



Moving On Up

Why Do Some Americans Leave the Bottom of the Economic Ladder, but Not Others?

Overview

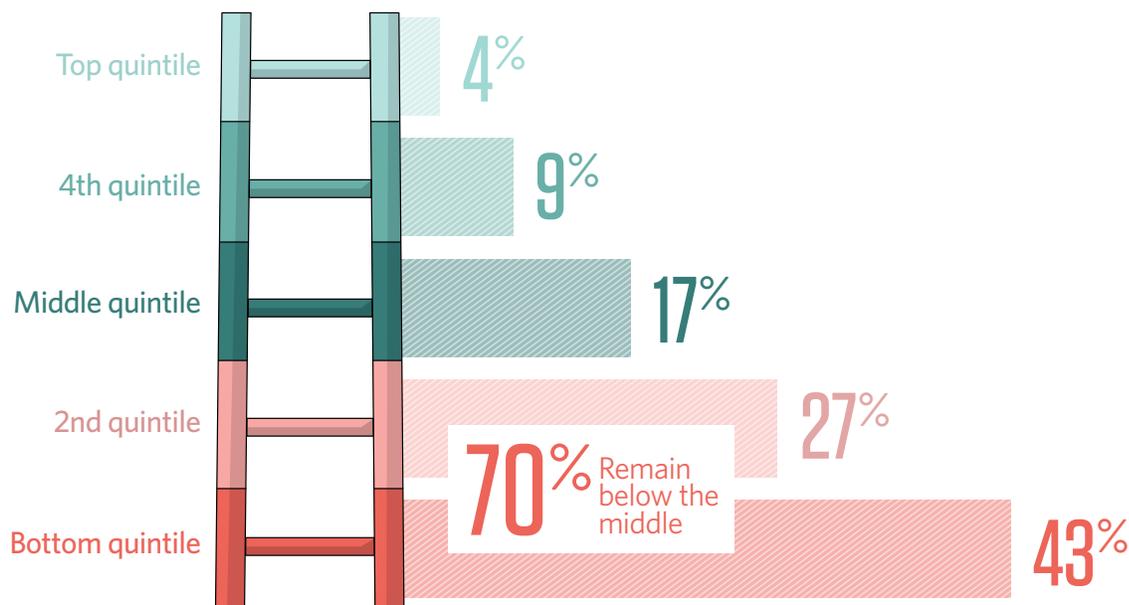
One of the hallmarks of the American Dream is equal opportunity: the belief that anyone who works hard and plays by the rules can achieve economic success. Polling by The Pew Charitable Trusts finds that 40 percent of Americans consider it common for a person in the United States to start poor, work hard, and become rich.¹

But that rags-to-riches story is more prevalent in Hollywood than in reality. In fact, 43 percent of Americans raised at the bottom of the income ladder remain stuck there as adults, and 70 percent never even make it to the middle.²

Figure 1

Most Americans Born at the Bottom of the Income Ladder Never Reach the Middle Rung

Percent of Americans raised in the bottom income quintile who stay put or move up as adults



Source: The Pew Charitable Trusts, "Pursuing the American Dream," 2012
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Key definitions

Upward income or wealth mobility, for the purposes of this issue brief, is defined in relative terms. It occurs when a person's rank on the income or wealth ladder is higher than was his or her parents' rank at the same age.

Income includes the total income derived from the taxable income (such as earnings, interest, and dividends) and cash transfers (such as Social Security and welfare) of the head of the household, his or her spouse, and other family members in the household.

Liquid savings include an individual's checking and savings accounts, farms and other businesses, real estate, stocks, vehicles, and other assets.

Wealth includes liquid savings and home equity minus debt.

What is the difference between those who move up from the bottom and those who don't? Pew researchers investigated this question and found that a host of factors—including demographics such as education, race, and family employment—play a role in upward mobility. Additionally, Pew's analysis examined the intersection between income and wealth, and found that the health of family balance sheets—including accumulated savings and wealth—are related to income mobility prospects. Households with financial capital, such as liquid savings or other readily available assets such as stocks, were more likely to leave the bottom of the economic ladder. In other words, movement up the income and wealth ladders was connected, and economically secure families were also the most likely to be upwardly mobile.

This brief reviews the key findings of this research to understand how various factors play a role in upward mobility from the bottom.

Key mobility factors: Demographics and human capital

Race, college attainment, and family employment status matter

Demographic characteristics are related to mobility, with certain households moving up in significantly higher proportions than others.

Human capital played a strong role in upward mobility from the bottom. College graduates, dual-earner families, and people who did not experience unemployment were highly likely to move up. For example:

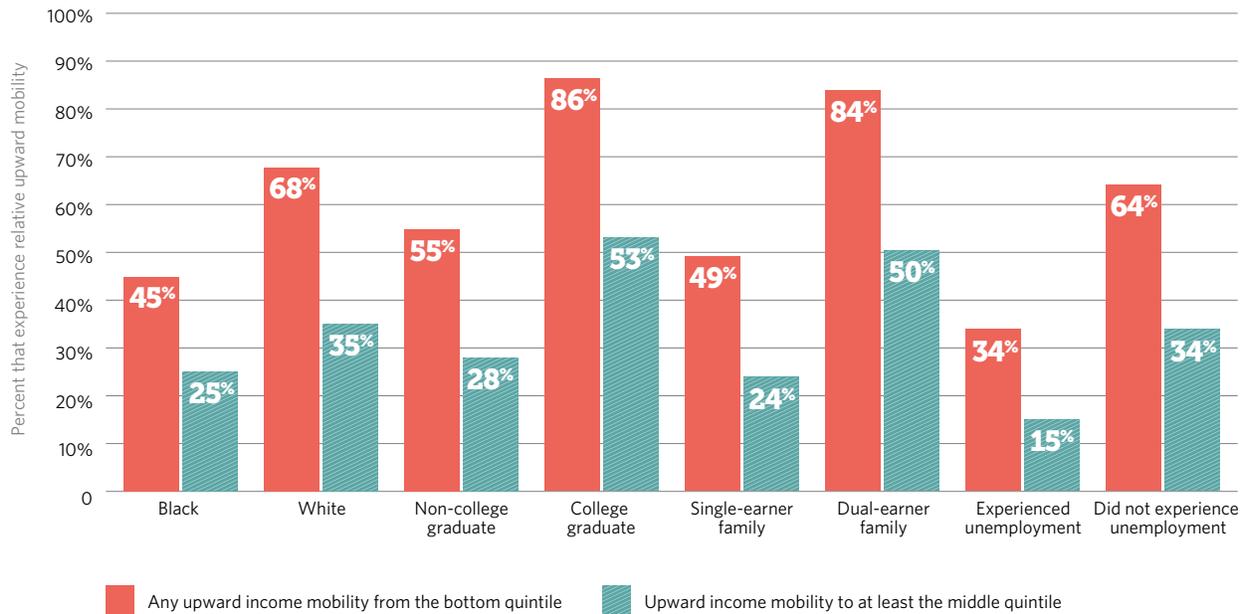
- 86 percent of college graduates, 84 percent of dual-earner families, and 64 percent of people who were continuously employed left the bottom income quintile.
- By contrast, only 55 percent of non-college graduates, 49 percent of single-earner families, and 34 percent of people who experienced unemployment moved up from the bottom quintile.

Factors such as education and dual incomes also increased the chances that someone would rise from the bottom to at least the middle quintile.

Figure 2

Factors Such as Race, Education, and Number of Earners Influence Poor Americans' Movement Up the Income Ladder

Percentage of Americans who move up from the bottom quintile, by demographic characteristic



Source: Pew analysis of Panel Study of Income Dynamics
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Race was another powerful factor in upward mobility from the bottom, but was less important for upward mobility to at least the middle quintile.

- 68 percent of whites left the bottom, compared with 45 percent of blacks, a gap of 23 percentage points.
- This gap shrinks to 10 percentage points for those who reached at least the middle—35 percent of whites did, compared with 25 percent of blacks.

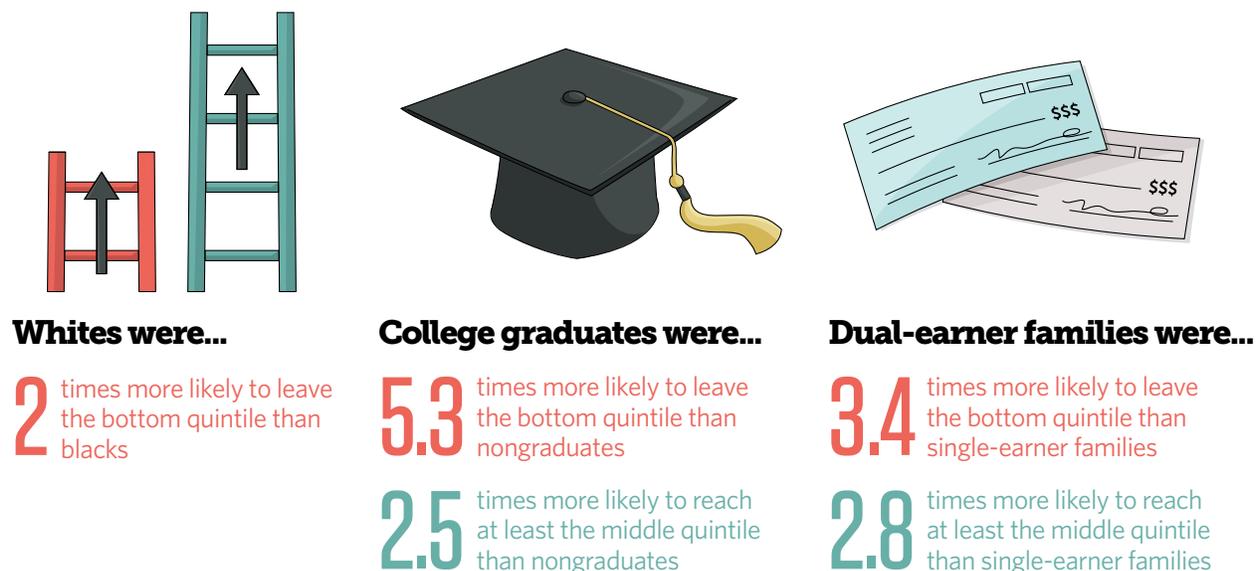
In fact (holding other characteristics constant), whites, college graduates, and dual-earner families had significantly greater odds of leaving the bottom quintile than did their black, non-college-educated, and single-earner counterparts.³ For instance, college graduates were 5.3 times more likely to leave the bottom compared with non-college graduates.⁴

This trend also holds for those who rose to at least the middle, although, again, the black-white mobility gap shrinks: Assuming that all other characteristics are the same, whites are statistically no more likely than blacks to reach at least the middle.

Figure 3

College Graduates and Dual-Earner Families Have the Best Odds of Moving Up from the Lowest Rung of the Income Ladder

Relative chance of leaving the bottom quintile, by select demographic groups



Note:

A logistic regression model was run on upward income mobility that included race, college education, number of earners, employment status, and log liquid savings to base 10. See Page 5 for liquid savings odds ratios. Odds ratios shown are statistically significant at the 95 percent level or higher.

Source: Pew analysis of Panel Study of Income Dynamics
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Key mobility factor: Financial capital

Upward mobility from the bottom rung of the income ladder, by definition, requires increases in income. But are there corresponding increases in savings and wealth?

Prior Pew research shows that although the vast majority of Americans have higher family incomes than their parents did, only half exceed their parents' family wealth.⁵ In fact, an estimated 40 percent of families do not have enough savings to replace even three weeks of income. This means that families can experience income gains and even upward income mobility but remain economically insecure because they lack a personal safety net.

Those who moved out of the bottom quintile had considerably higher savings, wealth, and home equity than did their peers who did not move up

These new data reveal for the first time that financial capital is powerfully connected to movement from the bottom and achievement of at least the middle quintile. Those who left the bottom of the income ladder had 6 times higher median liquid savings, 8 times higher median wealth, and 21 times higher median home equity than did those who remained stuck at the bottom.

Importantly, this finding does not imply that personal savings and wealth directly result in upward income mobility. Instead, it demonstrates that economic security and economic mobility go hand in hand. Families with savings, for example, may be better able to make human capital investments that promote income mobility, such as higher education or job training, and those experiencing income gains may have more flexibility to save and build wealth, which in turn can support economic security. In this way, the health of family balance sheets directly contributes to greater prospects for mobility, and vice versa.

This is true across generations as well. Research shows that parental savings can have a significant impact on upward mobility,⁶ and these data reinforce that finding. The parents of those who moved up from the bottom quintile had almost double the median wealth (\$30,733) of the parents of those who remained at the bottom (\$16,636). Parental wealth of those who made it to at least the middle, however, was only about \$5,000 higher at the median (\$28,253) than for those who did not make it that high.

Figure 4

Americans Who Move Up From the Bottom Have More Than Twice the Income and Nearly 10 Times the Wealth of Those Who Do Not

Median levels of savings, wealth, and home equity, compared with upward mobility

	Median family income	Median liquid savings	Median home equity	Median wealth*	Median parent wealth*
Moved to at least the middle	\$56,212	\$65,726	\$52,278	\$94,586	\$28,253
Left the bottom	\$46,935	\$41,692	\$40,806	\$78,005	\$30,733
No upward mobility	\$19,768	\$6,649	\$1,875	\$8,892	\$16,636

*Wealth includes home equity

Source: Pew analysis of Panel Study of Income Dynamics

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A tenfold increase in liquid savings was associated with a 5.5 times greater likelihood of also moving to at least the middle quintile

An examination of financial capital and upward mobility from the bottom shows that assets typically accompany movement up the income ladder. Those who had higher liquid savings were significantly more likely both to have left the bottom and to have reached at least the middle. Someone with \$10,000 in liquid savings, for example, is 6.5 times more likely to have moved up and 5.5 times more likely to have made it to at least the middle compared with someone with only \$1,000 in liquid savings.⁷

Key mobility factors: Wealth mobility

Income mobility and wealth mobility are interrelated

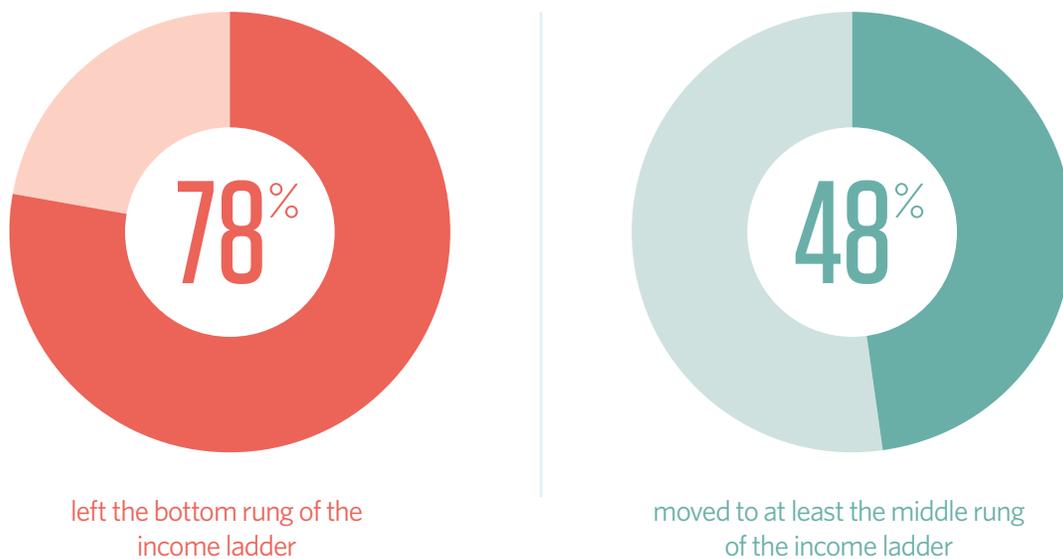
Given the powerful role that savings and assets play in upward mobility, it is not surprising that those who moved up the wealth ladder were also likely to move up from the bottom of the income ladder. More than three-quarters of those who experienced relative wealth mobility (78 percent) also moved out of the bottom income quintile, and almost half reached at least the middle.

Figure 5

Income and Wealth Mobility Go Hand in Hand

Movement on the wealth ladder compared with movement on the income ladder

Of those who moved up the wealth ladder:



Source: Pew analysis of Panel Study of Income Dynamics
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Conclusion

This research brief identifies the key demographic differences between those who remain stuck at the bottom of the income ladder and those who move up. The findings underscore the importance of certain factors—such as race; human capital, particularly college attainment; and the presence of two earners in a household—in the quest for upward mobility.

In addition, this research highlights the synergy between income and wealth, providing further evidence that economically secure families are more likely to be economically mobile. Wealth mobility and high liquid savings are connected to movement up from the lowest rung of the income ladder.

Data

This issue brief uses data from the Panel Study of Income Dynamics, or PSID, a longitudinal data set that has followed families from 1968 to the present. The most current data used are from 2009. The analysis sample is restricted to families in which the head of the household had a child younger than 18 in 1968 and in which the parents' average family income from 1968 to 1971 was in the bottom 20 percent of the income distribution. All sample households had to have valid measures for wealth as well. Because the PSID first started collecting wealth data in 1984, parental wealth is averaged over the 1984 and 1989 survey years. All adult child economic variables are averaged over the 2001, 2003, 2005, 2007, and 2009 survey years. All economic variables are adjusted to 2009 dollars. Income is adjusted for family size, and wealth is adjusted for age.

Endnotes

- 1 The Pew Charitable Trusts, "Opinion Poll on Economic Mobility and the American Dream" (Washington, DC: The Pew Charitable Trusts, 2009), <http://www.pewstates.org/research/analysis/opinion-poll-on-economic-mobility-and-the-american-dream-85899378651>.
- 2 The Pew Charitable Trusts, "Pursuing the American Dream: Economic Mobility Across Generations" (Washington, DC: The Pew Charitable Trusts, 2012), http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf.
- 3 A logistic regression model was run on upward income mobility that included race, college education, number of earners, head-of-household employment status, and log liquid savings to base 10.
- 4 This finding may be driven by the fact that only 11 percent of the sample are college graduates, and the majority of them (86 percent) experienced upward mobility from the bottom.
- 5 The Pew Charitable Trusts, "Pursuing the American Dream: Economic Mobility Across Generations."
- 6 The Pew Charitable Trusts, "A Penny Saved Is Mobility Earned" (Washington, DC: The Pew Charitable Trusts, 2009), <http://www.pewstates.org/research/reports/a-penny-saved-is-mobility-earned-85899376395>.
- 7 A logistic regression model was run on upward income mobility that included race, college education, number of earners, head-of-household employment status, and log liquid savings to base 10.

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External reviewers

This report benefited tremendously from the insights and expertise of two external reviewers. Terri Friedline, assistant professor in the School of Social Welfare at University of Kansas and research fellow, Asset Building Program for The New America Foundation, and Kimberly Manturuk, senior research associate, University of North Carolina Center for Community Capital. While they screened the data coding for accuracy, neither they nor their organizations necessarily endorse its findings or conclusions.

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