropolitan Areas with Population > 500,000, 1970-2012



Structure

Lecture 1: Class Separation & Immobility

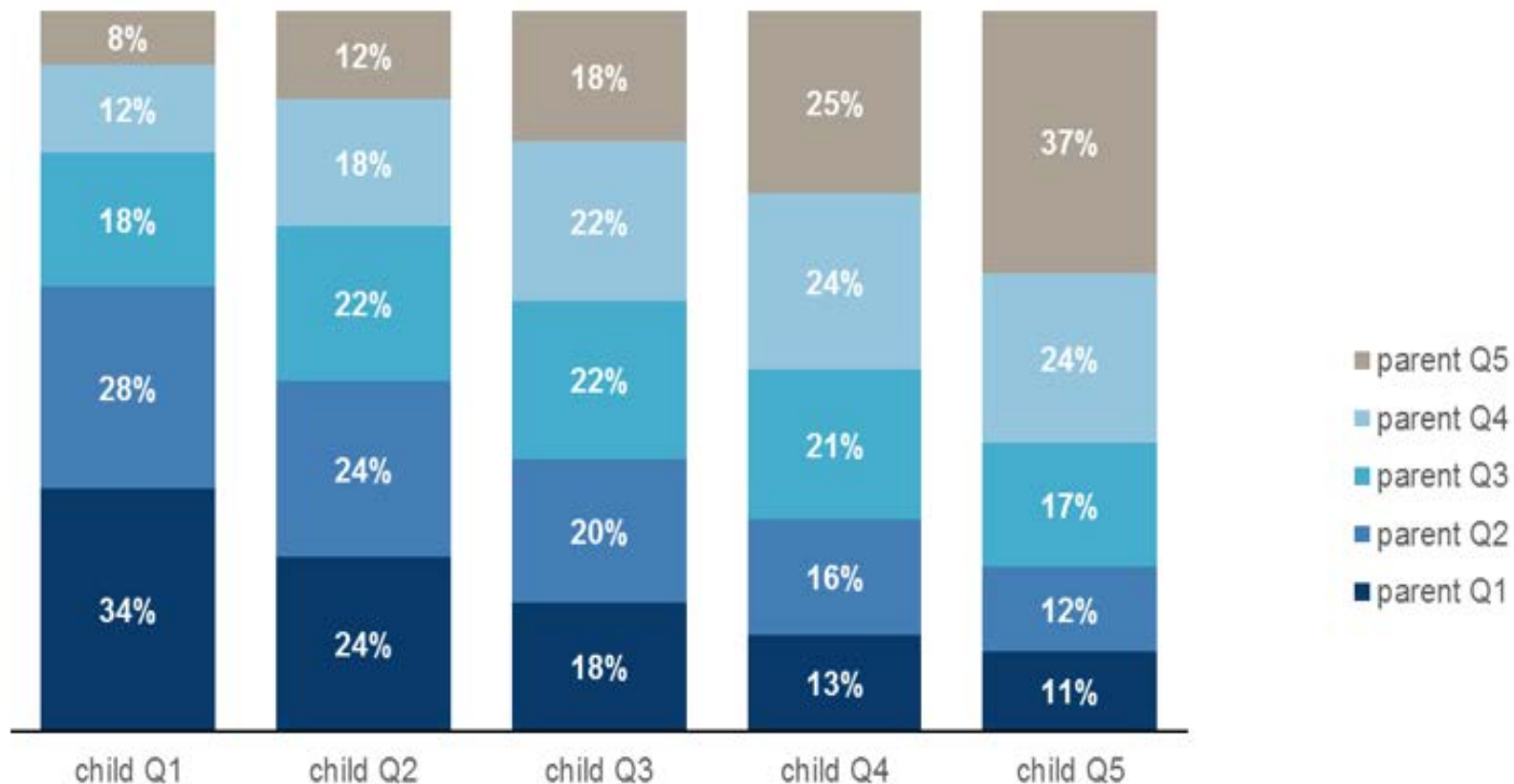
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Sticky ends: relative mobility

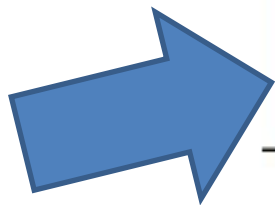
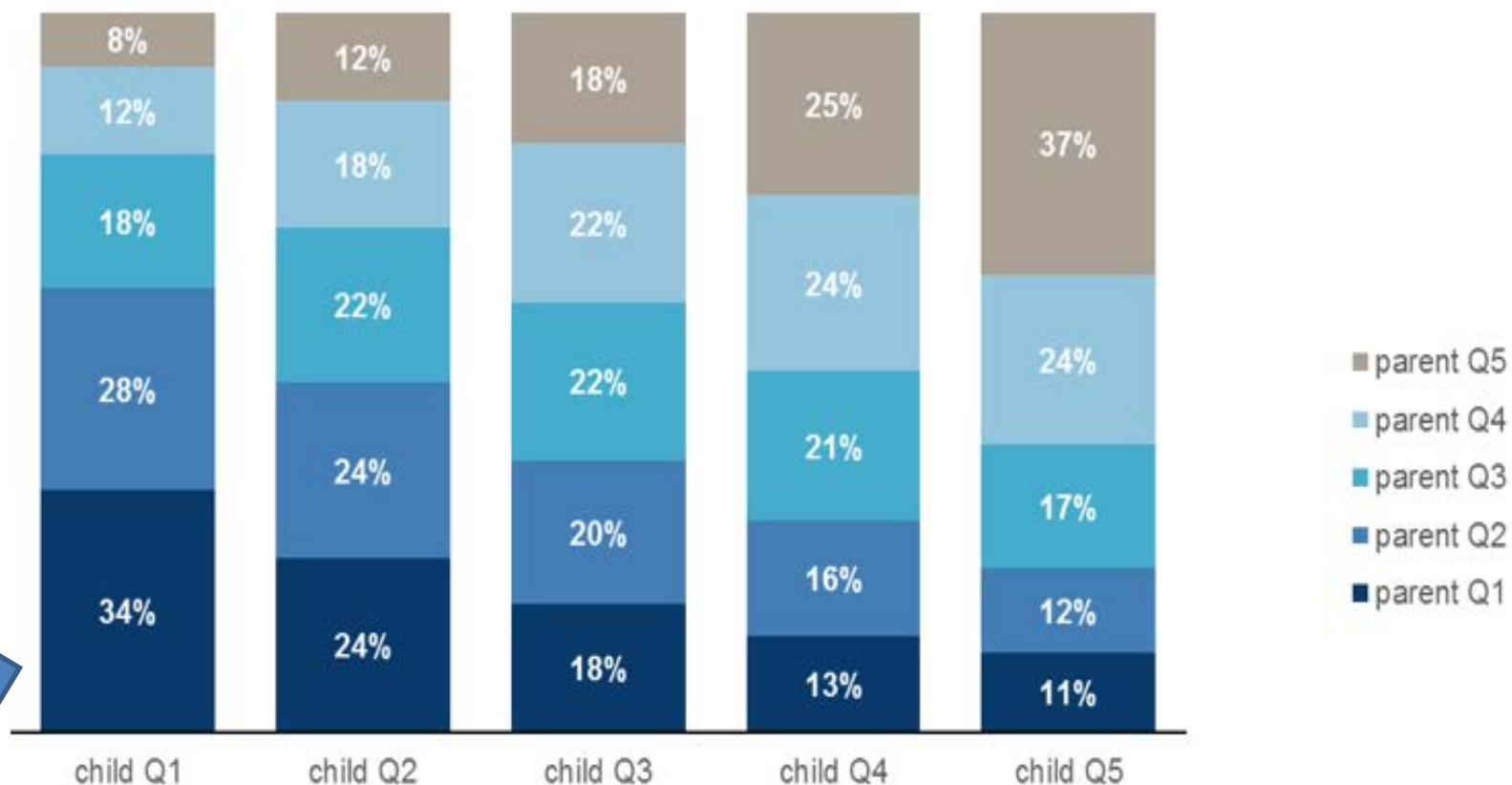
Chetty et al. 2014b mobility matrix



Source: Chetty et al. "Where is the Land of Opportunity?"

Sticky ends: relative mobility

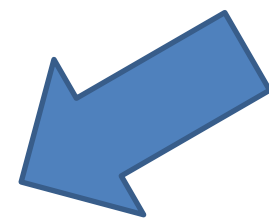
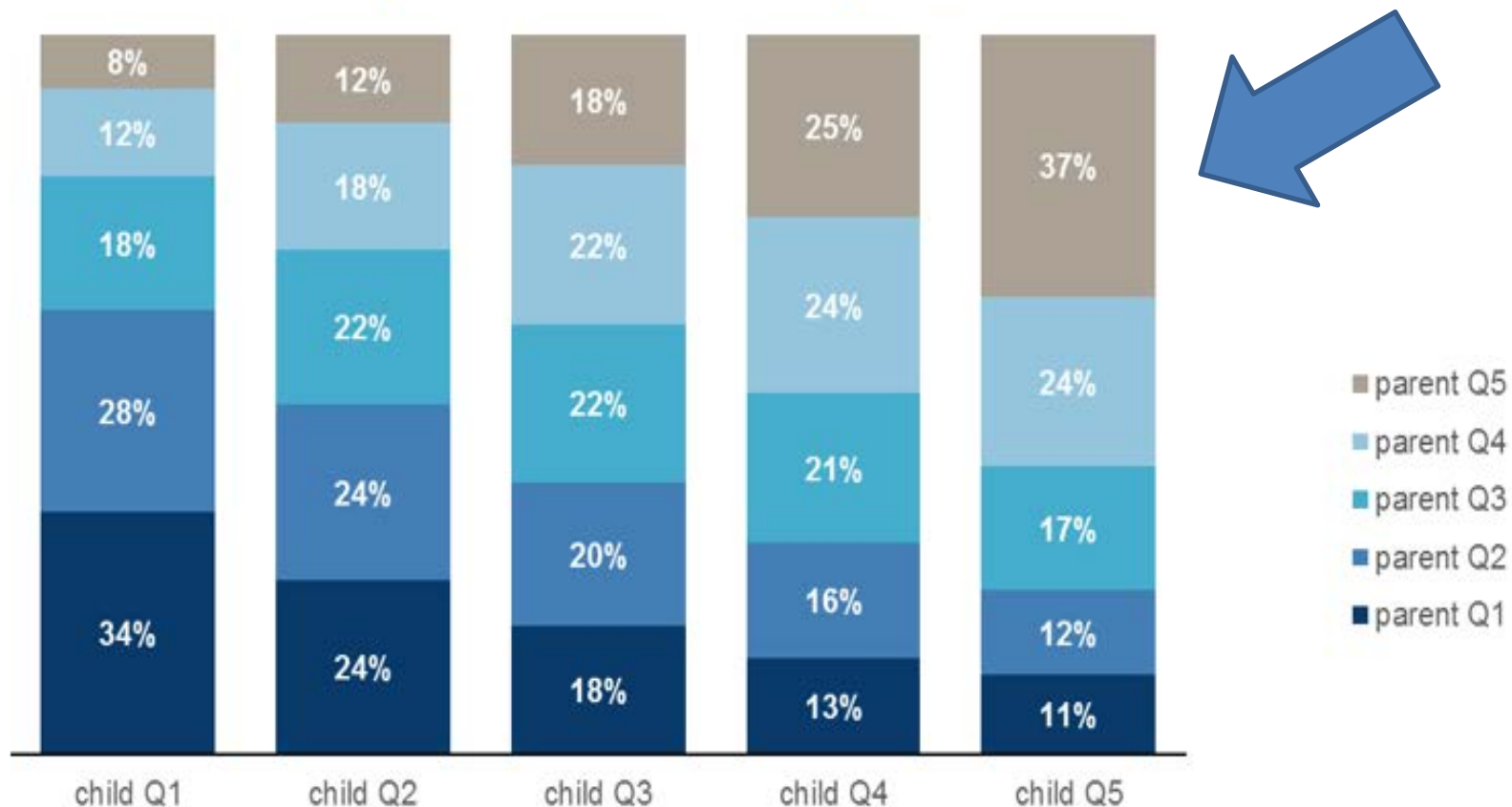
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Sticky ends: relative mobility

Chetty et al. 2014b mobility matrix



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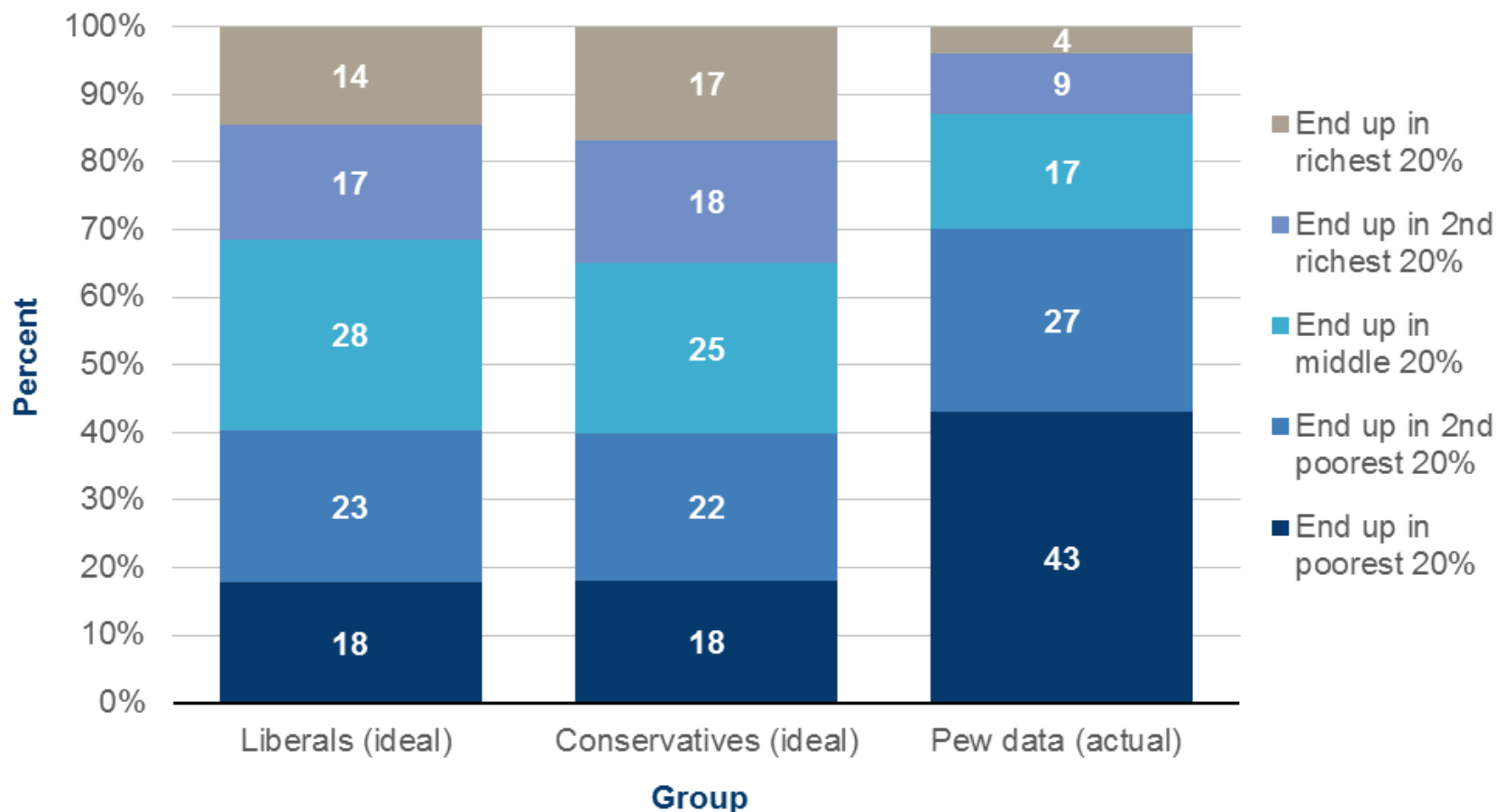
Variation across the distribution

“...In other words, children of wealthy parents are more likely to be homogeneously wealthy than children of poor parents are likely to be homogeneously poor. As put by Jäntti, “*perhaps the variation of the elasticity should be considered an index of mobility (in addition to the elasticity).*”

- Torche

Upward mobility wildly popular...

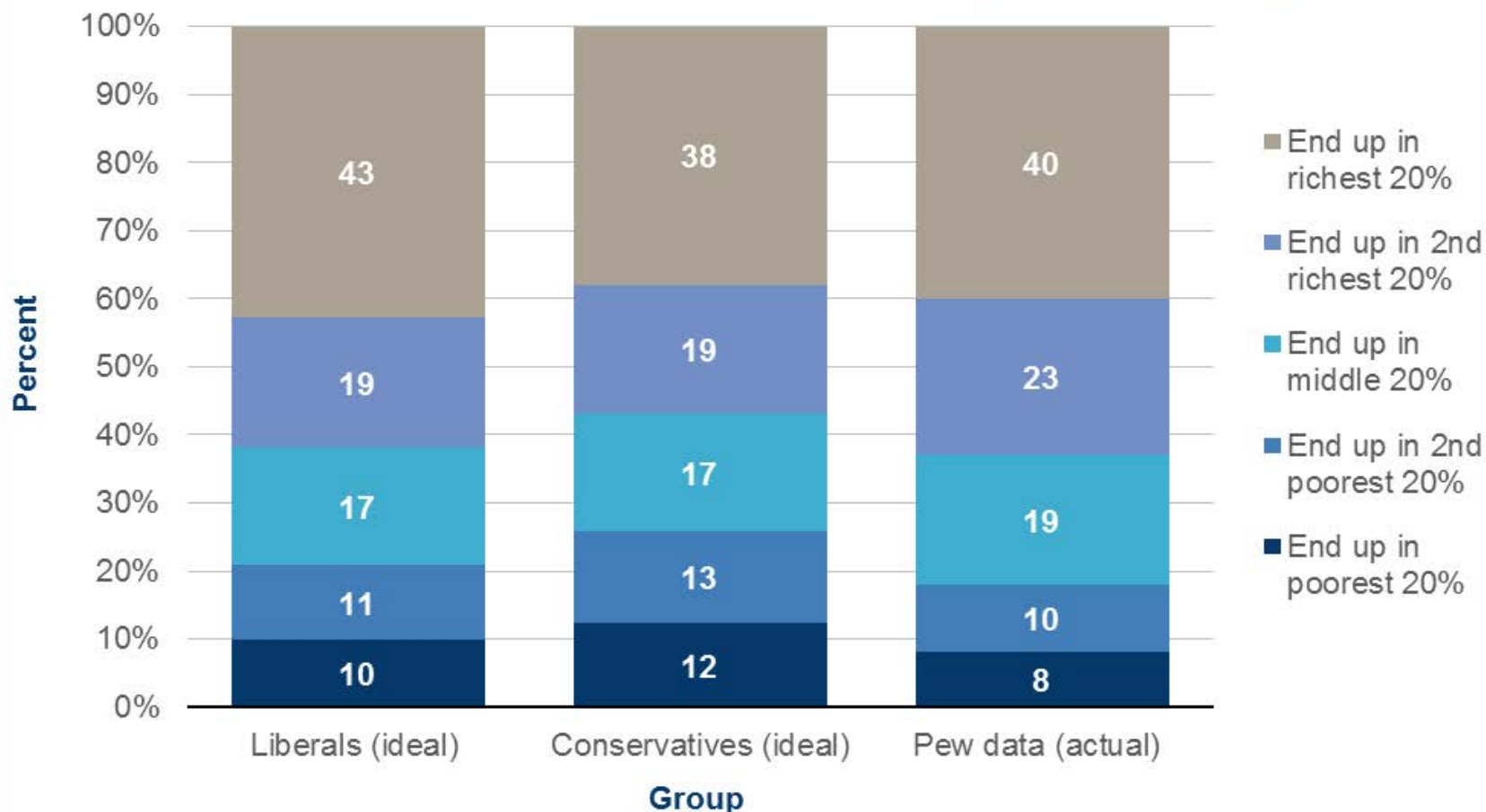
'Ideal' rates of upward mobility from the bottom



Source: Davidai, S., & Gilovich, T. (2015). Building a more mobile America—One income quintile at a time. *Perspectives on Psychological Science*, 10, 60–71.

Downward mobility less so....

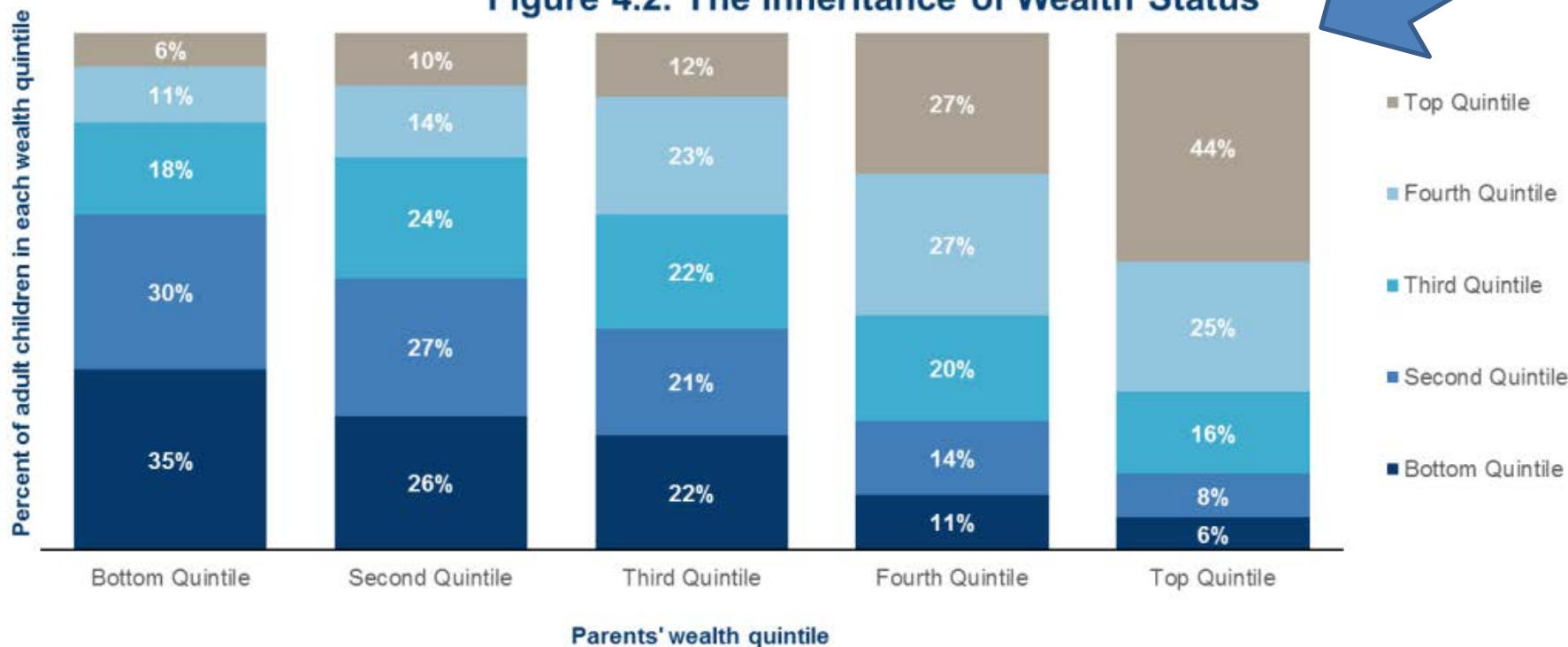
'Ideal' rates of downward mobility from the top



Source: Davidai, S., & Gilovich, T. (2015). Building a more mobile America—One income quintile at a time. *Perspectives on Psychological Science*, 10, 60–71.

Stickiness of...wealth

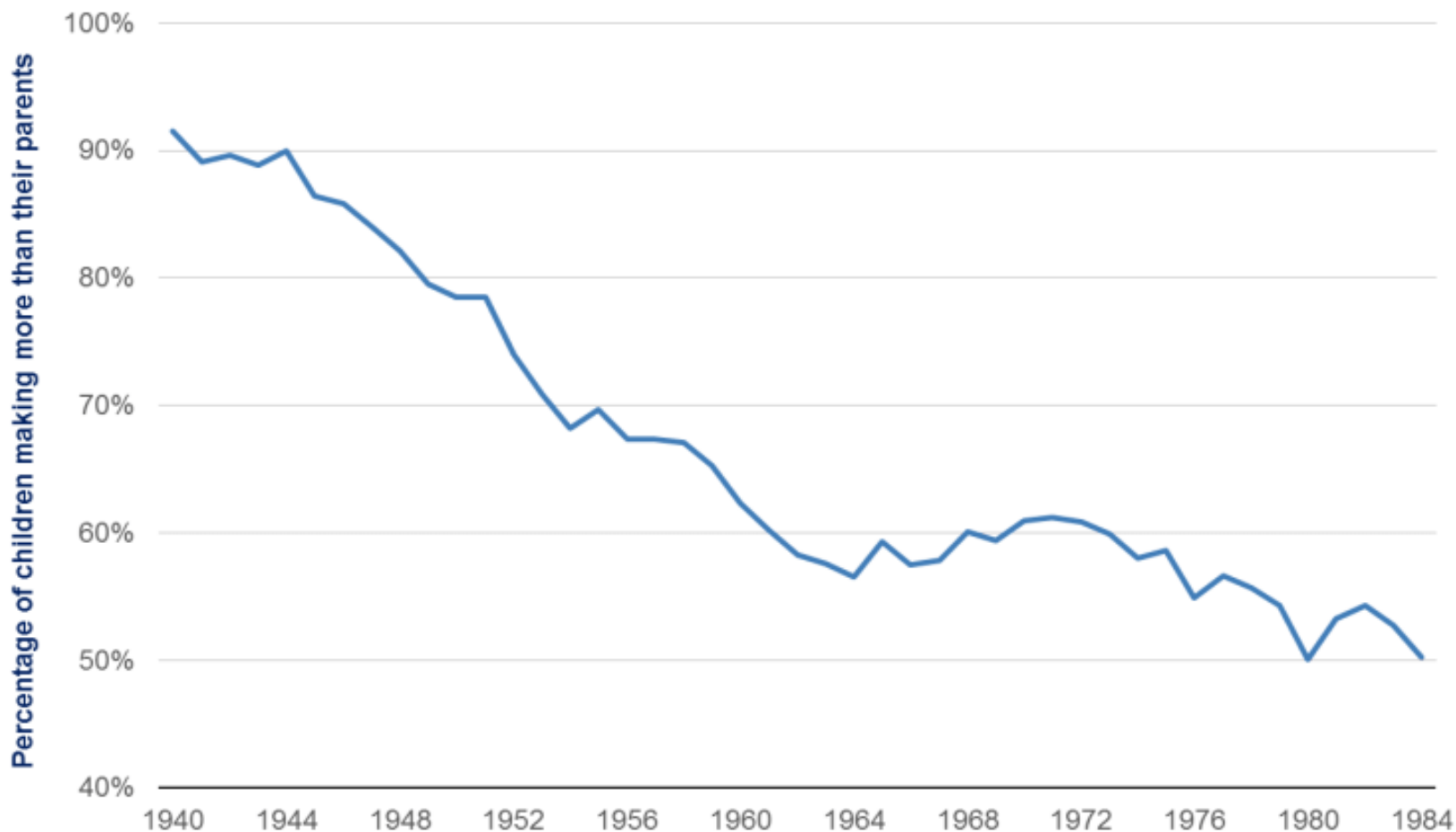
Figure 4.2. The Inheritance of Wealth Status



Source: [Pfeffer, Fabian T.](#), and Alexandra Achen Killewald. 2015. "How Rigid is the Wealth Structure and Why? Inter- and Multigenerational Associations in Family Wealth." PSC Research Report No. 15-845. September 2015.
 a. Net worth quintiles within ages 45-64 (N=1,975); quintile cutpoints in 2013 dollars.

Declining absolute mobility

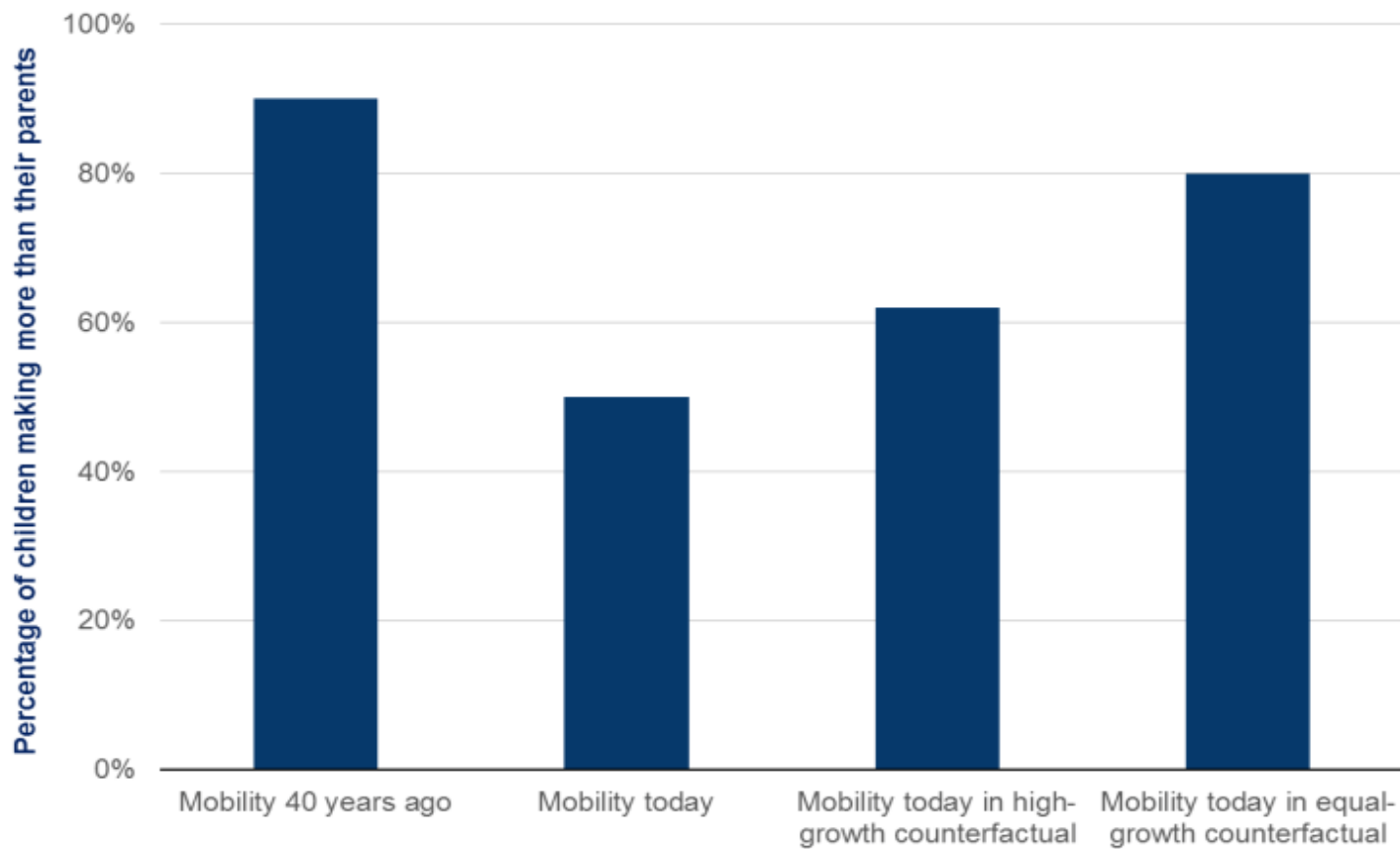
Death of a dream? Absolute mobility rates over time



Source: Chetty et al., "The Fading American Dream: Trends in Absolute Income Mobility Since 1940."

Why? Inequality, mostly

Absolute mobility under high-growth and equal-growth counterfactuals



Source: Chetty et al., "The Fading American Dream: Trends in Absolute Income Mobility Since 1940."





Measures really, really matter

Table 1. IGE and rank-rank slope, for three types of societies

	‘Starting’ Scenario: Unequal and Immobile	Scenario 1: Equalizing, but Immobile	Scenario 2: Unequal but Mobile
IGE	1.06	0.42	0.54
Rank- rank	0.73	0.73	0.56

Structure

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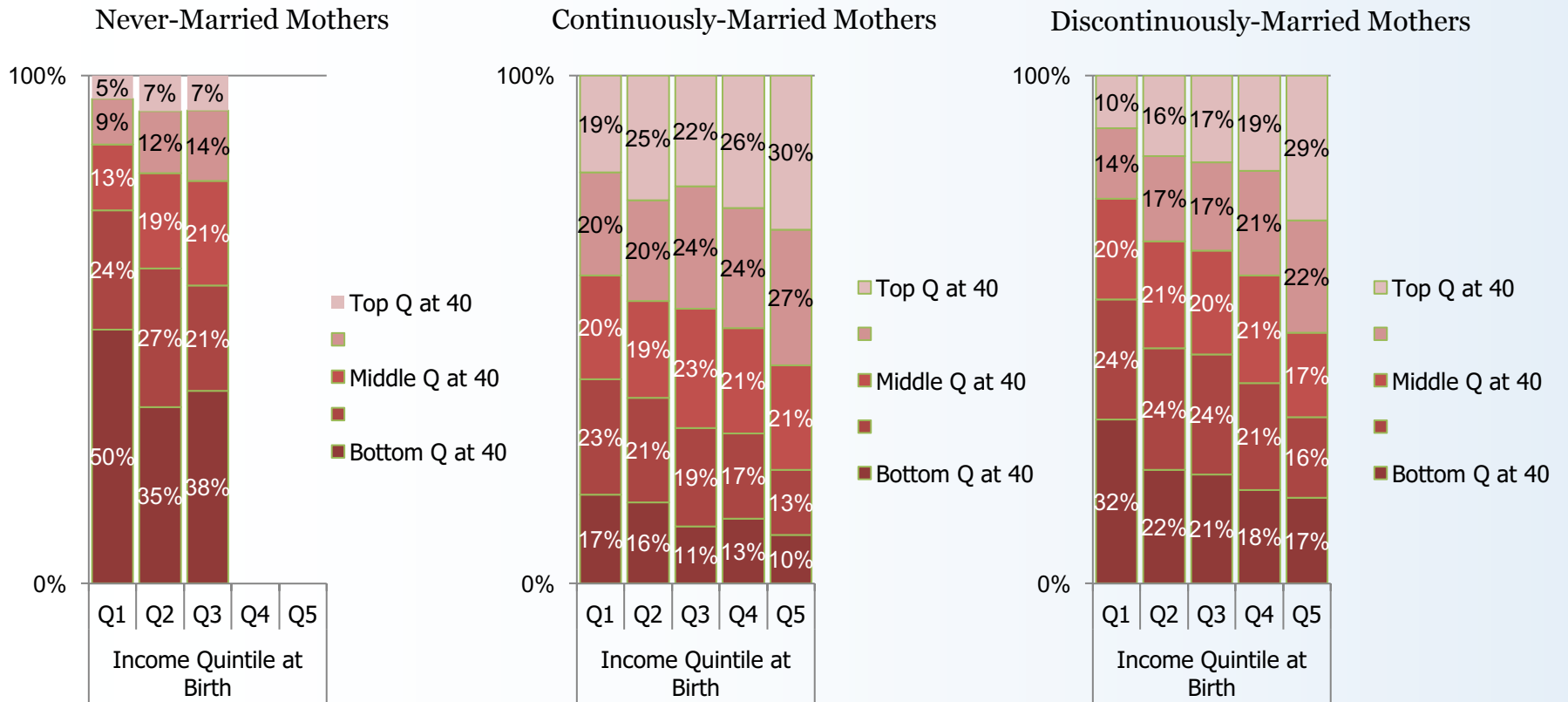
Lecture 2: Market Meritocracy & Opportunity Hoarding

- Mechanism 1: Market meritocracy/Education
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Factor 1: Family

Family: Mobility by Structure

Social Mobility Matrices by Marital Status of Mother

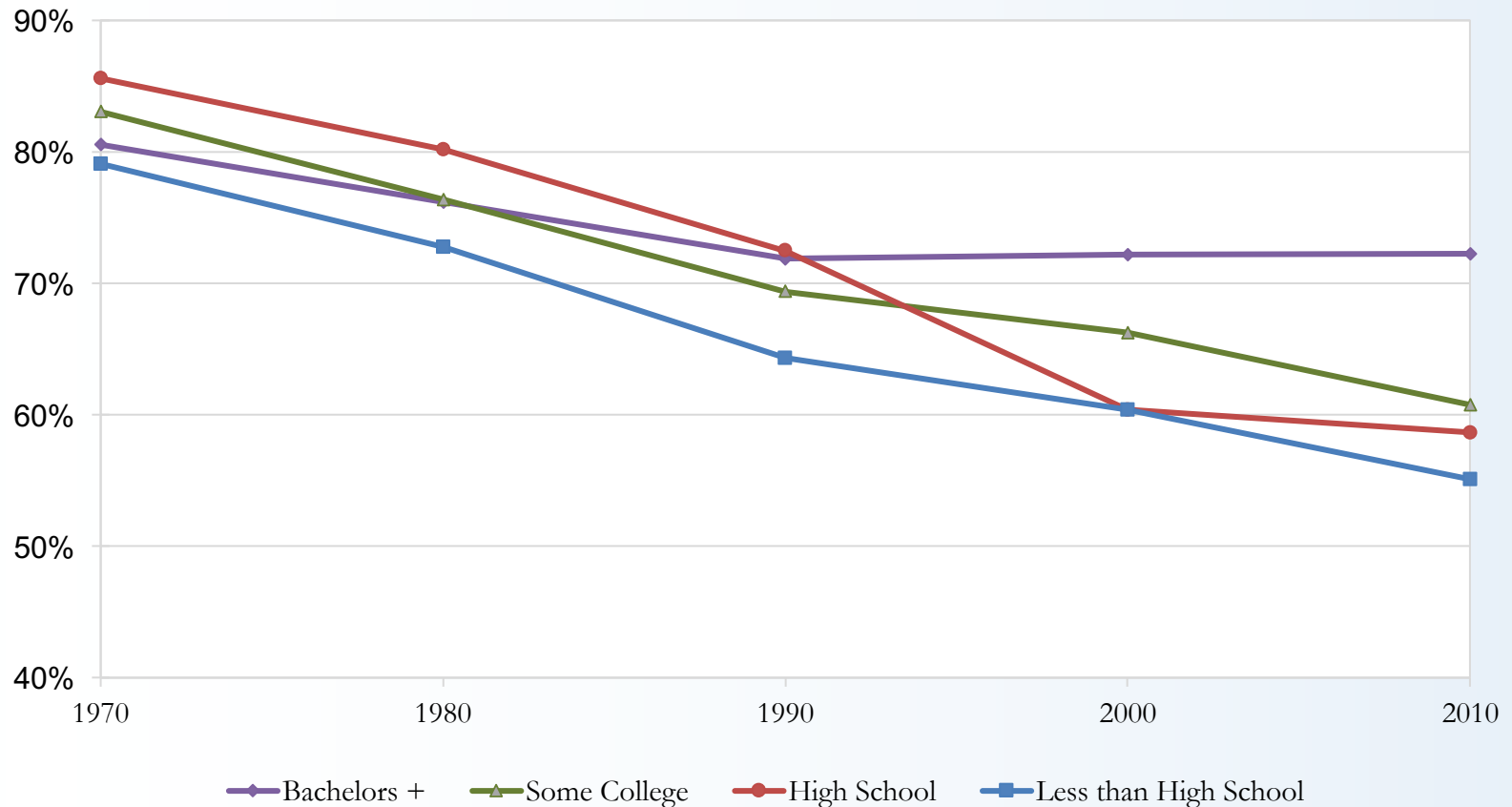


Note: The sample size is too small to calculate a matrix for those born in the top two income quintiles.

Source: Author's calculations.

Marriage Gap

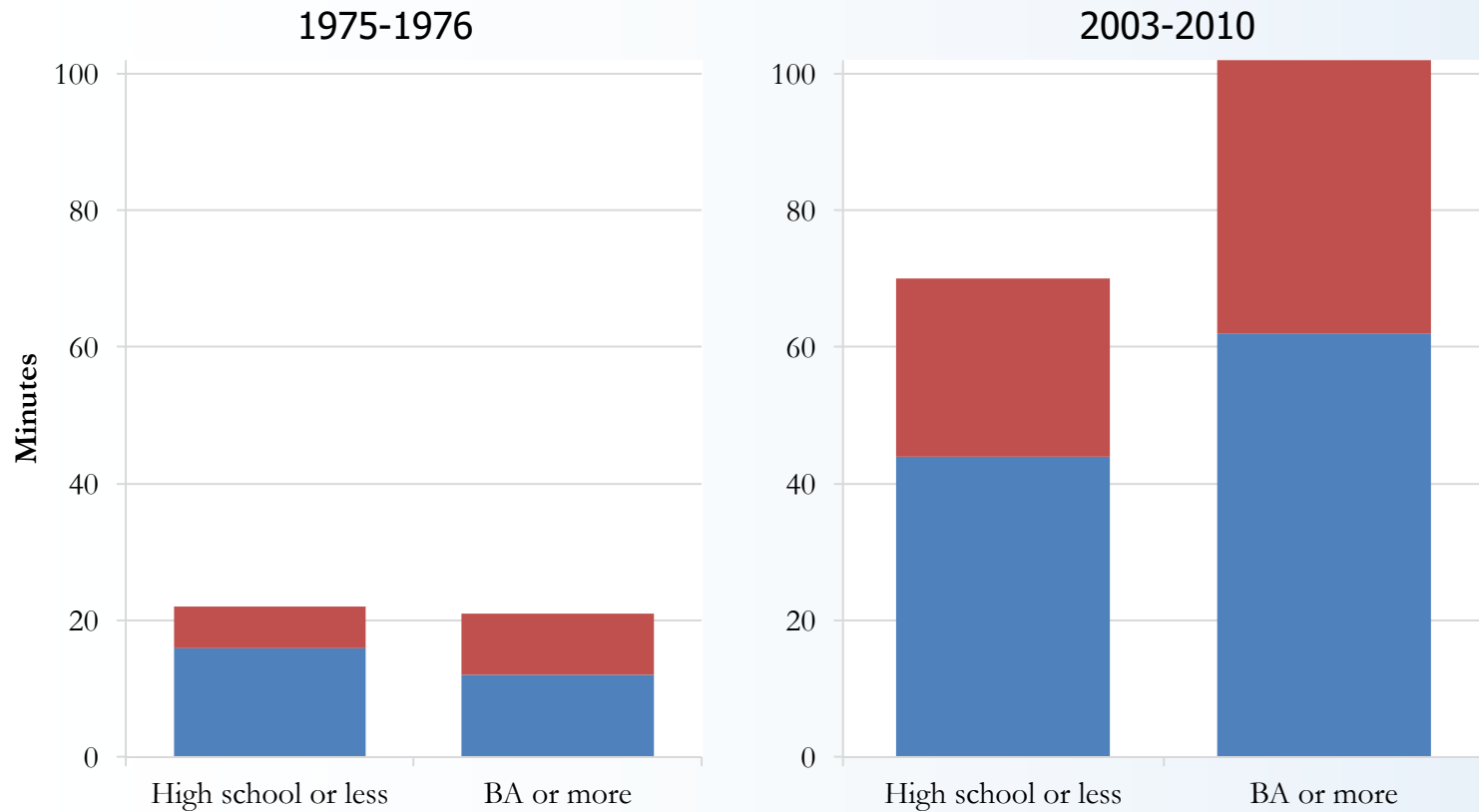
Women's marriage rates by education



Source: Richard V. Reeves, "How to save marriage in America," in the Atlantic (February 2014).

...and time spent with children

Developmental time spent with parents by mother's education



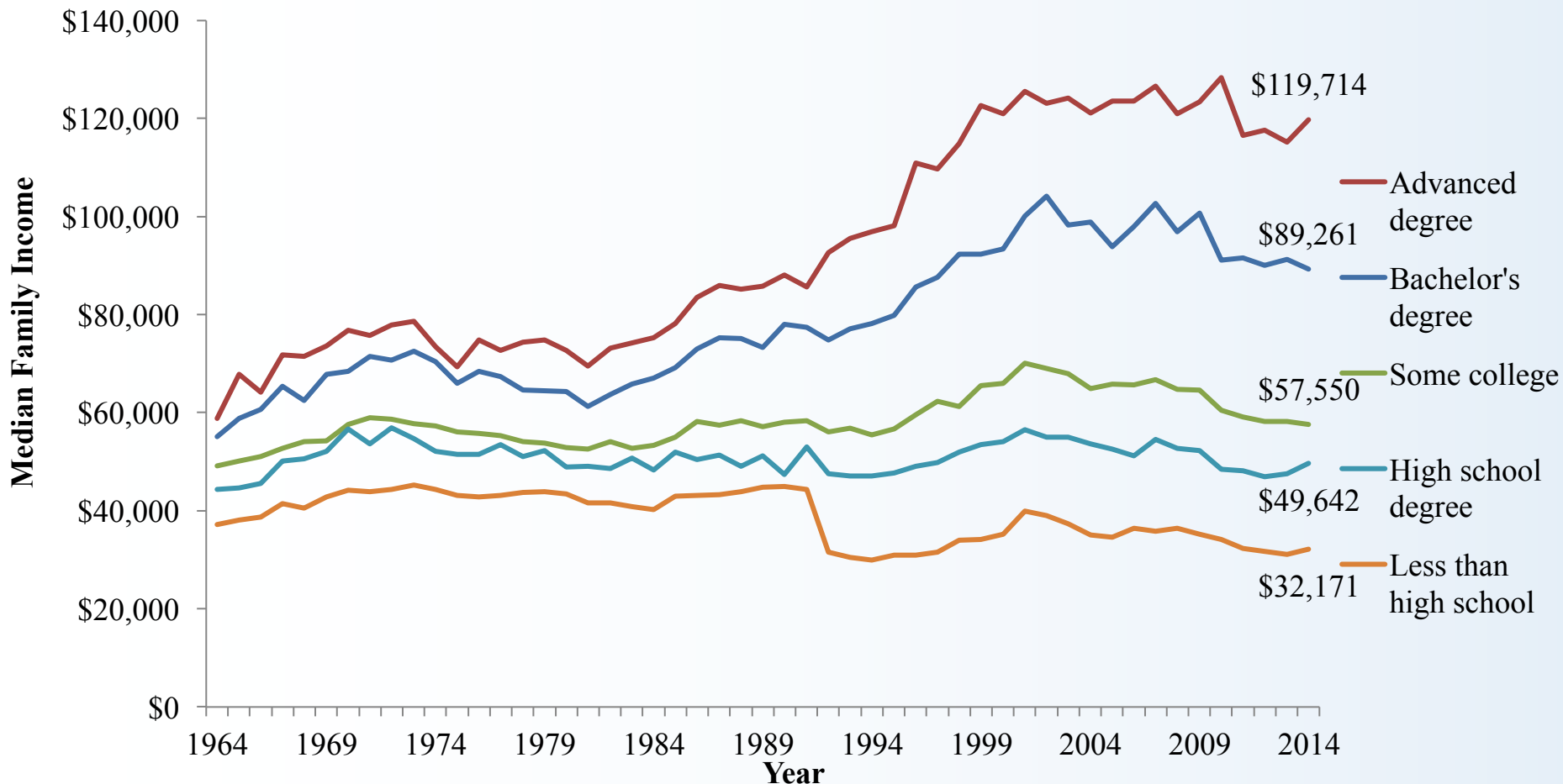
Source: Robert D. Putnam, Carl B. Frederick, and Kaisa Snellman, "Growing Class Gaps in Social Connectedness among American Youth." Harvard Kennedy School of Government, The Saguaro Seminar: Civic Engagement in America (August 8, 2012).

The Parenting Gap

“Economically disadvantaged children’s limited access to cognitively enriching home environments may help drive growing gaps in cognitive and noncognitive skills, producing a feedback cycle that leads to low socioeconomic mobility and further growing inequality...For the most part, *these gaps arise from top-income families pulling away from their middle- and low-income counterparts.*” Ariel Kalil *et al.* (my emphasis)

Factor 2: Education

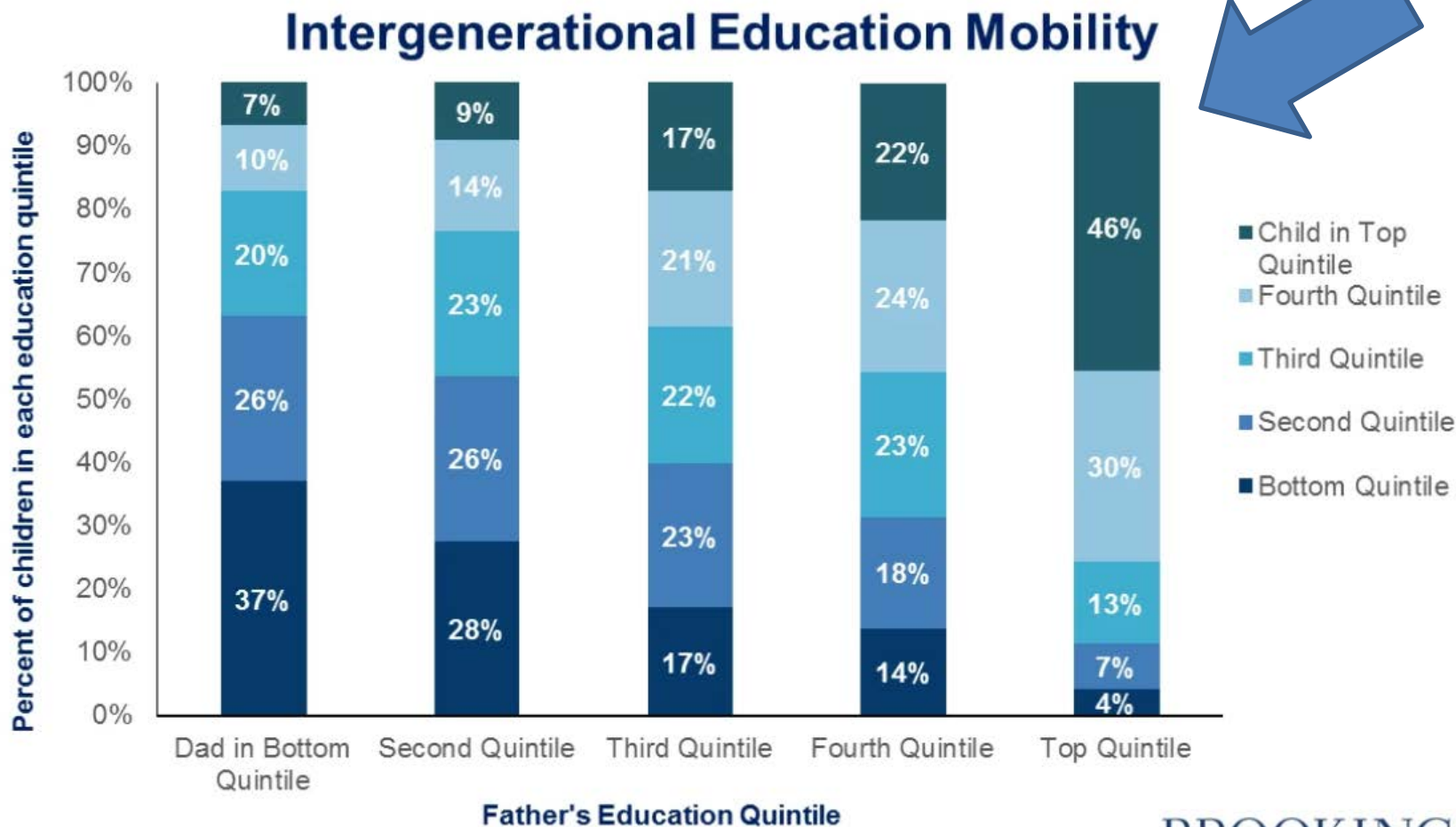
Income by Education



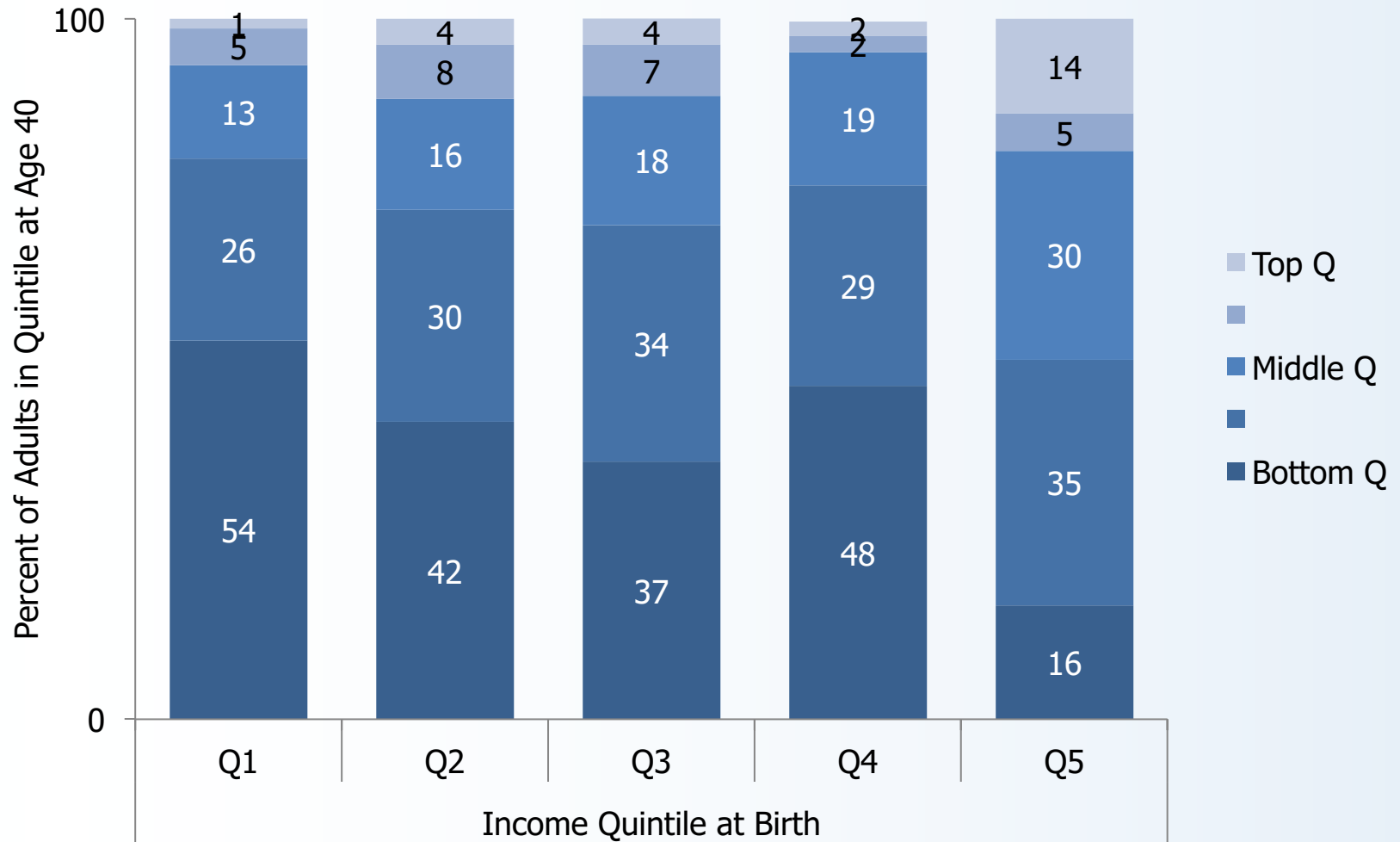
Source: Census' Annual Social and Economic Supplement to the Current Population Survey. Inflation adjusted using PCE deflator.

Note: The CPS changed the phrasing of the educational attainment question in 1992, which accounts for that year's sudden drop among the less-than-high-school group.

Stickiness of...education

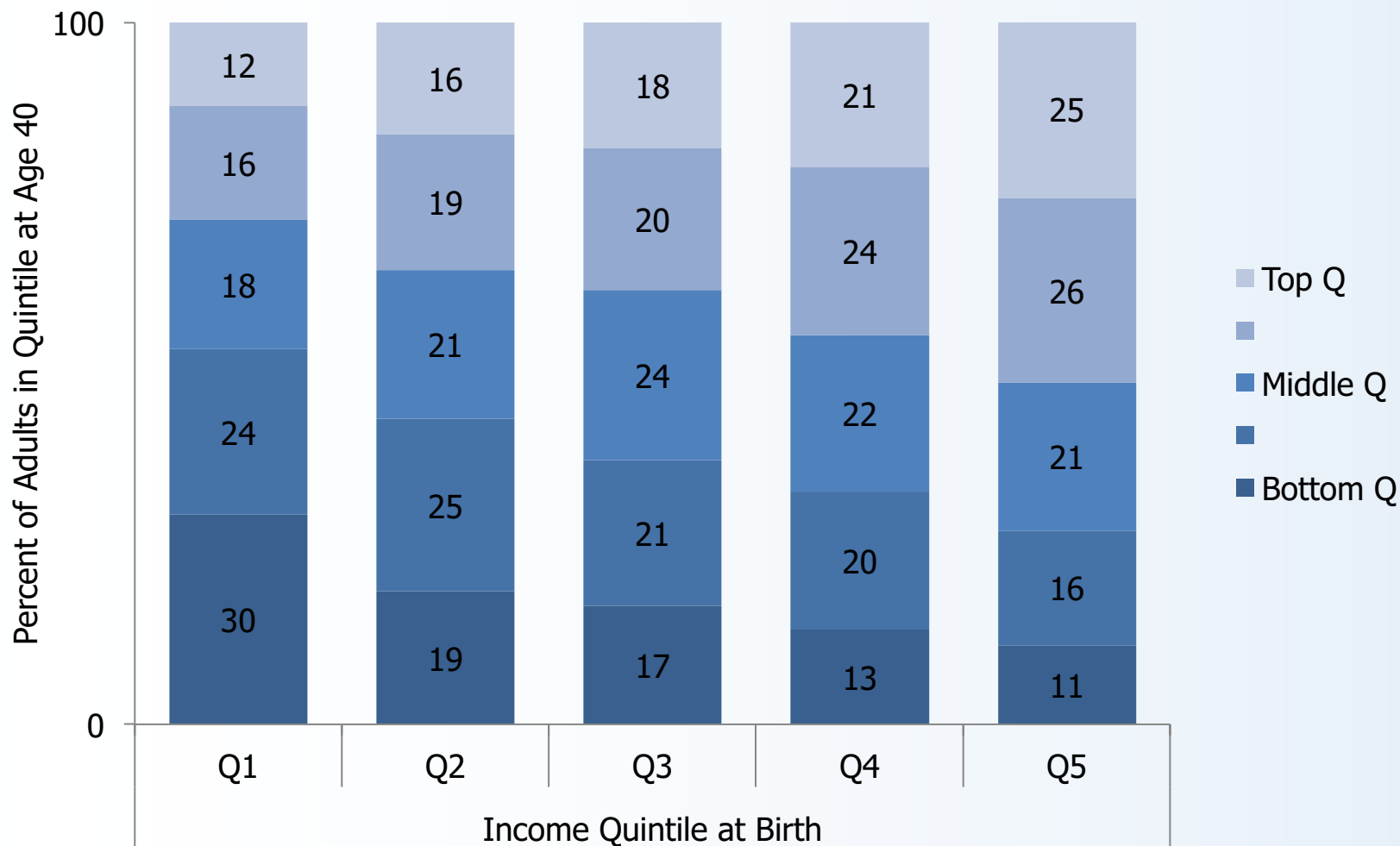


Education: No High School

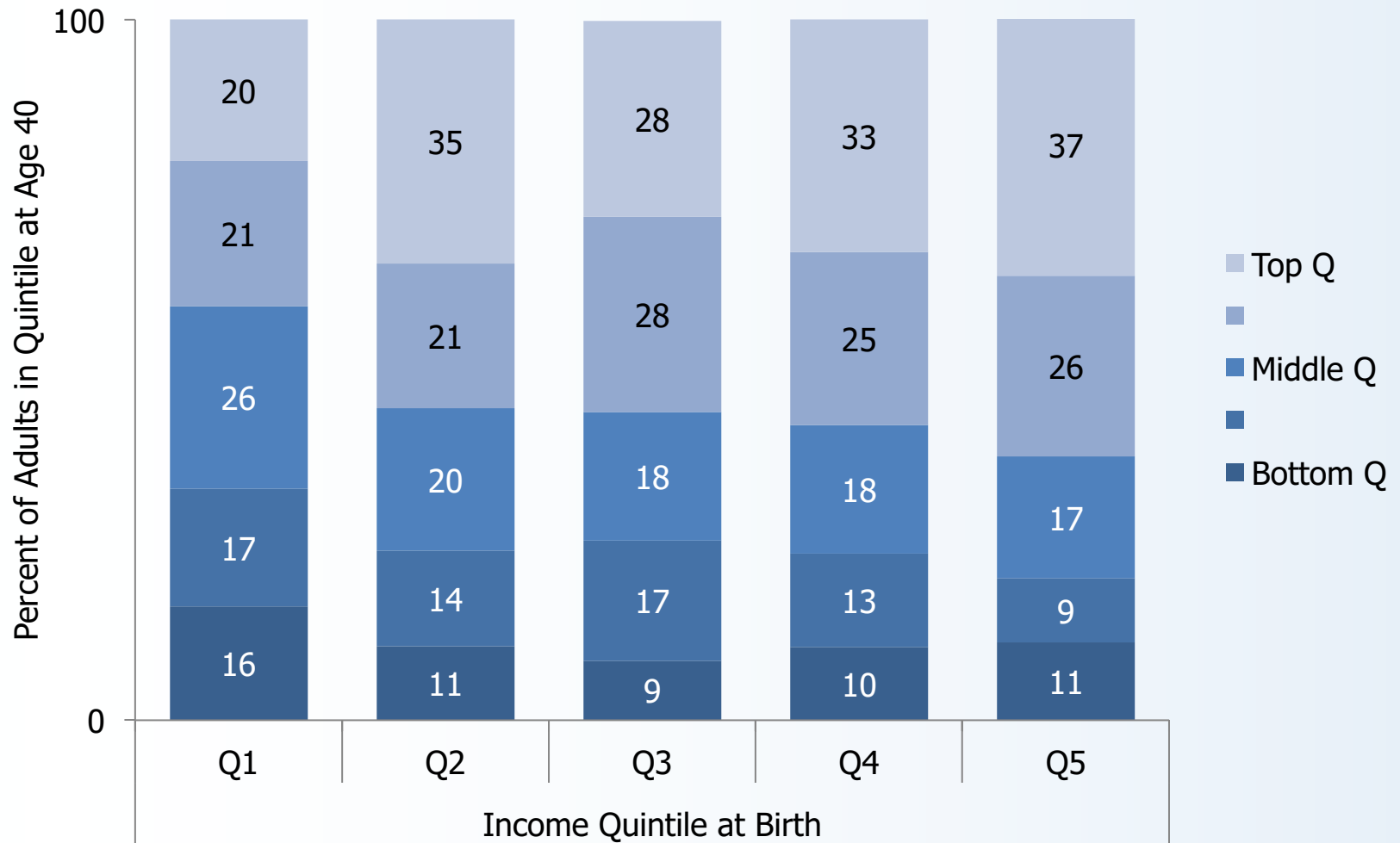


Note: Small sample size for high school graduates reaching the top quintile.
Source: Author's calculations.

Education: HS Graduates

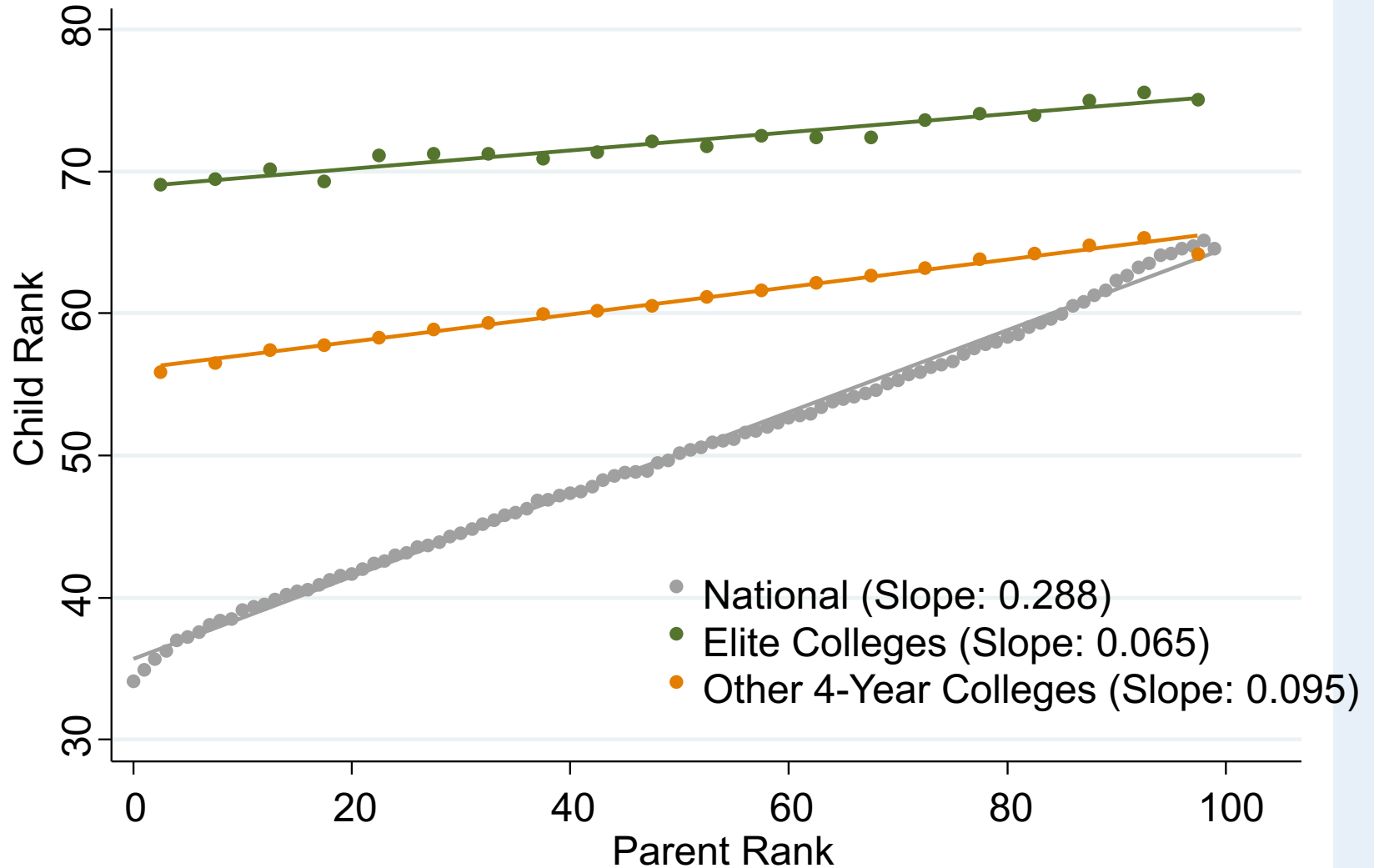


Education: College Graduates



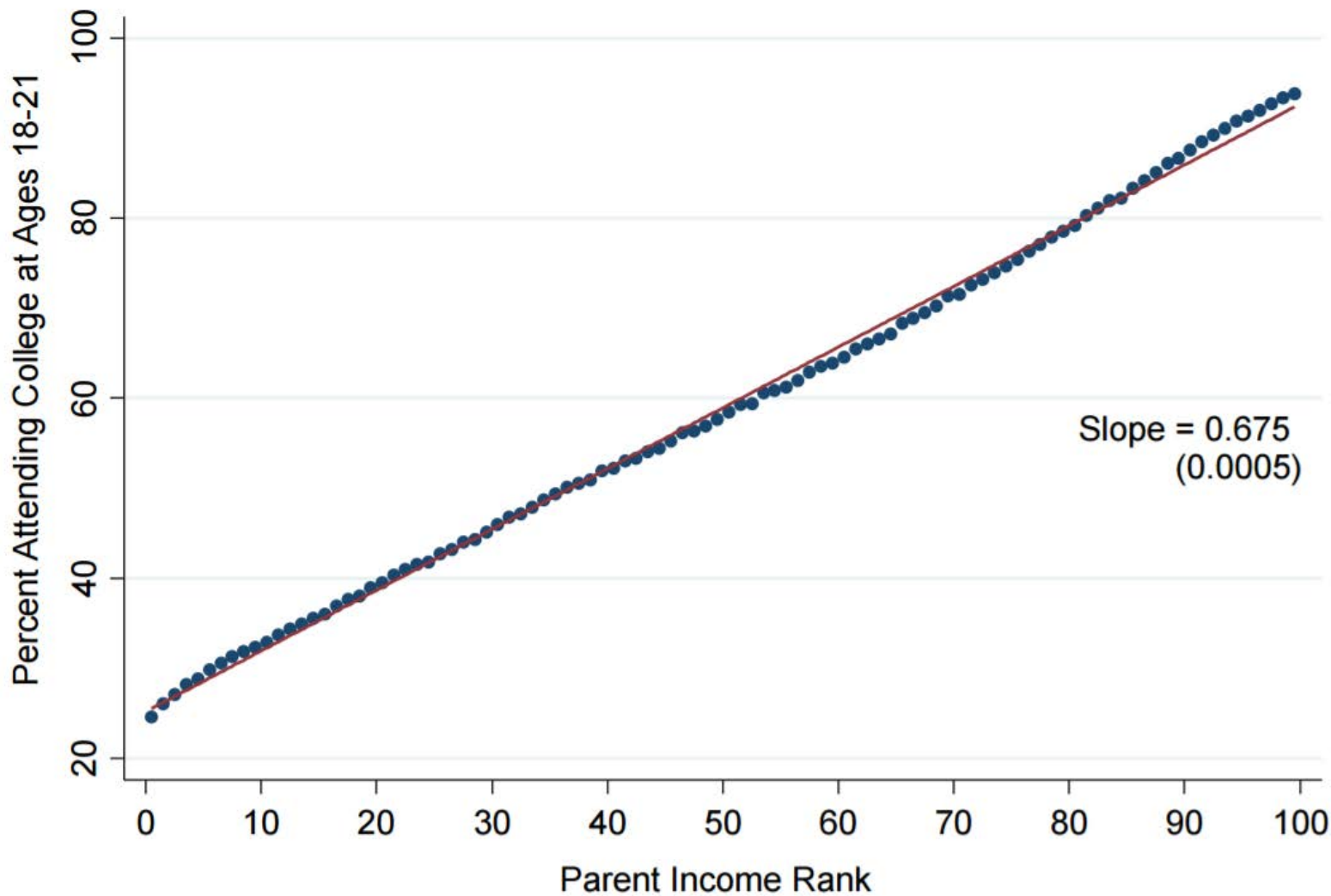
Source: Author's calculations.

Mean Child Rank at Age 34 vs. Parent Income Rank (All 4-Year Colleges)



Big Class Gaps in College Going

College Attendance Rates vs. Parent Income Rank in the U.S.

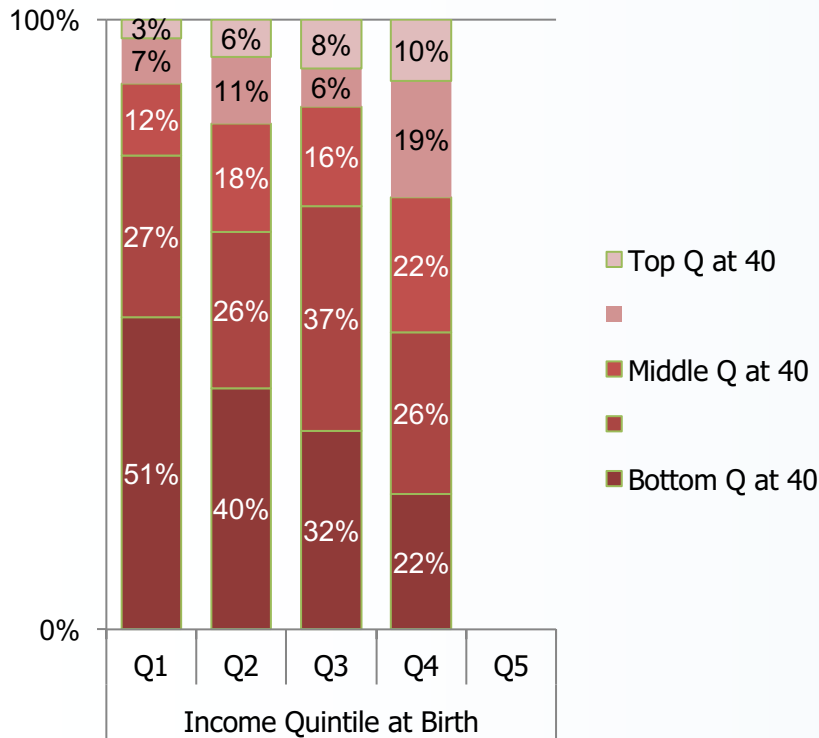


Factor 3: Race

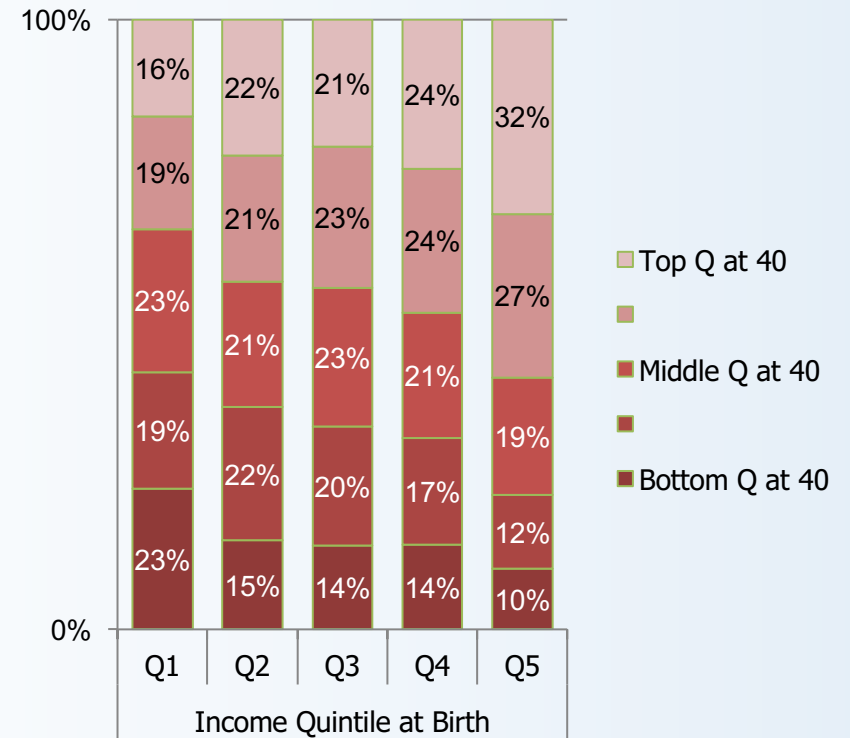
Black mobility rates are very low

Social Mobility Matrices by Race

Black Americans



White Americans

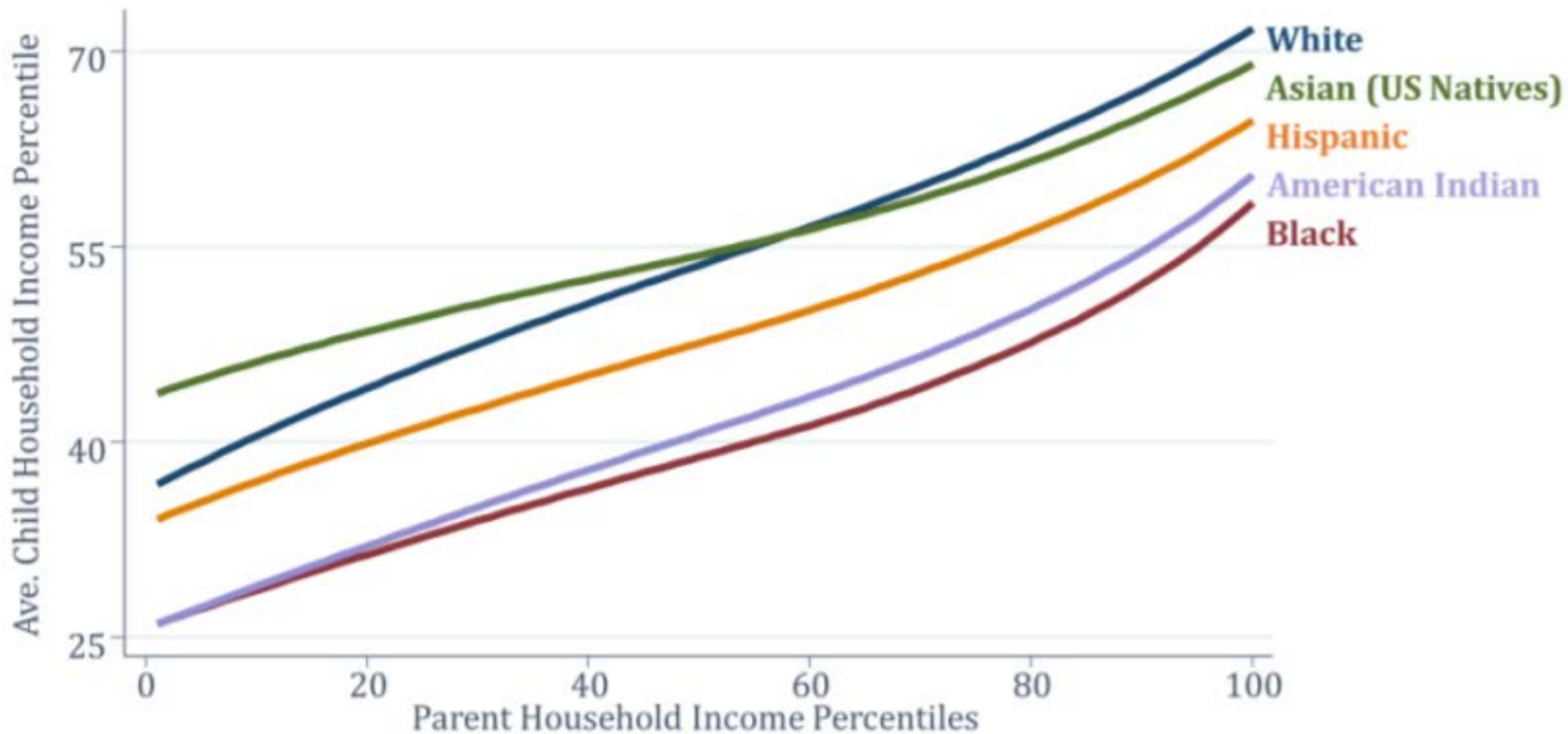


Note: The sample size is too small to calculate a matrix for those born in the top income quintile.

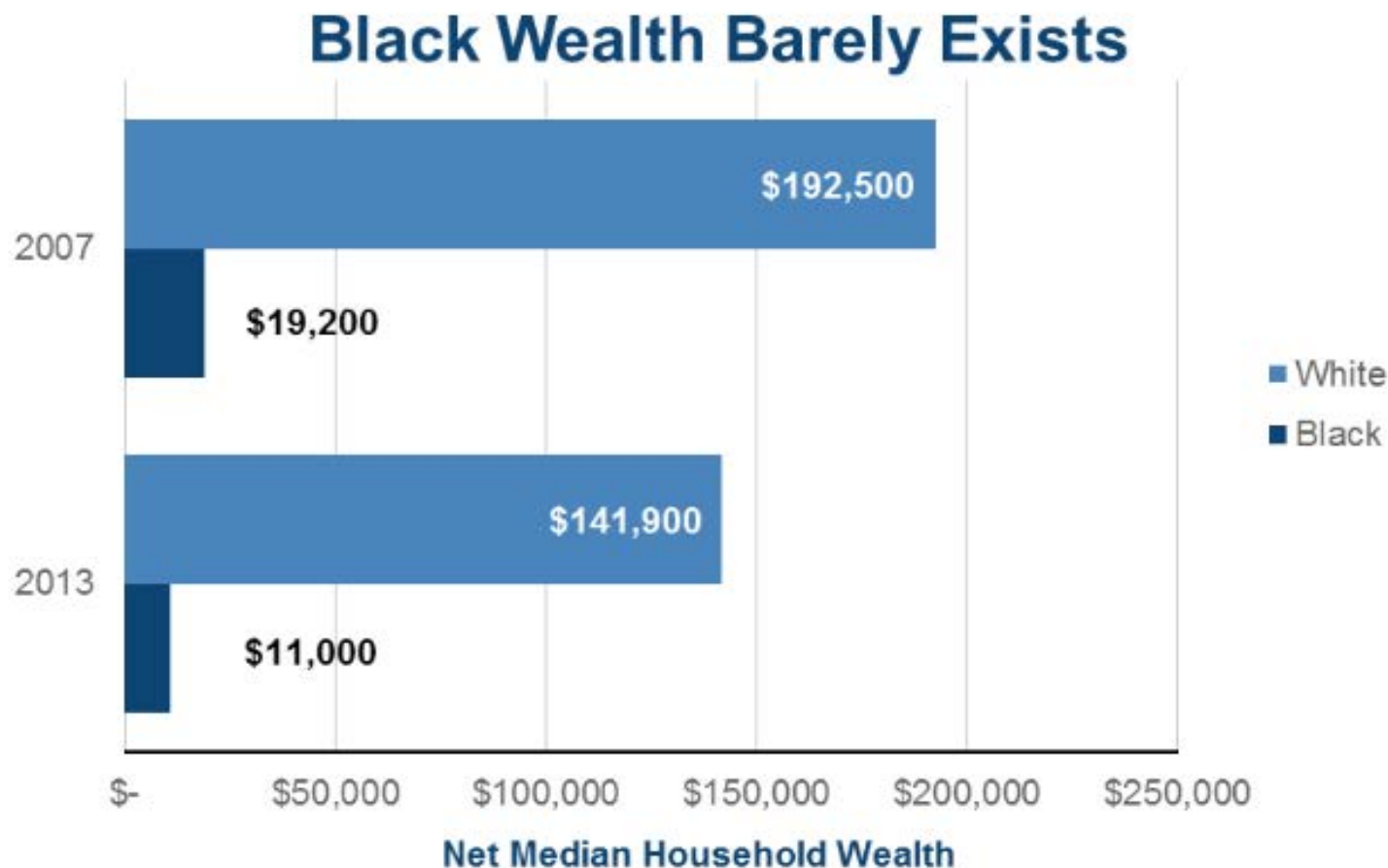
Source: Author's calculations.

Mobility varies by race

Children's Incomes vs. Parents' Incomes, by Race and Ethnicity



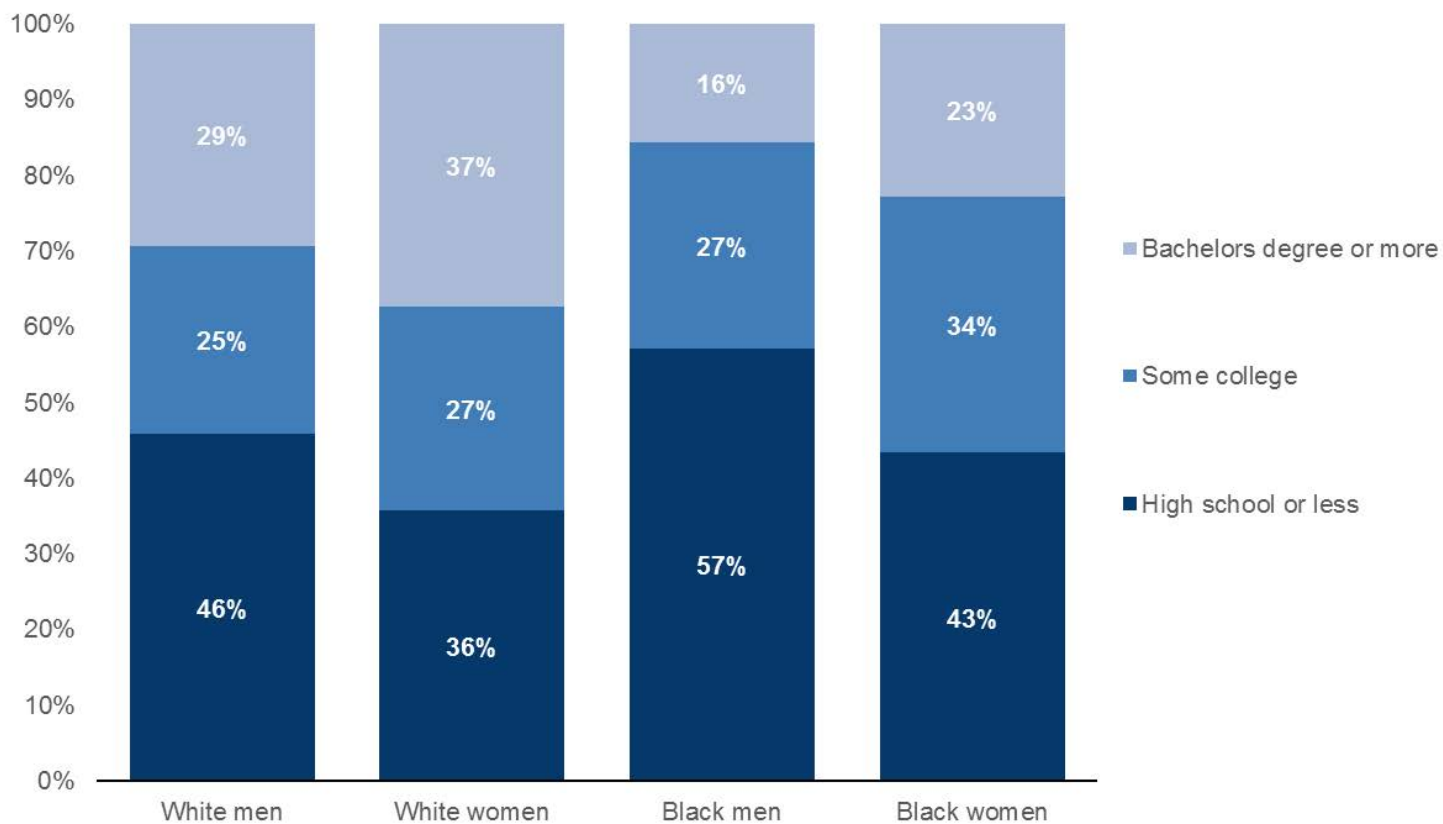
Why worse black mobility: Wealth?



Source: Pew Research Center, Analysis of Federal Reserve's Survey of Consumer Finances.

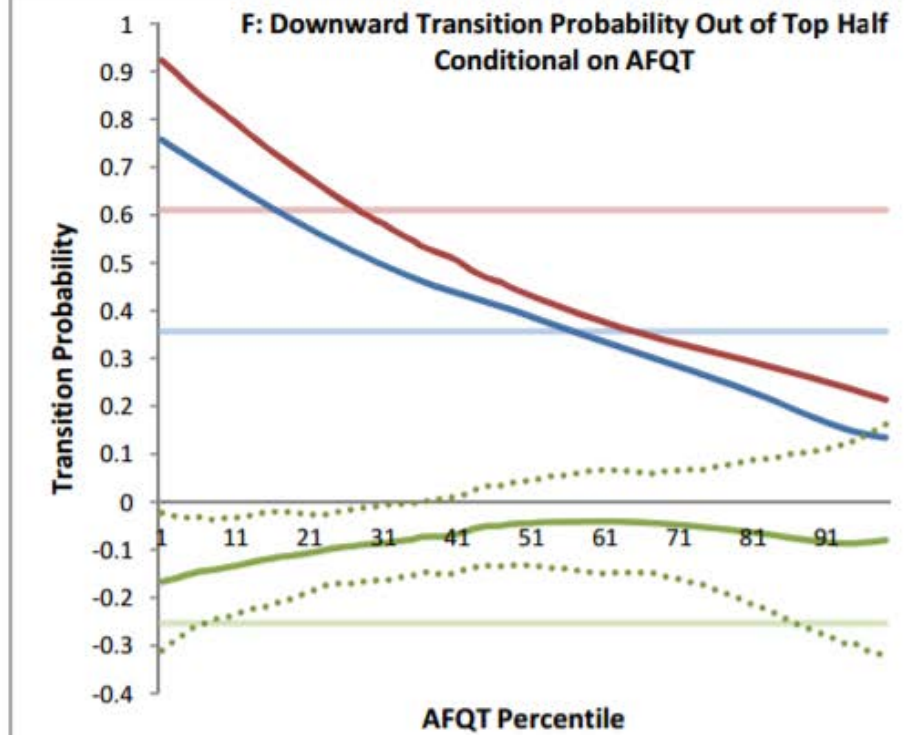
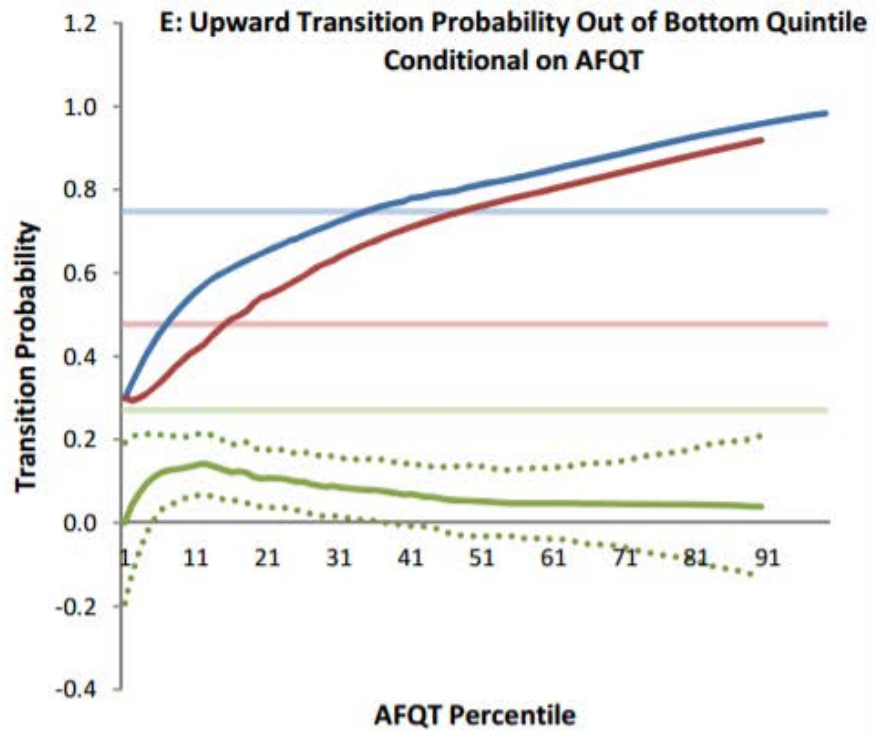
Why worse black mobility: Skills?

Fig 1: Race, Gender, and Education



Source: Author's tabulations of the American Community Survey, 2008-2012; Restricted to women and men age 25-35

“[T]he cumulative effects of a variety of influences that affect cognitive ability by adolescence play a critical role in accounting for racial differences in upward and downward mobility.” – Mazumder



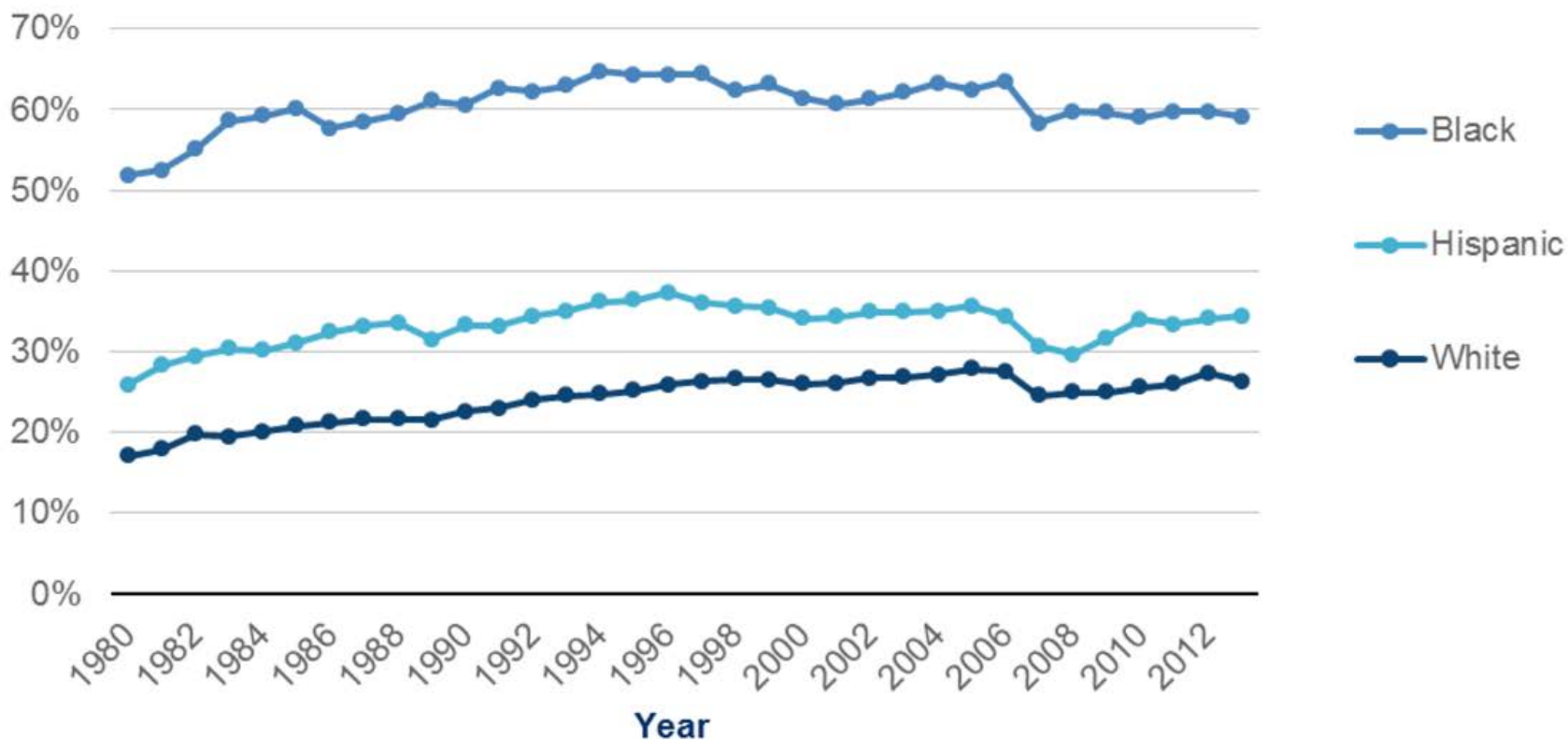
Legend:

- Whites
- Blacks
- W-B
- Whites, Unconditional
- Blacks, Unconditional
- W-B, Unconditional

Why worse black mobility: Family?

Most Black Families with Children Headed by Single Parent

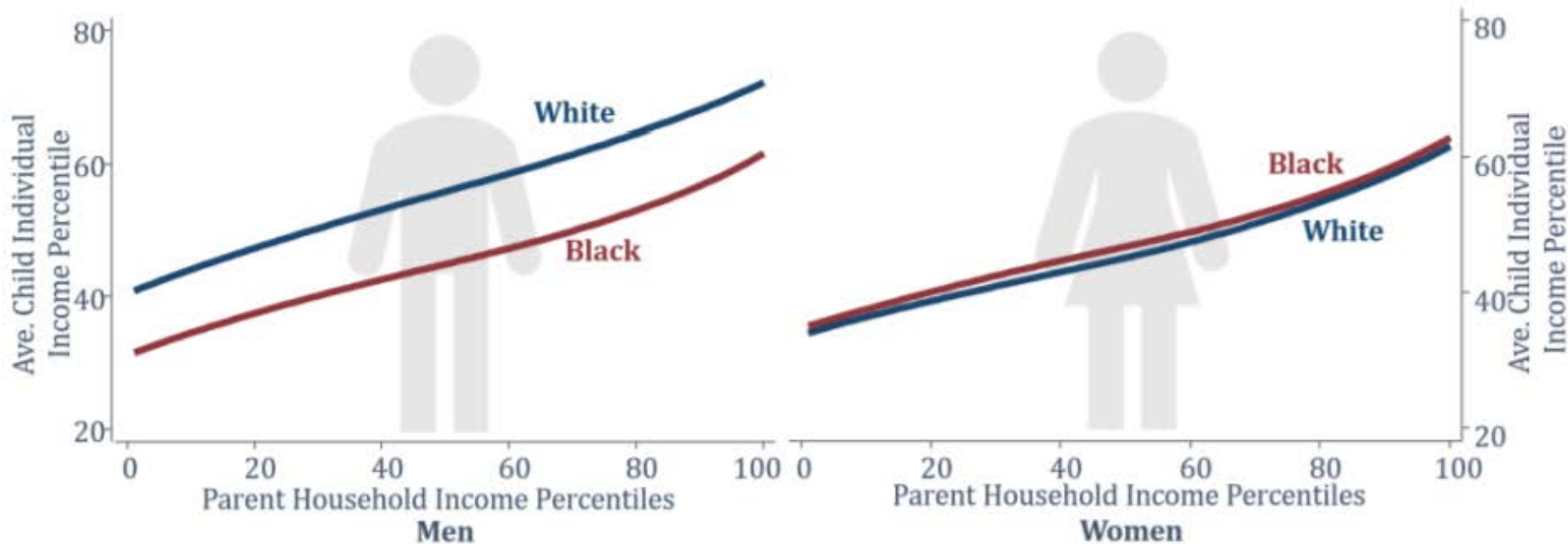
Proportion of Families with Children Under 18 Headed by a Single Parent



Source: US Census Bureau. (2014). Table FM-1. Families, by Presence of Own Children Under 18: 1950 to Present

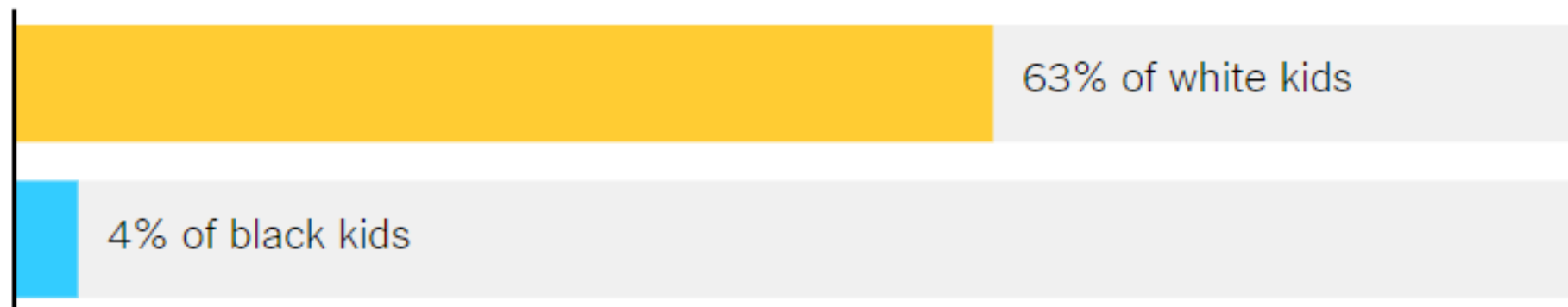
Why worse black mobility 4: Men?

Children's Incomes vs. Parents' Incomes, for Black and White Men and Women

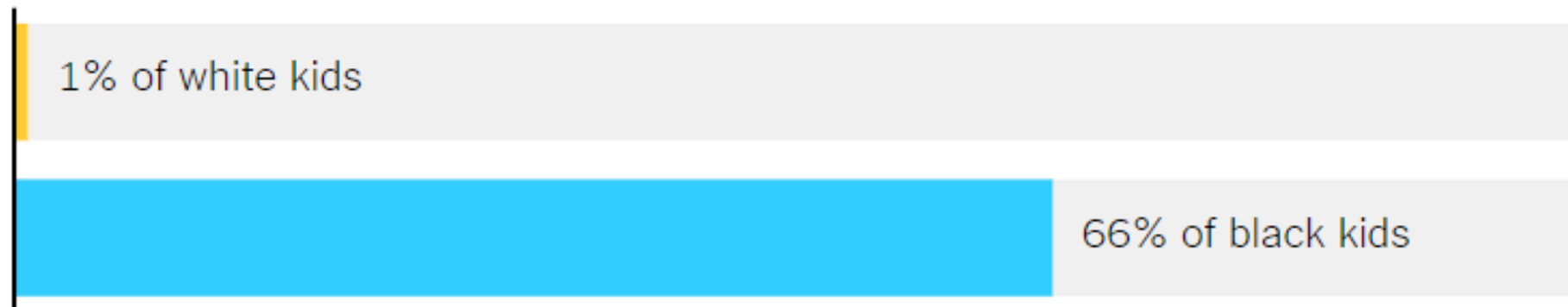


Why worse black mobility 5: Community?

Share of children living in low-poverty neighborhoods with many fathers present



Share of children living in high-poverty neighborhoods with few fathers present



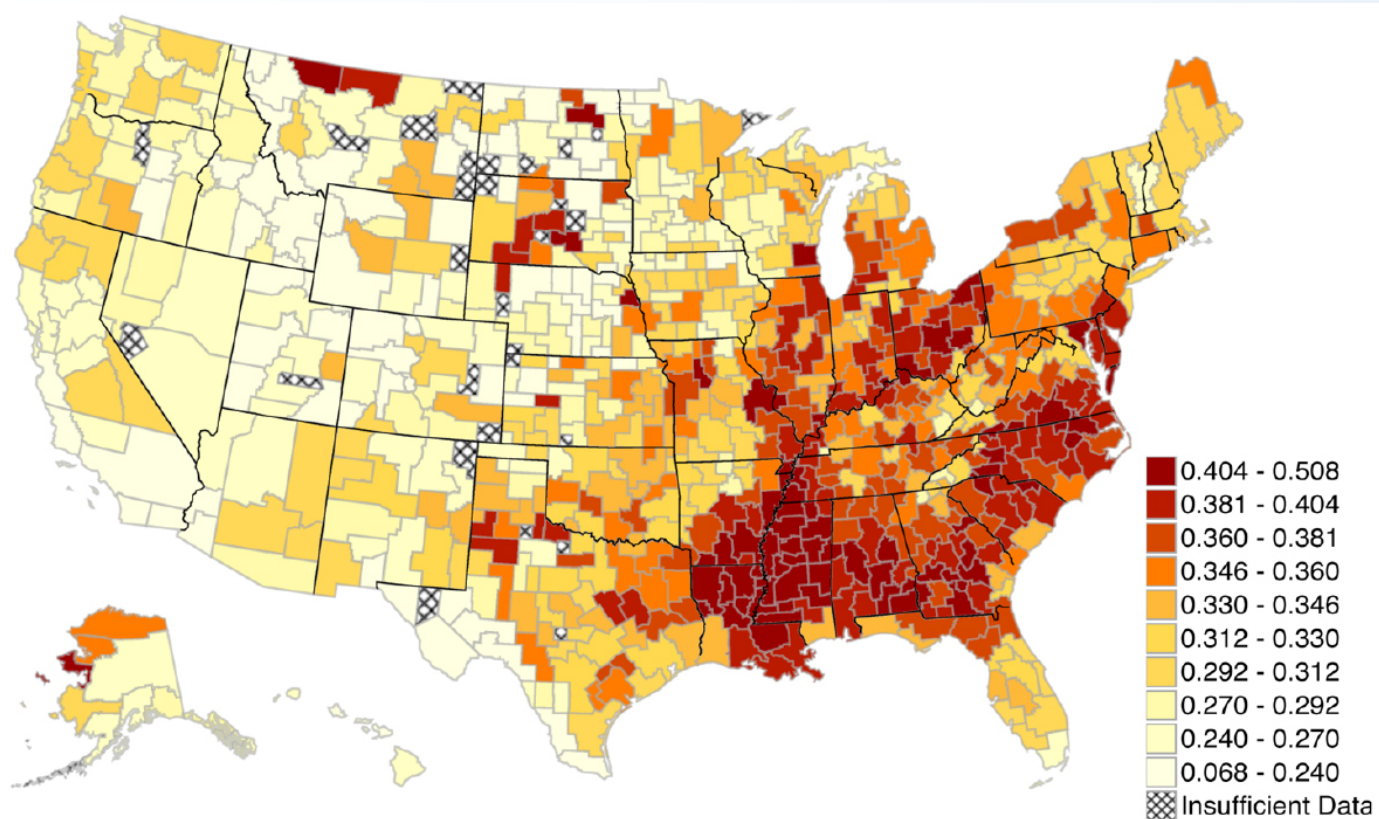
“What explains the limited upward mobility of black boys from certain neighborhoods? Perhaps the most striking finding of the whole report is the impact of “father presence” in census tracts on the mobility chances of black boys. Note that the researchers are not showing here the direct effect of a boy’s own father, or the marital status of his parents. This is about *the broader presence of fathers in a given neighborhood*. Note, too, that the finding relates specifically to *fathers*, not just men in general.”

William Julius Wilson, Brookings (my emphasis)

Factor 4: Geography

Geography: Variation Within US

Relative Mobility: Rank-Rank Slopes by CZ



Corr. with baseline $\bar{r}_{25} = -0.68$ (unweighted), -0.61 (pop-weighted)

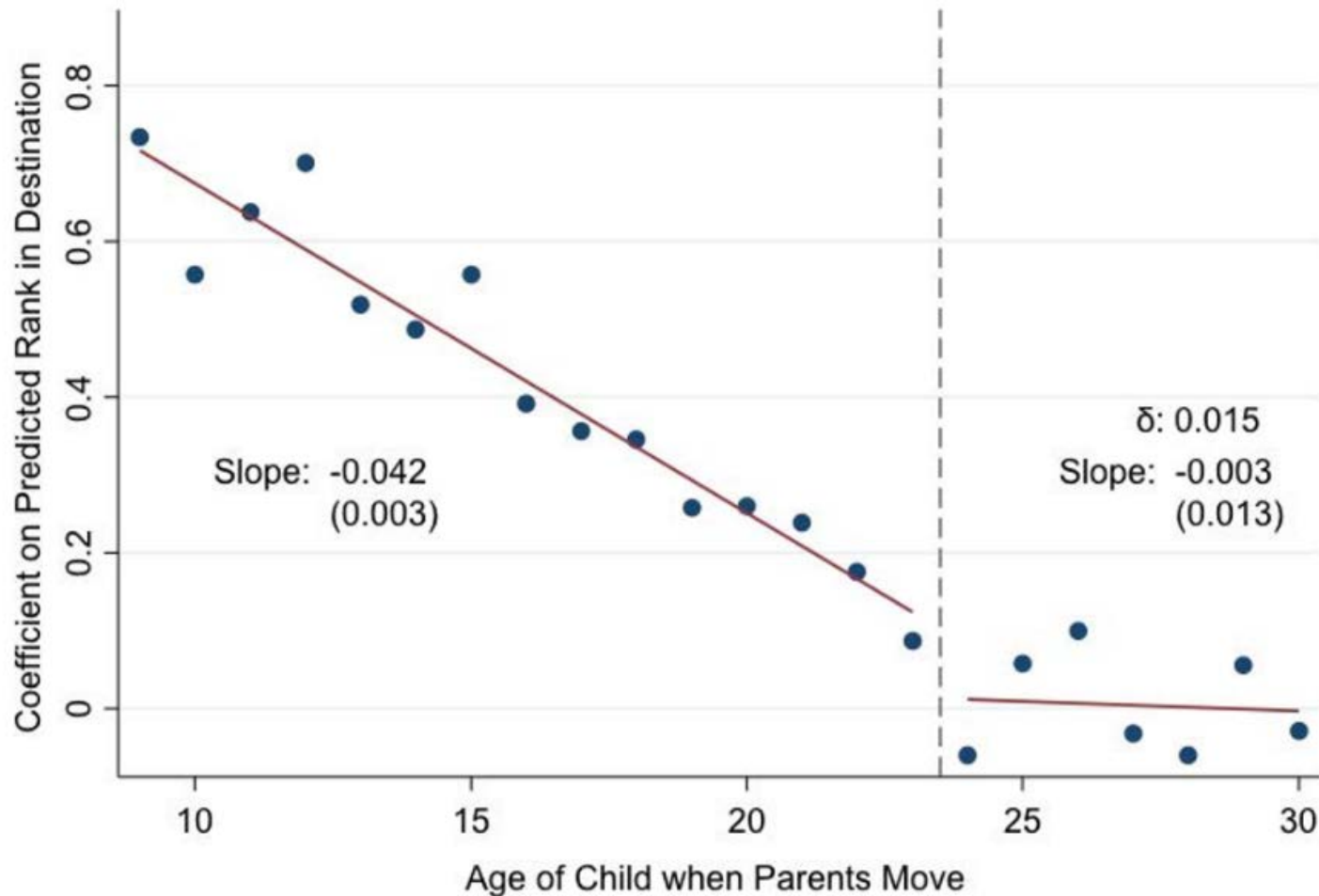
Chetty: Changed the Subject



“[A] key question is why some areas of the U.S. generate higher rates of mobility than others...The main lesson of our analysis is that **intergenerational mobility is a local problem...** (Chetty *et al*, 2013, my emphasis)

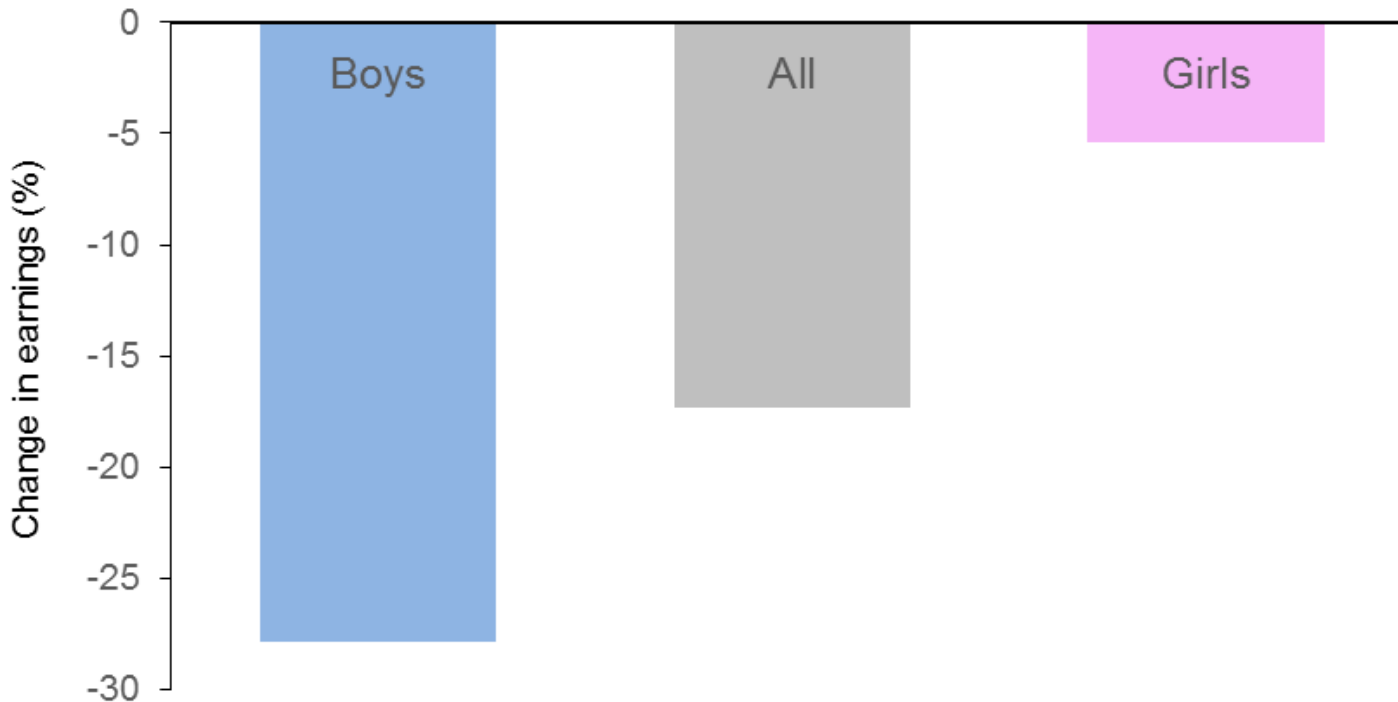
The power of place for mobility

B. Family Fixed Effects and Time Varying Controls



....especially for boys

Causal effects on earnings of children born in low-income families (25th percentile)
Baltimore City, MD



Source: Chetty and Hendren 2015.

BROOKINGS

Winnick (1966) v. Place-based policy

- Dislocation: zero-sum game
- Poorly targeted
- Politically motivated and short-term: "Policies directed toward people rather than places are no doubt the right medicine, but they work too slowly" (for politicians)
- Better to plainly compensate (redistribute) than mess with the economy

Why should you care about Scranton?



Why might you care about Scranton?

- *Option value*: “the very frequency of migration makes individuals care what kinds of places will be available for them to move to, and they will value the option of moving to certain kinds of places.” (Bolton, 1992)
- *Pure existence*: like that it’s there
- *Donor*: redistribution to individuals to include maintenance of their “sense of place”

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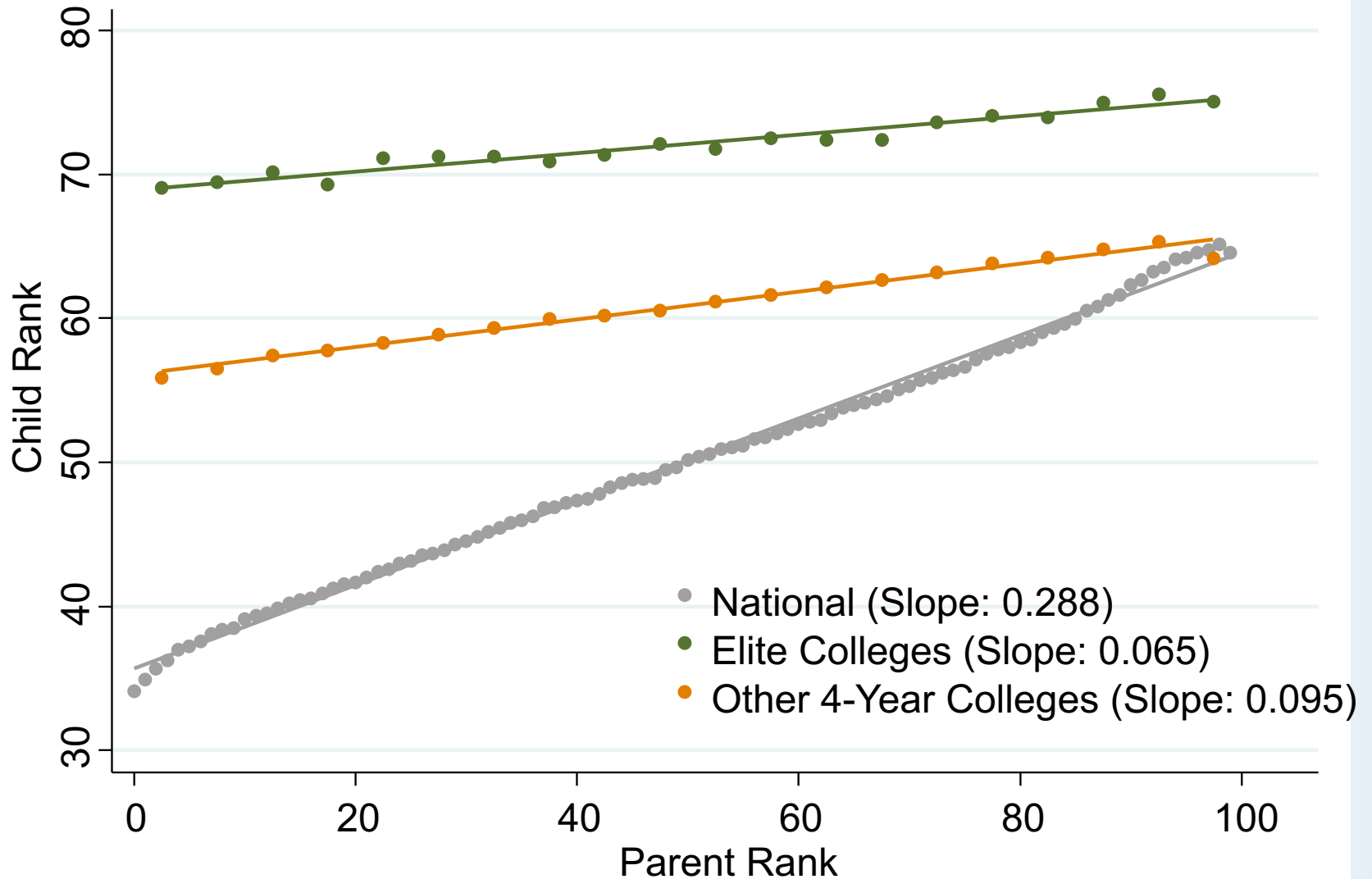
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***THE RISE
OF THE
MERITOCRACY***

Michael Young

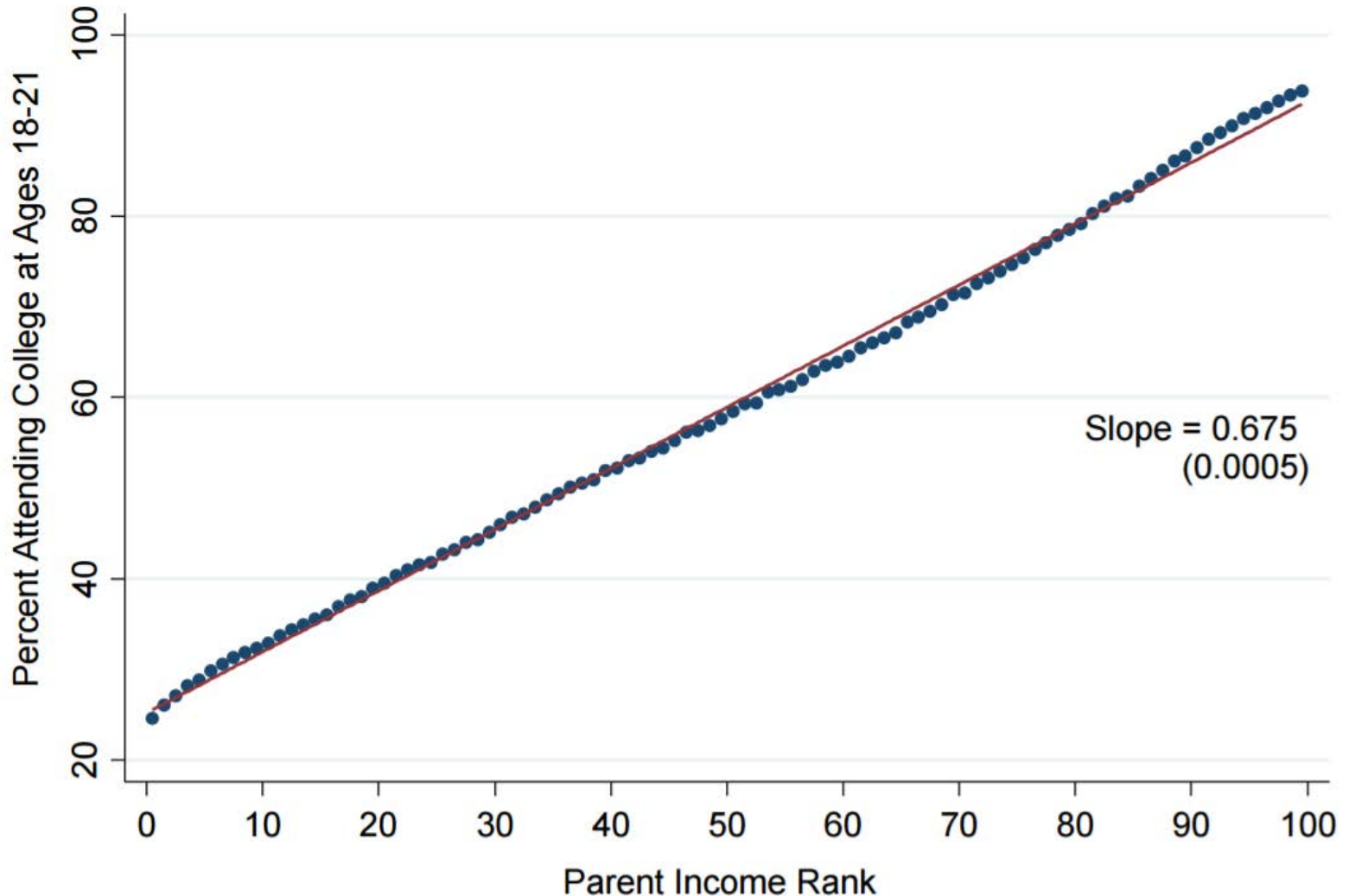
With a new introduction by the author

Mean Child Rank at Age 34 vs. Parent Income Rank (All 4-Year Colleges)

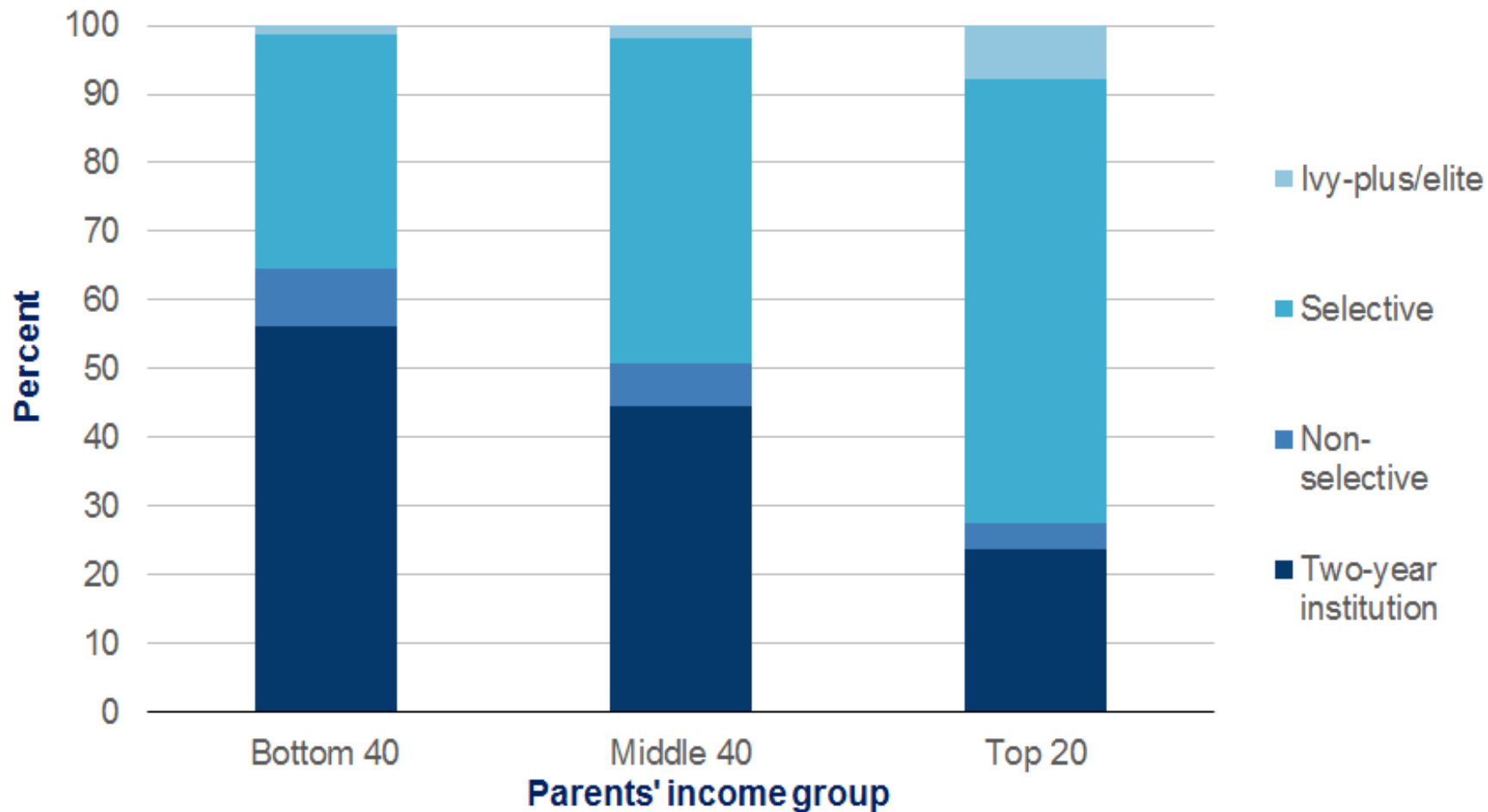


Big Class Gaps in College Going

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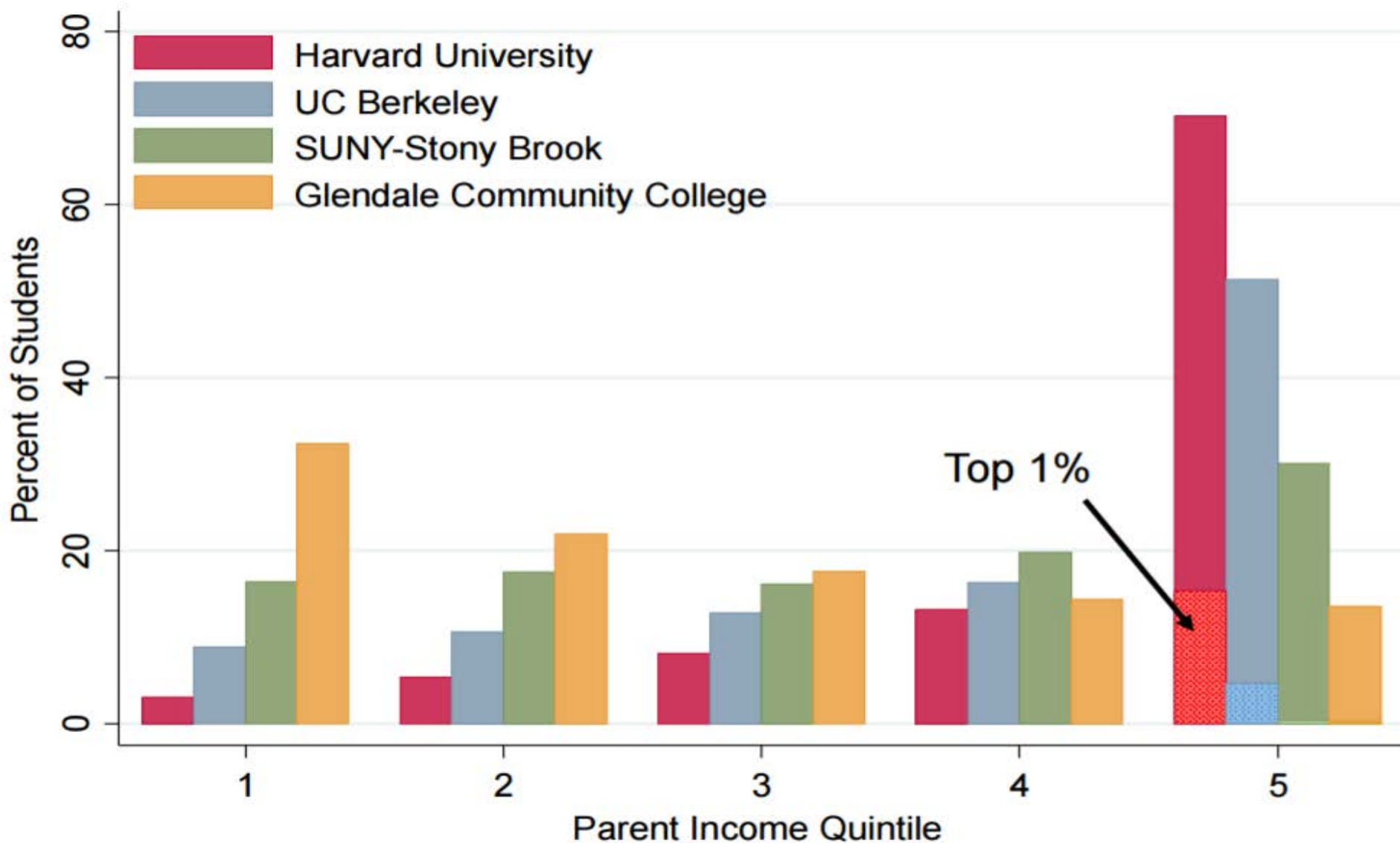


Which college? Depends on your class (social class, that is)



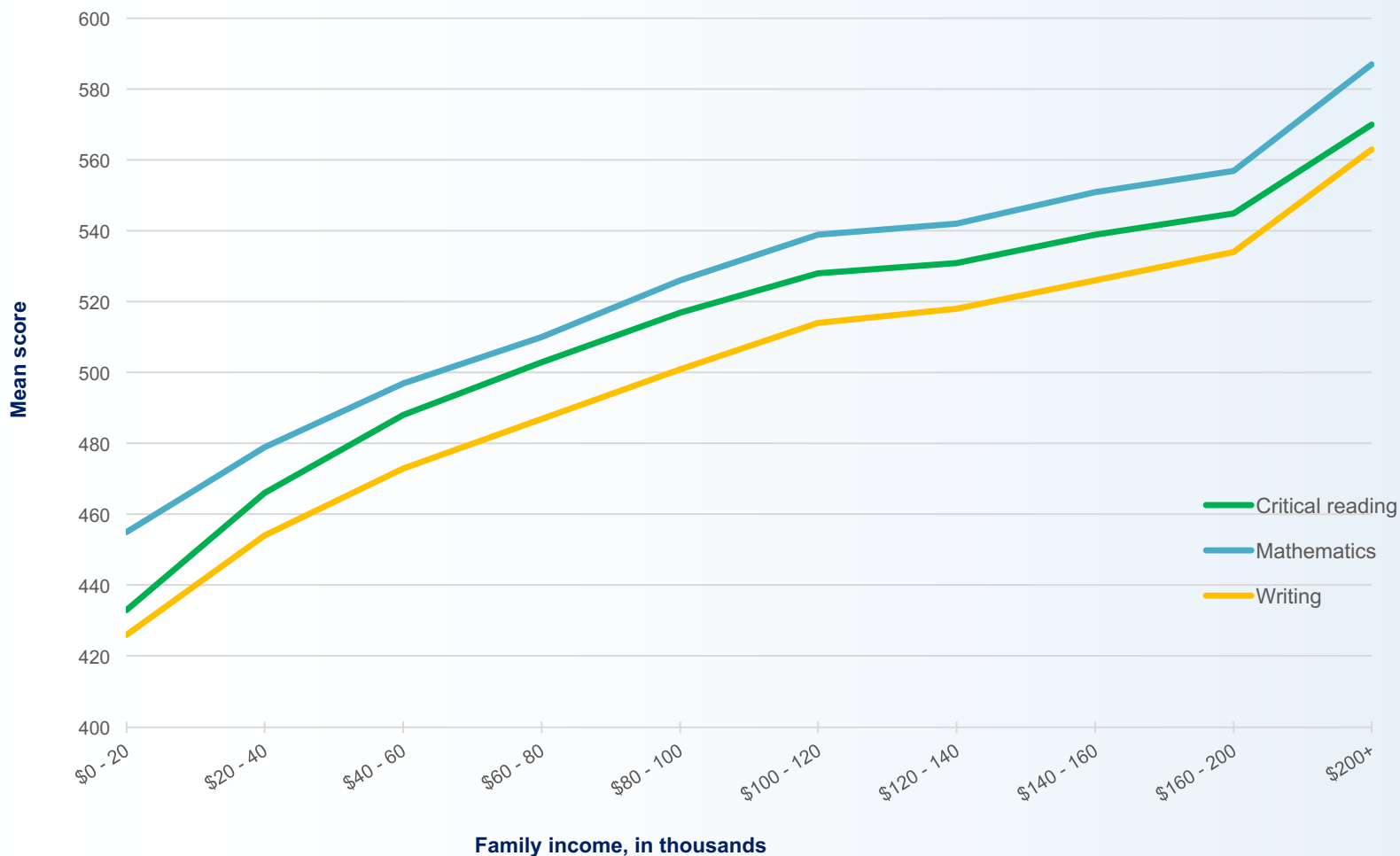
Source: Raj Chetty, John N. Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan. Online Table 4. "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility." The Equal Opportunity Project, 2017. College attendance at age 18-21 (i.e. 2010 to 2013) measured for the 1991 birth cohort.

Class divide in college classes



A "first two decade" challenge

Average SAT scores by family income, 2015



Source: The College Board, "Total Group Profile Report, 2015," <https://secure-media.collegeboard.org/digitalServices/pdf/sat/total-group-2015.pdf>

Williams' Warrior Society



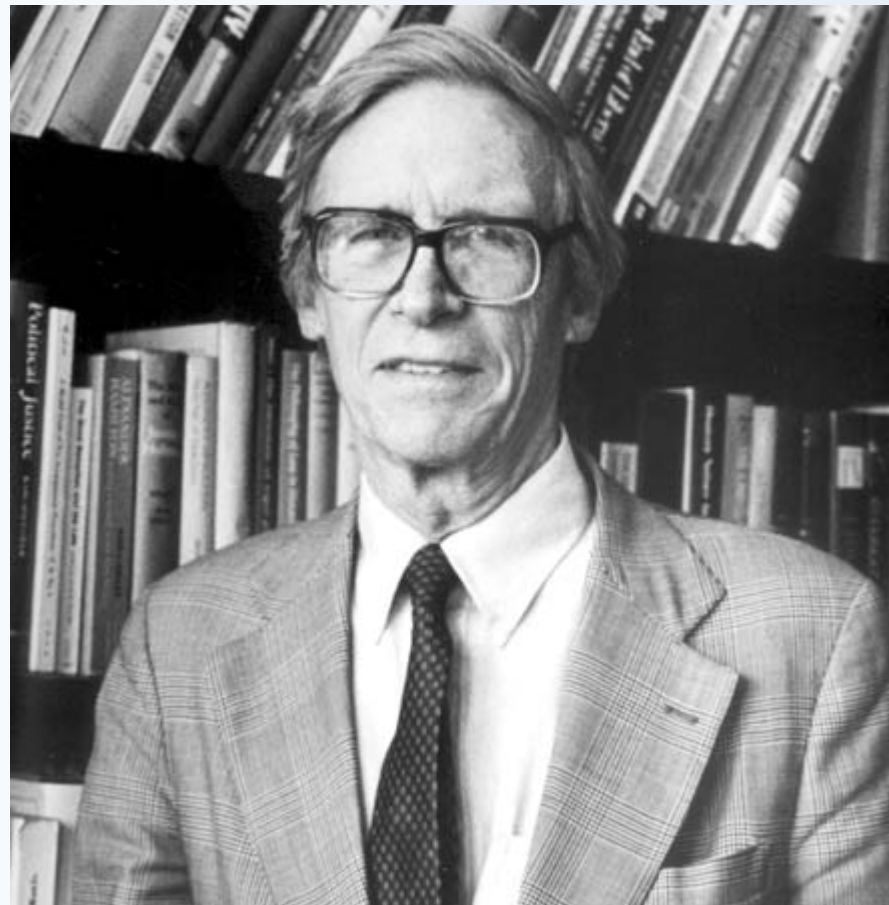
Williams' Warrior Society

“The reformers protest that equality of opportunity has not really been achieved; the wealthy reply that in fact it has, and that the poor now have the **opportunity of becoming warriors** - it is just bad luck that their characteristics are such that they do not pass the test. **‘We are not’**, they might say, **‘excluding anyone for being poor, we exclude people for being weak, and it is unfortunate that those who are poor are also weak’.**” – *Bernard Williams*

America's Test-Taker Society

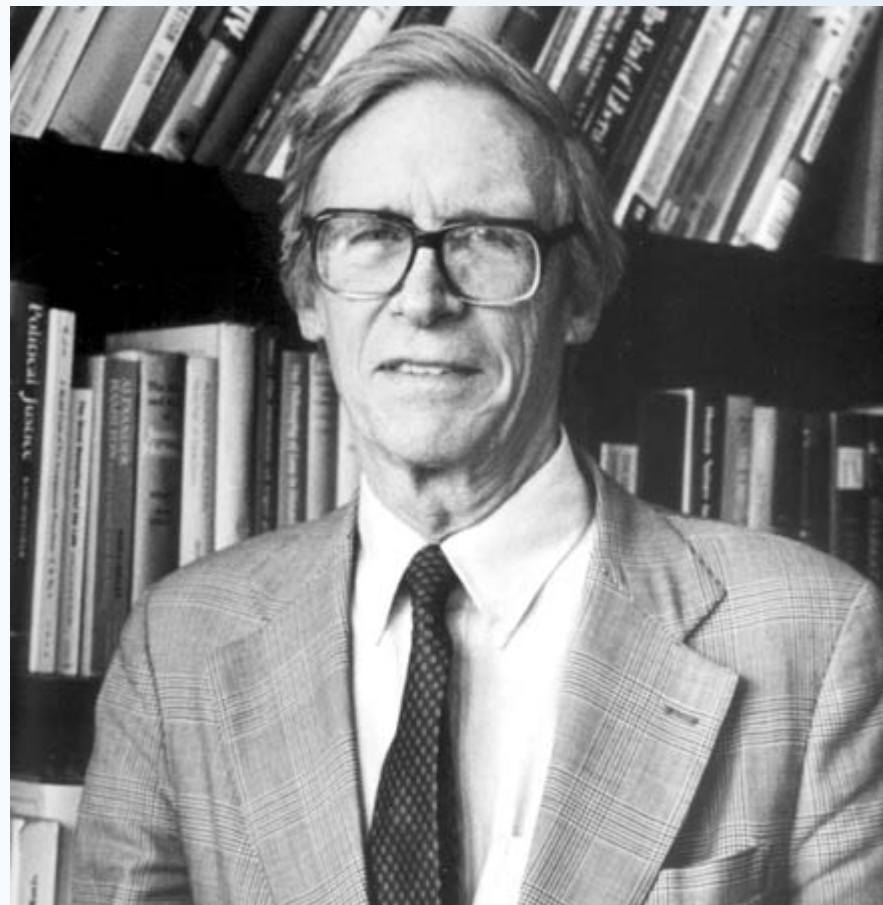
“The reformers protest that equality of opportunity has not really been achieved; the wealthy reply that in fact it has, and that the poor now have the **opportunity of getting good college educations** - it is just bad luck that their characteristics are such that they do not pass the test. ‘**We are not**’, they might say, ‘**excluding anyone for being poor, we exclude people for being dumb, and it is unfortunate that those who are poor are also dumb**’.” – *Bernard Williams (adapted!)*

?



Rawlsian Social Justice: Veil of Ignorance

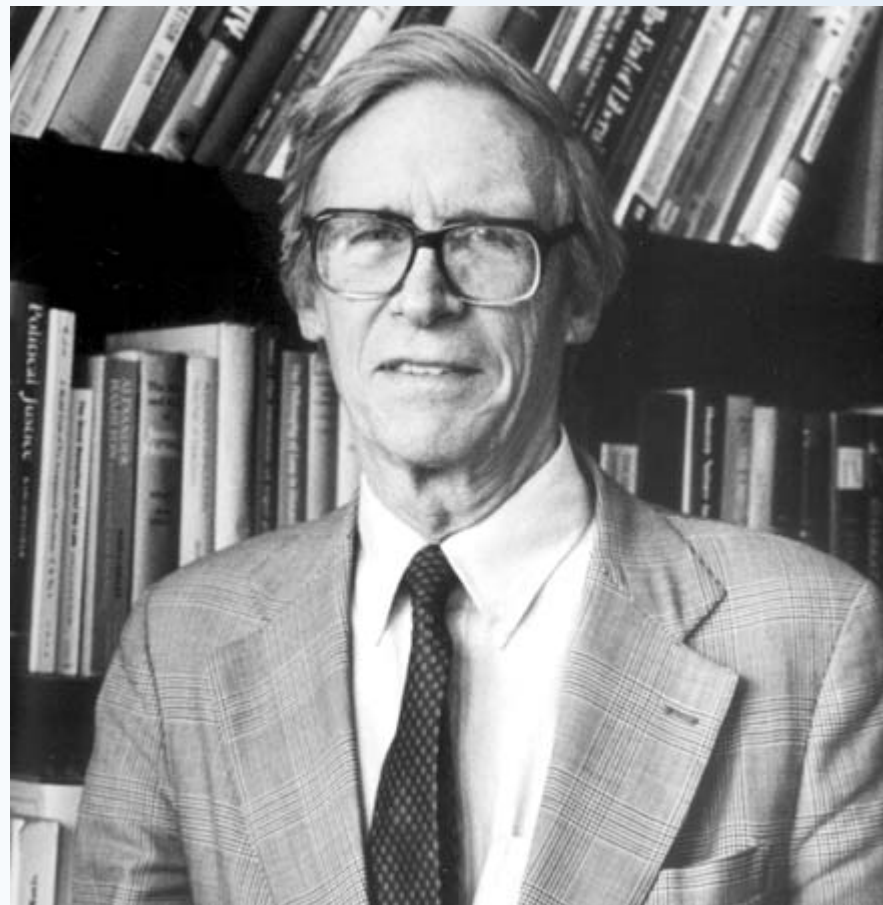
“No one knows his place in society, his class position or social status; nor does he know his fortune in the distribution of natural assets and abilities, his intelligence and strength, and the like.” – Rawls, *Theory of Justice*, p. 118



Rawls (Revised) and Social Mobility

My reformulation of Rawls:

“No one knows his *children’s* place in society, *their* class position or social status; nor does he know *their* fortune in the distribution of natural assets and abilities, *their* intelligence and strength, and the like.”



A *New York Times* reader writes...

Sunday Review | OPINION

Stop Pretending You're Not Rich

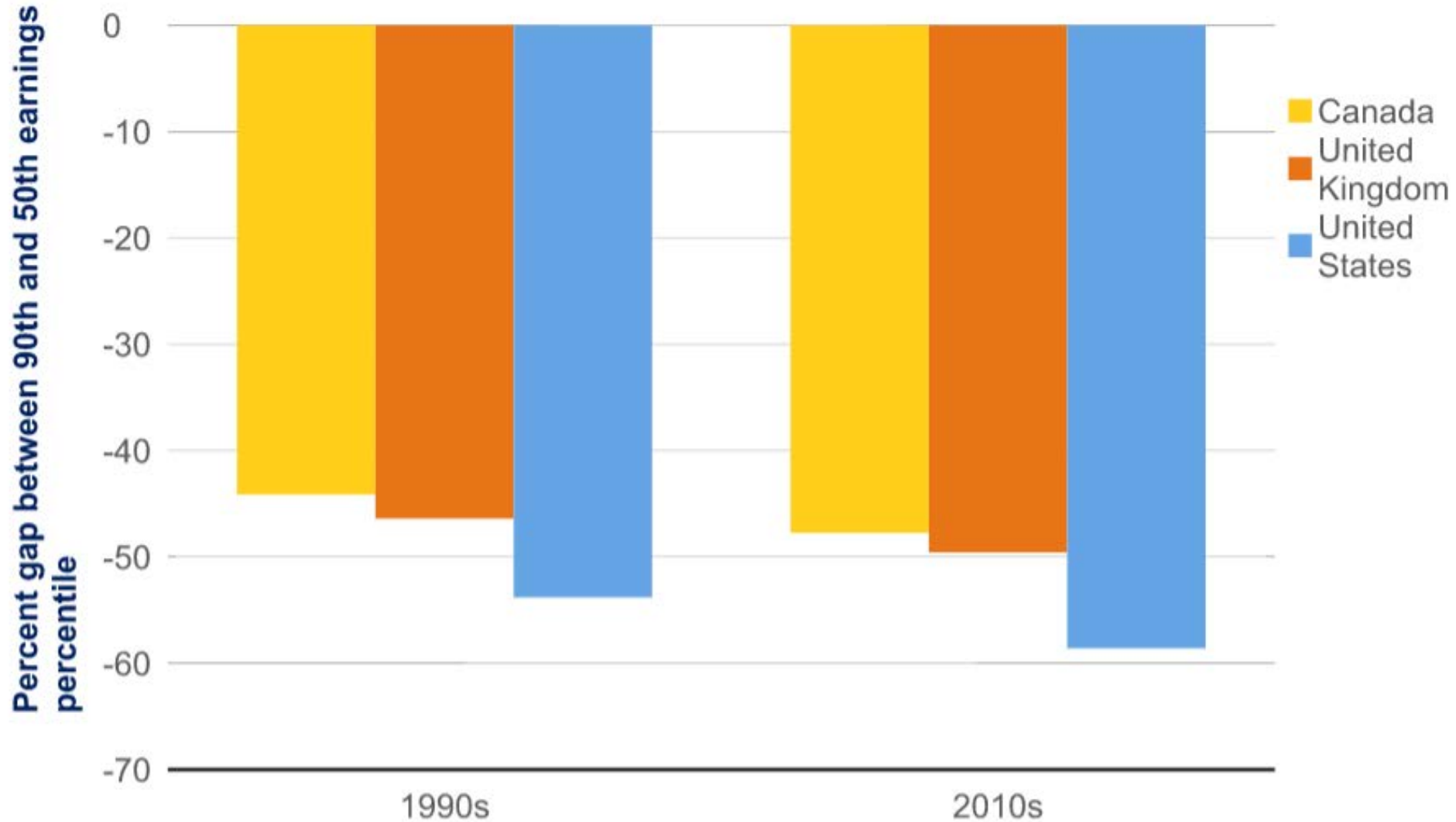
[查看简体中文版](#)

By RICHARD V. REEVES JUNE 10, 2017

“ Parents' desperation to keep their children in the top 20%...is at least partly driven by their fear of what happens in the 21st century to young people who are in the middle or lower: job insecurity, contingent and contract employment, no health insurance, outsourcing, and the rest.”

– “JB” in Oak Park, IL

Further to fall in U.S.A.



Great Gatsby Curve, reversed?

- Inequality widens
- Stakes rise for downward mobility
- Incentives of those the top to maintain their own and their children's position increase
- Which, if successful, leads to lower rates of intergenerational mobility, especially at the top...

Imperfection of Perfect Mobility (Swift)

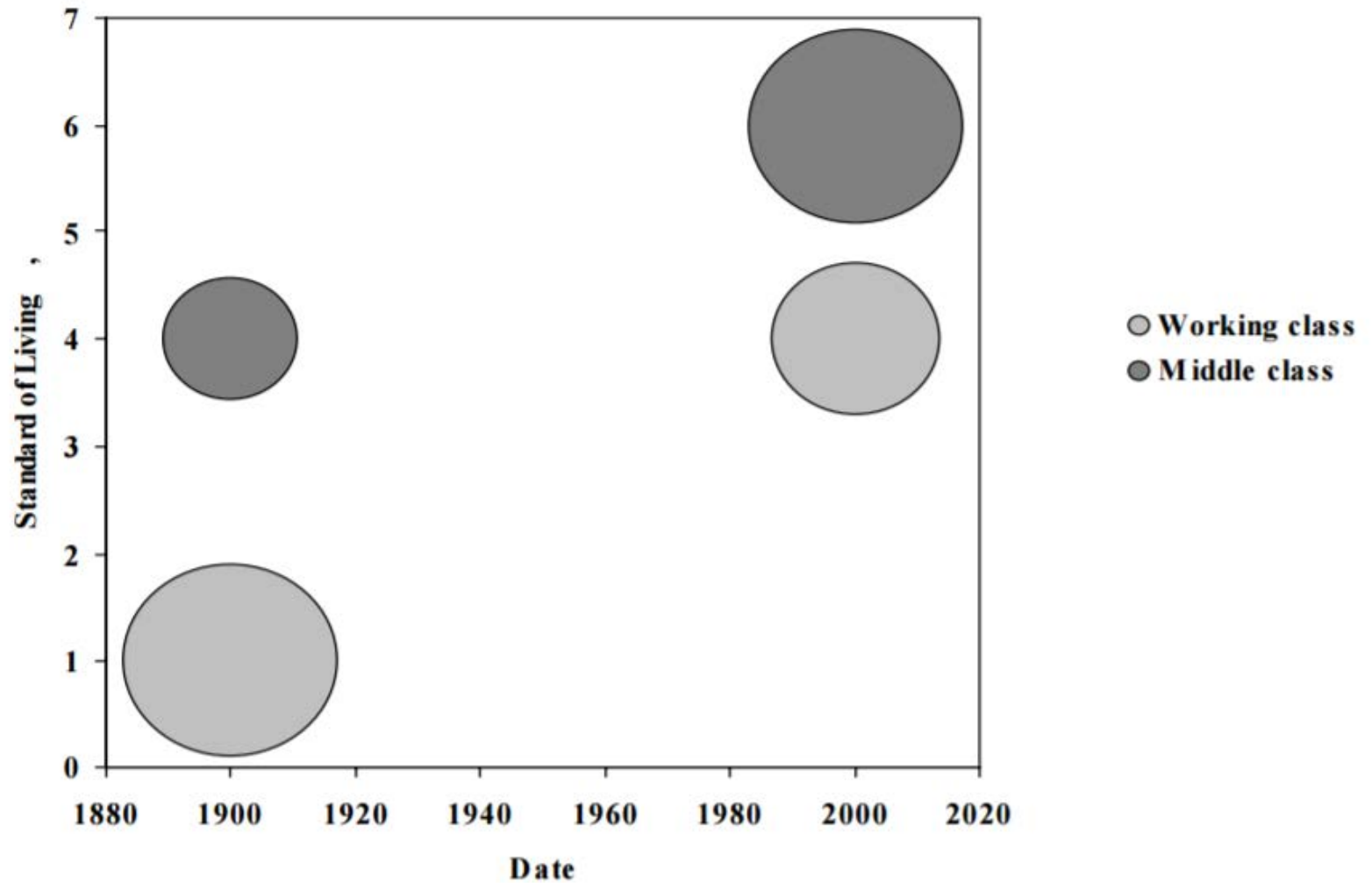
- Odds ratios v. opportunity distribution
- Outcomes v. opportunities
- Free choice v. adaptive preference
- Luck egalitarianism v meritocracy
- Family rights v. equal opportunity

Imperfection of Perfect Mobility (Swift)

- **Odds ratios v. opportunity distribution**
- Outcomes v. opportunities
- Free choice v. adaptive preference
- Luck egalitarianism v meritocracy
- Family rights v. equal opportunity

“Two societies – or the same society at different times - can manifest identical patterns of mobility between class positions, yet distribute other kinds of opportunity in very different ways... *it is chances as opportunities, not chances as statistical probabilities, that matter.* ” – Swift (my emphasis)

Figure 1. Class Sizes and Standards of Living: Hypothetical Changes



Imperfection of Perfect Mobility (Swift)

- Odds ratios v. opportunity distribution
- **Outcomes v. opportunities**
- Free choice v. adaptive preference
- Luck egalitarianism v meritocracy
- Family rights v. equal opportunity

“The data used tell us not about the distribution of *opportunities* as between those of different origins but about the distribution of *outcomes*. It is true that one cannot achieve an outcome without having had the opportunity to achieve that outcome. But the converse does not hold. One can perfectly well have the opportunity to achieve an outcome that one does not in fact achieve.”- Swift (my italics)

Structure

Lecture 1: Class Separation & Immobility

- UMC is separating from the majority
- Inequality endures across generations
- F.E.R.G. (Family, Education, Race, Geography)

Lecture 2: Market Meritocracy & Opportunity Hoarding

- Mechanism 1: Market meritocracy/Education
- Mechanism 2: Opportunity hoarding
- Solving the “I’m Not Rich” problem first

Defining “opportunity hoarding”

- Adapted from Tilly, *Durable Inequality*, 1998
- **Valuable** opportunity for future prospects. Eg. skills, qualifications or contacts
- **Scarce**, in order to be hoarded. (Water is valuable but plentiful.) Ie. “positional goods”,
- Allocated in an **anti-competitive** fashion ie. “with other factors, entirely independent of a person’s individual performance, entering into the equation.”

Opportunity Hoarding: A User's Guide

- Exclusionary zoning
- Legacy admissions
- Internship opportunities

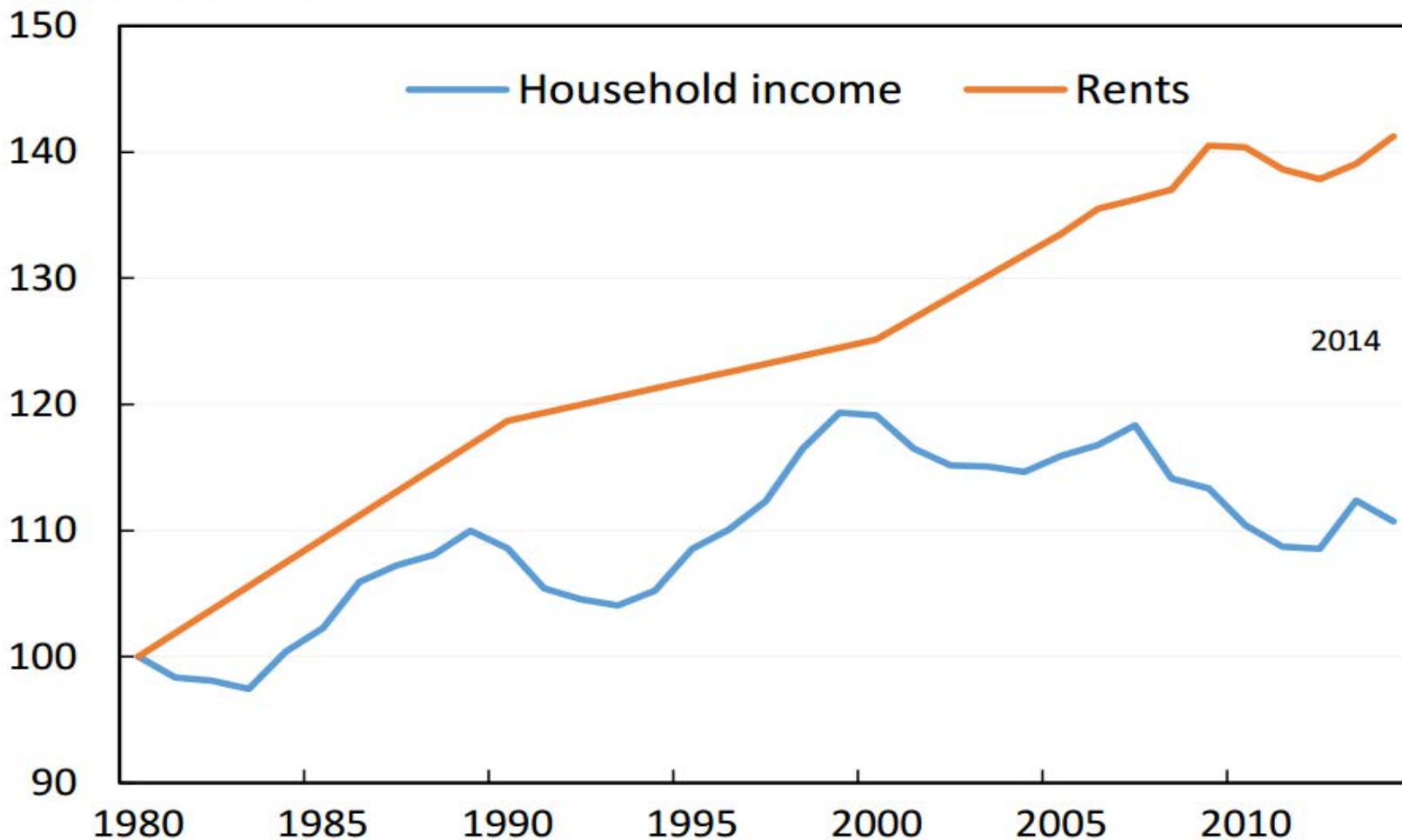
Opportunity Hoarding: A User's Guide

- **Exclusionary zoning**
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- Internship opportunities

The rent is too darned high

Median rents vs. median household income, 1980-2014

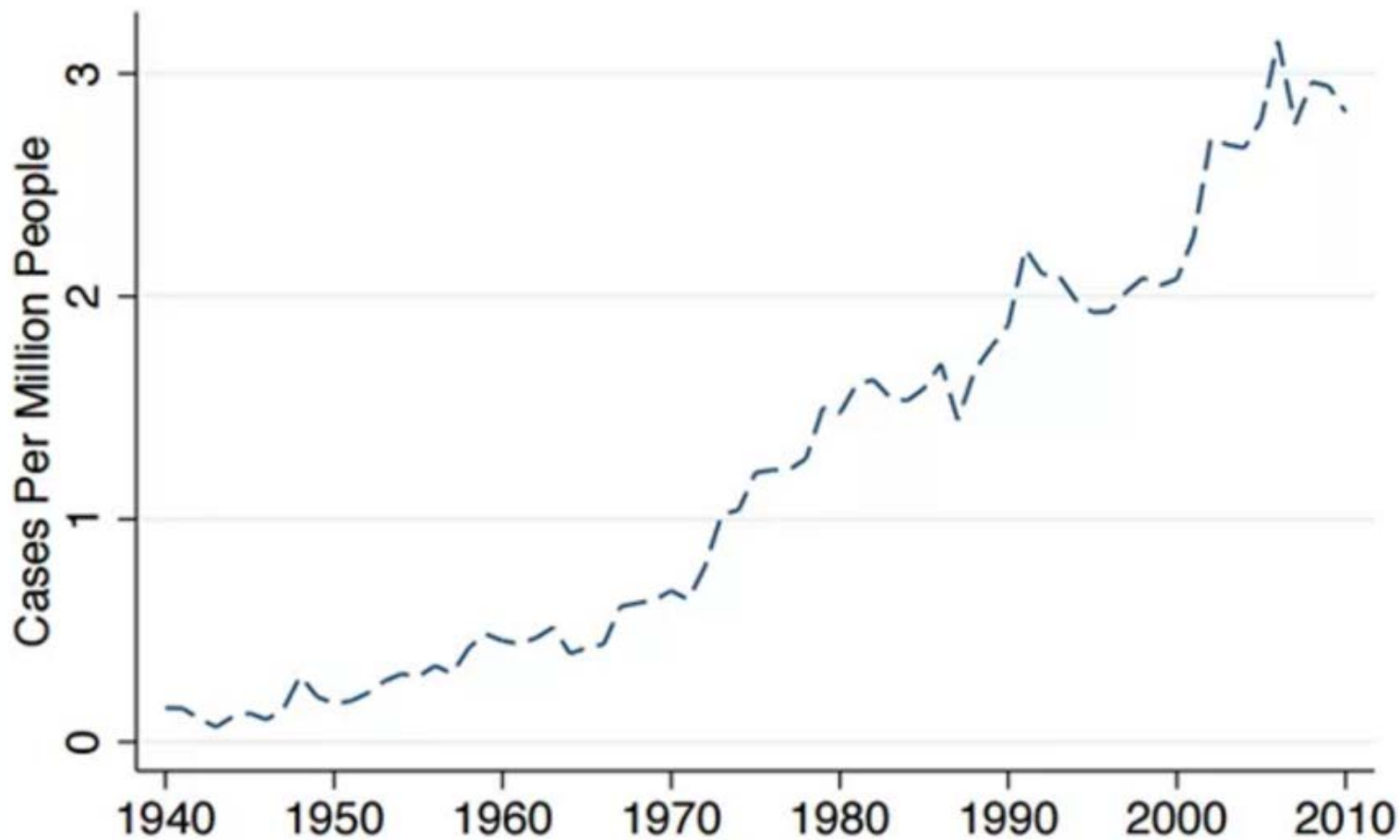
Indexed: 1980= 100



Source: Census Bureau; BLS; Haver; CEA calculations

Maybe because of this?

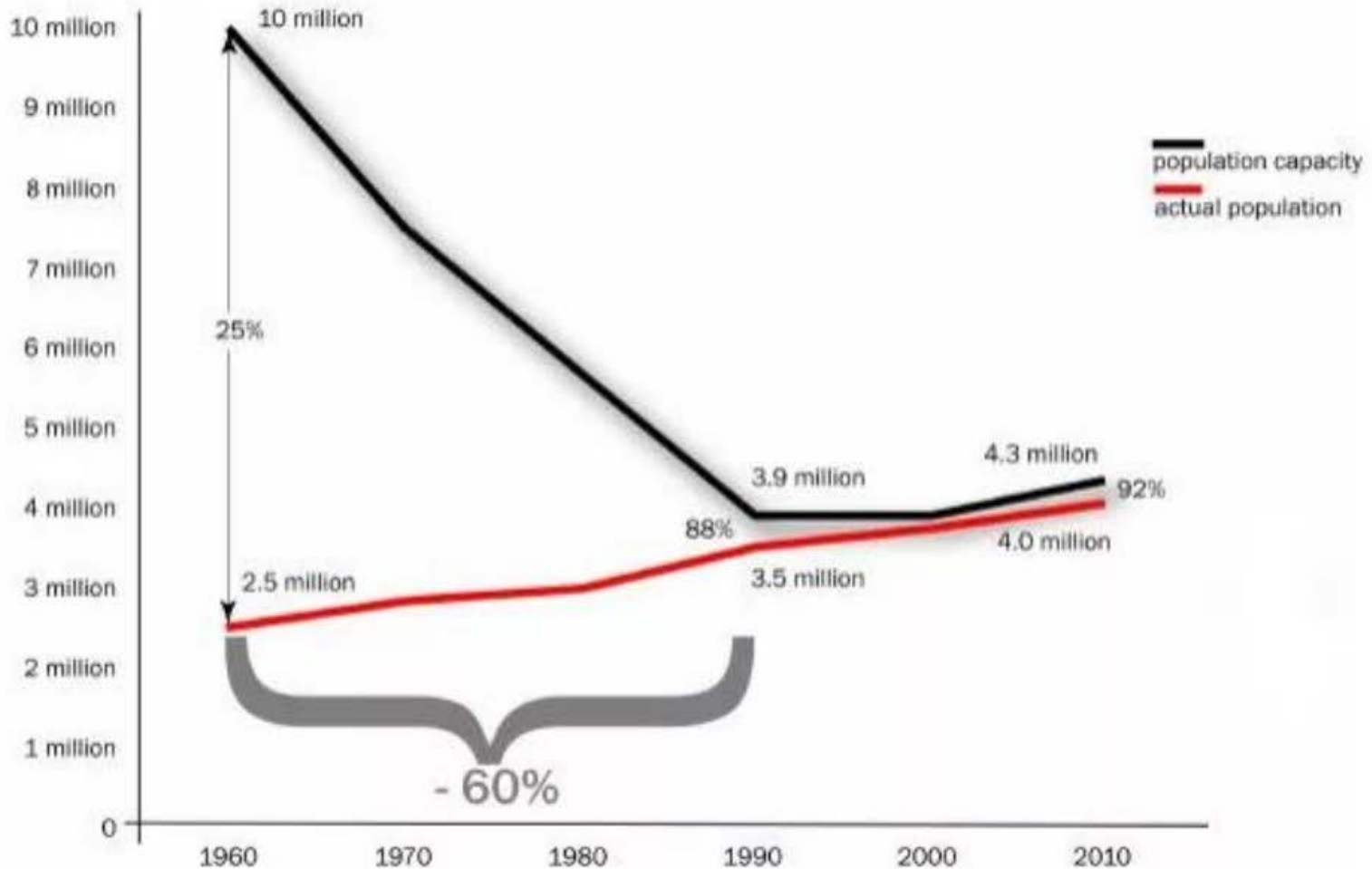
The growing regulation of land use



Source: Peter Ganong and Daniel Shoag, "Why has regional income convergence declined?" Hutchins Center Working Paper 21, July 2016, Figure eight.

Hey, what happened to all that space?

Los Angeles – Zoned Residential Capacity Over Time

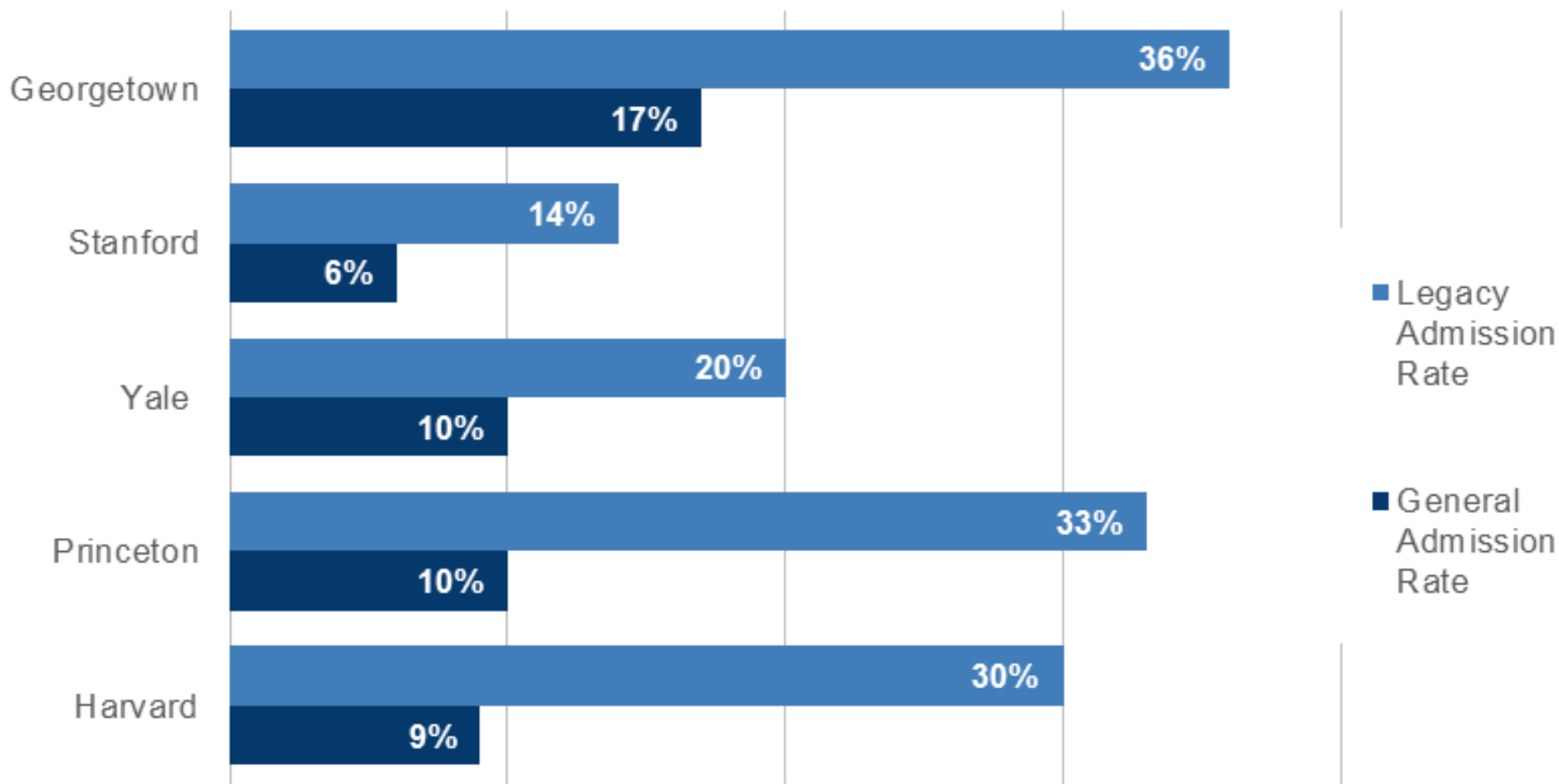


Source: Morrow (2016)

Opportunity Hoarding: A User's Guide

- Exclusionary zoning
- **Legacy admissions**
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Legacies: "A slight tip"?



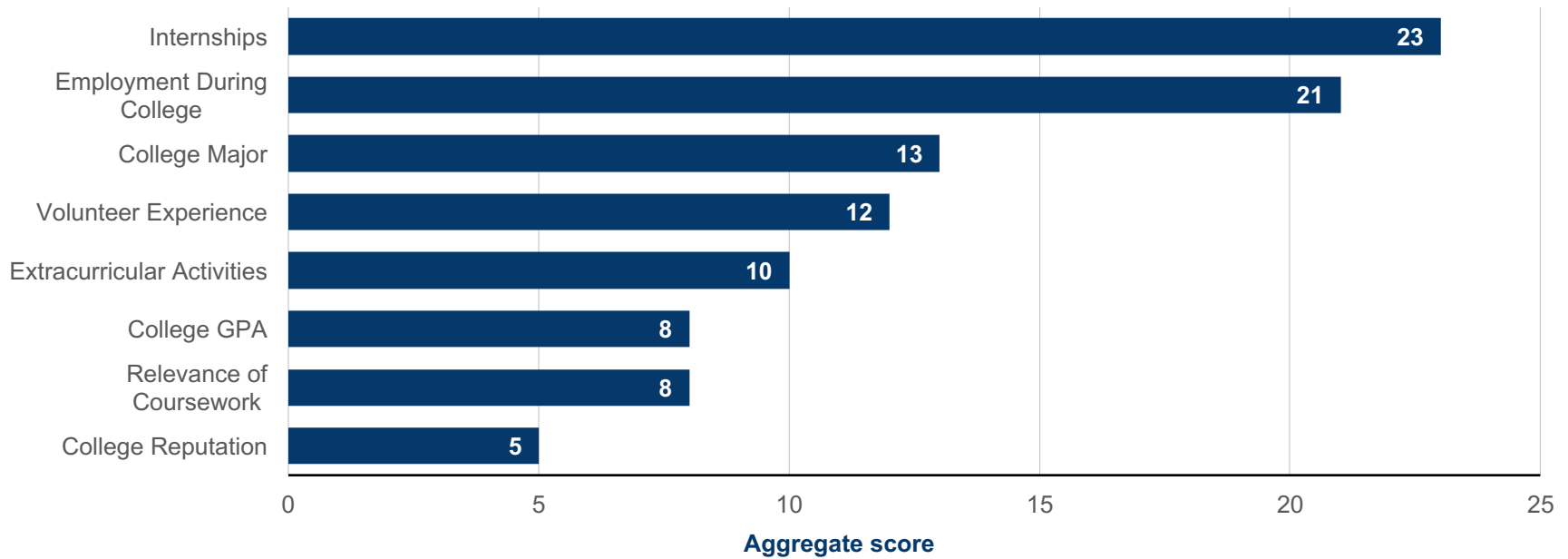
Legacy vs. General Admission Rates

Opportunity Hoarding: A User's Guide

- Exclusionary zoning
- Legacy admissions
- **Internship opportunities**

Internships are valuable

Figure 6.3. Employers Value Internships Most



Source: "The Role of Higher Education in Career Development: Employer Perceptions" *Chronicles of Higher Education*, 2012. (<http://www.chronicle.com/items/biz/pdf/Employers%20Survey.pdf>)

a. Employers were asked "How much weight do you give each of the following educational credentials when you evaluate a recent college graduate's resume? How much weight do you give each of the following types of experience when you evaluate a recent college graduate's resume to see if further discussions are warranted?" Reported importance levels were then weighted by importance of academic vs. experience on hiring of recent graduates to obtain an aggregate score.

Structure

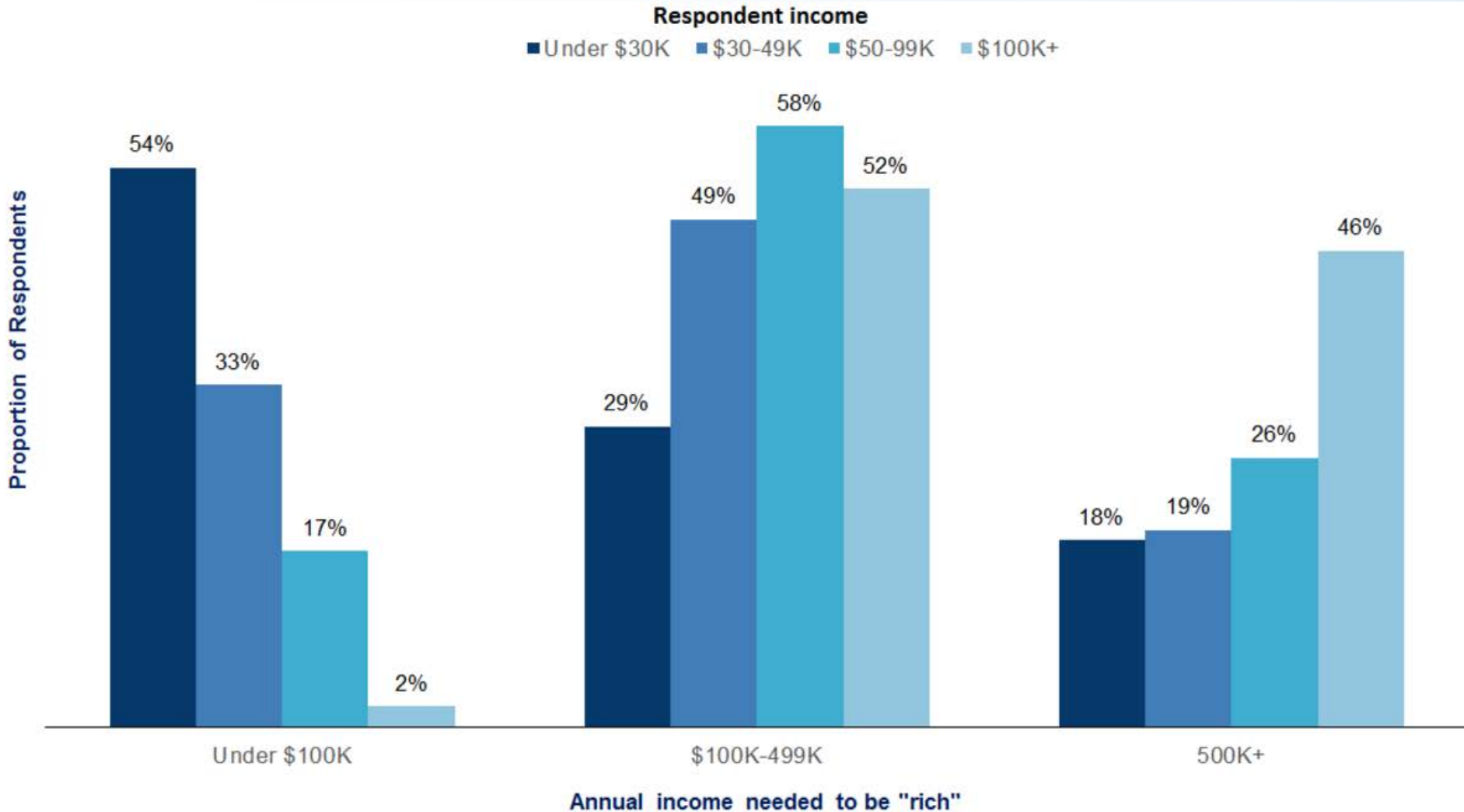
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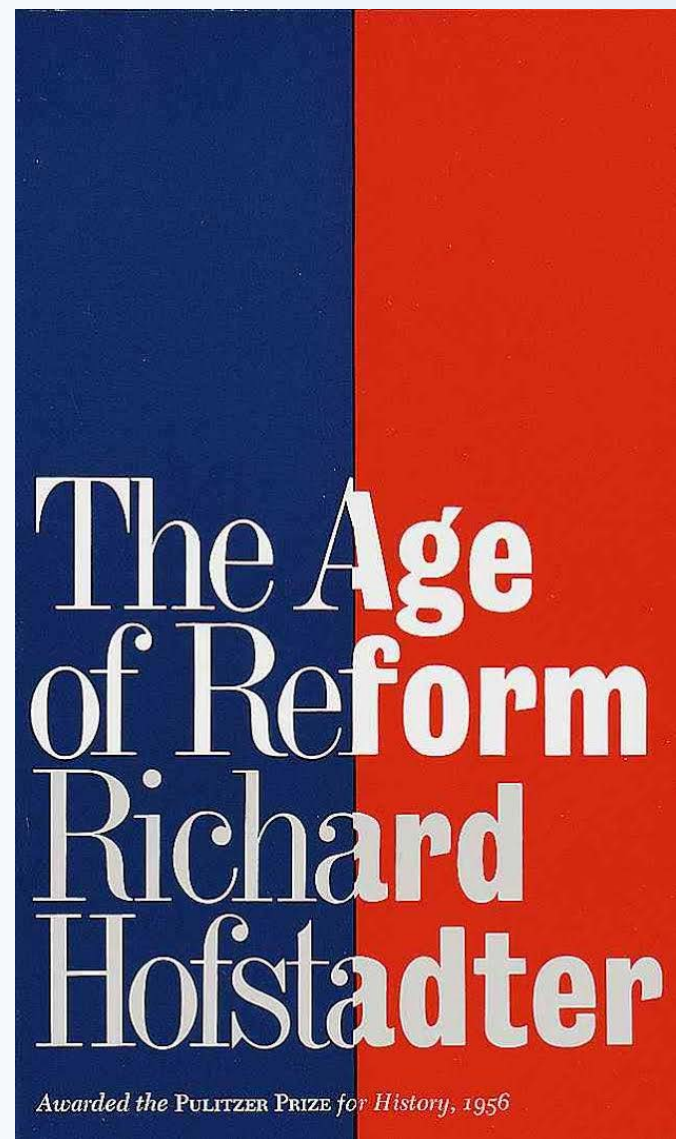
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So, make the "rich" pay! Oh, wait....



“The moral indignation of the age [the Progressive Era] was by no means directed entirely against others. It was in a great and critical measure directed inward. Contemporaries who spoke of the movement as *an affair of the conscience* were not mistaken.”

Richard Hofstadter (my italics)



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