

# **Critique of “Nonlinearities in Intergenerational Earnings Mobility”<sup>1</sup> and “American Exceptionalism in a New Light”<sup>2</sup>**

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## *Summary of Findings*

Professor A. Bjorklund of Stockholm University and his fellow authors find that all countries exhibit substantial earnings persistence across generations, with the United States having the lowest level of mobility during the 1980s and 1990s. *The Economist* magazine claims that “if one compares the incomes of children with those of their parents, or considers how long people in one income group stay there, Nordic countries emerge as far more mobile than America.”<sup>3</sup> The United States, in particular, is found to have a high likelihood that sons of the poorest fathers will remain in the lowest earnings quintile.

## *Composition of the Data Set*

The US data set chosen by the authors is the National Longitudinal Survey of Youth (NLSY).<sup>4</sup> The authors of the papers claim that the NLSY is “a nationally representative sample of 12,686 young men and women...”<sup>5</sup> Of these 12,686 individuals, those with valid earnings records for either the year 1996 or 2002 were included in the sample.

The problem with the data set is that they are not a nationally representative sample. The NLSY is comprised of three parts:

- i) a cross-sectional sample of 6,111 respondents designed to be representative of the non-institutionalized civilian segment of the population in 1979.
- ii) a supplemental sample of 5,295 respondents designed to oversample Hispanic, black, and economically disadvantaged non-black/non-Hispanic youth.
- iii) A sample of 1,280 respondents who were enlisted in the military.

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<sup>1</sup> Jantti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and Eriksson, T. (2006) “Nonlinearities in Intergenerational Earnings Mobility: Consequences for Cross-Country Comparisons.”

<sup>2</sup> Jantti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and Eriksson, T. (2005) “American exceptionalism in a new light: a comparison of intergenerational earnings mobility in the Nordic countries, the United Kingdom and the United States.” Memorandum 34/2005, Department of Economics, University of Oslo.

<sup>3</sup> The Economist: Snakes and Ladders (May 27<sup>th</sup> 2006)

<sup>4</sup> <http://www.bls.gov/nls/nlsy79.htm>

<sup>5</sup> American Exceptionalism in a New Light, p30

While the first portion of the NLSY is what Bjorklund et al. intended it to be, the second part poses a problem. This sample has too many Hispanics, blacks, and economically disadvantaged non-blacks/non-Hispanics. Furthermore, following the 1990 interview, *none of the 1,643 members of the economically disadvantaged non-black/non-Hispanic subsample were eligible for interview.*<sup>6</sup> In addition, after the 1984 interview, 1,079 members of group iii were not eligible as well, and you have a sample that comes nowhere close to representing the United States.

It is clear that the findings of Bjorklund et al. may have been the result of the composition of the NLSY. It is claimed in both these papers that income mobility from the bottom to the top is the lowest in the United States. However, if we were to find bottom to top mobility in the United States during the time period studied, we would expect the vast majority of it to come from non-black/non-Hispanic economically disadvantaged people; the sample people who are tremendously underrepresented in the overall sample. While racism might not play a significant role today, during the 70s and 80s it surely did. The finding that upward mobility is very small in the United States is not that surprising when one considers that the lack of upward mobility is among Blacks and Hispanics, two of the groups with the least education in the United States at that time. Further, there is evidence of discrimination against these groups during the period in question.<sup>7</sup>

### *Method of Obtaining Data*

Another data set issue is the difference in how the data sets were obtained. In the United States and Great Britain, the data were derived from household surveys. In contrast, the data from Norway, Sweden, Denmark, and Finland were all based on administrative records. This means there is likely to be a substantial difference in the accuracy of the data. Generally people understate their incomes in surveys, because they do not want to admit a true picture of their earnings. Also, some might not have a precise idea of their earnings. In the United States and Great Britain people observe after-tax earnings, because taxes are subtracted from paychecks, thereby biasing down their perceptions of their earnings. Further, household surveys are not official, which might induce less-precise estimates than on an official data set.

### *Non-Wage Benefits*

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<sup>6</sup> <http://www.bls.gov/nls/79guide/2002/nls79g1.pdf>

<sup>7</sup> <http://usinfo.state.gov/products/pubs/histryotln/decades.htm>  
[http://eric.ed.gov/ERICWebPortal/Home.portal?nfpb=true&pageLabel=RecordDetails&ERICExtSearch\\_SearchValue\\_0=EJ266588&ERICExtSearch\\_SearchType\\_0=eric\\_accno&objectId=0900000b8008ae4e](http://eric.ed.gov/ERICWebPortal/Home.portal?nfpb=true&pageLabel=RecordDetails&ERICExtSearch_SearchValue_0=EJ266588&ERICExtSearch_SearchType_0=eric_accno&objectId=0900000b8008ae4e)

In addition to the above problems, it is impossible to compare upward mobility between countries without accounting for non-wage benefits. Non-wage benefits are becoming increasingly popular in the United States. “The cost of non-wage benefits has risen steadily in the past half-century, and now accounts for more than one-third of total labour costs.”<sup>8</sup> (While the authors observed no mobility among wages, there might have been non-wage mobility, which would indicate that upward mobility is possible. An average hourly compensation cost statistic would be more accurate.

### *Number of Children*

One decision made by every married couple regarding children is “How many?” A family with a large number of children clearly has less resources per child. A single child can receive more personal attention and hence has a higher chance of succeeding than if he was one of five children. Therefore, for every additional child in the family, there is a welfare tradeoff: the more children, the less likely they are to succeed individually. Hence, birth rates can have a huge effect on perceived income mobility. If a family chooses to have more children and sacrifice some of their future welfare, that is not a failure of the economic system, but instead a personal decision. Indeed, we find that US birth rates during the time of this study were significantly higher than its Nordic counterparts. The United States had a live birth rate of 61.8 in 1980, compared to Sweden’s 51.0.<sup>9</sup> Americans may be simply choosing to have stronger families rather than high income mobility. The data analyzed for this paper must be looked at to see if the average number of children per family was similar in each case. According to the birth rates statistic, it should not be.

### *Conflicting Research*

Contini of the University of Torino has found that the United States has greater earnings mobility than the United Kingdom, France, Italy, and Germany during the 1990s.<sup>10</sup> This is a direct contradiction to the findings of Bjorklund and his fellow authors. Their research found the United States is less mobile than the UK. Contini in contrast finds that the United States is the best example of a highly mobile intergenerational labor market.<sup>11</sup>

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<sup>8</sup> [http://www.findarticles.com/p/articles/mi\\_m0LVZ/is\\_11\\_18/ai\\_104522959](http://www.findarticles.com/p/articles/mi_m0LVZ/is_11_18/ai_104522959)

<sup>9</sup> <http://unstats.un.org/unsd/demographic/products/dyb/DYBHist/HistTab06.pdf>

<sup>10</sup> Contini, Bruno (2000), “Earnings Mobility and Labor Market Segmentation in Europe and USA: Preliminary Explorations”, LRR, WP, November 2000.

<sup>11</sup> Contini p19