Summary of Slides for NBER SI Submission

Growing Class Gaps, Shrinking Race Gaps: Economic and Sociological Mechanisms Underlying Recent Trends in Intergenerational Mobility[1]

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Using anonymized longitudinal data covering nearly the entire U.S. population, we study recent trends in economic mobility by race and socioeconomic class in order to understand the mechanisms underlying economic mobility.

We first show that in recent decades, gaps in children's outcomes by socioeconomic class expanded while gaps by race shrunk. Between the 1978 and 1992 birth cohorts, outcomes for white children from low-income families deteriorated substantially, while outcomes for white children from high-income families improved, together leading to a 30% increase in the degree of intergenerational persistence of income among whites. During the same period, outcomes for Black children improved across all parental income levels, reducing the Black-white earnings gap by 30% among children from low-income families.

We then disaggregate the national data and analyze how these trends vary across subgroups and areas to obtain insight into the mechanisms underlying these trends. The sharp changes in intergenerational gaps we document are not explained by changes in parent marital status, education, occupation, or wealth. Changes in widely studied neighborhood-level characteristics such as poverty rates and single parent shares also explain little of the variation in the gaps; indeed, the trends in the gaps are similar even among children growing up in the same Census tract. However, there is a strong link between children's outcomes and the average employment rates of parents of their *own* race and socioeconomic class; for example, white children with low-income parents experienced much sharper losses in earnings in areas where employment rates for low-income white parents fell more.

Analyzing the outcomes of children who moved across counties during childhood, we present quasi-experimental evidence that growing up in an area with deteriorating parental employment rates in one's own social community (as defined by race and class) has a negative causal impact on children's outcomes. Critically, these findings imply that it is *childhood* exposure to areas with declining own-group parental employment rates rather than labor demand shocks (or selection in the types of families living in an area) that are the key driver of the link between parental employment rates and children's outcomes. Furthermore, the influence of parental outcomes in one's own race or class is weaker in areas with greater interaction across racial and class lines, suggesting that community-level sociological factors – as measured by outcomes in the prior generation among those in one's social circle – are a key driver of intergenerational mobility.

[1] Any opinions and conclusions expressed herein are those of the authors and do not represent the views of the U.S. Census Bureau. The Census Bureau has reviewed this data product for unauthorized disclosure of confidential information and has approved the disclosure avoidance practices applied to this release. DRB Approval Number(s): CBDRB-FY2022-CES010-004

Using our estimates, we show that most of the growth in class gaps and reduction in race gaps in intergenerational mobility in recent decades at the national level can be explained by childhood exposure to differential changes in the average employment rates of parents by race and class. Going forward, our findings suggest that economic mobility in the subsequent generation is most likely to decline in communities where employment rates are falling among adults. Targeting programs (e.g., youth development and job training) to such communities may help mitigate reductions in economic mobility. More broadly, because intergenerational income dynamics play a central role in determining the evolution of income disparities, our results suggest that reducing inequality in the long run is likely to require sustained race- and class-specific changes in childhood environments rather than interventions solely in the labor market.