For release on delivery
9:00 a.m. EDT
April 22, 2025

Economic Mobility and the Dual Mandate

Remarks by

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at

Economic Mobility Summit, hosted by
the Federal Reserve Bank of Philadelphia

Philadelphia, Pennsylvania

April 22, 2025

Thank you, Dr. Singleton, for the kind introduction and for the opportunity to speak here today.[1] It is great to be back in Philadelphia, and I look forward to today's discussions on economic mobility.

As monetary policymakers, my colleagues and I on the Federal Open Market Committee do not have direct control over economic mobility in the U.S. Our key monetary policy tools are not designed to address this issue, nor is economic mobility part of our mandate. However, our dual mandate of maximum employment and price stability has implications for a wide range of economic outcomes, including economic mobility. This leads to many important questions about the relationship between the dual mandate and economic mobility. In my remarks, I want to address two such questions. First, does meeting the dual mandate facilitate economic mobility? And second, does economic mobility matter for the conduct of monetary policy?

In today's talk, I will discuss my views on these questions, but I will not be able to provide definitive answers. Rather, I hope that posing these questions and relaying some of my own thoughts will lead to further discussions during this conference and beyond. Before turning to these questions, let me start with a brief overview of intergenerational mobility in the U.S.

Taking Stock of Economic Mobility

Economic mobility, the ability to move up the economic ladder, is at the heart of the American dream. We tell our children that in the U.S., if you work hard and play by the rules, you can have a secure and successful financial future no matter where you start. We continue to believe strongly in this part of the American dream and remain optimistic

[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

that hard work is a primary determinant of later-life success. In a survey from 2019, when respondents were asked which factors are essential or very important to getting ahead in life, nearly 90 percent identified hard work, and only 30 percent indicated coming from a wealthy family.[2]

Policymakers have long been aware of the importance of economic mobility. To illustrate that, let me share a quote from former Federal Reserve Chair Ben Bernanke: "Equality of economic opportunity appeals to our sense of fairness, certainly, but it also strengthens our economy. If each person is free to develop and apply his or her talents to the greatest extent possible, then both the individual and the economy benefit."[3]

With these sentiments of what Americans and policymakers think and feel about mobility in mind, let me turn to some evidence on economic mobility in the U.S. One common way to measure economic mobility is to relate an individual's income in adulthood to their family income during childhood. The measure I am showing here—from Harvard economist Raj Chetty and coauthors—is likely familiar to many of you.[4] It shows a relative intergenerational mobility measure, also known as the "rank–rank" relationship. This measure relates a child's ranking in the income distribution as an adult, shown on the vertical axis, to the child's family income rank during childhood, shown on the horizontal axis.

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[2] The data are Federal Reserve Board staff calculations for U.S. respondents in the International Social Survey Programme: Social Inequality V. See IISP Research Group (2022).

[3] See Bernanke (2007), quoted text in paragraph 1.

[4] In figure 1, parent and child linkages and incomes are based on population-level tax data. The sample includes children born between 1980 and 1982. Parent income for these children is the average of total pretax family income when the child is between the ages of 15 and 19. Later-life income for these children is measured in 2014 when the child is between the ages of 32 and 34 and is defined as total individual pretax income. See Chetty and others (2020).

The upward slope of the line implies that children born into lower-income families tend to be lower on the income distribution as adults. For example, a child born to the richest parents is, on average, 30 percentage points higher in the income distribution as an adult compared with a child born to the poorest parents. This difference in the relative standing in the income distribution as an adult translates into meaningful differences in earnings levels. To put this in perspective, consider two children who grow up to be 30 percentile points apart on the earnings distribution as adults, with one at the 80th percentile and the other at the 50th percentile. The child who grows up to be at the 80th percentile of the distribution as an adult will earn roughly twice as much compared with the child at the 50th percentile.[5]

In addition to having lower earnings as adults, children born into lower-income families are more likely to experience outcomes that can negatively affect their success in the labor market later in life. Girls born into the bottom decile of the family income distribution are about 10 times more likely to become teenage mothers compared with those born to top-decile families.[6] Boys born into bottom-decile families are roughly 20 times more likely to be incarcerated in their thirties compared with boys from families in the top decile.[7] Teen pregnancy and incarceration are extreme examples of barriers to labor market success that differentially affect children from lower-income families. More generally, there are numerous reasons that any individual may struggle in the labor market, including skill mismatches and lack of proper training or education.

[5] Earnings are, on average, just under $56,000 at the 80th percentile of the child earnings distribution, compared with just under $27,000 at the 50th percentile. See Chetty and others (2020).
[6] See Chetty and others (2014).
[7] See Looney and Turner (2018).

Does Meeting the Dual Mandate Facilitate Economic Mobility?

Now, let me turn to the Fed's dual mandate and discuss how working toward maximum employment and price stability helps set the stage for broad-based success generally, and how this may provide favorable conditions for upward mobility.

Consider my first question: Does meeting the dual mandate facilitate economic mobility? To help answer this question, I want to revisit remarks I delivered earlier this year about the implications of noninflationary expansions on shared prosperity.[8] Specifically, I am reflecting on the economic expansion that followed the 2007–09 Global Financial Crisis (GFC). During that period, the economy expanded for 128 consecutive months, making it the longest economic expansion in U.S. history.

As shown in figure 2, the aggregate unemployment rate fell steadily from a peak of 10 percent in October 2009 to 3.5 percent in September 2019, the lowest level recorded in nearly 50 years. The labor market in this period was remarkable in terms of broad-based gains seen across demographic groups, which contributed to a historic narrowing of employment differentials. To illustrate this point, let's add in unemployment rates by levels of education, as shown in figure 3. In 2019, the unemployment rate gaps between workers with less than a high school education, the solid green line near the top of the chart, and those who had attained at least a bachelor's degree, the solid orange line closer to the bottom, were near multidecade lows. Further, the strong pre-pandemic labor market drew many new participants into the labor force, including teens and younger workers whose employment prospects, and even long-term career trajectories, are especially sensitive to the cyclical state of the economy.[9] These

[8] See Jefferson (2025).
[9] See Oreopoulos, von Wachter, and Heisz (2012).

are the types of labor market conditions that the economist Arthur Okun speculated would increase upward mobility.[10] In a tight labor market, when individuals move up the job ladder, they create openings for newer or less educated workers.

Moving on to earnings, figure 4 shows that nominal wage growth increased steadily following the GFC. As with gains in employment, the strong labor market was especially beneficial for some groups. To demonstrate that, let's turn to figure 5, which shows wage growth for different earnings levels. Wage growth for the bottom half of earners, the dashed red line, started to pick up about five years into the expansion, and by 2017, it was notably stronger compared with that for workers in the top half of the earnings distribution, the solid blue line.[11] These differences in wage growth are important. As the bottom of the distribution catches up to higher earners, wage inequality declines. These are also dynamics that can facilitate upward economic mobility.

Let me now turn to the second component of the dual mandate, price stability. While some long economic expansions have led to an unwelcome rise in prices, inflation remained low and stable during the economic expansion following the GFC. Indeed, Federal Reserve policymakers were grappling with inflation somewhat below, rather than above, the longer-run 2 percent target, as shown in figure 6.

Low and stable inflation is important for individuals and businesses for a variety of reasons. It ensures that the nominal wage gains I just discussed are not eroded in real terms and that necessities remain affordable. In addition, it helps individuals and families

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[10] See Okun (1973).

[11] Nominal wages in the figure are measured by the Atlanta Fed's Wage Growth Tracker. Series show 12-month moving averages of the median percent change in the nominal hourly wage of individuals observed 12 months apart. Workers are assigned to wage quantiles based on the average of their wage reports in both the Current Population Survey and outgoing rotation group interviews. Workers in the lowest 50 percent of the average wage distribution are assigned to the bottom half, and those in the top 50 percent are assigned to the top half.

plan for major purchases, such as a car or home, and for major expenses, including retirement and college.

I want to highlight one of these major expenses—higher education—as attending college is an important pathway for upward mobility. Looking at figure 7, higher education inflation is shown by the red line. A variety of factors affect the cost of college generally, including student loan costs, state funding, and administrative overhead. Nonetheless, when inflation was low for an extended period during the economic expansion that followed the GFC, we also saw a moderation in the growth of higher education costs.[12]

To illustrate the importance of college attendance for mobility, let me return to the rank–rank intergenerational mobility relationship I showed earlier. As before, the darkest dots show the national child-income-rank-to-parent-income-rank relationship. Now consider how this relationship looks across different types of higher education. The red line shows elite four-year colleges, the green line shows the remaining four-year institutions, and the lighter-blue line shows two-year schools. As you can see from the colored lines, the relationship between family income rank and later-life income rank is weaker—that is, the slope of the line is flatter—within each type of college than it is nationally.

The flatter slope indicates that outcomes for children from lower-income families are more similar to outcomes for children from higher-income families within each college type than they are overall. In this way, higher education is an important source of

[12] There are limitations to this measure of higher education costs, as it is volatile and may not reflect the underlying net price that students pay. However, list tuition prices have been shown to be salient for many families when making college enrollment decisions. For example, see Bleemer and Zafar (2018).

upward mobility for many youths and a pathway to a more secure financial future. Of course, the relatively steeper national relationship holds because there are meaningful differences in college enrollment over the family income distribution.

Going back to my initial question, I asked whether meeting the dual mandate facilitates economic mobility. I think that achieving the dual mandate sets the conditions for all individuals to succeed, including those moving up the economic ladder. The evidence suggests that long noninflationary expansions are associated with narrower gaps in employment and earnings, and that lower-wage and less-educated workers benefit disproportionately from sustained periods of strong economic growth. Further, achieving price stability allows individuals and households to plan for and make investments in human capital, such as attending college, that may allow individuals to move up the income distribution.[13]

Does Economic Mobility Matter for the Conduct of Monetary Policy?

Before I conclude, I want to return to my second question: Does economic mobility matter for the conduct of monetary policy? As I mentioned earlier, economic mobility is not part of the Federal Reserve's mandate, and our monetary policy tools are blunt instruments for affecting economic mobility. For example, interest rates affect the entire economy, not targeted populations, and rate changes operate through financial markets rather than directly influencing labor market outcomes.

One way that economic mobility could matter for the conduct of monetary policy is if the goals of monetary policy are easier to achieve in a high-mobility society

[13] Despite the rising cost of college, research consistently shows a positive return to higher education for most students. See Wolla, Vandenbroucke, and Tucker (2023), Autor (2014), Zimmerman (2014), and Card (1999).

compared with one with low mobility. I do not know if this is true, but let me offer some conjectures. I think that a society with relatively higher mobility may allow for more efficient transmission of monetary policy. In a dynamic economy with relatively more upward mobility, individuals may have greater incentives to be proactive in the job market. They may seek new and better job opportunities, which could allow for a quicker path to maximum employment following economic downturns. Further, individuals and households may hold additional savings for increased investments in human capital when mobility is relatively higher, allowing for more effective transmission of monetary policy. Stepping back, I pose this question not to offer a definitive answer, but rather to serve as one potential starting point for your discussions here today.

Conclusion

Let me conclude by pointing out that the patterns we observe in our economy, including those for economic mobility, are not predetermined. Outcomes can and will change as we learn more about effective strategies to improve and maintain economic mobility in the U.S. By joining in these conversations here today, and by continuing to research and describe the patterns of economic mobility, you are helping society understand the dynamics of our economy better and find new and innovative ways to help keep the American dream of economic mobility alive and well. Thank you.

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FRB Philadelphia–Economic Mobility Summit, April 22, 2025

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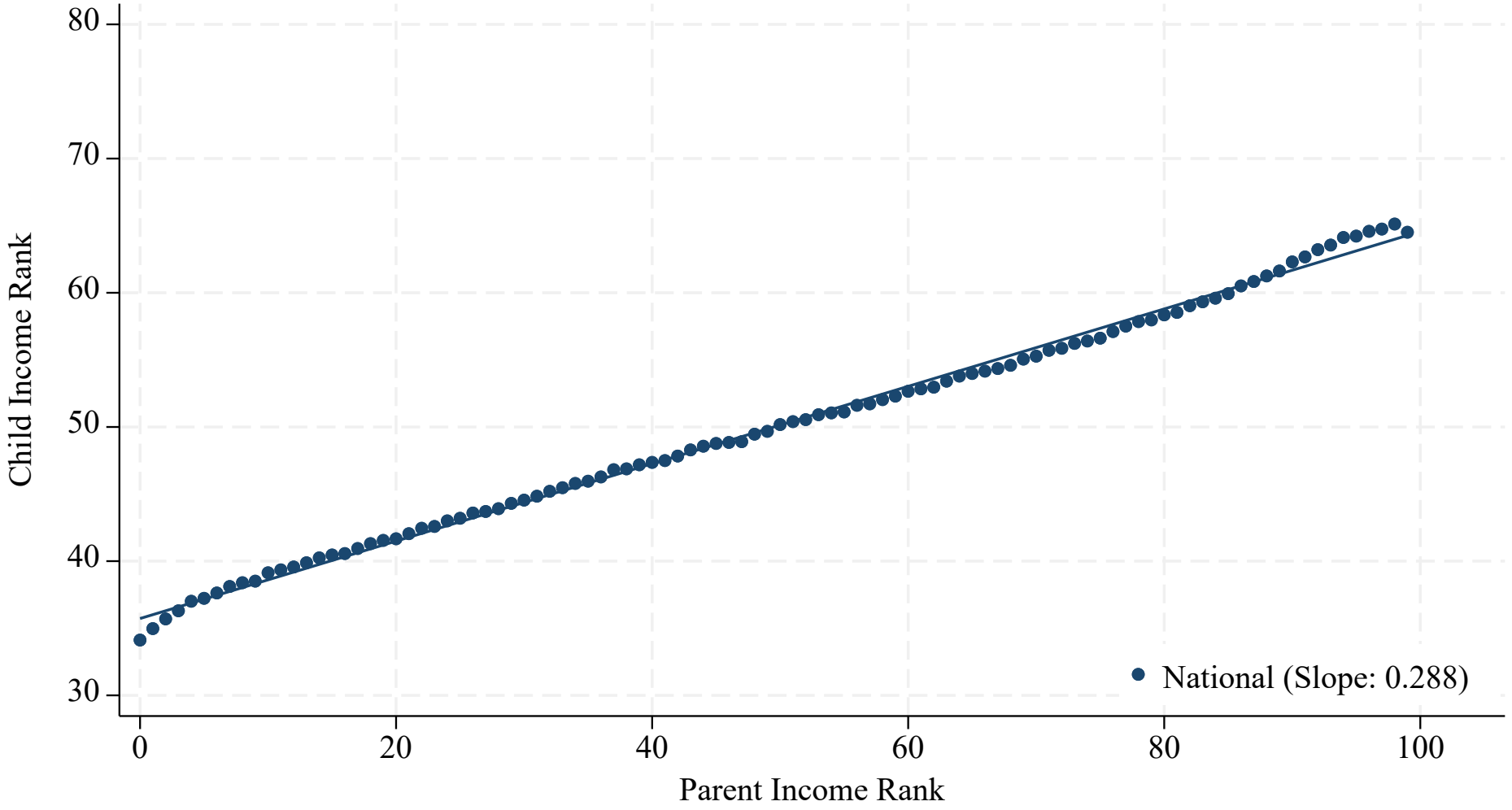
Roadmap for Talk

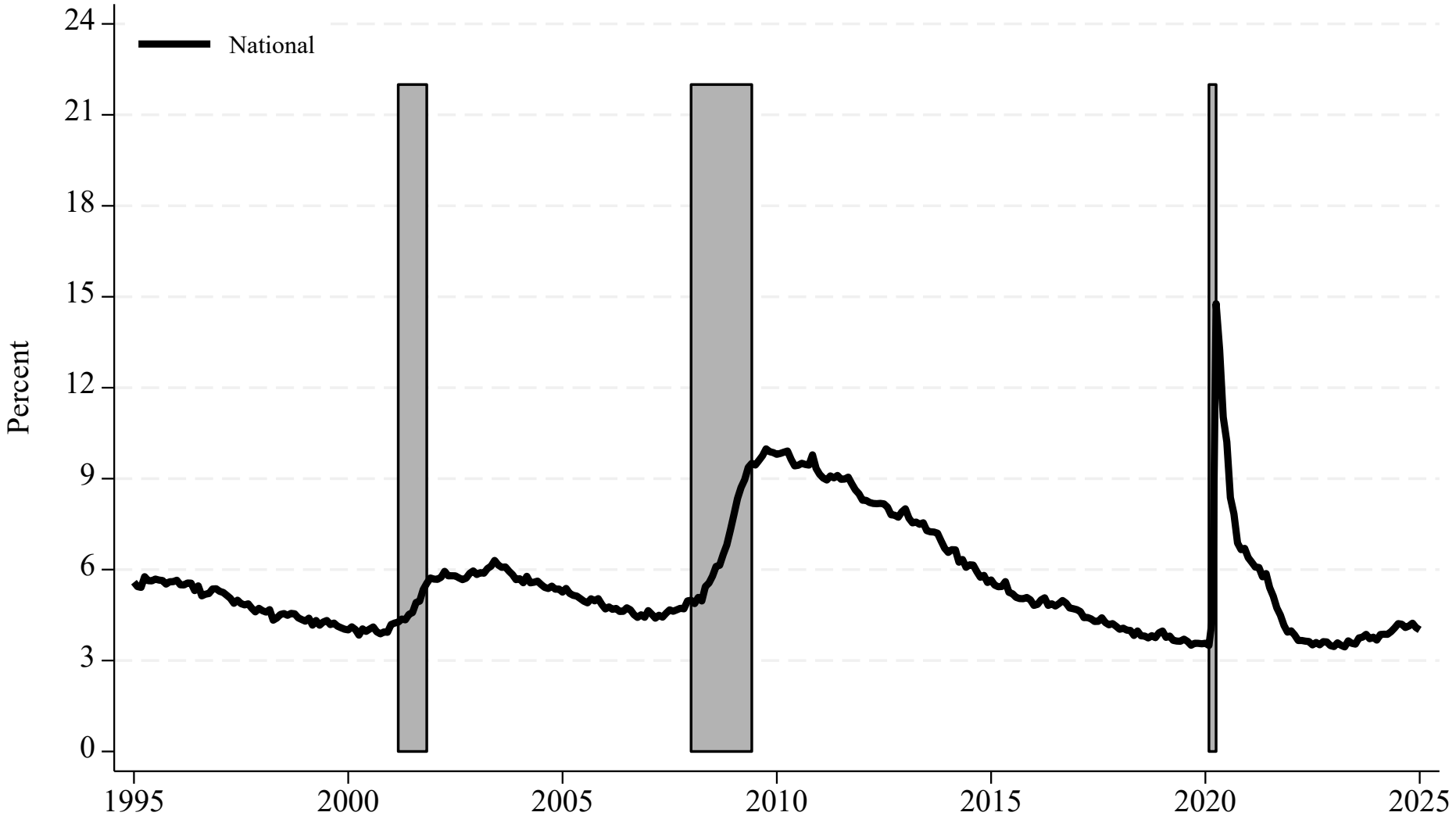
- Taking stock of economic mobility
- Does meeting the dual mandate facilitate economic mobility?
  - Full employment and economic opportunity
  - Price stability and the relative price of human capital
- Does economic mobility matter for the conduct of monetary policy?
- Conclusion

Figure 1: Relative Intergenerational Mobility



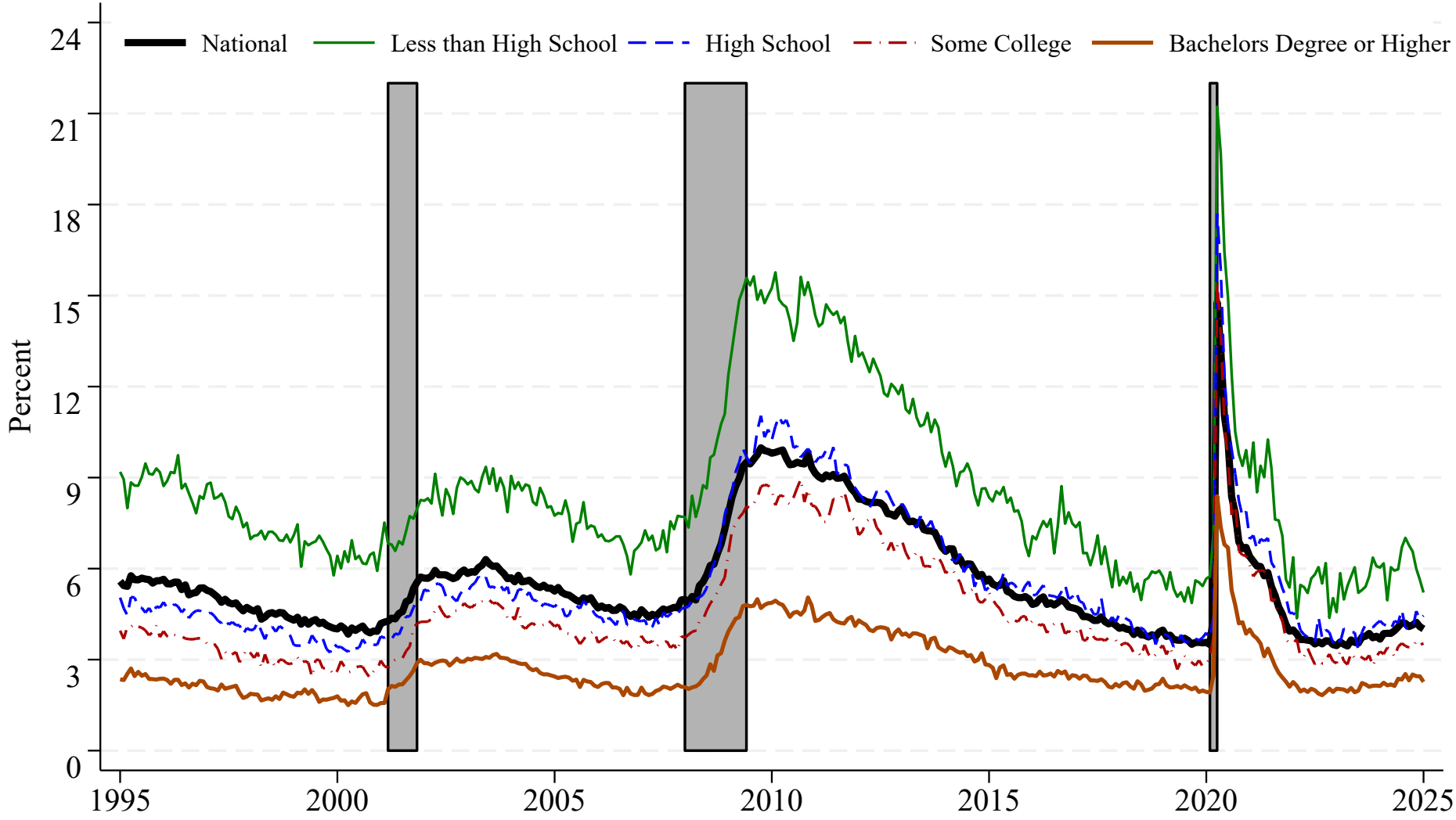
Note: The figure shows the mean value of child income rank as an adult for each value of parent income rank and the fitted values from a regression.
Source: "Income Segregation and Intergenerational Mobility Across Colleges in the United States." Chetty, Friedman, Saez, Turner, Yagan. August 2020.

Figure 2: Unemployment Rate



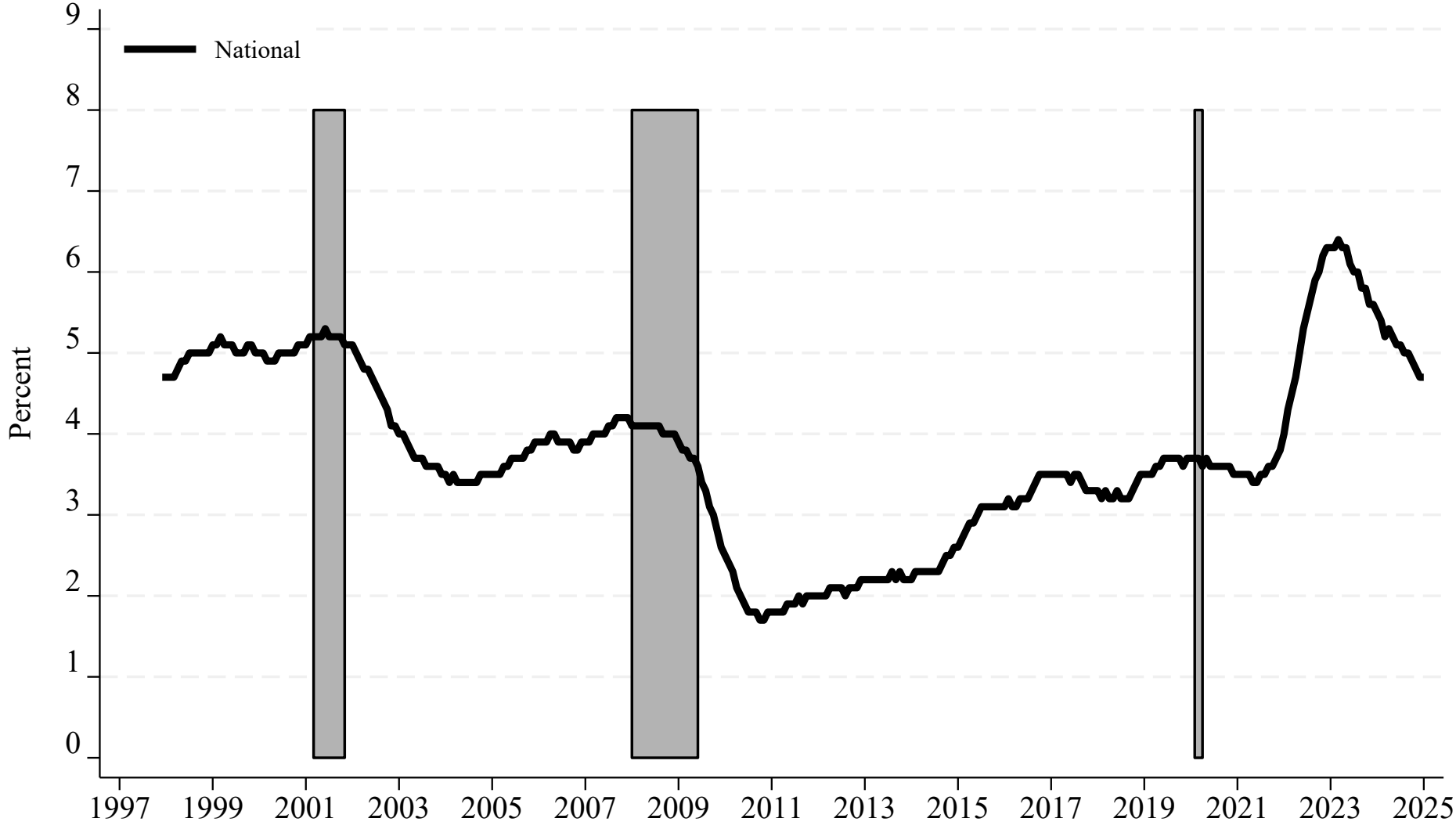
Notes: The unemployment statistics only consider persons aged 25 and older. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Bureau of Labor Statistics. Haver Analytics.

Figure 3: Unemployment Rate by Education



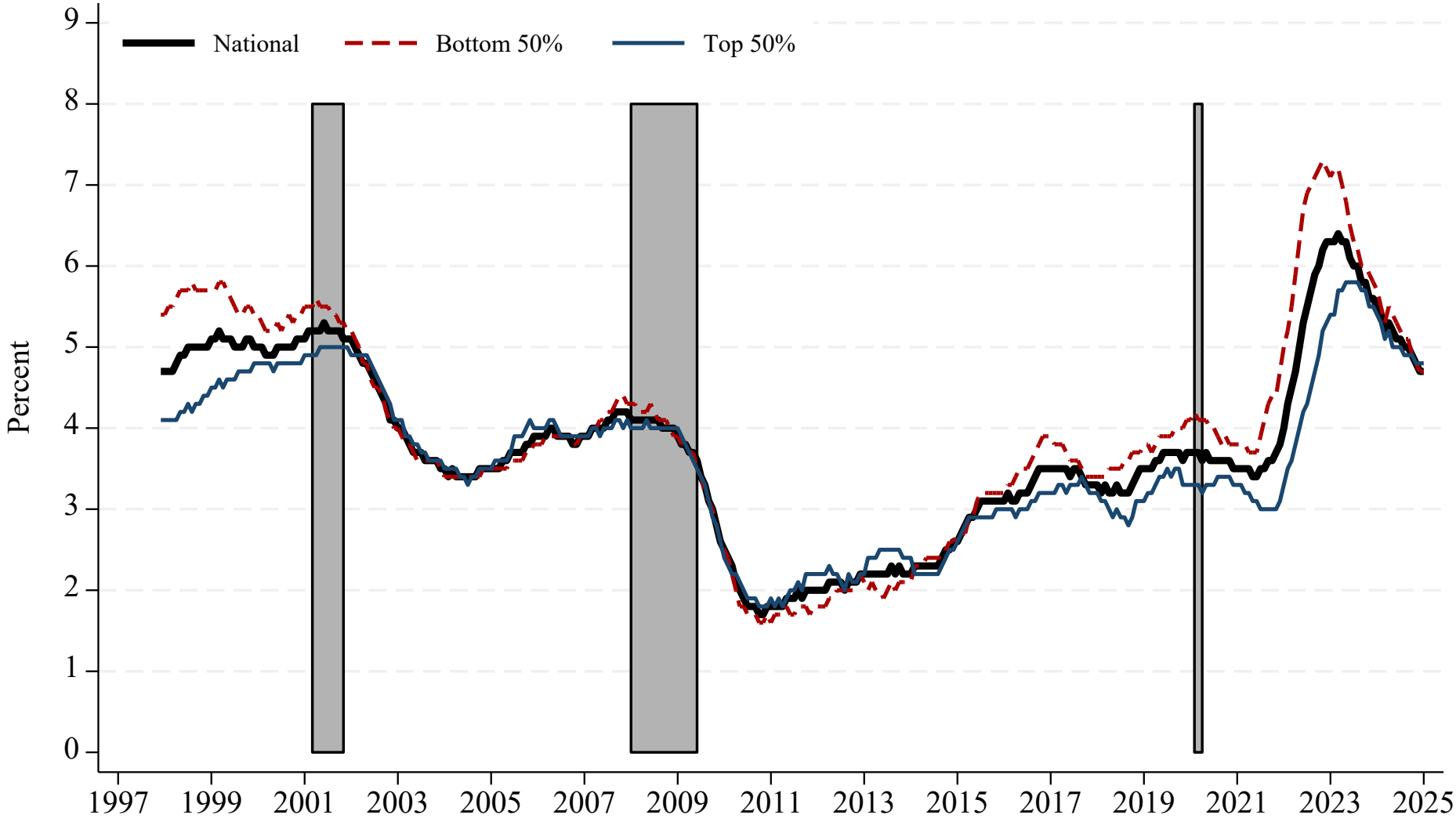
Notes: The unemployment statistics only consider persons aged 25 and older. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Bureau of Labor Statistics. Haver Analytics.

Figure 4: Nominal Wage Growth



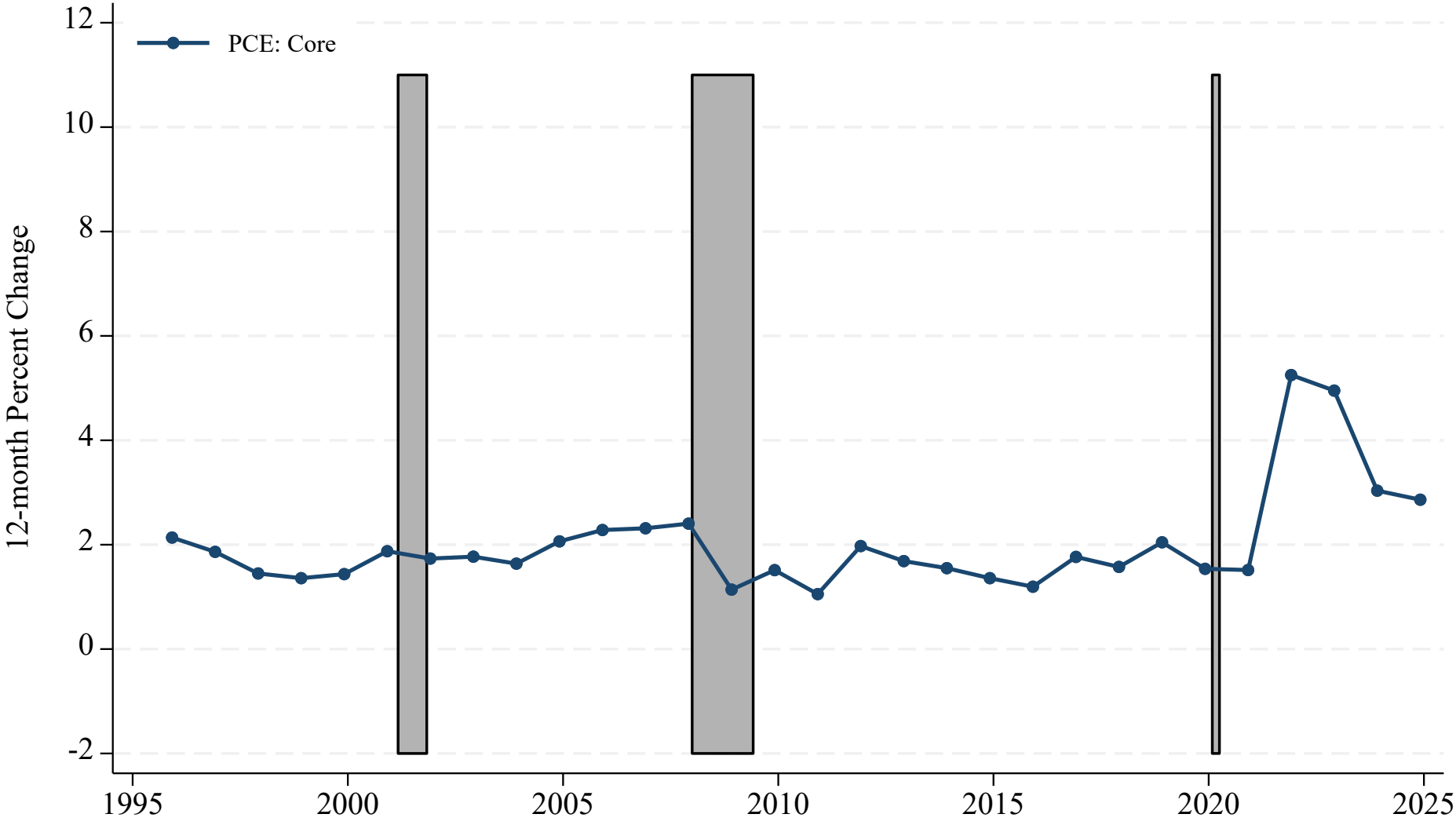
Note: Series show the 12-month moving averages of the median percent change in the nominal hourly wage of individuals observed 12 months apart. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Federal Reserve Bank of Atlanta, Wage Growth Tracker.

Figure 5: Nominal Wage Growth by Average Wage Level



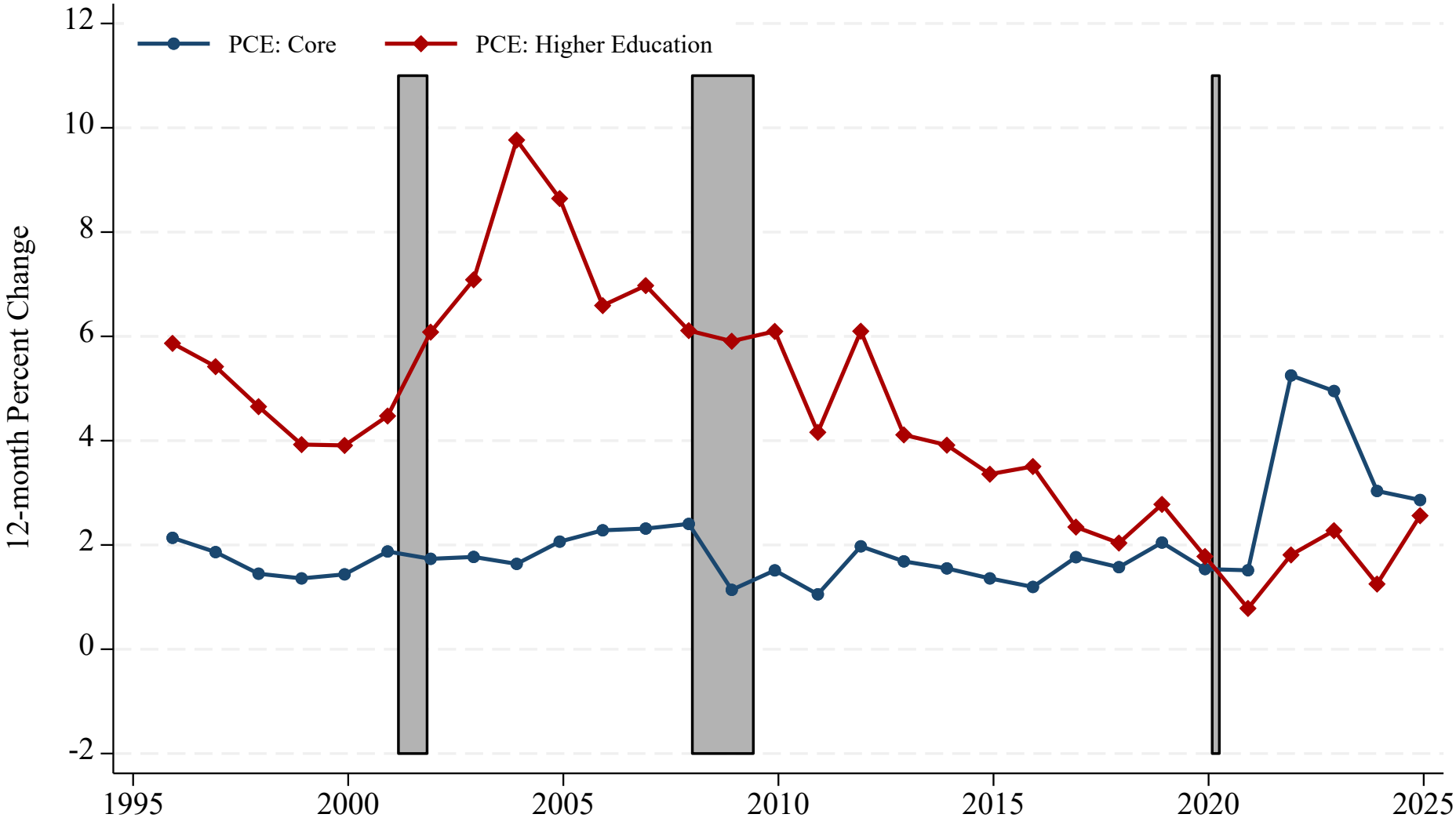
Note: Series show the 12-month moving averages of the median percent change in the nominal hourly wage of individuals observed 12 months apart. Bottom 50% and top 50% are based on average wages. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Federal Reserve Bank of Atlanta, Wage Growth Tracker.

Figure 6: Personal Consumption Expenditures (PCE) Core Inflation



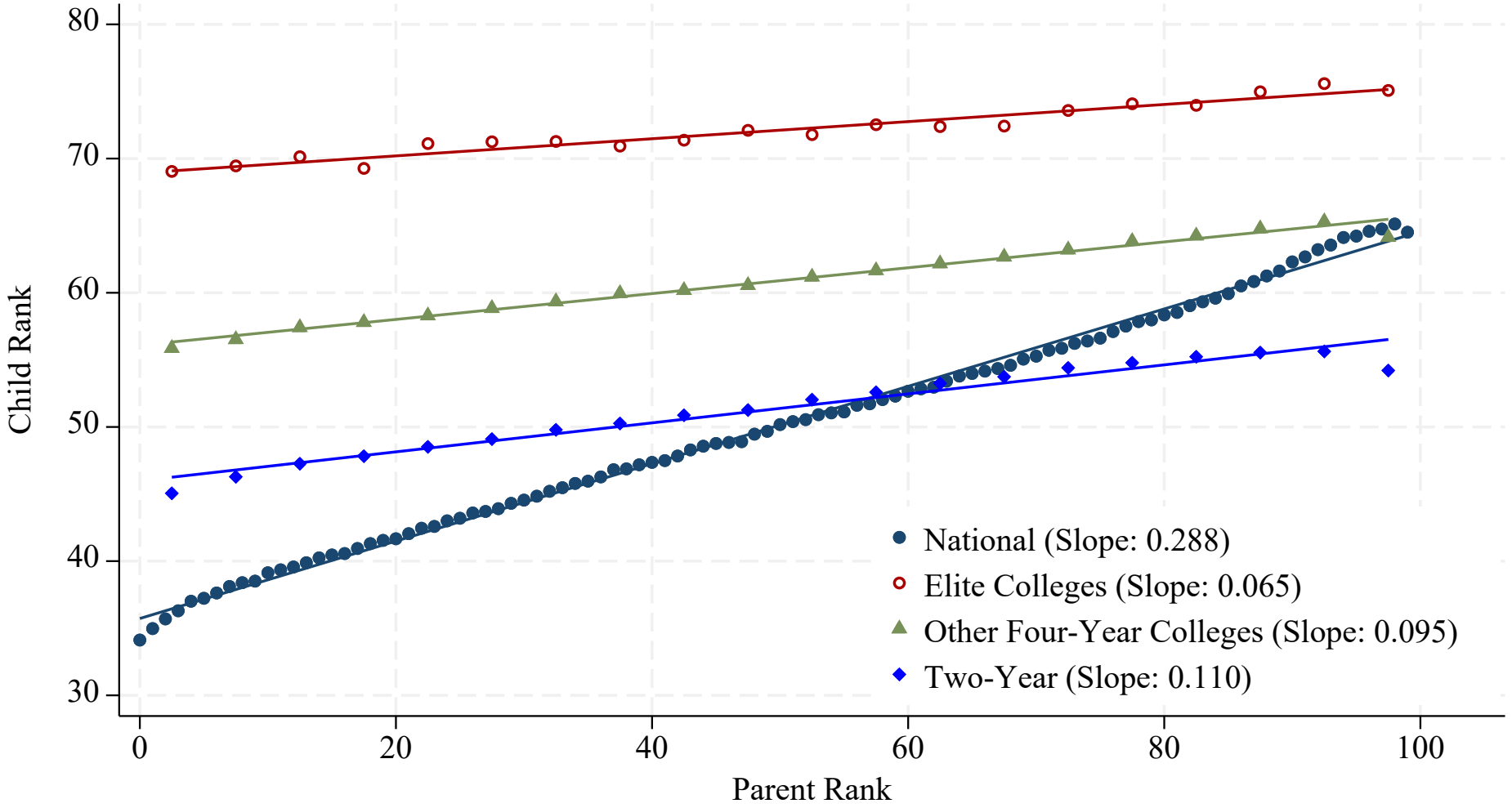
Note: Figure plots the 12-month percent change as of December. The blue line shows core personal consumption expenditures (PCE) index that excludes food and energy prices. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Bureau of Economic Analysis.

Figure 7: Personal Consumption Expenditures (PCE) Core & Higher Education Inflation



Note: Figure plots the 12-month percent change as of December. The blue line shows core personal consumption expenditures (PCE) index that excludes food and energy prices. The red line shows the higher education component of the PCE index. The grey shaded bars indicate periods of business cycle recession as defined by the National Bureau of Economic Research: March 2001-November 2001, December 2007-June 2009, February 2020-April 2020.
Source: Bureau of Economic Analysis.

Figure 8: Relative Intergenerational Mobility by College Type



Note: The national series shows the mean value of child income rank as an adult for each value of parent income rank and the fitted values from a regression. The series for each college type shows the mean child income rank by parent income ventile and the fitted values from a regression. College types are defined as: elite colleges most competitive by Barrons Profiles of American Colleges, other four-year schools include all four-year institutions except those included in the elite category, two-year includes all two-year institutions.

Source: "Income Segregation and Intergenerational Mobility Across Colleges in the United States." Chetty, Friedman, Saez, Turner, Yagan. August 2020.