Parents’ utility function ($U$) is the weighted sum of their own consumption ($C$) and their children’s income in logs. However, per capita taxation also have positive contribution to higher human capital contribute to higher income mobility for children with low income rankings. Our results show that better school quality and higher return to human capital have positive impact on children’s mobility, which is consistent with the prediction of the Solon model. Contrary to the prediction of the theoretical model, taxation has positive impact on mobility. The same empirical strategy is applied to subsamples of US counties, and the entire parent income distribution. It was found that non-urban counties and children from wealthier families are more sensitive to changes in school quality.

Background

- Recently available commuting zone and county level data revealed that the variation of income mobility within the US is comparable to cross country variations (Chetty, Hendren, Kline, & Saez, 2014; Björklund & Jäntti, 1997).
- At the regional level, mobility is low in the Southwest and high in Mountain west and Midwest.
- Within regions, nearby cities can occupy opposite ends of the mobility spectrum. This graph is constructed by repeatedly running the preferred specification (column 2, table 1) while changing the dependent variable to the income of children with different parent income rankings.

Conclusions

- Better school quality has a positive impact on children’s mobility, which is consistent with the prediction of the Solon model.
- Children from non-urban counties and wealthier families are more sensitive to changes in school quality.
- Return to human capital has positive impact on mobility.
- Contrary to the prediction of the theoretical model, taxation has positive impact on mobility. We think this is because the productive effect of taxation at the local level outweighs the income reducing effect.

References

