

3-19-2020

America's Unequal Playing Field: The Gaps between Poor and Rich Children's Resources in **The Political Economy of Inequality: U.S. and Global Dimensions**

Mary E. Corcoran

*National Bureau of
Economic Research*

Follow this and additional works at: https://research.upjohn.org/up_press

 Part of the [Income Distribution Commons](#), and the [Social Welfare Commons](#)

Citation

Corcoran, Mary E. 2020. "America's Unequal Playing Field: The Gaps between Poor and Rich Children's Resources." In *The Political Economy of Inequality: U.S. and Global Dimensions*, Sisay Asefa and Wei-Chiao Huang, eds. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, pp. 53-78. <https://doi.org/10.17848/9780880996730.Ch4>
This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.

**The Political Economy
of Inequality**
U.S. and Global Dimensions

Sisay Asefa
Wei-Chiao Huang
Editors

2020

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Names: Sisay Asefa, 1950–, editor. | Huang, Wei-Chiao, editor.

Title: The political economy of inequality : U.S. and global dimensions /
Sisay Asefa, Wei-Chiao Huang, editors.

Description: Kalamazoo : W.E. Upjohn Institute for Employment Research, 2020. |
Includes bibliographical references and index. | Summary: “This book encapsulates
the six papers delivered during the 54th Werner Sichel Lecture Series, held on the
campus of Western Michigan University during the academic year 2017-2018. The
book’s title is taken from the theme for that year’s lecture series, ‘The Political
Economy of Inequality: U.S. and Global Dimensions.’” — Provided by publisher.

Identifiers: LCCN 2020006532 (print) | LCCN 2020006533 (ebook) | ISBN
9780880996716 (paperback) | ISBN 9780880996723 (cloth) | ISBN 9780880996730
(ebook)

Subjects: LCSH: Income distribution. | Income distribution—United States. |
Economic policy. | Retirement—Government policy.

Classification: LCC HB523 .P65 2020 (print) | LCC HB523 (ebook) | DDC
339.2—dc23

LC record available at <https://lccn.loc.gov/2020006532>

LC ebook record available at <https://lccn.loc.gov/2020006533>

© 2020

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

The facts presented in this study and the observations and viewpoints expressed are
the sole responsibility of the authors. They do not necessarily represent positions of
the W.E. Upjohn Institute for Employment Research.

Cover design by Allshouse Graphic Design.

Index prepared by Diane Worden.

Printed in the United States of America.

Printed on recycled paper.

4

America's Unequal Playing Field

The Gaps between Poor and Rich Children's Resources

Mary E. Corcoran

National Bureau of Economic Research

Growing up wealthy in the United States confers advantages over growing up poor, and not just the extra discretionary money that rich parents have to spend on children. On average, children of the rich are more likely to avoid the disruption and trauma, both emotional and economic, from absent fathers due to out-of-wedlock births, divorce, and paternal incarceration. Their home environments are more likely to be educationally enriching. They are more likely to have parents who are college graduates and less likely to have parents who are high school dropouts. They are more likely to be raised in safe neighborhoods with good schools. Rich parents have more money, time, and social capital to invest in children. Given this, it is hardly surprising that rich children fare better economically as adults than do middle-income and low-income children.

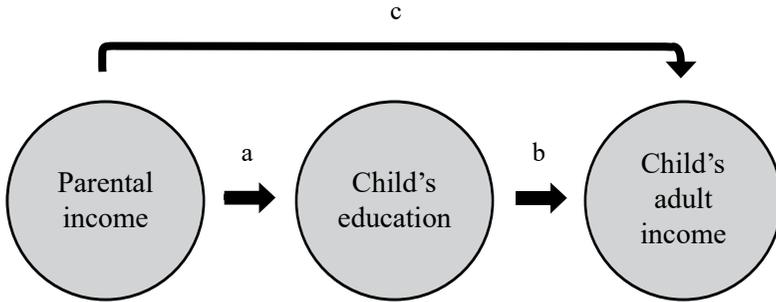
The authors of two recent books, *Whither Opportunity?* and *Dream Hoarders*, warn that the economic and noneconomic advantages of being raised by wealthy parents are increasingly bundled together and are growing rapidly in ways that could imperil the American ideal of fair opportunity (Duncan and Murnane 2011b; Reeves 2017). Since the 1980s, economic changes, demographic changes, and changes in the criminal justice system have widened the gaps between the economic resources and social capital of affluent parents and those of middle-income and low-income families. Over the same period, a college degree has become increasingly important to children's adult economic success. Investing in children's education has become more important for their economic mobility at the same time that gaps were widening

between the resources of affluent parents and those of middle- and low-income parents. This leads to a very real worry: is the cherished U.S. norm of a level playing field—i.e., that a child’s economic origins do not determine his or her economic future—at risk?

This chapter is organized as follows. I begin by presenting a stylized picture of the associations between family income and children’s adult incomes. This is followed by a comparison of the rates of intergenerational economic mobility in the United States to those in other Western industrialized countries. The United States comes off poorly in these comparisons. I then delineate how economic trends, demographic trends, and changes in the criminal justice system since the 1980s have altered the distribution of resources and social capital available to children in low-income, middle-income, and high-income families in the United States, and I document how returns to a college degree have increased since 1980 in the United States. I next review studies showing that parental income more strongly predicts students’ achievement test scores, college attendance, and college graduation today than it did in the past. I conclude by speculating on how the trends and evidence reviewed in this paper might affect equal opportunity in the United States. The background advantages of children from affluent families vis-à-vis the advantages of children from middle-income and low-income families have risen. College education affects a child’s adult economic attainments more strongly now than in the past; and a child’s chance of acquiring a college degree is more tied to parental income now than in the past. Does this inevitably mean that the United States will become more stratified by income? What policy strategies might weaken the link between parental income and children’s adult success?

Figure 4.1 presents a stylized picture of the relationships between family income during childhood, a child’s education, and a child’s adult income. Family income is depicted as influencing a child’s adult income through two distinct paths.

The first path is through education. Parental income is positively associated with children’s education. Higher education, in turn, leads to higher adult income. In Figure 4.1, “a” depicts the association of family income with child education and “b” depicts the association of child education with child adult income. Mechanisms by which high-income parents may improve children’s educational outcomes include buying

Figure 4.1 Intergenerational Income Equality

NOTE: The correlation between parents' income and children's incomes equals $ab + c$, where ab is the indirect effect of parental income on child income through child education and c is the effect of parental income on child income that is independent of child education.

homes in affluent communities with good schools, providing a stimulating environment, tutoring, SAT prep classes, hiring coaches to help students with the college admissions process, and legacy admissions. Parental income is also correlated with other family resources, such as parental education or growing up in a stable home, that are associated with children's educational attainment.

In the second path, family income can affect a child's adult income independently of education. Examples of influences include professional connections, social networks, and income transfers. In Figure 4.1, "c" indicates the association of family income with a child's adult income that is independent of the child's education.

IS THE UNITED STATES MORE MOBILE THAN OTHER COUNTRIES?

Despite the popular notion that the United States is an open and mobile society, it is no more mobile—and, in most cases, is actually less mobile—than comparable Western nations. Jantii (2009) compiled estimates of father-son intergenerational income elasticities for 11 Western

industrialized nations. The sons in these studies were typically born in the 1960s, and their incomes were typically measured over several years between the ages of 30 and 40. So these elasticities provide estimates of intergenerational inequality for men born and raised prior to 1980. Jantii (2009, p. 190) describes intergenerational elasticity as “a measure of the number of percentage points by which a son’s income will increase if a father’s income increases by 1 percent.” The U.S. elasticity of 0.45 is the highest of the 11 countries and is much higher than the father-son elasticities in the Nordic countries, which range from 0.12 in Denmark to 0.28 in Finland.

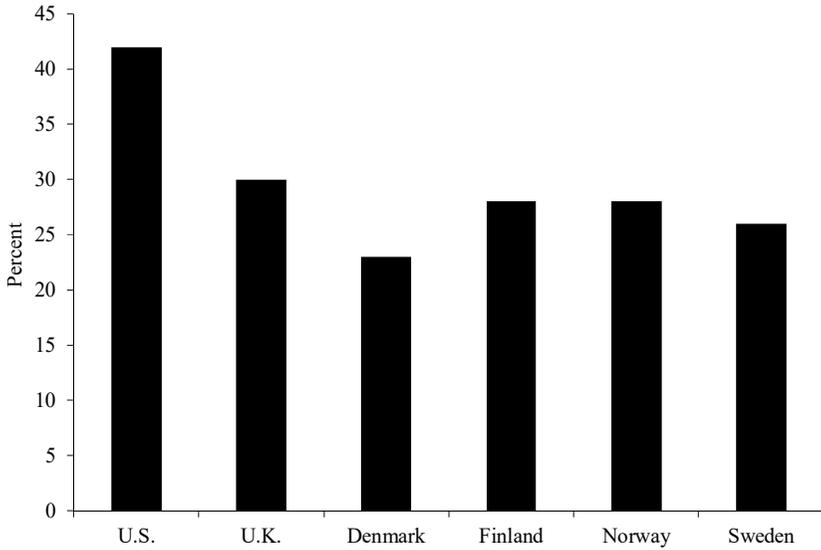
Elasticities tell us about overall rates of intergenerational mobility across countries but do not tell us the extent to which children who grow up in poor families remain poor as adults or the extent to which children who grow up in rich families remain rich as adults. Nor can elasticities tell how likely it is that a poor child grows up to be a rich adult—that is, that the child goes from “rags to riches.”

Jantii et al. (2006) address these questions by estimating mobility matrices for sons’ adult earnings quintiles by fathers’ earning quintiles for six countries. If a society were completely mobile, then a son’s earnings quintile as an adult should be unrelated to that of his father. In this discussion, low earners are men in the bottom earnings quintile, and high earners are men in the top income quintile. Thus, 20 percent of the sons of low earners should be low earners as adults; 20 percent should be high earners; and 60 percent should have earnings that fall in the middle three quintiles. The same should hold true for sons of high earners. In contrast, if a society were completely immobile, then a son should have a 100 percent chance of being in the same earnings quintile as his father.

The bar graph in Figure 4.2 depicts the chances of going from “rags to rags” in six countries—that is, the percentage of sons of low-earning fathers who themselves become low earners as adults. The bar graph in Figure 4.3 depicts the chances of going from “rags to riches”—the percentage of sons of low earners who grow up to be high-earning adults. Figure 4.4 depicts the chances of going from “riches to riches”—the percentage of sons of high-earning fathers who also have high earnings as adults.

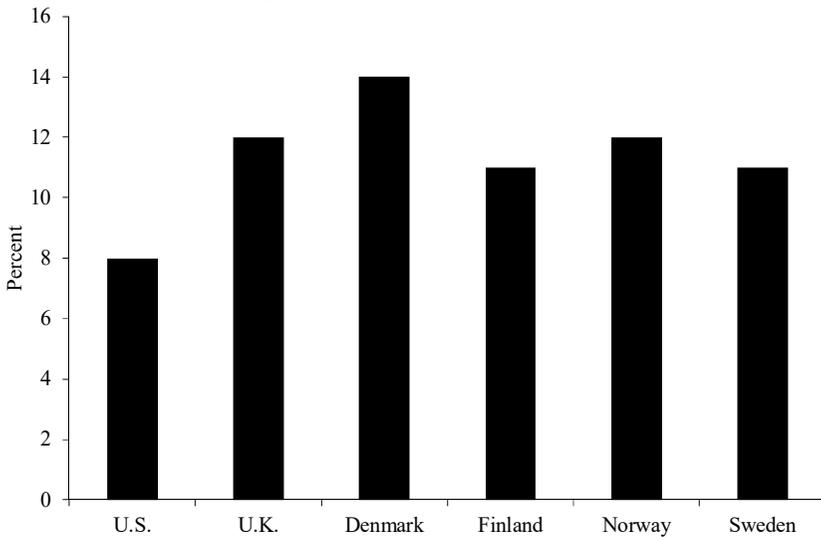
Of these three possibilities, the chances of going from “rags to rags” are highest in the United States, and the chances of going from “rags to

Figure 4.2 Rags to Rags: Percentage of Sons of Low-Earner Fathers Who Are Low Earners as Adults



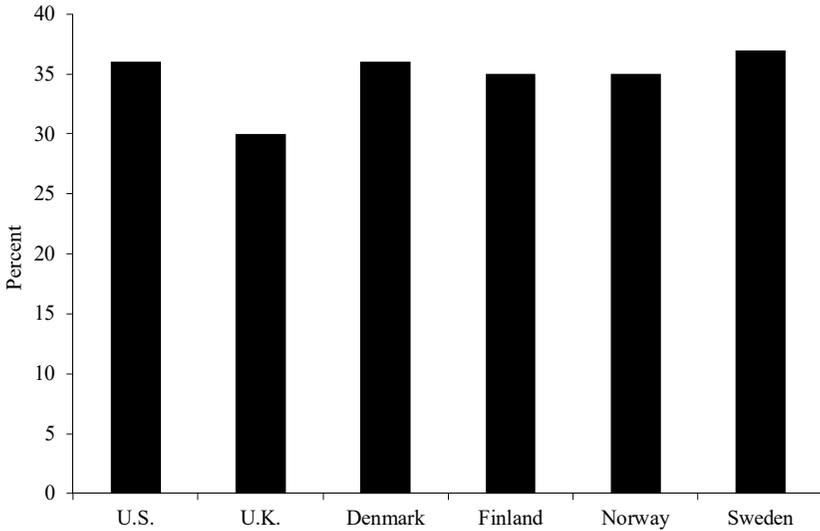
SOURCE: Jantii et al. (2006).

Figure 4.3 Rags to Riches: Percentage of Sons of Low-Earner Fathers Who Are High Earners as Adults



SOURCE: Jantii et al. (2006).

Figure 4.4 Riches to Riches: Percentage of Sons of High Earners Who Are High Earners as Adults



SOURCE: Jantii et al. (2006).

riches” are lowest. The probability that the son of a low-earning father grew up to also be a low earner was 42 percent in the United States, 30 percent in the United Kingdom, and about 25–28 percent in Denmark, Finland, Norway, and Sweden. The probability that the son of a low earner grew up to be a high earner was 8 percent in the United States, 14 percent in Denmark, and 11–12 percent in the other countries. Going from “riches to riches,” on the other hand, was similar across all of these countries: from 30 to 37 percent of sons of high earners grew up to also be high earners as adults.

The Increase in Top Income Shares

Since 1980, income in the United States has become concentrated among the richest households. In 1980, the richest 1 percent of households held 10 percent of all income, and the richest 10 percent of households held about 35 percent of all income (Saez 2016). By 2015, these income shares had increased to 20 percent for the richest 1 percent and

to almost 50 percent for the richest 10 percent of households (Saez 2016).

One result of this increased concentration is that the gaps between the incomes of high-income families and the incomes of low- and middle-income families similarly widened since 1980. Table 4.1 reports on mean income (in 2016 dollars) of families in the top, middle, and bottom income quintiles in 1980 and in 2016. (Families are defined as households that include two or more related individuals.) The mean income of families in the bottom quintile increased by a mere \$300 (1.6 percent) between 1980 and 2016, from \$17,900 in 1980 to \$18,200 in 2016. The mean income of families in the middle income quintile rose by \$11,600 (12 percent), from \$61,400 in 1980 to \$73,000 in 2016. In contrast, the mean income of families in the top quintile rose by \$101,700 (73 percent) over the same period, from \$137,800 in 1980 to \$239,500 in 2016. As a consequence, the dollar gap between the mean incomes of high-income (top quintile) and low-income (bottom quintile) families almost doubled, from about \$120,000 in 1980 to about \$221,000 by 2016. The dollar gap in the mean incomes of middle-income families and high-income families also almost doubled, rising from about \$76,000 in 1980 to about \$147,000 by 2016.

Wealth Inequality

Wealth inequality is far greater than income inequality. In 2013, the households in the top wealth quintile controlled 89 percent of all wealth, and households in the top income quintile controlled 67 percent of all income (Wolff 2014). In a review of recent research on wealth inequality in the United States, Pfeffer and Schoeni (2016) identify

Table 4.1 Mean Family Income (2016 dollars) by Quintile, 2016 and 1980

	Bottom income quintile	Middle income quintile	Top income quintile
2016 (\$)	18,200	73,000	239,500
1980 (\$)	17,900	61,400	137,800
Change (\$)	300	11,600	101,700
Change (%)	< 2	12	73

NOTE: "Family" is defined as a household with two or more related individuals.

SOURCE: Table was computed by author from Census Bureau Table F-3, "Mean Income Received by Each Fifth and Top 5 Percent of Families."

two avenues by which parental wealth improves children’s economic futures: 1) by increasing chances of college graduation and 2) through direct cash or in-kind transfers.

Wealth inequality, like income inequality, has risen over time (Pfeffer and Schoeni 2016; Wolff 2014). Pfeffer and Gross (2018) examine the distribution of wealth among households with children under the age of 18 between 1989 and 2013. Over those 25 years, the percentage of all wealth held by the wealthiest quintile of such households rose from 80.2 percent in 1989 to 90.3 percent in 2013, while the wealth share of the bottom 50 percent dropped from 2.3 percent to 0.2 percent.

Table 4.2 reports dollar changes (in 2013 dollars) in net worth between 1989 and 2013 for households with children at the 90th, 50th, and 10th percentiles. The net worth of families at the 90th percentile rose by \$295,000 (from \$529,600 to \$824,600) over those 25 years. In contrast, the net worth of the median family dropped by \$24,700, from \$67,700 to \$43,000, and the net worth of families at the 10th percentile dropped from zero to a negative \$6,300, meaning they went into debt.

Trends in Income-Based Residential Segregation

One way in which high-income, wealthy parents can promote children’s economic futures is by buying homes in high-income, safe communities with good schools and good public services. At the same time that gaps in families’ incomes and wealth were getting bigger, neighborhoods were becoming more segregated by family income. Fry and Taylor (2012) computed the proportion of census tracts that were majority low income and majority high income.¹ The percentage of high-income households who “lived mainly among themselves” (p. 1) doubled from 9 percent in 1980 to 18 percent in 2010. The percentage

Table 4.2 Net Worth (in 2013 dollars) of Families with Children at the 10th, 50th, and 90th Wealth Percentiles in 1989 and 2013

	10th	50th	90th
2013	−6,300	43,000	824,600
1989	0	67,700	529,600
Change (\$)	−6,300	−24,700	295,000

SOURCE: Pfeffer and Gross (2018).

of low-income households who lived mainly with other low-income households rose from 23 percent in 1980 to 28 percent in 2010.

Richard Reeves (2017) points out that income-based residential segregation can inhibit intergenerational mobility in two ways. First, richer communities have bigger tax bases and can allocate more money to public schools. Second, “economic sorting at the neighborhood level leads to social activity in terms of schools, churches, and community groups. This means fewer interactions and social ties across social classes” (Reeves 2017, p. 106). That is, children who reside in predominantly low- and moderate-income neighborhoods will have less access to mobility-enhancing social and job networks.

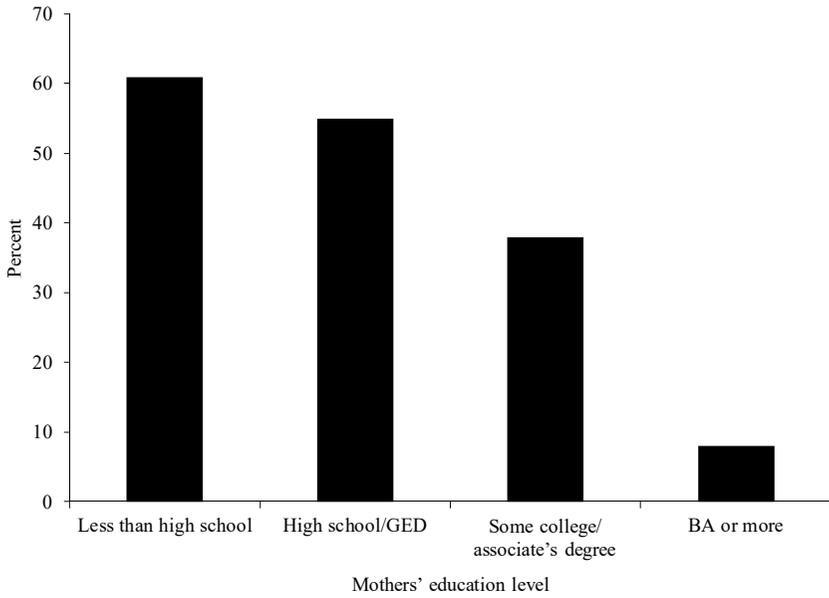
The College Wage Premium

The college wage premium (the ratio of median earnings of a college graduate to the median earnings of those with only a high school diploma or GED) rose steadily from 1.4 in 1980 to 1.84 in 2011 (James 2012). As a result, two parental advantages, 1) parental income and 2) parental education, have become more correlated over time. The correlation between parental income and parental education rose from about 0.5 for parents whose children were born in 1960 to almost 0.8 for parents whose children were born in 2001 (Reardon 2011).

The Decoupling of Marriage and Fertility for Women without a College Degree

McLanahan (2004) claims that in the United States, economic trajectories have diverged for children whose mothers are college graduates versus children of women with less schooling, in large part because marriage and fertility have become increasingly decoupled for women without a college degree in recent decades (see also Edin and Kefalas [2005]). Out-of-wedlock births have risen sharply since the 1960s for women without a college degree. In 2009, more than half of all births to women with a high school diploma or less, and 38 percent of births to women with some college, occurred out of wedlock; in contrast, only 8 percent of births to women with a four-year college degree occurred outside of marriage (see Figure 4.5).

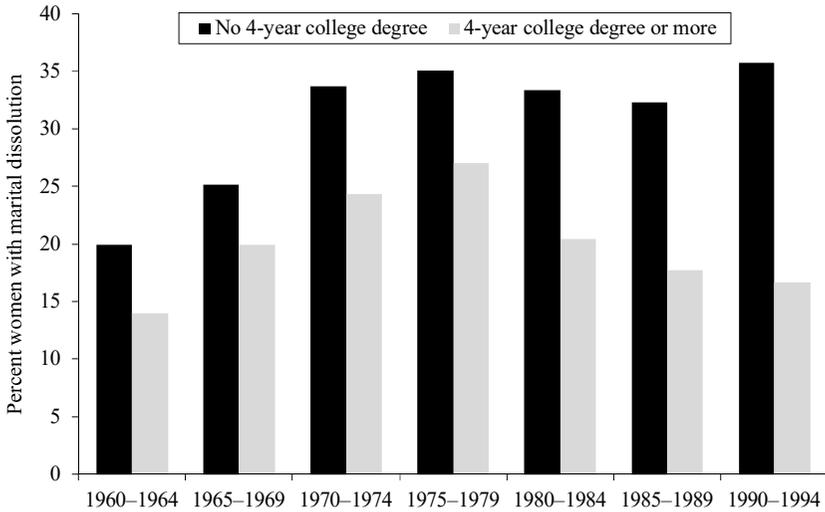
Figure 4.5 Percentage of Births Occurring outside of Marriage (to Women 18 and Older) by Women’s Education in 2009



SOURCE: Stanford Center on Poverty and Inequality, “Teaching Slides on Inequality,” from 2012.

Women college graduates also have more stable marriages than women with less schooling, and this advantage has widened in recent decades (McLanahan 2004). Figure 4.6 reports trends in divorce rates within the first 10 years of a first marriage, by year of marriage, for wives with and without four-year college degrees. For marriages contracted in the 1960s and 1970s, divorce rates grew both for wives with and without college degrees. Divorce rates then stabilized for wives without a bachelor of arts degree (BA) and dropped for wives with a bachelor of arts degree who married in the 1980s to mid-1990s (Martin 2006).

The decoupling of marriage and fertility among mothers without college degrees, and the increase in marital stability among wives with college degrees, means that children of college graduates are now much more likely to grow up in an intact home with both biological parents than are children of mothers with less schooling. This has implica-

Figure 4.6 Divorce and Educational Attainment

NOTE: Rates reflect marital dissolution within 10 years of a first marriage.

SOURCE: Martin (2006).

tions for the amount of time and money parents can devote to children. Because two-parent families have two potential earners, they typically have higher incomes than do single-parent families. Moreover, the income advantage of being raised in a two-parent household has grown since the 1980s. Increases in the labor-force participation of mothers with BAs and increases in assortative mating are two reasons for this growth.

Harsher Sentencing Policies

Analysts only recently began to analyze the impacts of parental incarceration on children's emotional, intellectual, and financial well-being, perhaps because parental incarceration was considered relatively unusual before the 1980s. This is no longer true. Sizable minorities of men with only a high school diploma and of male high school dropouts will spend some time in prison or jail between age 18 and their early thirties. Many of these young men are fathers at the time they

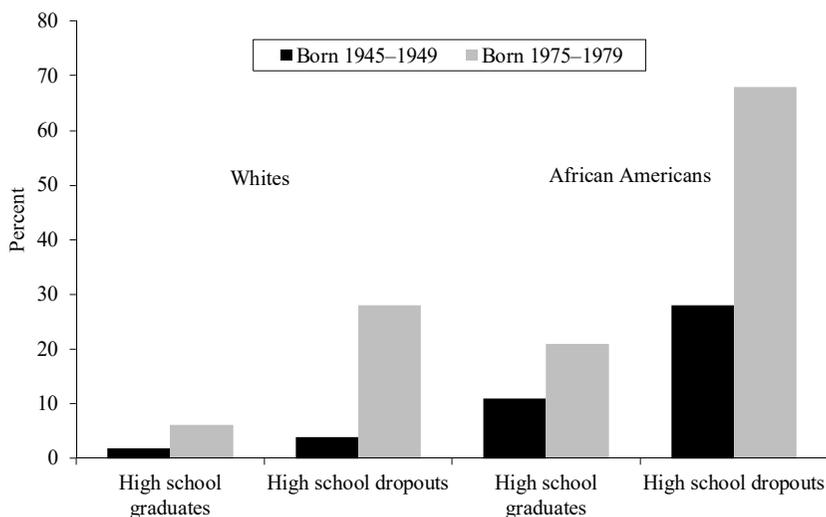
enter incarceration. Prison disrupts these young men's lives just at the point when they should be investing in education, gaining a foothold in the labor market, acquiring career-enhancing labor market experience, and taking on family obligations. It is well documented that incarceration has long-term negative repercussions for ex-prisoners' economic futures, making it hard for them to maintain steady employment, earn a living wage, and support a family (Western 2006).

Having a father go to jail or prison disrupts children's lives. One impact is financial: fathers cannot provide financial support while in prison, and imprisonment severely reduces fathers' earnings prospects after prison. Paternal incarceration disrupts children's lives in noneconomic ways as well. When a father is imprisoned, a child may suffer emotional trauma. Parental relationships are likely to be strained, and parental conflicts may cause children to lose contact with their fathers. Ex-prisoners may not be the best role models for family, work, and responsibility.

Incarceration rates of noncollege men have more than tripled in the United States since 1980. In 2008, 12 percent of young (20 to 34) white male high school dropouts and 37 percent of young African American male high school dropouts were in prison or jail (Western and Pettit 2010).

The above figures only give annual rates of incarceration. A man's chance of being incarcerated at some point between the ages of 18 and 30–34 is much higher. Figure 4.7 compares noncollege men's cumulative risks of imprisonment by ages 30–34 for two birth cohorts: 1945–1949 and 1975–1979. Men born between 1945 and 1949 grew up in the 1950s and 1960s, prior to the rise in incarceration, and turned 30 by 1980. White men in this birth cohort were unlikely to have been imprisoned by ages 30–34. The cumulative risks of imprisonment were higher for African American men born between 1945 and 1949: 11 percent of high school graduates and 28 percent of high school dropouts had been incarcerated by ages 30–34. The cumulative risks of imprisonment were strikingly higher for both white and African American men who were born 20 years later, between 1975 and 1979, and who grew up in the 1980s and 1990s, after the rise in incarceration rates. Among men born between 1975 and 1979, the cumulative risks of imprisonment by ages 30–34 were 6 percent for white high school graduates and 21 percent for African American high school graduates. Cumulative risks

Figure 4.7 Men's Cumulative Risk of Incarceration by Ages 30–34, by Birth Cohort



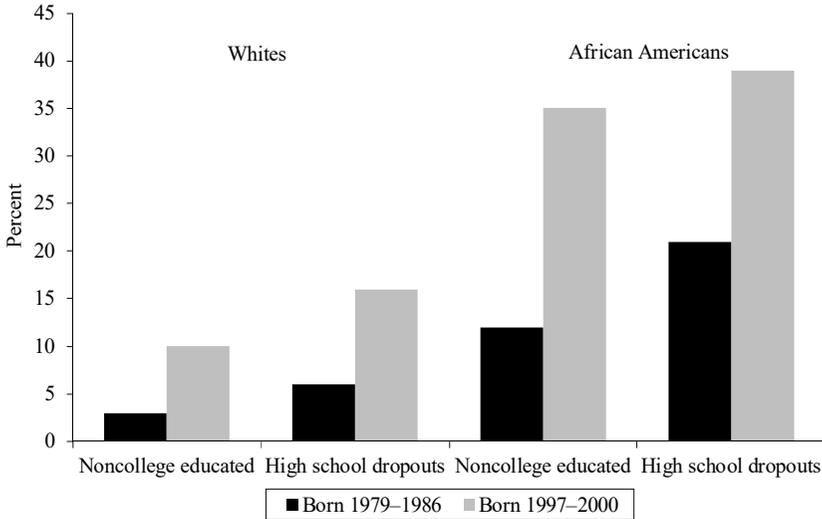
SOURCE: Western and Pettit (2010).

were even higher for high school dropouts: 28 percent for whites and 68 percent for African Americans.

One consequence of rising incarceration rates is that a sizable minority of children of less-educated men have a parent who has been in prison or jail. Wildeman (2009) computes the cumulative risk of paternal imprisonment by the time a child turns age 5 for two birth cohorts of children: 1979–1986 and 1997–2000 (see Figure 4.8). Cumulative risks were higher for children born from 1997 to 2000. For this cohort, the cumulative risks of paternal imprisonment for children of men with a high school diploma or less education were 10 percent for whites and 35 percent for African Americans. Cumulative risks of paternal imprisonment for children of male high school dropouts were 16 percent for whites and 39 percent for African Americans.

These high percentages are a worry. In a review of research on how paternal incarceration affects child outcomes, Murphey and Cooper (2015) compare the incidence of adverse childhood experiences for children who ever had a residential parent incarcerated to that for chil-

Figure 4.8 Cumulative Risk of Paternal Incarceration by Age Five for African American and White Children, by Paternal Education and Birth Cohort



SOURCE: Analyses by Wildeman (2009, p. 275, Table 6) using NLSY79 and NLSY97 data sets.

dren who never had a residential parent incarcerated (see Table 4.3). Fully half (50 percent) of children with an incarcerated parent had experienced a family breakup, 1 in 10 (10 percent) had experienced the death of a parent, 3 in 8 (37 percent) had witnessed or been a victim of domestic abuse, 1 in 3 (33 percent) had witnessed or been a victim of neighborhood violence, more than 1 in 4 (28 percent) had resided in a household with someone who had a substance abuse problem, and more than half (55 percent) had resided in a household with a mentally ill or suicidal person. Each of these adverse childhood experiences was relatively rare for children who never had an incarcerated parent. Haskins (2016b) notes that “paternal incarceration has been found to increase aggression, depression, anxiety, attention problems, and delinquency in young boys and adolescent men.” Haskins (2016a) shows that paternal incarceration is negatively associated with boys’ cognitive development in middle childhood.

Table 4.3 Children with Incarcerated Parents Suffer More Adverse Childhood Experiences (%)

	Incarcerated parent	No incarcerated parent
Divorce/separation	57	17
Parental death	10	3
Domestic abuse	37	5
Witnessed/experienced neighborhood violence	33	7
Substance abuse of household member	28	7
Mentally ill/suicidal household member	55	7

SOURCE: Murphey and Cooper (2015, p. 7, Figure 2).

Gaps in Parental Investments in Children by Parental Income

To recap briefly, the gaps in the spending power, income, and wealth of affluent families versus other families have gotten bigger since 1980. Families at the top of the income distribution control much larger shares of income and wealth relative to families at the middle and bottom of the income distribution. And family advantages are more bundled together now than in the past. Communities are more segregated by income. Parental income, parental wealth, and parental education are more correlated. The majority of children whose mothers have a college degree will grow up in intact families with both biological parents. The majority of children whose mothers do not have a college degree will spend some time in a single-mother home. The cumulative risk of paternal incarceration by the time a child is five years old for children whose fathers have at most a high school education is considerably higher for black children than for white children.

At the very same time that parental advantages have become more bundled together at the top of the income distribution and parental disadvantages have become more bundled together at the bottom of the income distribution, the payoff to a college degree has doubled. It has become increasingly necessary for parents to invest in their children's education. Economic success depends more on a college degree today than it did in 1980.

Unfortunately, as Reardon (2013) points out, although all parents have incentives to invest in improving their children's cognitive skills, changes in income and wealth concentration have put high-income

parents in a better position to afford such spending increases. Reardon notes that while parents at every income level have increased their investments in time and money on cognitively enriching activities for children over the past three to four decades, “middle-class and poor families . . . are not doing so as quickly or as deeply as the rich.”

Duncan and Murnane (2011a) compare the annual spending of high-income and low-income parents on children’s enrichment activities from 1972 to 2006. They note that such enrichment goods and services include books, computers, private-school tuition, music lessons, travel, and summer camps. Spending by high-income parents rose 150 percent, from \$3,928 in 1972 to \$9,856 in 2006, while spending by low-income parents rose by only 57 percent, from \$927 in 1972 to \$1,460 in 2006.² The dollar gap between the spending of high-income parents and the spending of low-income parents rose from about \$3,000 in 1972 to \$8,400 in 2006. Duncan and Murnane warn that the American ideal of a level playing field is in jeopardy. We have seen how education, particularly a college degree, strongly predicts children’s future economic attainments. If the correlations between parental income and children’s educational attainments are increasing, then this could potentially lead to increases in the correlation between parental incomes and children’s later adult incomes.

Associations of Parental Income with Children’s Educational Attainments

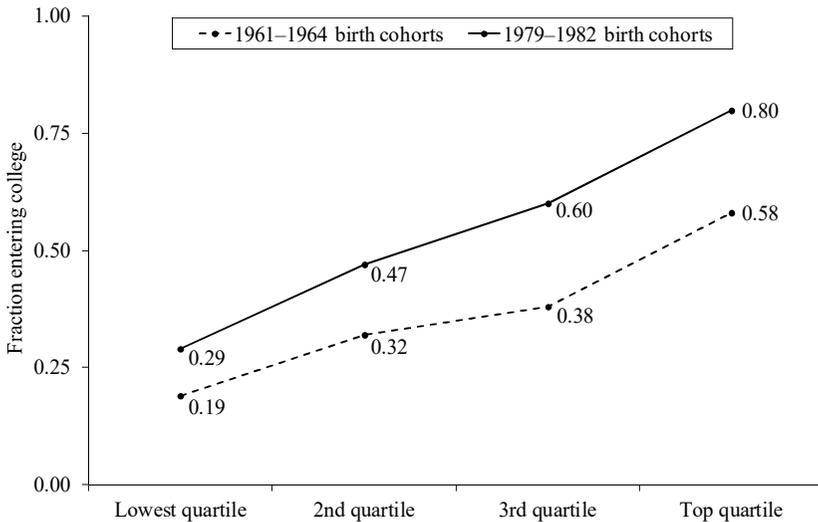
Several recent studies find that parental income became more strongly tied to children’s achievement test scores, college attendance, and college graduation over the past three decades (Avery and Hoxby 2013; Bailey and Dynarski 2011; Reardon 2011, 2013).

Reardon (2011) tracks the standardized reading and math achievement test scores for public school students from families at the 90th, 50th, and 10th percentiles for children born from 1943 to 2001. Students from high-income (90th percentile) families had higher standardized test scores than did students from low-income (10th percentile) families. Students from high-income families also had higher test scores than students from middle-income (50th percentile) families. These gaps in test scores are large, positive, and stable across the 1950–1970 birth cohorts. Then the test-score gaps between high-income

and low-income children (90/10 gap) and between high-income and middle-income children (90/50) rose substantially for children across the 1971–2001 birth cohorts. In contrast, the test-score gap between children from middle- and low-income families (50/10) was relatively constant across the 1971–2001 birth cohorts.

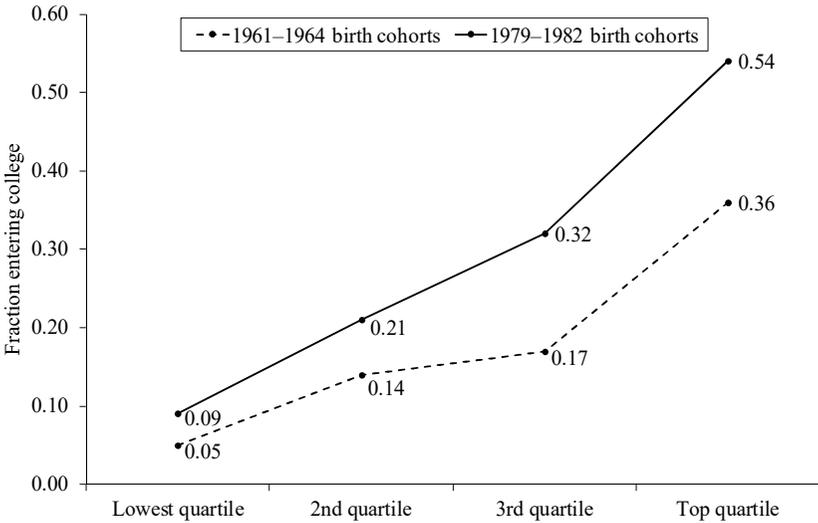
Bailey and Dynarski (2011) compare college attendance and college completion rates by income quartile for students born 1961–1964 to those of students born 18 years later, 1979–1982 (Figures 4.9 and 4.10). As expected, given the big increase in the college wage premium, college attendance rates and college completion rates of students within each quartile increased across cohorts. But absolute percentage-point gains were small for students in the bottom income quartile and large for students in the top income quartile. As a result, gaps in the college attendance and college completion rates of high-income and low-income students grew across cohorts. In the 1961–1964 birth cohort, 5 percent of low-income and 36 percent of high-income students completed college—a gap of 31 percentage points. In the 1979–1982 birth cohort

Figure 4.9 Fraction of Students Entering College, by Income Quartile and Birth Year



SOURCE: Bailey and Dynarski (2011).

Figure 4.10 Fraction of Students Completing College, by Income Quartile and Year of Birth



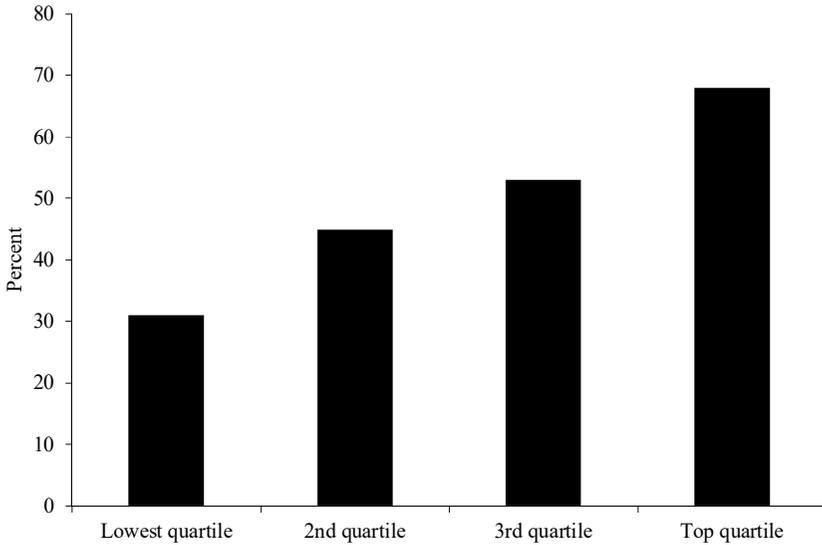
SOURCE: Bailey and Dynarski (2011).

cohort, 9 percent of low-income and 54 percent of high-income students completed college—a gap of 45 percentage points.

A particularly worrying statistic is that in both cohorts, the majority of college entrants from families in the bottom two income quartiles do not complete college, while the majority of college entrants from the upper quartile do complete college (see Figure 4.11). For example, in the latter cohort, two out of three college entrants from the top income quartile completed college. In contrast, less than half of entrants from the second income quartile and less than one out of three college entrants from the bottom quartile graduated from college.

A college degree is important for economic success, but not all colleges confer equal wage advantages. Colleges vary in selectivity, and selectivity matters for future income (Hoekstra 2009; Long 2008). Reardon, Baker, and Klasik (2012) report the family incomes of students who entered selective colleges in 1982, 1992, and 2004. They report that students from the top income quintile were overrepresented in selective colleges in 1982 and that this overrepresentation appears

Figure 4.11 Graduation Rates of College Entrants by Income Quartile (1979–1989 Birth Cohort)



SOURCE: Author's calculations from Bailey and Dynarski (2011), Figures 6.2 and 6.3.

to have grown from 1982 to 2004. In 2004, 58 percent of students in highly selective colleges came from the top income quintile, and only 6 percent of students came from the bottom income quintile (Reardon, Baker, and Klasik 2012). Avery and Hoxby (2013) report that even when one looks only at high-achieving students—students with high grades and high test scores—children from low-income families are much less likely than children from higher-income families to apply to and attend very selective schools.

Will These Trends Increase Intergenerational Income Inequality?

Most published assessments of intergenerational economic mobility are computed for individuals born in the 1960s and 1970s and raised in the 1960s, 1970s, and 1980s.³ But, as I document in this paper, children born and raised after 2000 are in a very different position from children born in the 1960s and 1970s. The evidence reviewed about

economic, demographic, and policy changes supports the following four conclusions:

- 1) The divides in parental advantages between rich and poor children and between rich and middle-income children have grown substantially since 1980.
- 2) Parental income has become a stronger predictor of parental spending on child enrichment activities since the 1970s.
- 3) The gap between the achievement test scores of high-income children and those of middle- and low-income children has widened since 1980. The percentage-point differences in college attendance rates and college graduation rates between high-income students and low-income students widened as well.
- 4) Returns to a college degree more than doubled since 1980.

The accumulation of parental advantages for children at the top of the income distribution suggests that high-income children born and raised after 1980 may find it easier to maintain that same high level of income as adults—to go from “riches to riches.” The dollar gaps in the income and wealth of high-income families versus low- and middle-income families are larger. High-income families now have even more discretionary income and more wealth than in the past. Parental advantages are now more bundled together. This could lead to tighter preservation of advantage across generations.

The same logic applies to children from low- and moderate-income families. The gaps in parental resources (income, wealth, chances of being raised by both biological parents, college-educated parents, a father without a criminal record), as well as increases in income-based residential segregation, gaps in parental spending on child enrichment activities, and gaps in college enrollment rates and graduation rates all widened between children of high-income families and children of low-income and moderate-income families. Children born after 2000 may be more likely than those born in the 1960s to go from “rags to rags” and less likely to go from “rags to riches.” These changes are not good news either for children raised in low- and moderate-income families or for advocates of equal opportunity.

What's Next?

Three changes could increase the extent to which children's economic fortunes are tied to their parents' economic fortunes. These are

- 1) the growing gaps in background advantages of high-income families vis-à-vis low-income and middle-income families,
- 2) the increases in the associations between parental income and children's educational outcomes, and
- 3) the growing returns to a college degree.

Poor children could become even less able to escape poverty as adults and even less able to achieve the American ideal of rising from the bottom-most quintile. Conversely, high-income parents could become even more likely to pass their advantages onto their children or to "hoard opportunities," as Reeves (2017) warns in his book *Dream Hoarders*.

One way to change the above scenario is to focus on cushioning the impacts of these three changes on children's economic prospects. Let's begin with the increases in the resources of rich children relative to those of poor children. Most rich children do not have a father who has been in prison. A significant minority of children of less-educated fathers do have a father who spent time in prison because of the rapid increase in male incarceration rates since the late 1970s. Prison sentencing reforms could reduce the incidence of imprisonment among low-skilled men, and prisoner reentry programs might better reintegrate ex-prisoners into work and family life. In their recent book, *When Parents Are Incarcerated: Interdisciplinary Research and Interventions to Support Children*, Wildeman, Haskins, and Poehlmann-Tynan (2018) review evidence on interventions to support children of incarcerated parents.

Reardon (2013) writes that the widening gap in family incomes means that low-income and middle-income parents cannot invest "as quickly or as deeply" as rich parents can in cognitive-enhancing activities for children. He further notes that 90 percent of the inequality in children's achievement test scores by family income is present at the time children enter kindergarten.⁴ According to the OECD (2012), the United States ranks "26th in the percentage of 4-year-olds enrolled in early childhood education." Increasing the availability of public pre-school programs that are free or offered on a sliding scale might pro-

vide low-income and middle-income children a wider range of enrichment activities. Other services, such as health screening and health care, might be included in preschool programs.

Autor and Dorn (2013) and Goldin and Katz (2010) argue that the college wage premium is so high in the United States because the growth in the supply of college graduates is not keeping up with the demand for highly educated workers. These authors maintain that we need to increase the rates of college attendance and graduation in the United States. There is certainly room for improving the college enrollment and graduation rates among high school students whose families are in the bottom half of the income distribution in the United States: only 9 percent of children from low-income families graduate from college. Moreover, college graduation rates are rising more slowly in the United States than in other nations. According to *OECD: Education at a Glance: 2012*, “Between 2000 and 2010 [higher education] attainment levels increased by an average of 1.3 percentage points annually in the U.S., while its OECD counterparts boasted a 3.7 percentage-point change per year.”

Bailey and Dynarski’s (2011) findings suggest that increasing college enrollment rates of children from families in the bottom half of the income distribution is only a first step. The majority of students from these families who enroll in a four-year college never obtain a degree. It is equally important to increase retention and graduation rates. See Holzer and Baum (2017) for a cogent overview of programs designed to improve low-income students’ retention and graduation rates.

I end on a note of optimism by describing two promising local higher education initiatives—the Kalamazoo Promise and the brand-new University of Michigan Go Blue Guarantee. The Kalamazoo Promise was launched in 2005. It covers up to 100 percent of tuition and fees for four years at any public or private postsecondary institution in Michigan. The Kalamazoo Promise was the first place-based scholarship in the United States. It is open to all students who reside in Kalamazoo and who attended public high school there from ninth grade on. Since 2005, about 100 such place-based programs have been launched (Bartik, Hershbein, and Lachowska 2016).

Bartik, Hershbein, and Lachowska (2017) evaluated the effects of the Kalamazoo Promise in its initial years. They report, “We estimate that the Promise increased the chance of students enrolling in any col-

lege within six months of high school graduation by 14 percent and the chances of enrolling in a four-year college by 23 percent As of six years after high school graduation, the Promise increased the percentage of students earning any postsecondary credential by 10 percentage points, from a pre-Promise baseline of 36 percent to 46 percent About three-fourths of this boost . . . is due to more students receiving a four-year bachelor's degree" (pp. 5–6). Furthermore, they report that the college completion results are not different for students from lower-income families.

The University of Michigan's Go Blue Guarantee program was launched in January 2018. This program provides free tuition for up to four years for in-state students at the University of Michigan who come from families with incomes of less than \$65,000. Since the average family income in Michigan is about \$64,000, this covers students from the bottom half of the income distribution.

One strength of the Kalamazoo Promise and the Go Blue Guarantee is that both cover four years of tuition. This reduces pressure on students to find funding while in college, and it should improve retention and graduation rates as well as enrollment. A second strength is that both programs' eligibility criteria provide few conditions and are easy to understand. This should increase incentives for both parents and students to begin planning for college early in students' educational trajectories.

Notes

I thank Eric VanDeventer for his efficient and careful preparation of this manuscript and Howard Erman for comments and edits. Neither of these individuals is responsible for the information or opinions in this chapter.

1. Fry and Taylor (2012) define low-income households as those with incomes of less than two-thirds of median income (\$34,000 in 2010), middle-income households as those with two-thirds to twice the median income (\$34,000 to \$104,000 in 2010), and high-income households as those with more than twice the median income (over \$104,000 in 2010).
2. Duncan and Murnane (2011a) reported their expenditures in 2008 dollars. I have converted their numbers to 2016 dollars.
3. The reason for this is that precise measures of intergenerational income elasticities require several years of data on children's incomes after age 30.
4. Reardon (2013) writes, "Children from rich and poor families score very differ-

ently on school reading scores when they enter kindergarten and this gap grows by less than 10 percent between kindergarten and high school. Evaluation studies find that high quality intensive interventions between ages 0–5 years positively affect children’s later educational and work outcomes” (Heckman 2011; Currie 2006; Knudsen et al. 2006; Waldfogel 2006).

References

- Autor, David, and David Dorn. 2013. “The Growth of Low-Skill Service Jobs and the Polarization of the U.S. Labor Market: Implications for Employment and Earnings.” *American Economic Review* 103(5): 1553–1597.
- Avery, Christopher, and Caroline Hoxby. 2013. “The Missing ‘One-Offs’: The Hidden Supply of High-Achieving Low-Income Students.” *Brookings Papers on Economic Activity* 2013(Spring): 1–50.
- Bailey, Martha J., and Susan Dynarski. 2011. “Inequality in Post-Secondary Education.” In *Whither Opportunity? Rising Inequality, Schools, and Children’s Life Chances*. Greg J. Duncan and Richard J. Murnane, eds. New York: Russell Sage Foundation, pp. 117–132.
- Bartik, Timothy J., Brad J. Hershbein, and Marta Lachowska. 2017. “The Effects of the Kalamazoo Promise Scholarship on College Enrollment, Persistence, and Completion.” Upjohn Institute Working Paper No. 15-229. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
- Currie, Janet. 2006. *The Invisible Safety Net: Protecting the Nation’s Poor Children and Families*. Princeton, NJ: Princeton University Press.
- Duncan, Greg J., and Richard J. Murnane. 2011a. “Introduction: The American Dream, Then and Now.” In *Whither Opportunity? Rising Inequality, Schools, and Children’s Life Chances*. Greg J. Duncan and Richard J. Murnane, eds. New York: Russell Sage Foundation, pp. 3–24.
- , eds. 2011b. *Whither Opportunity? Rising Inequality and the Uncertain Life Chances of Low-Income Children*. New York: Russell Sage.
- Edin, Kathryn, and Maria Kefalas. 2005. *Promises I Can Keep: Why Poor Women Put Motherhood before Marriage*. Berkeley: University of California Press.
- Fry, Richard, and Paul Taylor. 2012. *The Rise of Residential Segregation by Income*. Washington, DC: Pew Research Center.
- Goldin, Claudia, and Lawrence F. Katz. 2010. *The Race between Education and Technology*. Cambridge, MA: Harvard University Press.
- Haskins, Anna R. 2016a. “Beyond Boys’ Bad Behavior: Paternal Incarceration and Cognitive Development in Middle School Childhood.” *Social Forces* 95(2): 861–892.

- . 2016b. “How Does Paternal Incarceration Affect Children’s Cognitive and Noncognitive Development?” *Focus* 32(2): 8–21.
- Heckman, James. 2011. “The Economics of Inequality: The Value of Early Childhood Education.” *American Education* 2011(Spring): 31–47.
- Hoekstra, Mark. 2009. “The Effect of Attending a Flagship State University on Earnings: A Discontinuity-Based Approach.” *Review of Economics and Statistics* 91(4): 717–724.
- Holzer, Harry, and Sandy Baum. 2017. *Making College Work: Pathways to Success for Disadvantaged Students*. Washington, DC: Brookings Institution.
- James, Jonathan. 2012. “The College Wage Premium.” *Economic Commentary*. Cleveland, OH: Federal Reserve Bank of Cleveland.
- Jantti, Markus. 2009. “Mobility in the U.S. in Comparative Perspective.” In *Changing Poverty, Changing Policies*, Maria Cancian and Sheldon Danziger, eds. New York: Russell Sage Foundation, pp. 180–200.
- Jantti, Markus, Bernt Bratsberg, Knut Røed, Oddbjørn Raaum, Robin Naylor, Eva Österbacka, Anders Björklund, and Tor Eriksson. 2006. “American Exceptionalism in a New Light.” IZA Discussion Paper No. 1938. Bonn, Germany: Institute for the Study of Labor.
- Knudsen, Eric I., James J. Heckman, Judy L. Cameron, and Jack P. Shonkoff. 2006. “Economic, Neurobiological, and Behavioral Perspectives on Building America’s Future Workforce.” *Proceedings of the National Academy of Sciences* 103(27): 10155–10162.
- Long, Mark. 2008. “College Quality and Early Adult Outcomes.” *Economics of Education Review* 27(5): 588–602.
- Martin, Steven. 2006. “Trends in Marital Dissolution by Women’s Education in the United States.” *Demographic Research* 15(15): 537–560.
- McLanahan, Sara. 2004. “Diverging Destinies: How Children Are Faring under the Second Demographic Transition.” *Demography* 41(4): 607–627.
- Murphey, David, and P. Mae Cooper. 2015. *Parents behind Bars: What Happens to Their Children?* Bethesda, MD: ChildTrends.org.
- Organisation for Economic Co-operation and Development (OECD). 2012. *Education at a Glance: 2012*. Paris: Organisation for Economic Co-operation and Development.
- Pfeffer, Fabian T., and Matthew Gross. 2018. Unpublished computations using the Survey of Consumer Finances. Ann Arbor: University of Michigan.
- Pfeffer, Fabian T., and Robert F. Schoeni. 2016. “How Wealth Shapes Our Future.” *Russell Sage Foundation Journal of the Social Sciences* 2(6): 2–22.
- Reardon, Sean. 2011. “The Widening Academic Achievement Gap between Rich and Poor.” In *Whither Opportunity? Rising Inequality, Schools, and Children’s Life Chances*, Greg J. Duncan and Richard J. Murnane, eds. New York: Russell Sage Foundation, pp. 91–116.

- . 2013. “No Rich Child Left Behind.” *New York Times*, April 27. <https://opinionator.blogs.nytimes.com/2013/04/27/no-rich-child-left-behind/> (accessed February 5, 2020).
- Reardon, Sean, Rachel Baker, and Daniel Klasik. 2012. “Race, Income, and Enrollment Patterns in Highly Selective Colleges, 1982–2004.” Stanford, CA: Stanford University, Center for Education Poverty Analysis.
- Reeves, Richard V. 2017. *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*. Washington, DC: Brookings Institution.
- Saez, Emanuel. 2016. “Striking It Richer: The Evolution of Top Incomes in the United States.” Berkeley: University of California, Berkeley.
- Waldfogel, Jane. 2006. *What Children Need*. Cambridge, MA: Harvard University Press.
- Western, Bruce. 2006. *Punishment and Inequality in America*. New York: Russell Sage Foundation.
- Western, Bruce, and Becky Pettit. 2010. “Incarceration and Social Inequality.” *Daedalus* 139(3): 8–19.
- Wildeman, Christopher. 2009. “Parental Imprisonment: The Prison Boom and the Concentration of Childhood Disadvantage.” *Demography* 46(2): 265–280.
- Wildeman, Christopher, Anna R. Haskins, and Julie Poehlmann-Tynan, eds. 2018. *When Parents Are Incarcerated: Interdisciplinary Research and Interventions to Support Children*. Washington, DC: American Psychological Association.
- Wolff, Edmund N. 2014. “Household Wealth Trends in the United States, 1962–2013: What Happened over the Great Recession?” NBER Working Paper No. 2073. Cambridge, MA: National Bureau of Economic Research.