



## The American Dream

# Getting To The Starting Line

Tim Harford 10.09.07, 6:00 PM ET

Who could argue with the idea that America is the land of opportunity? Since the country was born, millions of desperate immigrants have fled poverty, war and oppression to become citizens of the land of the free. America's entrepreneurial culture is famous: It's easy to take risks, start a new business. Anyone can become the next Bill Gates.

It is one of the touchstone beliefs that makes America what it is. And as an admiring outsider--I am English, although my daughter was born in Washington, D.C.--I've always found it compelling.

There's just one problem: On one very important measure, America offers less opportunity than almost any other rich country. The real lands of opportunity are places like Canada, Finland and especially Denmark.

The measure I'm using is hard to calculate but easy to understand: How much of your parents' income rubs off on you? If your father was rich at the age of 40, how likely is it that you will be rich at the age of 40? And if he was poor, are you also doomed to poverty?

The unfortunate news is that the children of poor American families end up being poor adults far more often than the children of poor Danish or Norwegian or Canadian families. And that chips away at the cherished myth that America is a land of opportunity for all.

Economists have been trying in earnest to produce estimates of "intergenerational income mobility" for 15 years, ever since Gary Solon, a professor at Michigan State University, wrote an influential article about how to (and how not to) do the studies correctly. Solon's estimate was that if your father was twice as rich as mine, you are likely to be 40% richer than I am, meaning that wealth and privilege would last at least three generations. And subsequent researchers think the fraction of parental income passed on is even greater--perhaps as high as 50%.

Economist Miles Corak, a professor at Ottawa University, recently pulled together as many credible research studies as he could find, cleaning up the data to make them comparable. He concluded that in Denmark, only 15% of the parents' income advantage is passed to the children. It is in countries like Denmark that everybody seems to have the same opportunity, regardless of who their parents are.

This isn't a story about inheritance tax, because what is being measured here is not, mostly, inherited wealth. It's much broader than that. The children of poor families tend to go to worse schools, live in rougher areas and have fewer business contacts. Their parents may not set the kind of example that inspires their children to be big earners. And if we want to do anything about it, we need to understand what's really driving the results.

There is nothing to be done about some sources of inherited advantage. Solon and two colleagues looked at data on Swedish children who were brought up by both biological parents, by stepparents, by single parents or by adoptive parents, and showed that genetics and other pre-birth influences are important determinants of what happens to kids in later life. It would take an aggressively utopian government to try to change that.

On the other hand, who could defend nepotism? Preferential treatment for family members is anathema to American culture--unless, of course, you're a top university. Daniel Golden of *The Wall Street Journal* won a Pulitzer Prize in 2004 "for his compelling and meticulously documented stories on admission preferences given to the children of alumni and donors at American universities."

That might be the sort of thing opportunity-loving Americans should pay attention to. Miles Corak argues that inequalities in the provision of education and health care are a big reason for America's low-income mobility. Rich American families can buy houses near good schools, or afford to send their kids to the top universities. Meanwhile, in Denmark a quality state

education system is available to all.

Even more important than college, though, is the education system for the very young. The Nobel laureate economist James Heckman has recently been beating the drum for massive investment in preschool programs for disadvantaged kids. Heckman, perhaps the most influential "econometrician" (economic statistician) in the world, is convinced that there's overwhelming evidence that such programs work.

All this research gets us thinking about what opportunity really is: the opportunity to send your kids to Harvard, or an equal shot at Harvard no matter who your parents are? I am still in love with America's entrepreneurial culture, and I am convinced that it offers boundless opportunities to those who arrive in adulthood with energy, ambition and ideas. But to take advantage of those opportunities, young Americans need to arrive at the starting line. Not enough of them do.

*Tim Harford, an economics columnist for the Financial Times, is author of The Undercover Economist.*