Center for American Progress

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Executive Summary

Conventional wisdom considers the United States to be a land of equal opportunity where the possibility for upward economic mobility is limitless. With hard work, everyone has a chance to move from rags to riches in a generation. To date, this "American Dream" premise has almost exclusively been tested in terms of income mobility—that is, tested by looking at the extent to which the income of parents compares to the income of their children. Most recently, the Brookings Institution, in their comprehensive report, "Getting Ahead or Losing Ground: Economic Mobility in America," affirmed previous research that African Americans lose relative income status while whites do not.

Yet the American Dream measured against another metric, inequality in wealth, or what you own rather than what you earn, may reveal a much starker picture of economic mobility. Our analysis in this paper indicates that inequality in wealth is much greater than income inequality in the United States. This report argues that to fully understand a family's economic well being and the life chances of its children, we not only must consider income and education but also accumulated wealth.

Compared to income, wealth may be more fundamental to upward economic mobility and achieving the American Dream. Along those lines, wealth provides families and their offspring with superior protection against economic vulnerability because it can buffer families against transitory fluctuations and shocks to the labor market. The loss of a job or a health care crisis may not translate into a family's financial ruin if the family has some savings or a mortgage that it can refinance.

Moreover, in an era where college and professional degrees have become more important to achieving middle-class status, wealth may be more important than ever. Parents use their wealth to finance their children's education, which ultimately contributes to securing their offspring's economic well-being. Despite wealth being central to upward economic mobility and financial security, we know very little about the wealth transmission process. This report discusses wealth mobility in the United States and then provides answers to three questions:

- How hard is it for individuals who begin from a position of low wealth in childhood to obtain a position of high wealth in adulthood?
- How able are individuals to hold onto wealth during their prime working years of adulthood?
- How do wealth mobility (and security) dynamics differ by race?

The key findings of this report—based on analysis of a nationally representative sample of American families (the Panel Study of Income Dynamics, or PSID) spanning the years from 1984 to 2003—reveals that though there is a high degree of wealth volatility among U.S. households, Americans in the top and bottom quartiles tend to stay there over the long term—both in terms of their own relative wealth position and in terms of their offspring's position. (See Appendix A on page 34 for a more complete explanation of the methodology.)

Among the key intergenerational findings, which measure wealth mobility between parents and their adult children, or the extent to which the wealth of a child is determined by the wealth of his or her parents, are:

- What family an individual comes from explains about three-quarters of where they end up in the wealth distribution as adults. For African Americans, however, the impact of family background is substantially lower, at 37 percent.

- Individuals are more likely to maintain wealth than to attain wealth, or more precisely, low-wealth children are unlikely to become high-wealth adults, while high-wealth children are very likely to be high-wealth adults. Looking at previous years' data, less than 10 percent of children who grew up in families in the bottom wealth quartile, which had a maximal cut off of about $8,000 in 1984, reached high wealth levels by adulthood between 1999 and 2003 (when the top group's minimal value was $82,501and the median was over $189,000). And over 55 percent of children who grew up in families in the top wealth quartile—over $155,000 of net worth back in 1984—held on to their high wealth levels by adulthood.

- The strongest predictor of an adult's relative wealth status is his or her income, which in turn is highly predicated on his or her parents' income and wealth.

- Wealthy white children are much more likely to become wealthy adults than wealthy African-American children: Over 55 percent of all white children raised by parents in the top wealth quartile hold onto the top wealth position as adults. This is contrasted to only the 37 percent of African-American children raised by parents in the top wealth quartile who hold onto the top wealth position as adults.

Among the key intragenerational findings—the wealth mobility of an individual over an extended period of time from 1984 to 2003—of our analysis of the PSID are the following:

- Individuals are more likely to maintain wealth than to attain wealth: Over a 15-year to 20-year period, less than 5 percent of those who were in the bottom wealth quartile (less than $5,767 in 1984) moved up to the top, while 58 percent of those who were in the top wealth quartile (at least $114,563 in 1984) stayed there.

- African Americans have more difficulty retaining their relative wealth status: Over a 15-year to 20-year period, 60 percent of whites who were in the top wealth quartile remained there, compared with only 22 percent of African Americans.

- Most individuals experience some wealth volatility: Over one-third of preretirement adults experience at least one $1,000 drop in their inflation-adjusted wealth during adulthood.

These results demonstrate that when viewed through the lens of wealth—as opposed to just income—there is a high degree of wealth instability combined with a lack of mobility, particularly in terms of breaking out of the bottom quartile. These results, combined with the fact that cross-sectional wealth inequality is enormous, should sound alarms for policy makers concerned with preserving the American Dream.

Furthermore, when we overlay the dynamic analysis of wealth trajectories onto similar trends for income to obtain a complete picture of the economic landscape of financial security and opportunity for U.S. families, we see a country where many families may be struggling just to maintain a fairly consistent standard of living, leaving precious few resources to provide a stepping stone for their children or a nest egg for their own retirement. When we separate the analysis out by race the distinctions are even starker: Blacks not only enjoy one-tenth the wealth of white families at the median; they also are more likely to be asset poor across their entire adulthoods and even intergenerationally.

One cannot discuss issues of race and opportunity in the United States without tackling these wealth disparities head on.

Introduction to Wealth Inequality and Mobility

What images or thoughts do you associate with the notion of the "American Dream?" Most likely, you envision a family with a house and a car. Perhaps you envision some form of retirement plan, stocks, bonds, or maybe even a small family business. All of these associations are symbols of wealth—that is, tangible assets.[1] Perhaps you also think of a corner office or your children's college or graduate diplomas hanging on the wall. These, too, are part of the American Dream.

While many people can articulate their vision of the American Dream, far fewer are clear about whether this Dream is alive and well in the United States today. How possible is it for someone irrespective of class background to achieve the diploma, the corner office, the big paycheck, and—most importantly—the pot of gold in the form of a valuable and paid-off house, direct or indirect ownership of a business, and economic security for retirement?

Many scholars have addressed the question of mobility with respect to the diplomas on the wall (education), the corner office (occupation), and the paycheck (income). But very few have examined mobility when it comes to family wealth: the 401k, the Money Market account, the house, the family business or farm, or even the family car. Indeed, when it comes to family economics, income is only part of the mobility story. Wealth has been much less studied in this regard.

There are many reasons for also being concerned about the distribution of wealth. For one, wealth provides an important buffer to economic volatility and vulnerability. In "The Great Risk Shift," Yale University political scientist Jacob Hacker documents the tremendous rise in income volatility over the past three decades in the United States.[2]

Because Americans may be suffering from increased economic volatility, wealth may matter even more for securing a family's well being. High earnings may no longer be a ticket to stable consumption. And we may need wealth along with income to smooth the bumps on the road.

Wealth is particularly important to those at the bottom end of the income scale, who may have more limited access to fair credit markets and who may need wealth in hand to protect against economic vulnerability.

Furthermore, in the United States we have a churning labor market and a weak welfare state, and our own economic well being is largely determined by our private economic status and wealth holdings. Instead of large, public social insurance programs, our own wealth has become, for many, our primary insurance against economic vulnerability.

Likewise, because we have moved from defined-benefit retirement plans to defined-contribution plans, such as the popular 401(k) plans, there is less of a buffer to inequality in our wealth and retirement. Center for American Progress Senior Fellow Christian E. Weller has cited evidence that the transition to defined-contribution plans over the past couple of decades has benefited higher earners more than lower earners and has greatly increased inequality in retirement wealth.[3]

As success in the labor market hinges more and more on educational attainment, and as educational costs dramatically rise, parental wealth levels become more critical in determining who can afford higher education and who cannot. Parents like to think of college and professional degrees as tickets to their children's middle-class status, but an increasing amount of the cost of college has shifted from the public to the private, familial realm through a shift from need-based to merit-based aid, and due to a shift from grants to loans.

At the same time, college tuition and fees have outpaced inflation consistently over the past three decades. Since 1993, for example, tuition and fees have increased by more than 50 percent in inflation-adjusted dollars. Given these shifts, wealth may be an increasingly important means of securing young Americans' middle-class status.

Despite the importance of wealth, only a handful of published studies to date have examined intergenerational mobility in wealth. Analyzing data from the Panel Study of Income Dynamics, the same data that we use in this analysis, Kofi Charles and Charles Hurst point out in a 2003 study,[4] age-adjusted parent-child wealth elasticity is 0.37, meaning each percentile that a parent is further up the wealth ladder, the children generally end up 37 cents advantaged. They find that income alone accounts for about half of the similarity in parental and offspring wealth, as income between parents and offspring is highly correlated.

Using different data, Casey B. Mulligan, in his 1997 book *Parental Priorities and Economic Inequality*,"[5] finds elasticities similar to Charles and Hurst, ranging from 0.4 to 0.5. Finally, Lisa Keister and Natalia Deeb-Sosa in their 2001 study "Are Baby Boomers Richer than Their Parents? Intergenerational Patterns of Wealth Ownership in the United States," and Keister in her 2005 book "Getting rich: America's new rich and how they got that way,"[6] do not analyze intergenerational mobility per se, but they do present an analysis of differences between parents' and children's median wealth levels.[7] They find that baby boomers accumulate more wealth than their parents at the same ages.

This literature is growing and a number of other researchers have explored intergenerational wealth mobility in abso-

lute (inflation-adjusted) dollar amounts, in relative (position in the distribution) terms as well as in terms of inheritance, using a wide variety of data sources. The results of such studies yield a wide range of estimates as to the degree of intergenerational wealth mobility.

Lower estimates—from economists such as Franco Modigliani—put the intergenerational correlation at around 0.2, which reflects relatively high mobility. Upper end estimates are in the range of 0.6, or relatively low mobility, as presented by Jennifer Wahl in her 1985 Ph.D. dissertation for the University of Chicago titled "Fertility in America: Historical Patterns and Wealth Effects on the Quantity and Quality of Children." Inheritance and wealth levels among the richest families may display the highest degree of social reproduction across generations with an elasticity of somewhere between 0.6 and 0.76, depending on the time and place studied. [8]

What's more, racial differences in absolute wealth levels have been tied to this process of inheritance. For example, R.B. Avery and M.S. Rendall in their 2002 study "Lifetime inheritances of three generations of whites and blacks,"[9] draw on data from the 1989 Survey of Consumer Finances, which asks family members to answer questions about inheritances received as well as prospective bequests. They match "bequeathor" generations to "receiver" generations to present an intergenerational analysis.

Avery and Rendall find that inherited wealth is less equally distributed between blacks and whites than non-inherited wealth. Their forecast analysis of future bequests indicates that more than one-third of white "baby boomers" will receive an inheritance worth more than $25,000 in 1989 dollars, whereas fewer than one in 20 blacks will receive an inheritance of that value. The substantial black-white gap in inheritance receipt increases racial wealth inequality.

In the present report, we build on these prior studies by adding the issues of intragenerational mobility and wealth volatility (instability) and by exploring racial differences in wealth mobility and wealth security as well as the role of various processes that may mediate transmission of wealth advantage and disadvantage, such as education, inheritance, and earnings.

The Distribution of Wealth in the United States

In this first section, we look at the level of wealth for the average individual in the United States and the amount of wealth inequality in the country. Readers interested in the more technical aspects of our data analysis should see the appendix. We are able to provide an analysis for the population as a whole, and to look separately at whites and African Americans.

Due to sample size limitations in the data, however, we were not able generate results for Latinos or other minority groups apart from African Americans. This is regrettable. Latinos now form the largest minority group in the United States and also demonstrate one of the highest rates of population growth. The undersample of Latinos in our data, the PSID, was due largely to two factors—the timing of the survey initiated in 1968 when the Latino population was much smaller and the lack of Spanish-speaking interviewers for the original cohort.

Much of the expansion of the Latino population in the United States has occurred since the 1960s. This means that while the original sample may have been racially representative for the first wave of data in 1968, it did not stay that way given its family tree design, which is by nature somewhat resistant to subsequent changes in the overall demographic structure of the United States.

The study members have since added a Latino and other new immigrant sub-samples. These additions, however, came too late to allow for a long-term analysis of wealth trajectories within and across generations.

Table 1 on page 9 presents descriptive statistics for all of the variables we use in this study. We present analyses for two cohorts of U.S. adults who were present in our sample in 1984 and remained in the sample by 1999 to 2003. The reason we use only one survey year to measure wealth at our "origin" point is that this was the very first sample year that wealth levels were ascertained among the PSID families. After its initial introduction into the sample protocol, wealth questions were asked only every five years.

In 1999, however, when the PSID converted from an annual survey to a biennial one, the PSID asked about wealth in every survey, which occurred every other year. Thus for our destination measure of wealth, we average the data from 1999 to 2003. This is ideal as a smoothing mechanism that helps reduce measurement error when analyzing mobility. Ideally we would like to have done this for the "origin" measure as well, but due to the fact that the next year that wealth was asked about was 1989, we could not.

We examine the experience over time for two samples:

The **intergenerational** sample consists of individuals who were between ages 6 and 21 in 1984, and compares their (parental) household wealth in 1984 with their household wealth in 1999 to 2003. For these individuals, median (parental) household wealth was $59,145 in 1984 (in 2006 dollars); and the median for them in 1999 to 2003, in constant 2006 dollars, was $27,495 (this lower figure is due to the fact that they were substantially younger during this time than their parents were in 1984, on average).

The **intragenerational** sample consists of adults who were aged 25-44 in 1984 (whether or not they had children), and compares their household wealth in 1984 with their household wealth in 1999-2003. By 2003, they were aged 44-63. The median net worth in 1984 (in constant 2006 dollars) for this sample of households was only $38,835, and reached $116,034, on average between 1999 and 2003z.This figure is slightly higher than the national average because we restrict our sample to individuals who have wealth data in both time periods. Individuals in the United States who have lower socioeconomic statuses are somewhat more likely to drop out of longitudinal social surveys—that is, to answer questions for one year but not for the next years. This process inflates our median values slightly.

These population-sample statistics mask significant variation by race, as whites are much wealthier than African Americans. The "intragenerational" data in Table 1 show that for the whites in our sample between the ages of 25 and 45 in 1984, median wealth increased three-fold over the 20 year time period, from $62,647 to $189,842 in constant 2006 dollars. Over the same time period, wealth for African Americans in our sample grew by 468 percent, from $5,825 to $35,165 in constant dollars. This illustrates how, even with larger percentage increases in net worth (due to the lower baseline figure), the absolute value of the asset gap between African Americans and whites yawns over the course of a single generation.

TABLE 1. WEIGHTED SAMPLE STATISTICS BY RACE (STANDARD ERROR)

	INTERGENERATIONAL SAMPLE			INTRAGENERATIONAL SAMPLE		
	Total Sample	White	Black	Total Sample	White	Black
1984 Variables						
Age	13.52	13.48	13.95	33.90	34.05	32.95
	(0.14)	(0.18)	(0.24)	(0.15)	(0.18)	(0.26)
% Married				0.65	0.68	0.46
				(0.01)	(0.01)	(0.02)
Mean Household Wealth	171,772	244,720	35,991	123,749	166,034	26,599
	(20,287)	(30,780)	(3,648)	(11,881)	(17,039)	(2,149)
Median Household Wealth	59,145	104,660	6,796	38,835	62,647	5,825
Household Income	60,813	73,502	37,196	57,333	66,074	36,813
	(1,469)	(1,922)	(1,607)	(927)	(1,174)	(1,114)
Parental or Individual's Education	12.79	12.98	10.99	13.39	13.54	12.40
	(0.08)	(0.10)	(0.16)	(0.06)	(0.07)	(0.10)
1999-2003 Variables						
% Married	0.60	0.63	0.27	0.66	0.69	0.40
	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.02)
% Inheriting between 1984-2003	0.42	0.44	0.26	0.47	0.50	0.24
	(0.02)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)
Mean Value of Inheritance	495,155	516,250	112,080	287,843	301,739	102,324
	(182,239)	(207,290)	(51,341)	(59,277)	(67,336)	(61,453)
Median Value of Inheritance	13,865	15,208	5,324	19,403	21,104	5,886
Mean Household Wealth	90,710	117,503	40,838	347,976	462,100	80,466
	(7,329)	(9,548)	(10,680)	(27365)	(39,029)	(7,640)
Median Household Wealth	27,495	42,492	11,472	116,034	189,842	35,165
Household Income	60,785	70,748	42,239	87,545	103,264	50,481
	(1,358)	(1,826)	(1460)	(2342)	(3,230)	(1,488)
Education	13.64	13.73	12.71	13.62	13.75	12.68
	(0.07)	(0.08)	(0.11)	(0.07)	(0.08)	(0.11)
Number of cases	1,073	698	375			

Note: All values are reported in 2006 dollars; means are reported unless otherwise indicated; for intergenerational sample, individuals are between the ages of 6 and 21 in 1984 and 25 and 40 in 2003; for intragenerational sample, individuals are between the ages of 25 and 44 in 1984 and 44 and 63 in 2003.

Intergenerational Mobility in Wealth and Income

Intergenerational mobility, or the extent to which the wealth of a child is determined by the wealth of his or her parents, tells us about the overall openness of opportunity in America. We find that it is much harder to move up to the wealth ladder than to stay on top of the ladder. That is, children born to parents with low levels of wealth have a much harder time reaching high levels of wealth as adults than children born to parents with high levels of wealth to begin with.

One of the most important findings of this report is that a high-wealth child is over six- and-one-third times more likely to become a high-wealth adult than is a low-wealth child. Table 2 (facing) shows the percentage of children who move up or down from their parents' wealth levels as adults for the total sample and separately by race. We measure parents' wealth in 1984 when children were between the ages of 6 and 21 (inclusively). We then examine these children's own wealth in the 1999 to 2003 period when they are between the ages of 24 and 40.

This is not the ideal age band during which to measure individuals' asset levels, yet we are limited by the fact that 1984 was the earliest period in which wealth was measured (and therefore these respondents had to be children in their parents' households then). We have broken wealth into quartile ranges for both time periods. The terms "bottom" and "top" refer to the group of least and most wealthy individuals, respectively. Likewise, in our nomenclature, the first quartile represents the top and the fourth quartile represents the bottom of the distribution.

Figure 1 (facing) plots the 1984 median values of each parental wealth quartile (inflation adjusted to 2006 dollars). Parents in the bottom wealth quartile typically hold only $194 of equity. The median parents in the top wealth quartile have, by contrast, $290,291. Table 3 presents these statistics in more detail.

Findings from Table 2 on page 11 indicate that children of parents in the bottom quartile in 1984 are highly unlikely to have reached the top quartile as adults by the 1999 to 2003 time period. Just over 41 percent of children living with parents in the lowest wealth quartile stay there when they become adults. Upward mobility to the top half of the distribution is relatively rarer for this group. Only 22 percent of the low-wealth population has reached the second quartile by adulthood, and less than 9 percent has reached the top quartile by adulthood.

In contrast, over three-quarters (76 percent) of children whose parents are in the top wealth quartile remain in the top half of the distribution by adulthood. Among this 76 percent, over half (55 percent) remain in the very top quartile.

TABLE 2. INTERGENERATIONAL QUARTILE MOBILITY IN WEALTH BY RACE (PERCENTAGES)

	TOTAL SAMPLE OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
Total Sample Parents 1984				
Bottom	41	28	22	9
Third	25	34	28	14
Second	23	25	29	23
Top	11	13	21	55
	WHITE OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
White Parents 1984				
Bottom	35	19	34	12
Third	24	30	28	19
Second	22	25	28	25
Top	11	13	20	56
	BLACK OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
Black Parents 1984				
Bottom	44	31	18	7
Third	26	39	28	7
Second	29	29	31	12
Top	16	11	37	37

FIGURE 1. MEDIAN VALUES OF PARENTS' 1984 WEALTH QUARTILE (2006 DOLLARS)

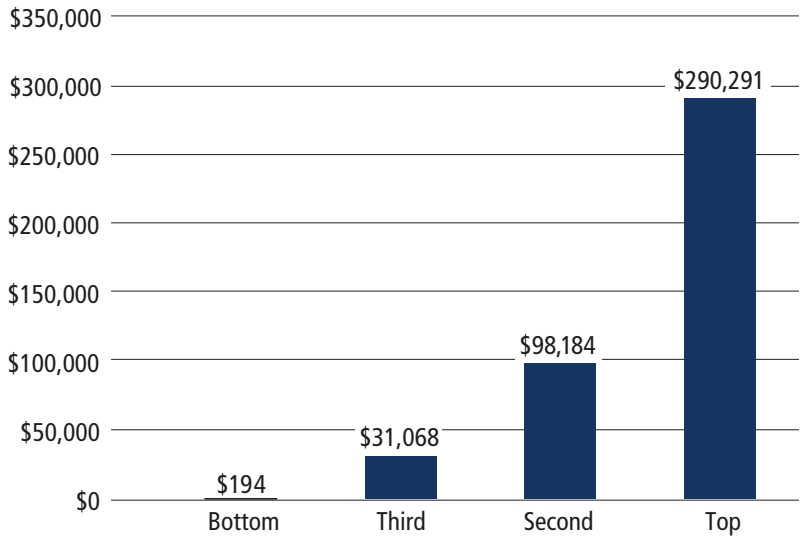


TABLE 3. SAMPLE STATISTICS FOR INTERGENERATIONAL WEALTH QUARTILES
1984 to 2003 in 2006 Dollars

	MEAN	STD. ERROR	MEDIAN	MINIMUM	MAXIMUM
1984 PARENT'S QUARTILE					
Bottom	856	277	194	-24,466	7,767
Third	31,951	933	31,068	8,157	59,146
Second	100,985	1,732	98,184	59,167	154,757
Top	553,134	76,572	290,291	155,146	18,109,709
1999-2003 OFFSPRING'S QUARTILE					
Bottom	-7,452	1,000	-651	-104,238	4,560
Third	14,183	406	13,358	4,579	27,495
Second	49,763	942	49,151	27,583	81,770
Top	300,669	24,949	189,829	82,501	3,811,269

These overall trends, however, mask significant variation by race. The bottom panels of Table 2 present intergenerational wealth mobility rates for whites and African Americans. Rows total to 100 percent so that the first row of Table 2 on page 11 indicates that of all of the 6- to 21-year-old whites whose parents were in the bottom wealth quartile in 1984, just over a third (35 percent) remain in the bottom wealth quartile nearly 20 years later, in 2003.

For African Americans, the low-wealth trap is even greater—44 percent of African Americans who grew up in the lowest wealth households stay there themselves when they reach adulthood. Altogether, three-quarters (75 percent) of African Americans who reside in families in the bottom wealth quartile as children remain in the bottom half as adults, compared with 54 percent for whites. Thus, for whites from the bottom quartile, the chances are almost 50-50 (46 percent) that they will end up in the top half of the distribution.

All the same, wealthy white parents produce children that are much more likely to hold onto their wealth than wealthy African-American parents. Over half (56 percent) of all white children raised by parents in the top wealth quartile stay in the top wealth quartile by adulthood. This is contrasted to only the 37 percent of similarly situated African Americans.

What this means is that most well-off African Americans are downwardly mobile from their parents' wealth holdings in relative terms.[10] Indeed, African Americans from families in the top quarter of the U.S. wealth distribution are almost half as likely to end up in the very bottom category as they are to stay in the top group.

These racial differences are not accounted for by differences in children's average ages. Both white and African-American children are 13 years of age, on average, when we measure their parents' wealth levels. Further, this does not necessarily mean that the offspring of African Americans are enjoying literally lower asset levels than their parents when they are downwardly mobile in terms of quartile position, though it may be true. Rather, it could just mean that African Americans whose offspring slip down a quartile or more are worse off relative to their peers in absolute terms and yet still could be better off in inflation-adjusted wealth levels than their parents in absolute terms—since the entire wealth distribution has shifted upward over time.

What are the mechanisms that help us to understand why some groups are able to hold on to wealth over generations while other groups lose their grasp on wealth holdings or simply cannot move up as fast? Over the course of American history and into the present day, there have been institutional obstacles to wealth accumulation for African Americans that were unique to their race. These are distinct from—but of course related to—discrimination and other obstacles in the labor market and education system.

These obstacles to wealth accumulation include racial discrimination in hiring and promotion practices, which lead to differences in wages between whites and African Americans, patterns of residential segregation, and overt discriminatory behavior on the part of real estate agents and lending institutions that lead to lower rates of home value appreciation among African-American communities relative to white communities.

Though the PSID data represent a marked improvement over other data sources and allow us to examine patterns of intergenerational wealth mobility, the data also present certain limitations. Namely, we are only able to look at short-term mobility patterns from individuals who were between the ages of 6 and 21 and living with their parents to the ages of 21 to 40 and in their own adult households.

One way to deal with this limitation is to compare our estimates from the above analyses to estimates of sibling and parent-child correlations in wealth. A correlation is a summative measure of movement in both rank and distance of the members of the sample. In other words, it adjusts for the relative mean and variation in the parents' and children's samples and then provides a summary measure of amount of movement in relative rank and distance between ranks across those generations (or time periods or sibling distributions).

The reason the sibling correlation is particularly useful to address the age limitations of the parent-child analysis is that the sample includes a much wider and (on average) older group. This is due to the fact that for such analysis we do not require them to have been children in their parents' households in 1984. Rather, any sibling sets from the PSID with data for any of the years wealth that is included can be studied. This means that they only had to be offspring of a PSID household extending all the way back to 1967. The mean age for this sample is 36.8.

We can read a sibling correlation as a global effect of family background—environmental and genetic factors—if we assume a model in which offspring are invested in equally (or at least that any favoritism is randomly distributed) and in which siblings cause each other to be more alike than they would be in each other's absence. It is possible that in some families, sibling dynamics are polarizing, although there is little research on this.

The general approach that we take to estimate the sibling resemblance is a variance decomposition method, following the strategy for income used by Mazumder and Levine in their paper, "The Growing Importance of Family and Community: An Analysis of Changes in the Sibling Correlation in Earnings" (2003) and Solon et al. in their paper, "A Longitudinal Analysis of Sibling Correlations in Economic Status."[11] This method is detailed in the appendix.

TABLE 4. PARENT-CHILD AND SIBLING CORRELATIONS IN WEALTH BY RACE

	TOTAL SAMPLE	WHITE	BLACK
Parent-Child	0.28	0.28	0.22
Sibling	0.78	0.79	0.37

Table 4 above indicates that parents' wealth is correlated with their adult children's wealth only at 0.28. What this means is that parents' wealth accounts for slightly less than one-third of adult offspring's wealth. This is slightly lower than the elasticity of 0.37 that Charles and Hurst report.

Sibling correlations improve upon parent-child correlations by allowing us to take into account unobserved family background factors. Findings reported in Table 6 on page 19 indicate that siblings resemble each other more than parents, and that children resemble each other (the sibling correlation is 0.78). What this means is that family background explains over three-quarters of where individuals end up on the wealth ladder.

How do we explain the contrast with the much lower parent-child correlation? It could be one or both of two factors. The first is age. As mentioned above, wealth levels tend to stabilize and peak in the high earning ages of the 40s and 50s. This could also be the time that class background (and parental wealth effects) finally "rear their heads," so to speak.

Or it could be due to other aspects of family background that cause siblings to resemble each other in terms of their net worth, but which are only weakly correlated with parents' net worth. For instance, imagine that highly educated parents produce kids that end up with high wealth levels and less educated parents produce offspring that tend to suffer from lower wealth levels. Here, the effect of family background would be strong even if the parent-child correlation were low.

Statistically modeling offspring wealth will help us sort through these potential explanations by showing which (measurable) parental factors are predictive of children's wealth levels. But before we turn to that analysis in Table 5, facing, we first run parent-child and sibling correlations by race.

When we consider racial differences in Table 4 we find that both parent-child and sibling correlations are less than half for African Americans as compared to whites (0.37 versus 0.79), suggesting that family background exerts a greater influence on whites than on African Americans. Parent-child correlations demonstrate a similar, if less dramatic, pattern.

African-American parents' wealth is correlated with their adult children's wealth at only 0.22—a figure that is lower than it is for whites (0.28). These lower sibling and parent-child correlations for African Americans vis-à-vis whites in this setting imply greater mobility for African Americans as compared to whites. Mobility, per se, is neither good nor bad. The correlations reported above indicate a high degree of circulation within the black community on measures of wealth. But this is not hard to achieve given the much "shorter" ladder (i.e. lower distribution) on which to climb up and down. Further, this, of course, complements the picture pro-

vided by the quartile tables, where African Americans were more likely to experience downward mobility in objective terms (i.e. with respect to all Americans).

A key difference, however, is that by definition correlations are based on within-group shifts in relative position. This means that within the African-American community, there is more shifting. Of course, that in itself may be a result of a squashed wealth distribution in which the absolute difference between the top and the bottom is not so great.

In sum, what this means is that parental status explains less of children's status for African Americans, and this is reflected in both overall greater variation between parents and children's statuses (when considered within the black population) as well as increased downward movement for African-American children as compared to their parents (when considered in the overall American distribution).

We can now explore the salience of various mechanisms in explaining the intergenerational wealth-transmission processes. Table 5 below presents an analysis of adults' wealth outcomes in 2003 by their own characteristics and their parents' characteristics. We separate the models by race to explore how mechanisms differ between whites and blacks. This multivariate regression helps

TABLE 5. OLS REGRESSION PREDICTING 1999-2003 LOG WEALTH BY 2003 CHARACTERISTICS AND 1984 PARENTAL CHARACTERISTICS (STANDARD ERROR)

	WHITE						BLACK					
	Model 1		Model 2		Model 3		Model 1		Model 2		Model 2	
	B	Std. B	B	Std. B	B	Std. B	B	Std. B	B	Std. B	B	Std. B
Female	-0.30	-0.04	-0.21	-0.03	-0.11	-0.01	-1.47**	-0.18	-0.29	-0.03	-0.34	-0.04
	(0.32)		(0.30)		(0.30)		(0.67)		(0.53)		(0.45)	
Age	0.15***	0.18	0.09***	0.10	0.06*	0.07	0.25***	0.27	0.15***	0.16	0.11**	0.12
	(0.03)		(0.03)		(0.03)		(0.07)		(0.05)		(0.05)	
Married	0.97***	0.12	-0.24	-0.03	-0.23	-0.03	0.45	0.05	-0.58	-0.06	-0.68	-0.07
	(0.35)		(0.35)		(0.35)		(0.81)		(0.66)		(0.58)	
Education	0.31***	0.16	-0.02	-0.01	-0.04	-0.02	0.50***	0.24	-0.11	-0.05	-0.19*	-0.09
	(0.08)		(0.09)		(0.10)		(0.19)		(0.12)		(0.10)	
Household Income			2.78***	0.43	2.76***	0.43			3.60***	0.61	3.38***	0.59
			(0.32)		(0.33)				(0.31)		(0.34)	
Value of Inheritance			0.03	0.04	0.02	0.03			0.10*	0.08	0.07	0.06
			(0.03)		(0.03)				(0.05)		(0.05)	
Parental Wealth in 1984					0.32***	0.19					0.15**	0.16
					(0.08)						(0.07)	
Parental Income in 1984					-0.18**	-0.05					0.07	0.01
					(0.08)						(0.39)	
Parental Education in 1984					-0.09	-0.06					0.08	0.06
					(0.07)						(0.11)	
Constant	2.63**		-22.00***		-21.60***		-0.89		-30.22***		-28.87***	
	(1.06)		(2.84)		(2.76)		(2.79)		(3.39)		(3.98)	
Observations	624		624		623		325		325		324	
R-Squared	0.09		0.21		0.24		0.16		0.42		0.46	

us to understand how one factor, such as income, is associated with wealth while we hold constant all of the other factors.

Thus, we can see that for whites in Model 3, income is positively associated with wealth, net of the effect of inheritance, race, age, education, and other important mechanisms. We present unstandardized and standardized regression coefficients as standardized regression coefficients (which adjust for different scales and units) to help us to understand which factors have the largest effect on wealth accumulation.

Figures 2 and 3 plot the relative effect that each mechanism has on white wealth attainment and on black wealth attainment. The bars below zero indicate that the mechanism reduces wealth while the bars above zero indicate that the mechanism increases wealth.

For whites, in the intergenerational sample, we find that children's age, their own income, and their *parents'* wealth levels are correlated with their own wealth in 2003. The strongest predictor of children's wealth in 2003 (denoted by the standardized coefficient and shown in Figure 2) is their own family income in 2003. What you make and what your spouse makes largely explains how much you own. Of course, this is expected and suggests that any serious program to foster equal opportunity to acquire wealth must not neglect the labor market fortunes of families.

This mechanism, however, is followed in importance by parental wealth levels. Our findings do not imply that education does not matter. Instead, as we can see from Models 1 to 2, education affects wealth attainment indirectly through its effect on children's own income.[12] Likewise, parental education affects children's wealth, but it does so through other factors such as children's education. Also, parental income strongly affects parents' own wealth, which, in turn, affects the asset levels of their offspring.

This finding is consistent with prior research that shows that income levels work to maintain consumption levels and provide the grist for savings but do not directly provide resources for transfers and so on. In other words, for income to affect offspring's own wealth, it first must be accumulated through savings—it must be turned into wealth.

There is one quizzical result from this analysis, however. For whites, parental income has a negative effect. But we must not read too much into this. The effect—as shown in Figure 2—is quite small in comparative terms. Further, we must keep in mind that it is difficult to interpret: With small samples it is hard to imagine what kind of "net" effect we may be picking up when we are holding constant all these other factors (most notably offspring's own income and parental wealth). This may, for example, be reverse causality or spuriousness: Higher anticipated offspring wealth, for instance, may drive down parental work commitment. Or this may be simply a statistical artifact. A similar dynamic may explain the negative effect of offspring's education level on offspring wealth for the black sample: It could be an artifact of over-controlling for indirect effects given a small sample (indeed in model 1, the effect is strong and in the positive direction when income and parental economic status is not factored out). Or it could reflect some trade off between educational expenses and capital growth (vis-à-vis student loan debt, for instance).

FIGURE 2. RELATIVE EFFECTS OF STATISTICALLY SIGNIFICANT MECHANISMS ON ADULT CHILDREN'S WEALTH ATTAINMENT: WHITES

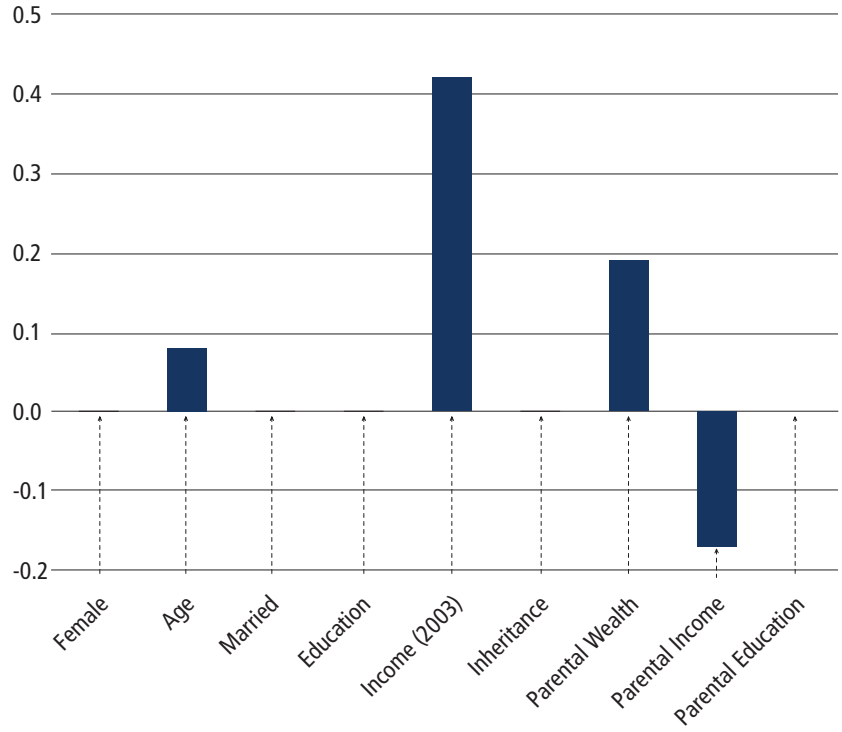
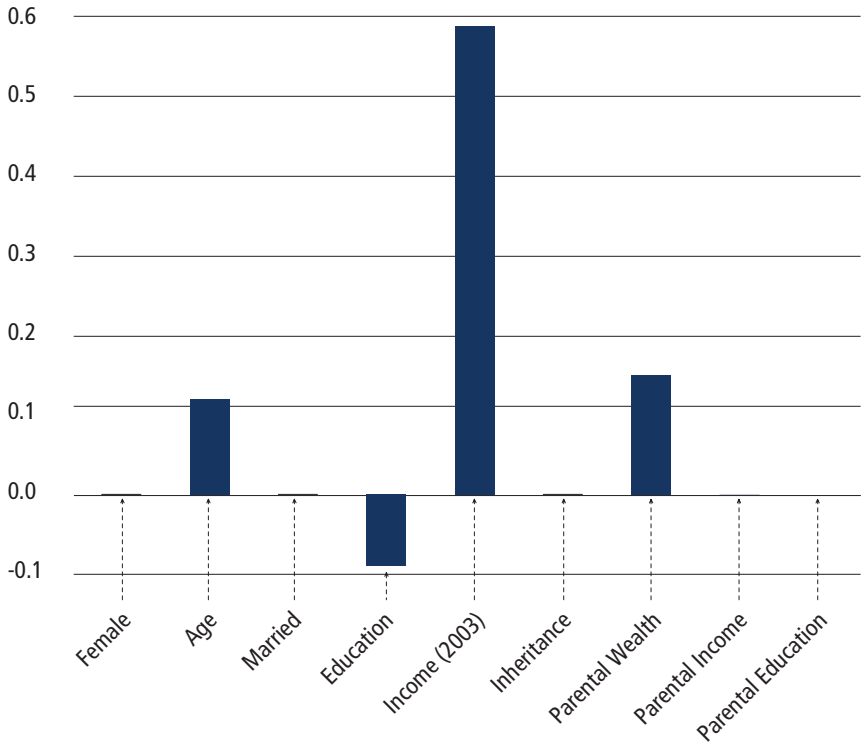


FIGURE 3. RELATIVE EFFECTS OF STATISTICALLY SIGNIFICANT MECHANISMS ON ADULT CHILDREN'S WEALTH ATTAINMENT: BLACKS



Intragenerational Wealth Mobility

In this section, we address the issue of intragenerational wealth mobility—or, the wealth mobility of an individual over a 20-year period. We first address this question for the population as a whole—mobility differences based on where in the wealth distribution one begins—then turn our attention to a number of questions related to racial differences in wealth mobility.

Table 6 facing presents intragenerational quartile movement. The population trends that we saw for intergenerational wealth mobility are again found for intragenerational wealth mobility. As with Table 2, the rows in Table 6 add to 100 percent so that we can understand how those in the bottom, fourth, third, second, or top quartiles as 25- to 45-year-olds in 1984 end up 19 years later.

What we find is that it is much easier for individuals to hold on to their high wealth levels than for individuals to move into high wealth levels. A full 58 percent of individuals in our sample in the top wealth quartile—that is, those whose median wealth in 1984 was about $209,418 (see Table 7 facing)—hold on to their high wealth ranking 20 years later, when the median for the top quartile has risen to over $608,000. For individuals who are in the bottom wealth quartile as 25- to 45-year-olds in 1984, only 4 percent move to the top wealth quartile 20 years later.

In other words, where you start out, either as a child or as a young adult, has a large effect on where you end up. For instance, if you start out in the bottom quarter of the wealth distribution, it is more likely that you will remain in that bottom quarter of the population 20 years later than make it into any of the other three quartiles (58 percent versus 42 percent), and you have a more than three-quarters chance of staying in the bottom half (87 percent). If you start out in the second-to-bottom quartile, then you still suffer from a two-in-three chance of remaining in the bottom 50 percent and only a 10 percent chance of ending up in the top bracket.

The bottom panels of Table 6 present quartile movement for whites and for African Americans. Forty-four percent of whites who were in the bottom wealth quartile as 25- to 45-year-olds in 1984 remain there 20 years later. If that sounds bad in terms of opportunities for upward mobility, for African Americans the picture is much bleaker. Of those who begin in the bottom wealth quartile, over two-thirds, 68 percent, remain stuck there 20 years later. And of those who do experience upward mobility, only 2 percent move from the bottom to the top, and only 10 percent move from the bottom quartile to the top half of the distribution.

The picture looks just as bleak in terms of racial inequality in downward intragenerational mobility. For African Americans who were in the top wealth quartile as 25- to 45-year-olds in 1984, fewer than a quarter (22 percent) remain in the top quartile 20 years later. The figure is much larger for whites, as 60 percent of whites in our sample who were in the top quartile in 1984 remain in the top wealth quartile 20 years later.

Moreover, whites do not fall to the lower quartiles as frequently as African Americans. Almost half of African Americans in the top quartile (47 percent) end up in the bottom half of the distribution 20 years later. Almost a quarter (22 percent) of the African Americans in the second quartile and even 19 percent of African Americans in the top quartile end up in the very bottom 19 years later. This figure is not nearly as high for whites.

TABLE 6. INTRAGENERATIONAL QUARTILE MOBILITY IN WEALTH BY RACE (PERCENTAGES)

TOTAL SAMPLE 1999-2003				
	Bottom	Third	Second	Top
Total Sample 1984				
Bottom	58	29	9	4
Third	24	38	28	10
Second	12	23	37	28
Top	7	11	25	58
WHITE 1999-2003				
	Bottom	Third	Second	Top
White 1984				
Bottom	44	26	18	13
Third	24	35	27	15
Second	6	25	40	28
Top	3	8	28	60
BLACK 1999-2003				
	Bottom	Third	Second	Top
Black 1984				
Bottom	68	22	8	2
Third	39	43	16	3
Second	22	43	24	10
Top	19	28	31	22

TABLE 7. SAMPLE STATISTICS FOR INTRAGENERATIONAL WEALTH QUARTILES
1984 to 2003 in 2006 Dollars

	MEAN	STD. ERROR	MEDIAN	MINIMUM	MAXIMUM
1984 Quartile					
Bottom	-5,090	2,241	0	-966,971	5,767
Third	19,462	436	18,447	5,825	38,835
Second	70,573	920	68,041	38,889	113,981
Top	409,922	45,096	209,418	114,563	17,552,379
1999-2003 Quartile					
Bottom	7,604	753	5,825	-155,115	34,776
Third	70,485	1,014	68,343	34,835	115,924
Second	200,416	2,557	192,427	116,034	316,112
Top	1,112,732	102,024	608,295	316,392	36,760,374

Just 3 percent of whites who leave the top wealth quartile end up in the bottom quartile 20 years later.

This racial difference is striking—a six-fold difference in the likelihood of "falling from grace" for wealthy African Americans as compared to wealthy whites. This finding also challenges the notion that, irrespective of race, once people make it to the top of the wealth ladder they are safe. These data suggest that if you are African American, the American Dream may be much more fleeting than if you are white.[13]

Table 8 facing shows intragenerational correlations in wealth over the 19-year period for the total population and separately for all whites and then for all African Americans. Correlations are different from mobility tables since they provide an overall measure of relative movement. Furthermore, in the case of race differences, they provide estimates of mobility (upward and downward) within the race categories—that is, as if there were two societies.

The total population intragenerational correlation in wealth over the 19-year period is 0.47. The correlation for African Americans is only slightly lower than that for whites (at 0.38 and 0.39, respectively). When we compare these results to the overall population intergenerational correlation between parents and children (see Table 4 on page 14), we see that individuals experience transitions in wealth slightly less in their own adult lifetime than between their parents' and their own adulthoods. That is, there is more stickiness in the relative wealth status of an individual at two points in his or her lifetime as compared to the wealth of parents and children.

One of the factors that contributes to the intragenerational wealth mobility process is inheritance—even for a relatively young cohort such as this one. Inheritance may be one mechanism that explains why certain groups rise and fall over the 20-year time period.

In the next set of analyses, we examine rates of inheritances in 1984 and in the 2001-to-2003 period. The PSID asked individuals about inheritances in multiple years. In 1984 and between 1988 and 2003 individuals were asked about the amount of all inheritance money received (if any) in the past year. Values were top-coded at $9,999,996.

Between 1985 and 1987 individuals were only asked if they received a lump sum payment and its amount. We added up individuals' responses across years to get their likelihood of ever receiving an inheritance between 1983 and 2003 and the total value of all inheritances received between 1983 and 2003. As with income and wealth, values were standardized to 2006 dollars before summing. Table 1 indicates that about 42 percent of individuals in the intergenerational sample inherited at least once between 1983 and 2003, and 47 percent of individuals in the intragenerational sample inherited money at least once.

Our findings also indicate that whites are much more likely to inherit money than African Americans. Between 1984 and 2003, over 50 percent of whites between the ages of 25 and 55 had inherited money, whereas just over 24 percent of African Americans had inherited money. Of those who did inherit, whites received more. The median value of inheritance for whites is $21,104 (in 2006 dollars) and the median value of inheritance for African Americans is $5,886 (also in 2006 dollars).

We should, however, interpret these inheritance data with a grain of salt since the sample of offspring (and parents) is relatively young—meaning that the lion's share of bequests (which generally take place upon the death of the second parent) have not yet happened.

Table 9 below presents a basic regression predicting the logged value of 1999 to 2003 wealth separately for whites and blacks. This multivariate regression helps us to understand how various factors affect wealth independently of other important variables in the model. Figures 3 and 4 depict the relative magnitudes of each statistically significant factor for whites and blacks. We find that for both whites and blacks, family income has the largest effect on wealth, which echoes our findings from intergenerational models. For whites, along with age, sex, and married status, inheritance is a significant mechanism that explains wealth.

TABLE 8: INTRAGENERATIONAL CORRELATIONS IN WEALTH
1984 to 1999-2003 by Race (standard errors)

TOTAL POPULATION	WHITE	BLACK
0.47	0.39	0.38
(0.00)	(0.00)	(0.00)

TABLE 9. OLS REGRESSION PREDICTING 1999-2003 LOG WEALTH BY 2003 CHARACTERISTICS AND 1984 LOG WEALTH AND INCOME (STANDARD ERROR)

	WHITE						BLACK					
	Model 1		Model 2		Model 3		Model 1		Model 2		Model 2	
	B	Std. B	B	Std. B	B	Std. B	B	Std. B	B	Std. B	B	Std. B
Female	0.25	0.05	0.32**	0.06	0.31**	0.06	-0.96**	-0.13	-0.61*	-0.08	-0.53	-0.07
	(0.16)		(0.15)		(0.15)		(0.41)		(0.35)		(0.37)	
Age	0.07***	0.15	0.08***	0.16	0.04***	0.09	0.14***	0.24	0.15***	0.25	0.12***	0.20
	(0.01)		(0.01)		(0.02)		(0.04)		(0.03)		(0.04)	
Married	1.85***	0.32	0.78***	0.13	0.66***	0.11	1.79***	0.24	0.32	0.04	0.30	0.04
	(0.22)		(0.22)		(0.22)		(0.37)		(0.35)		(0.35)	
Education	0.21***	0.19	0.03	0.02	0.04	0.03	0.32***	0.22	0.06	0.04	0.05	0.03
	(0.04)		(0.03)		(0.03)		(0.08)		(0.09)		(0.09)	
Household Income			1.64***	0.45	1.49***	0.41			2.06***	0.49	1.80***	0.43
			(0.16)		(0.17)				(0.30)		(0.33)	
Value of Inheritance			0.03**	0.06	0.03**	0.06			-0.02	-0.01	-0.01	-0.01
			(0.01)		(0.01)				(0.06)		(0.06)	
Household Wealth in 1984					0.19***	0.22					0.06	0.08
					(0.04)						(0.06)	
Household Income in 1984					-0.04	-0.01					0.31	0.08
					(0.09)						(0.28)	
Constant	5.11***		-10.64***		-9.29***		0.60		-17.70***		-17.46***	
	(0.76)		(1.91)		(1.90)		(1.85)		(3.44)		(4.15)	
Observations	988		923		923		466		456		456	
R-Squared	0.16		0.30		0.34		0.18		0.33		0.34	

Lastly, these results point to the salience of marital status. Since wealth is collectively held, households with two contributors—and the returns to scale that cohabitation brings—are better off, wealth wise. However, this is highly endogenous—meaning that wealth security may also be highly conducive to marital formation and stability, making the take-home message about the role of policy in this regard ambiguous (and hence a reason we did not examine this issue directly).

FIGURE 4. RELATIVE EFFECTS OF STATISTICALLY SIGNIFICANT MECHANISMS ON ADULT INTRAGENERATION WEALTH ATTAINMENT: WHITES

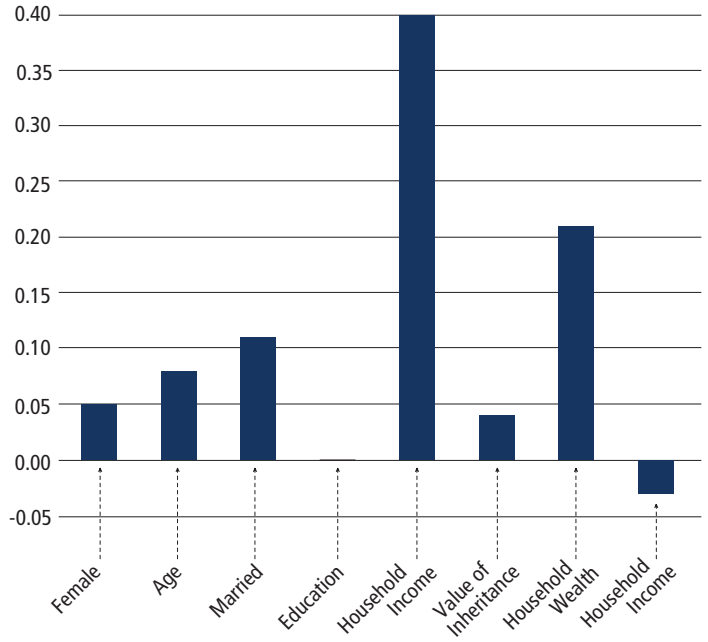
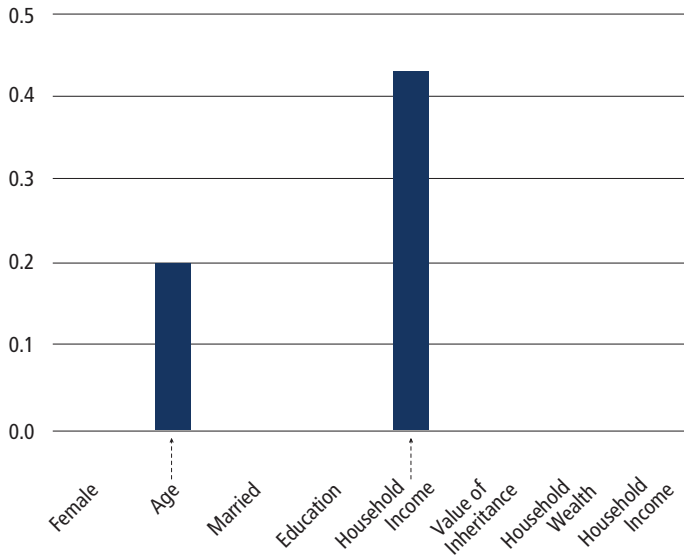


FIGURE 5. RELATIVE EFFECTS OF STATISTICALLY SIGNIFICANT MECHANISMS ON ADULT INTRAGENERATION WEALTH ATTAINMENT: BLACKS



Intragenerational Volatility in Wealth

Our final dimension for analyzing wealth mobility is to look at the issue of wealth volatility, or the year-to-year fluctuations in wealth. This is important because it tells us the degree to which families have experienced income shocks severe enough to have to dip significantly into their wealth buffer.

We find that there is substantial wealth volatility among the U.S. population. Table 10 presents mean and median values of inflation-adjusted changes in wealth over four time periods: 1984-1989; 1989-1994; 1994-1999; 1999-2001; and 2001-2003. For all time periods, whites experience an increase in their mean and median wealth. African Americans also tend to accumulate wealth over their adulthoods but in much smaller amounts.

For example, the median wealth increase between 1984 and 1989 is $1,854 for African Americans and $16,434 for whites.

Table 11 on page 24 presents a more specific analysis of wealth losses over time. Because we would expect individuals to spend their wealth during retirement years, our sample consists of pre-retirement adults. Thus, a drop in wealth for this working-age population may indicate a significant event, perhaps related to shocks in their health or their job, or to an event of more limited magnitude such as college tuition payments or moderate housing or stock price fluctuations.

Our analysis of the data finds that a significant proportion of individuals in the United States experience at least one $1,000 drop in wealth. African Americans and whites have a similar average number of a $1,000 drop in wealth over the 20-year time period. Over one-third of whites experience a drop of at least $1,000 and over a third of all African Americans experience a drop of at least $1,000.

Whites have more wealth to begin with and are more likely than African Americans to experience a drop of $50,000 or even $100,000. Twenty-three percent of whites, for example, experienced a wealth loss of $50,000 or more in the period between 1999 and 2003—a time of stock market troubles and the data waves with the greatest proportion of families losing wealth.

In contrast, 18 percent of African Americans experienced a loss of $50,000 or more during this period. When we look at families with losses of $100,000 or more over this two year period, we find that 10 percent of black families experienced such a decline in net worth while 16 percent of white families did. Of course, in percentage terms these figures

TABLE 10. INTRAGENERATIONAL VOLATILITY IN WEALTH: CHANGE FROM 1984 TO 2003 (2006 DOLLARS)

CHANGE BETWEEN:	1984-1989	1989-1994	1994-1999	1999-2001	2001-2003
Total Sample					
Mean	100,546	37,126	75,184	68,837	61,209
Standard error of mean	(22,668)	(18,646)	(19,075)	(23,627)	(28,222)
Median	12,540	14,989	18,650	8,939	4,101
White					
Mean	113,276	36,759	84,311	74,446	67,165
Standard error of mean	(29,709)	(24,379)	(24,758)	(30,618)	(36,839)
Median	16,434	16,959	24,009	11,962	6,134
Black					
Mean	16,962	39,543	14,803	31,773	21,849
Standard error of mean	(3,744)	(6,797)	(13,805)	(18,777)	(15,683)
Median	1,854	2,620	1,600	2,420	0

TABLE 11. INTRAGENERATIONAL LOSS OF WEALTH: CHANGE FROM 1984 TO 2003 (2006 DOLLARS)

CHANGE BETWEEN:	1984-1989	1989-1994	1994-1999	1999-2001	2001-2003
White					
Mean with $1,000 Loss	0.35	0.37	0.34	0.40	0.43
Standard error	0.02	0.02	0.01	0.02	0.02
Median value (for those with a loss)	-27,159	-47,878	-49,309	-50,953	-57,628
Mean with $10,000 Loss	0.27	0.31	0.28	0.33	0.0307
Standard error	0.01	0.01	0.01	0.01	0.02
Median value (for those with a loss)	-38,940	-66,001	-71,175	-70,204	-75,721
Mean with $50,000 Loss	0.12	0.18	0.17	0.20	0.23
Standard error	0.01	0.01	0.01	0.01	0.01
Median value (for those with a loss)	-104,196	-134,672	-180,323	-171,583	-153,219
Mean with $100,000 Loss	0.06	0.11	0.11	0.14	0.16
Standard error	0.01	0.01	0.01	0.01	0.01
Median value (for those with a loss)	-182,493	-202,551	-254,886	-256,411	-233,061
Black					
Mean with $1,000 Loss	0.34	0.36	0.40	0.39	0.45
Standard error	0.02	0.02	0.02	0.02	0.02
Median value (for those with a loss)	-17,473	-13,771	-28,392	-16,281	-35,289
Mean with $10,000 Loss	0.22	0.23	0.32	0.25	0.37
Standard error	0.02	0.02	0.02	0.02	0.02
Median value (for those with a loss)	-28,025	-40,262	-35,744	-30,333	-47,981
Mean with 50,000 Loss	0.06	0.07	0.14	0.09	0.18
Standard error	0.01	0.01	0.02	0.01	0.02
Median value (for those with a loss)	-75,411	-85,777	-120,433	-116,335	-120,693
Mean with $100,000 Loss	0.02	0.03	0.09	0.05	0.10
Standard error	0.01	0.01	0.01	0.01	0.01
Median value (for those with a loss)	-167,918	-178,409	-145,112	-198,487	-166,130

would likely represent a much greater share of the African-American household's wealth.

These results suggest that even for those people who do manage to accumulate some wealth, economic insecurity is a very real issue. For many middle-class families, wealth is the only safety net they have. Sudden and dramatic shocks to that safety net can have dire economic consequences.

We must keep in mind that assets are supposed to act as the buffer to smooth consumption as well as investment in healthy children when families experience income shocks. These results, however, show that rather than going up and down by modest amounts to smooth out the rough edges, many American families are experiencing wild shifts in their wealth levels, which is particularly troubling when viewed in combination with higher income volatility in recent years.

In fact, bankruptcy filings have steadily risen over the last few decades, particularly thanks to a liberalization of credit laws in 1978. Between 1980 and 2004, personal bankruptcy filings rose by more than 400 percent. In 2001, for instance, there were almost 1.5 million filings in the United States. Over half of these individuals had owned their home. Over half had gone to college. Most were triggered by medical expenses, even for those who did have insurance; over three-quarters of the individuals who filed medical-related bankruptcies had insurance at the onset of the illness/injury that ultimately triggered the bankruptcy. These data suggest that health financing policy is key to wealth security.

Another factor that is probably driving these results is the churning of American families. As in the case of total household income volatility, wealth drops may be related to household dissolution through divorce, separation, or the end of cohabitation. Demographer Andrew Cherlin has shown, for example, that over a quarter of American children experience two or more mothers' partners by the time they are 15. Meanwhile, one in twelve (8.2 percent) experience three or more maternal domestic partners, according to research by Cherlin in his forthcoming book *American Marriage-Go-Round*. All this moving in and out of people (and their assets) may contribute to the volatility we are witnessing in the data.

Income Mobility and Wealth Mobility Comparisons

In the final section of this report, we compare mobility in income to mobility in wealth. Table 12 facing presents the income mobility results. Only 9 percent of individuals moved from their parents' bottom wealth quartile to the top wealth quartile as adults (as we detailed in Table 2 on page 11). This 9 percent figure is identical to results for income. Table 12 also shows that 4 percent of individuals move from their parents' bottom income quartile to the top income quartile as adults.

Downward mobility trends in wealth and income appear to be similar. Only about half of adult children remain in the top income (58 percent) and wealth quartiles (55 percent) if they were in the top quartiles as children. This is a similar finding to American University economist Tom Hertz's finding of 66 percent of children from the top income quartile remaining in the top or near-top income quartile in adulthood.[14]

If we add the second quartile as a destination to our analysis, we find that 82 percent of children in the top income quartile end up in the top half of the distribution as young adults. The corresponding figure for wealth is 76 percent.

The bottom panels of Table 12 break out this analysis by race. We find that African Americans have much more trouble reproducing their parents' income advantages than do whites. Only 22 percent of African-American offspring manage to remain in the top quartile as adults. In fact, it is almost as likely that they end up at the very bottom quartile (19 percent). It appears that high income has barely any class reproductive power for advantaged African-American families.

In contrast, over half (68 percent) of African-American offspring who grew up in low-income families remain there as adults, compared to only 44 percent of low-income whites. In sum, the story for African-American intergenerational mobility is actually worse for income—a measure that in the cross-section is more equally distributed by race than is wealth—than it is for wealth. Blacks are less likely to get out of the bottom income quartile and less likely to remain in the top income quartile across generations than they are, respectively, in terms of the net worth distribution.[15]

In terms of intragenerational mobility, we find that income and wealth function similarly. More than half (58 percent) of U.S. individuals fail to move up from the bottom wealth quartile (see Table 6 on page 19). Similarly, 57 percent of U.S. individuals in our sample remain in the bottom income quartile across two decades (see Table 13).

Yet, while over 58 percent of individuals hold on to the top wealth ranking, only 51 percent of individuals hold on to the top income position (see Table 13 on page 28). Thus, the wealthy elite are able to hold on to their wealth status over a 20-year time period slightly more than the income status elite. This means that if pundits and policy makers focus exclusively on income when discussing opportunity and mobility in American society for a given generation, they will be missing much of the basis for economic stagnation and reproduction. A full discussion of all family economic resources—income and wealth—reveals a society with much less fluidity in a single generation than we are used to considering.

Of course, these summative statistics mask significant variation by race. Only 37 percent of high-income African Americans are able to hold on to that position two decades later—compared to more than half (52 percent) of high-income whites. The African-American figure is better than the 22 percent of African Americans who hold on to their top wealth quartile status over the same period; the figure for high-wealth whites is 60 percent.

Likewise, 69 percent of blacks who were low income in 1984 stay there between 1999 and 2003. For whites, the corresponding figure is 43 percent. These figures, too, are similar to the racial

TABLE 12. INTERGENERATIONAL QUARTILE MOBILITY IN INCOME BY RACE (PERCENTAGES)

	TOTAL SAMPLE OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
Total Sample Parents 1984				
Bottom	58	29	9	4
Third	24	38	28	10
Second	12	23	37	30
Top	7	11	25	60
	WHITE OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
White Parents 1984				
Bottom	44	26	18	13
Third	24	35	27	15
Second	6	25	40	28
Top	3	8	28	60
	BLACK OFFSPRING 1999-2003			
	Bottom	Third	Second	Top
Black Parents 1984				
Bottom	68	22	8	2
Third	39	43	16	3
Second	22	43	24	10
Top	19	28	31	22

breakdown for intragenerational wealth mobility: 68 percent of African Americans and 44 percent of whites in the bottom wealth category stay there two decades later (See Table 6 on page 19).

These racial differences in both income and wealth mobility (and lack thereof) are dramatic, and suggest that snapshots of income or wealth mask the depth (and duration) of racial economic inequality in the contemporary United States. Not only are African Americans underrepresented in the top income and wealth categories (and conversely, overrepresented among the bottom groups), single point measures understate the degree of these tendencies.

TABLE 13. INTRAGENERATIONAL QUARTILE MOBILITY IN INCOME BY RACE (PERCENTAGES)

	TOTAL SAMPLE 1999-2003			
	Bottom	**Third**	**Second**	**Top**
Total Sample 1984				
Bottom	57	23	12	7
Third	25	36	27	13
Second	12	24	35	29
Top	6	17	26	51
	WHITE 1999-2003			
	Bottom	**Third**	**Second**	**Top**
White 1984				
Bottom	43	27	18	13
Third	18	33	33	16
Second	10	22	35	33
Top	6	15	27	52
	BLACK 1999-2003			
	Bottom	**Third**	**Second**	**Top**
Black 1984				
Bottom	69	20	7	3
Third	38	42	15	5
Second	19	34	32	15
Top	11	33	19	37

Conclusions and Implications

Researchers, policy makers and pundits have—up till now—generally ignored a highly significant aspect of American families' economic status by focusing primarily on family income at the expense of household wealth. In an age of high and rising college tuition, of exorbitant medical bills, and increased income volatility, it is important to get a complete picture of the economic trajectories of American families, one that counts all resources and tracks them over time.

This is the gap that the current report aimed to fill by focusing on wealth and wealth transitions over an individual's own adulthood and across generations. Our analysis of the PSID database resulted in the following conclusions.

First off, there is a high degree of wealth inequality in the United States as compared to income inequality. American families experience a high degree of instability in their own wealth levels. More than half experience a substantial drop in their assets, pre-retirement (25 percent or more). A quarter of all American families lose all their wealth at some point.

That said, when one examines longer trajectories, there is a relatively low degree of wealth mobility across and within generations—particularly at the ends of the distribution. For instance, less than 7 percent of individuals move from the bottom wealth quartile to the top wealth quartile in their own adult lifetime. Over 55 percent of individuals who are in the top wealth quartile as 25- to 44-year-olds remain in the top wealth quartile 15 to 20 years later.

Perhaps more disturbing, this pattern holds across generations and not just within them. Less than 10 percent of children who grow up in families in the bottom wealth quartile reach high-wealth levels by adulthood. Over 55 percent of children who grow up in families in the top wealth quartile hold on to their high-wealth levels by adulthood. Indeed, which family an individual comes from explains three-quarters of where they end up on the wealth ladder in American society.

These overall figures mask two societies when it comes to wealth: one black and one white. For African Americans, family background explains less than 40 percent of where they end up as adults. This is largely due to a high degree of downward mobility. Indeed, African-American adults who are in the top quarter of the wealth distribution are more likely to end up in the bottom half (26 percent) of the wealth distribution two decades later than to retain their ranking in the top quarter (24 percent).

For intergenerational wealth trajectories, the story is only slightly better. African Americans who grew up in a high-wealth household are almost as likely to end up in the bottom half of the wealth distribution as they are to remain in their parents' bracket (26 percent versus 37 percent).

A few qualifications are in order here. Due to limited sample sizes, we were forced to explain mobility in terms of quartiles. Obviously, quartiles of the American population— the white population or the black population—are huge groupings and obscure much variation. This can work in two ways.

First, there may be much more mobility than we document here, albeit in smaller degrees, taking place within quartiles. Or alternatively, the quartiles are large enough to obscure huge differences in wealth levels. For instance, when we document the greater likelihood of blacks falling from the top quartile as compared to whites, we are not necessarily comparing equally distant "falls from grace." Statistically, a black family in the top quartile is much more likely to be sitting at the bottom of that category, making slippage into the next quartile much more likely than for the corresponding white family who is much more likely to enjoy significant distance between their wealth levels and the lower boundary of the quartile.

Another limitation of the data set is its racially dichotomous nature. The United States is certainly not a black and white country. Indeed, Latinos now form the biggest minority group. Yet this rather diverse group and other equally diverse racial categories, such as Asian Americans or Native Americans, are not represented in the preceding analysis. This is due to vagaries of the data set under consideration. It is a particular demographic snapshot of American households—one that was representative in 1968, when Latinos were less numerous in the U.S. population (and, still, under counted).

The particular time period during which the data were gathered has other implications for our analysis. If the PSID had asked about wealth every year—particularly if they had begun asking in earlier survey years (back to its initiation in 1968)—then we might have been able to separate out period and age effects. In other words, we might have been able to discern trends in the intergenerational and intragenerational transmission and stability of net worth had we had full wealth data for every year of the PSID.

What's more, with wealth data in earlier survey waves, we would have been able to follow offspring further into their adulthood, when wealth levels tend to stabilize. In other words, part of the intergenerational mobility we are observing may be due to the relatively young age profile of the offspring. If studies of income mobility are any indication, then the amount of intergenerational mobility is overstated here due to the relatively young ages of the second generation.[16] (Solon 1992). It is unlikely, for example, that significant wealth transfers have occurred through bequests yet.

That said, the implications of these data limitations for racial differences in wealth mobility are unclear. We would be hesitant to conclude that the lower intergenerational stability in wealth position for those blacks born to top quartile parents is due to the age profile, since as compared to top quartile white parents these black parents have relatively less wealth to transfer to their offspring.

Age effects aside, the particular cohorts we examined may also be unique. First, the period we studied, 1984-2003, represents a time period after the civil rights triumphs of the 1960s. In many ways, this is ideal for examining the current state of racial differences. That said, it is unclear how the dynamics we described—particularly for the intergenerational analysis—might apply to older African Americans who came of age in an era of de jure segregation and discrimination.

But before we conclude that older generations of African Americans would have had a worse time attaining and securing assets, we must keep in mind that in prior eras, blacks who managed to attain high socioeconomic status did so in what was arguably a more adverse socioeconomic climate, which might have resulted in a greater ability to retain such advantages. Indeed, a recent Pew report (which relied on the same data set as this study) showed that blacks born to parents at the 50th percentile (in terms of income) were more likely than not to end up in the bottom two quartiles as adults.[17]

Likewise, since the above analysis preceded the subprime mortgage crisis, it is unclear how much worse the situation for African-American wealth may be now. Importantly, though, when we performed the above analysis excluding primary residence equity the patterns were relatively unchanged—though the absolute levels of wealth were obviously lower overall and particularly lower for African Americans since their wealth is disproportionately held in the form of the family home. (These tables are available from authors upon request)

These caveats should not prevent us from asking the following question: What is the right degree of intergenerational relative wealth mobility? Parents want to be able to pass on the fruits of their savings to their children. Yet a society in which parental wealth levels are the dominant driver of children's relative wealth levels is again akin to a caste society—or at least seriously calls into question the notion of meritocracy and the American Dream of hard work, saving, and a rise in fortunes.

Further, taken together, these sets of findings illustrate that the federal government needs to provide individuals with the opportunity for wealth accumulation over their lifetimes. To do that, we need to focus on providing them with direct mechanisms to accumulate wealth such as universal savings accounts, baby bonds, and matched individual retirement accounts.

Families do not generally pay for college tuitions, home down payments, or start-up business expenses by offering part of a month's paycheck out of a revolving account. They generally have to cash in accumulated assets of some form—more or less liquid. These results suggest that in order to break intergenerational cycles of wealth poverty, we must focus not only on the income and education of this generation, but also on their wealth levels, since the opportunity for children in the next generation to accumulate wealth will be critically influenced by the wealth of their parents in this generation.

But these results also indicate the need to provide more educational opportunity and earnings potential for the least advantaged members of American

society. Without adequate incomes, families cannot save, no matter what the policy incentives to do so are.

A recent report, "Economic Mobility: Is the American Dream Alive and Well?" by the Pew Charitable Trust, Economic Mobility Project, calls these various versions of society the:

- Fortune Cookie society, in which there is no effect of class of origin on how offspring end up
- Caste society, in which the effect of family background is almost total
- Meritocratic society, which is somewhere between these two extremes

We find that over three-quarters of the variation in where folks end up on the wealth ladder is due to what family they came from—too close to a caste-like society.

But when we look at the effects of parents' wealth per se on children's wealth levels, it explains less than half of this "family" effect. This means that there are many family mechanisms other than direct wealth transfers that are affecting an offspring's accumulation of wealth over a lifetime. Still, of the things we can measure, parental wealth levels and inheritance dynamics are the two most important background factors that influence filial wealth outcomes.

These wealth-concentration mechanisms, of course, can be affected by a range of policies. First and foremost, there is the policy principle of discouraging the cumulative concentration of wealth within and across generations to the extent that this limits opportunities for others to save and accumulate assets or achieve the American Dream in other ways. An example of a policy keeping with this principle would be the estate tax and the gift tax, which directly affects (at least at the top end, currently) how much inheritance will play a role in individual wealth accumulation.

A second policy principle is to attempt to make wealth less important for other important outcomes, such as the education levels of offspring. For example, we see that one's own income is the single strongest predictor of one's own wealth levels (and indeed the causation may go in two directions here). Yet we also know that education, in turn, predicts income to a large extent. If we severed the link between local property values and school funding to a greater extent, then we might lessen the "indirect" effect of parental wealth on one's own wealth.

Why is this important? While it would seem legitimate and efficient—that is meritocratic—in a capitalist system for one's own income to matter for one's wealth accumulation, it would appear to be less efficient for inheritance and parental wealth levels to be directly determinant of our own wealth levels. High degrees of intergenerational inheritance have been the death knells of many an aristocracy. The American Dream, likewise, cannot survive over the long term in a context where our parents' class status matters as much as or more than our own achievements in determining the distribution of economic rewards.

These concerns dovetail with our findings that over the course of two decades of an individual household's lifetime, the typical American family experiences much movement (and insecurity) in their wealth. At first blush, this may appear to demonstrate a bubbling economy of risk takers who make and lose fortunes over single lifetimes—much in line with the Horatio Alger mythology of American society. Yet even this intragenerational mobility and volatility in wealth is not created equally. A full 55 percent of the top quartile of wealth holders remain in that position 20 years later, while only 7 percent of those at the bottom make the long climb to the top.

Meanwhile, almost one quarter of American households lose all their wealth at some point over that same time period. In combination, what these two stylized facts tell us is that there are really two Americas when it comes to wealth security. Those (mostly white) individuals at the top generally don't need to worry about "falling from grace." The rest of America (black and white) is more vulnerable to economic shocks. And as was the case for intergenerational wealth security and mobility, these patterns are not randomly distributed by race.

African-Americans adults are much more likely to be downwardly mobile or trapped in wealth poverty over their lifetimes than their white counterparts. Thus, bringing wealth—the neglected half of economic status—into concerns about racial equality of opportunity reveals an America where African Americans not only suffer from fewer resources but also from less security and opportunity over time.

It will be an incredible challenge to policy makers to think about wealth policy with these two almost contradictory goals in mind—promoting intergenerational wealth mobility while minimizing intragenerational wealth loss volatility. The key to resolving this tension that emerges from the above-presented analysis is increasing opportunity for those at the bottom of the wealth distribution to save (and retain) their assets. Policy toward this end would include explicitly wealth-building components such as universal individual retirement accounts as well as wealth protective policies such as credit card reform or universal health insurance.

Appendix A. Data Source & Methods

The PSID began in 1968 with a nationally representative sample of 5,000 American families and has followed them each year since. Needless to say, it is a complicated study design and cannot be done justice in the space allowed here. For a fuller description, see Martha Hill (1992) or Greg Duncan and Martha Hill (1989). By virtue of this complex design, the study has information on the socioeconomic histories of families as well as on the outcomes of multiple children from the same families who were in the original sample, moved into it, or were born to sample members.

For the intragenerational mobility analysis, we selected adult respondents ages 25 to 45 who were head or wife of their household in any (or all) years between 1983 and 2003. There are two reasons why we truncated our sample at the year 1983. First, prior to that year "wives" were classified differently: There was no category for cohabiting women (what the PSID subsequently called "wife" in quotes). Second, wealth was available only in select survey years, namely 1984, 1989, 1994, 1999, 2001, and 2003.

For the intergenerational mobility analysis we used individuals who were coresident sons or daughters of the head or "wife" in the 1984 sample who were aged 6 to 21 in that survey year. This made them ages 25 to 40 when we followed up with them in 2003. We measured the association of their parents' wealth (or income) levels in 1984 with their own family wealth (or income) levels in 2003 if they had moved out by then and set up their own household.

Since wealth is ideally measured when adults reach their peak earning years after age 40, we also performed analysis that did not measure the association between parent and child, but rather relied on sibling correlations as a measure of the influence of family background on wealth accumulation. What that means is that the sibling correlation captured not just the influence of parental wealth, but the influence of all aspects of the family and community that were shared by the siblings.

Thus, this included common genes, the common household environment, common treatment by parents and peers, and common neighborhood influences. It did not capture genetic or environmental differences between the siblings. This analysis relied on the sample of siblings that met the criteria elucidated above for the intragenerational models.

The general approach that we took to estimate the sibling resemblance was a variance decomposition method, following the strategy for income used by Mazumder and Levine (2003) and Solon el al. (1991). The total variance of the outcome, Y_{ij}, can be expressed as:

$$(1)\quad \sigma_{\varepsilon}^2 = E\,(\bar{\varepsilon} - \varepsilon_{ijt})^2$$

This total variance can be decomposed into the sum of expected values of three components (as shown in equation 2 below): the between-family component in permanent status (that is, the difference between the mean for the family *j* and the grand mean), a within-family component (the difference between the mean for the individual *i* in family *j* from the mean for family *j*), and a within-subject component (the transitory component of income or earnings; that is, the differences between a given year's income or earnings and the mean for that individual). For our single-year measures—the maximized values—the third component essentially drops out of the equation.

$$(2)\quad \sigma_{\varepsilon}^2 = E\,[(\bar{\varepsilon}_j - \bar{\varepsilon})^2 + (\bar{\varepsilon}_{ij} - \bar{\varepsilon}_j)^2 + (\bar{\varepsilon}_{ijt} - \bar{\varepsilon}_{ij})^2]$$

Multiplying this out gives us the well-known formula that the total variance equals the sum of the three variance components minus two times their respective covariances.

$$(3)\quad \sigma_{\varepsilon}^2 = E\,[(\bar{\varepsilon}_j - \bar{\varepsilon})^2 + (\bar{\varepsilon}_{ij} - \bar{\varepsilon}_j)^2 + (\bar{\varepsilon}_{ijt} - \bar{\varepsilon}_{ij})^2 - 2E(\bar{\varepsilon} - \bar{\varepsilon}_j)(\bar{\varepsilon}_{ij} - \bar{\varepsilon}_j) + 2E(\bar{\varepsilon}_{ij} - \bar{\varepsilon}_j)(\bar{\varepsilon}_{ijt} - \bar{\varepsilon}_{jt}) - 2E(\bar{\varepsilon} - \bar{\varepsilon}_{ij})(\bar{\varepsilon}_{ijt} - \bar{\varepsilon}_{jt})$$

The total variance in total SES can thus be represented merely as a sum of the three variance components:

$$(4)\quad \sigma_{\varepsilon}^2 = \sigma_{\alpha}^2 + \sigma_{u}^2 + + \sigma_{v}^2$$

where σ_{α}^2 is the variance between families, and σ_{u}^2 is the variance within families in permanent status, and σ_{v}^2 is the variance in individual economic characteristics (or transitory SES). This assumption of zero covariance—not discussed thoroughly elsewhere—makes the variance decomposition possible and results in a sibling correlation in permanent status according to equation 5, below.

$$(5)\quad \rho = \frac{\sigma}{\sigma_{\alpha}^2 + \sigma_{u}^2}$$

The measures that we used to capture intragenerational and intergenerational mobility and volatility in wealth and income are described below. We should note that both income and wealth are measured at the household-family level. (Household and family are coterminous for our purposes). Mean values—which generally conform to national averages—are presented in Table 1 on page 9.

Family Income

We tested a number of formulations of income, including logged and unlogged forms; income-to-needs ratios and straight income; and total household income as well as individual income. We present analyses for total household income (logged to the base e). In examining movement into and out of

income quartiles over a 20-year period, we compared the averaged 1983, 1984, and 1985 income to the averaged 1999, 2001, and 2003 income. This allowed for respondents to miss some survey years while still providing data.

Household Wealth

This variable was taken from the 1984, 1999, 2001, and 2003 waves of the PSID. As was the case with income, we tried a number of different formulations. We present estimates of the natural logarithm of total wealth—with individuals who had zero or negative values set to zero. For the wealth analysis, an individual had to have valid data for 1984 and at least one valid observation for 1999, 2001, or 2003 to be included in the analysis.

If we were concerned with aggregate wealth and income levels, then the selection of years would be critical to our estimations given their potential association with different points in the business cycle. But since we were interested in comparing mobility patterns (associations) within persons and families across two time periods, not overall levels, we thought these cyclical concerns were less troubling. This rests on the assumption that the business cycle affects everyone's income and wealth proportionately and does not affect their rank order.

That said, we tried to mitigate these concerns by averaging wealth over two survey years (2001 to 2003) in the latter "destination" time period (with income we are averaging over three time periods, as indicated above). We needed to balance this concern with business-cycle effects with our overriding desire to maximize the temporal distance between the "origin" time period (1984) and the "destination" time period (the 2000s). However, when analyzing wealth drops, we are looking across all survey years, and the changing economy is an integrated part of the story.

Endnotes

1 We use the term wealth throughout this report to indicate the sum value of all household members' business equity; all real estate equity; money in savings and checking accounts; the value of stocks and IRA holdings; and the value of cars, trucks, motor homes trailers, or boats. We do not adjust—as many researchers do in analyzing income—for family size in any form of per capita calculation. This is due to the fact that unlike income, wealth is not generally used to finance basic consumption, and thus it is not clear what the returns to scale are. Further, many aspects of wealth act as a public good within the household. For example, an expensive house in a good school district benefits all members, no matter how many there are. However, other functions of wealth—for instance, financing education—would be divisible, private goods. These concerns in mind, the standard in the literature is to treat it as a household variable, irrespective of number of householders, and not to calculate it on a per capita basis.

2 See: Jacob S. Hacker, *The Great Risk Shift: The Assault on American Jobs, Families, Health Care, and Retirement and How You Can Fight Back* (Oxford University Press, 2006).

3 See: Christian E. Weller, "Buyer Beware: Pension Wealth Inequality Rises as 401(k) Plans Become More Popular" (Washington: Center for American Progress, 2004).

4 Kerwin Kofi Charles and Erik Hurst, "The Correlation of Wealth Across Generations," *Journal of Political Economy* (2003).

5 Casey B. Mulligan, *Parental Priorities and Economic Inequality*. (The University of Chicago Press 1997).

6 Lisa Keister and Natalia Deeb-Sosa, "Are Baby Boomers Richer than Their Parents? Intergenerational Patterns of Wealth Ownership in the United States," *Journal of Marriage and the Family* 63 (2) (2001): 569-579; and Lisa Keister, *Getting Rich: America's New Rich and How They Got that Way* (Cambridge, UK ; New York, NY: Cambridge University Press, 2005).

7 See Keister and Deeb-Sosa, "Are Baby Boomers Richer than their Parents? Intergenerational Patterns of Wealth Ownership in the United States"; and Keister, *Getting Rich: America's New Rich and How They Got that Way*.

8 C.D. Harbury and D.M.W.N Hitchens, *Inheritance and Wealth Inequality in Britain* (London: George Allen & Unwin, 1979); Paul Menchik, "Intergenerational Transmission of Inequality: An Empirical Study of Wealth Mobility." *Economica* 46 (184): 349-62; and James R. Kearl and Clayne L. Pope, "Wealth Mobility: the Missing Element" NBER Working Paper Series, Vol. w0692, pp. -, 1981

9 R. B. Avery, and M.S. Rendall, "Lifetime inheritances of three generations of whites and blacks," *American Journal of Sociology* 107(5): 1300-134

10 Our sample size of African Americans in the top wealth quartile is very small. This small sample size explains the counter-intuitive finding of a very small percentage, 1.3 to be exact, of African Americans who were raised by parents in the top wealth quartile and remain in the top wealth quartile as adults. The small sample size also precludes a meaningful comparison between whites and African Americans who move from the bottom wealth quartile to the top quartile as adults.

11 Solon et al., "A Longitudinal Analysis of Sibling Correlations in Economic Status," *Journal of Human Resources* 26(3): 509-534.

12 It is important to note that these measured factors we examine explain only a portion of the total effect of family background. Other relevant mechanisms that we cannot measure but which may be salient include the transmission of financial "savviness", community level environmental effects, and other family-level factors that are either unmeasured (such as orientation to the future or culture of financial knowledge) or which are measured with error (such as parental education which does not pick up school quality, for instance).

13 We should note again that as with intergenerational mobility, racial differences are not attributable to racial differences in ages.

14 See: Tom Hertz, "Understanding Mobility in America" (Washington: Center for American Progress, 2006).

15 This could be do to measurement error in wealth in our analysis of offspring due to their youth (income trajectories can be measured more reliably at younger ages). Or, equally plausible, it could imply that income advantage is more difficult to hold onto across generations.

16 Most studies have found that income mobility appears to be higher the younger the group studied thanks to variability in the trajectories leading to ultimate economic status; we suspect the same holds true (more so even) for wealth levels.

17 Julia Isaacs, "Economic Mobility of Black and White Families," Economic Mobility Project, The Pew Charitable Trusts, available at (http://www.economicmobility.org/assets/pdfs/EMP_Black_White_Families_ES.pdf)

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