

PATHWAYS TO ECONOMIC MOBILITY:

KEY INDICATORS

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C O N T E N T S

1 INTRODUCTION

7 I SOCIAL CAPITAL

- 7 FAMILY INFLUENCES
- 13 SOCIAL INSTITUTIONS AND COMMUNITY INFLUENCES
- 18 SUMMARY

20 II HUMAN CAPITAL

- 20 EDUCATION
- 26 SUMMARY EDUCATION
- 27 HEALTH
- 34 SUMMARY HEALTH

37 III FINANCIAL CAPITAL

- 37 SAVINGS AND WEALTH
- 47 SUMMARY

50 RESOURCES

PATHWAYS TO ECONOMIC MOBILITY:

KEY INDICATORS

The assumption that anyone can get ahead based on capabilities and effort is central to the idea of the American Dream. The purpose of this report is to provide an overview of the factors that seem to affect the likelihood that someone will move up, or down, the economic ladder in the United States. It builds on the earlier reports of the Economic Mobility Project. Previous reports identified significant patterns of mobility in the United States and differences between the United States and other countries, showing broad trends as well as trends among specific groups, such as African Americans and immigrants.¹ In contrast, this report aims to reveal what might be behind those trends by summarizing the primary indicators that seem to be responsible for economic mobility.

INTRODUCTION

WHAT IS ECONOMIC MOBILITY? Economic mobility is a measure of how much a person's income changes over time. In a country or neighborhood with high mobility, people more often move up or down more rungs of the economic ladder than in countries or neighborhoods with low mobility. We can look at changes in the level of income of a person or group compared with an earlier point in time, which is called *absolute mobility*. We can also look at how a person or group changes in relation to others, which is called *relative mobility*. Because of the Economic Mobility Project's focus on why some people seem to be more successful than others in achieving the American Dream, this report is particularly concerned with relative mobility.

INTRAGENERATIONAL AND INTERGENERATIONAL MOBILITY. There are two ways of further refining the idea of economic mobility. One is to look at how much a person's income changes over his or her lifetime, in other words the mobility of that person's income compared with earlier points in his or her life. That is called *intragenerational mobility*. If people in a society tend to move up, or down, many rungs of the economic ladder over time, and thus people change economic places on the ladder frequently, then that society is marked by high intragenerational mobility.

A second way uses parents' income as a benchmark. *Intergenerational mobility* is a measure of how children's income as adults compares with their parents' at a similar age. In a society characterized by low intergenerational mobility, the income of children more closely matches their parents' income than it does in a society with high relative mobility.

This report touches on both forms of mobility, but like previous reports for the Economic Mobility Project, it will focus in particular on factors or indicators that influence intergenerational mobility.

INDICATORS. In this chartbook, we use *indicator* to describe a factor that may affect the likelihood that a person will move up or down the economic ladder over time. An indicator not only coincides or correlates with economic mobility, but research may also suggest that it has a causal relationship. An indicator can be a factor that influences mobility in either a *direct* or an *indirect* way, or both.

ORGANIZATION OF THE REPORT

In the following chapters, we explore a set of possible indicators in our effort to identify how certain aspects of American life may influence some of the patterns of mobility identified in the Economic Mobility Project report *Getting Ahead or Losing Ground: Economic Mobility in America*.² We have categorized these potential determinants of mobility into different forms of capital.

SOCIAL CAPITAL comprises the nonfinancial resources available through relationships to people and institutions, including family, neighborhood and other social influences, that appear to shape a person's path of economic mobility. Social capital seems to interact with and reinforce other factors that influence mobility, such as educational opportunities. Social capital indicators include both family and community elements:

- Family structure
- Parenting skills and education
- Parental similarity
- School-based relationships
- Community influences
- Work-related networks

HUMAN CAPITAL includes such individual attributes as education and health—the skills and personal traits that seem to cause some people to be able to take greater advantage of economic opportunities open to them. Like social capital, human capital rarely operates in a vacuum; it interacts with other factors in helping to explain different patterns of economic mobility. Human capital indicators include both education and health characteristics:

- Parents’ educational attainment
- Child’s educational attainment
- Interactions between health and the economy
- Individuals’ general health status
- Health insurance
- Obesity
- Low birth weight
- Race, ethnicity and health

FINANCIAL CAPITAL refers to the financial resources that so often seem to affect the ability to get ahead. The most common form of financial capital is personal savings and investments or gifts from parents or other relatives. Financial capital can be a cushion to help a person get through hard times, pay for education or start a business. Typically, there is a relationship between financial capital and other forms of capital that may help to explain economic progress or the lack of it. Apparently, similar people differ in their ability or desire to save rather than consume, or to steward and use resources prudently. This report identifies a variety of financial capital indicators as the most important in assessing mobility prospects. Financial capital indicators include both savings and wealth factors:

- Wealth transfers
- Homeownership
- Retirement savings
- Entrepreneurship

IDENTIFYING THE INDICATORS

In preparing this report, researchers were guided by two principles for selecting the economic mobility indicators we describe here: (1) they are prominent in the leading academic research on economic mobility; and (2) in aggregate they support a coherent explanation of what drives, directly and indirectly, economic mobility across generations.

We identified a much broader set of indicators after carefully reviewing the leading work on economic mobility and consulting with the academic advisors and other research organizations in the Economic Mobility Project. The Urban Institute's literature reviews proved particularly helpful in suggesting indicators and sharpening our grasp of the best academic research.³

Reducing this larger set to the group reported here largely turned on discussions at Heritage about which among the many indicators are most directly related to economic mobility and enjoy the highest academic support. The Brookings Institution's recent volume for the Economic Mobility Project on the current state of economic mobility in the United States has helped substantially in providing a solid foundation of the facts, figures and trends from which to understand what drives mobility.⁴ Finally, the list of indicators contained in this report was further honed through productive discussions among the project's principals and professional staff.

NOTES

¹ Isaacs, Sawhill, and Haskins, 2008.

² Ibid.

³ Urban Institute, 2008.

⁴ Isaacs, Sawhill, and Haskins, 2008.

I. ECONOMIC MOBILITY INDICATORS: SOCIAL CAPITAL

FAMILY INFLUENCES

The attributes of parents and the structure of families are influential in developing certain behaviors and skills that can have a lasting influence on the economic mobility of children. Many factors may explain why one person moves up, or down, the economic ladder faster than another. Social capital appears to be the foundation for individual economic mobility in that it is the source of human and financial capital. By social capital we mean the non-financial resources available to individuals through their relationships to people or institutions that shape the capabilities of an individual to take advantage—or not to take advantage—of the opportunities that are linked to mobility.

For any person the first source of social capital is the family. The quality of the relationships between parents and their children, the shared values and attitudes of family members, and the non-material types of investment that parents make in their children are examples of social capital within the family. Importantly, family social capital often enables a child to access other resources that are available within and outside the family.

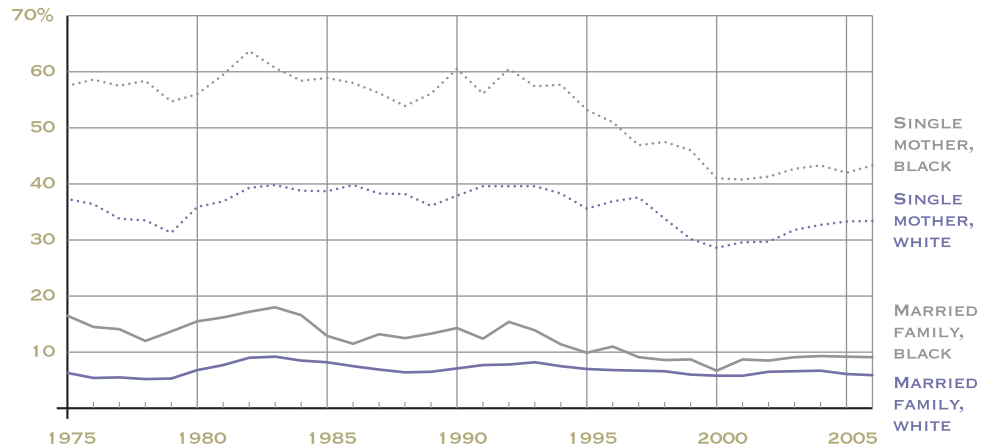
INDICATOR: FAMILY STRUCTURE

Children in single-parent families are much more likely to experience poverty growing up than are children with two parents. Furthermore, decades of research have revealed that children who grow up with two married parents fare, on average, significantly better than do peers in other family structures on a number of important outcomes that are associated with upward economic mobility later in life. These outcomes include academic achievement, including secondary and postsecondary educational attainment, employment and occupational status.¹ By the same token, studies have found that children who were raised in married, two-parent families are less likely to engage in behaviors that may hinder their future success in school, such as delinquency and dropping out of high school, as compared to peers in other family structures.² While scholars continue to debate the extent to which family structure and child outcomes are causally linked, the preponderance of existing research suggests that growing up with married parents confers advantages on the typical child relative to other family structures.³

FIGURE 1

Families with Married Couples Less Likely to Live in Poverty, Regardless of Race

Poverty rates of families with children under the age of 18, by family structure and race/ethnicity, 1975–2006.



Source: U.S. Census Bureau, 2008, Table 4.

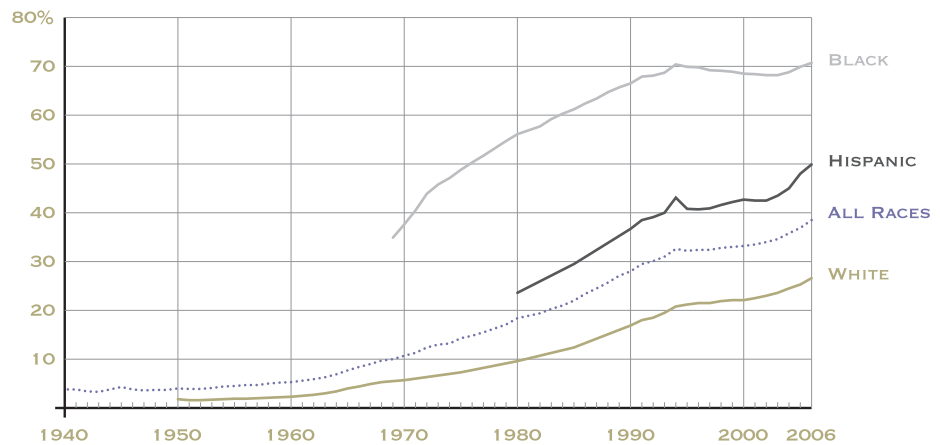
The proportion of children born to single parents and living in single-parent households has increased greatly in recent decades, and is especially high in the African American community. Such children are far more likely to be brought up in poverty and have bleaker economic prospects as adults.

FIGURE 2

Births to Unmarried Mothers Continue to Rise

Most affected are blacks, of whom nearly 71% of children born today will have unmarried mothers.

PERCENTAGE OF BIRTHS TO UNMARRIED MOTHERS, BY RACE/ETHNICITY



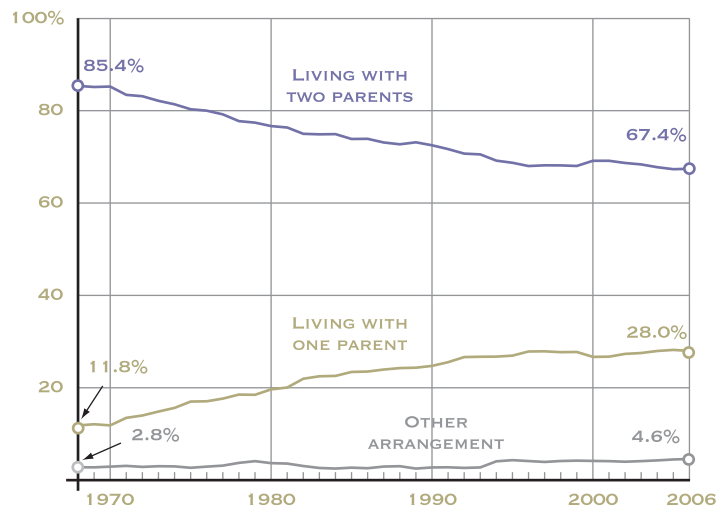
Source: 1940–1960 data: Ventura and Bachrach, 2000; 1960–2004 data: Child Trends Databank, 2005; 2005 final birth data: Martin, and others, 2007; 2006 preliminary birth data: Brady, Martin and others, 2007.

During the last half of a century, the structure of American families has shifted dramatically, with disturbing implications for the mobility of today's children. Beginning in the mid-1950s, the percent of children born to single mothers began rising. By 1970, the percent of children born to unwed mothers broke 10 percent (as shown in Figure 2), while more than 10 percent of children lived with an unmarried parent (as shown in Figure 3). By 2005, 38 percent of all births were to unwed mothers and 28 percent of all children lived in single-parent families. While the trend among the general population raises concern, the pattern in the African American community is alarming. The proportion of births to unwed mothers in the black community is about 70 percent—nearly three times the rate for white children. The rise in out-of-wedlock childbearing, along with high rates of divorce, has produced steady changes in the living arrangements of American children.

FIGURE 3

Two-Parent Families on The Decline

Living arrangements of children under 18 years old by family structure, 1968–2006.



Source: U.S. Census Bureau, 2006.

This is a concern because, regardless of race, children raised in single-parent households are more likely to live in poverty and are less likely to do well in areas that influence future economic mobility, such as educational attainment. This pattern of upbringing makes it likely that the economic “stickiness” that holds back the ability of lower-income American children to climb the economic ladder will become more pronounced and widespread in the future, especially for African Americans.

A child brought up in a married household has many advantages in pursuing economic success. For one, the income of the household is often higher by virtue of a second earner, and that increases the probability of higher future earnings for the child. But it is not just that two earners are better than one. Marriage seems to provide incentives for husbands to work harder, which results in increased earnings relative to single men.⁴

While family structure is important, it is clearly not the only factor. Children who grow up in two-parent families are also more likely to have parents with access to a greater number of resources, such as income, education and experience, and thus able to make better investments in their children.⁵ In this way, the family environment in which a child grows up, which is highly correlated with family structure, determines many of the outcomes, such as health, education and cognition, that drive economic mobility.⁶

Household poverty tends to persist over the generations. This is true in general, but it is particularly true for African Americans, even after accounting for family structure. Some studies, such as another Economic Mobility Project report, *Upward Intergenerational Mobility in the United States*, have found that African Americans growing up in two-parent families have a slightly higher probability of moving out of the bottom quintile relative to those who grow up in single-mother households (59 percent compared with 54 percent).⁷ However, even after accounting for differences in family structure, the probability that an African American will make it out of the bottom quintile by adulthood remains well below that of whites. Since poverty appears to be more easily transmitted from one generation to the next in the African American community, the economic mobility of those who come from families with low incomes will be much lower for blacks than for whites, regardless of the structure of the family in which the child grows up. In other words, it appears much more difficult for African Americans to escape poverty.

INDICATOR: PARENTING SKILLS AND EDUCATION

Parental education influences a child's academic prospects in a number of ways, as do certain parenting skills, such as the ability to develop strong bonds. In particular, the level of education reached by parents influences the ways in which they raise their children and seek to improve the education of their children. For example, better-educated parents tend to create home environments that foster behavioral skills and cognitive development that are more suitable for promoting academic achievement.⁸ More-educated parents may also have higher expectations for their children that they communicate to them. (See Chapter II, "Human Capital.")

Parents also serve as role models for children in ways that help or hinder their opportunities. Parents and their adult children resemble each other in terms of participation in school activities, drug use, age of first sexual experience, crime and aggression, perceived control over one's life, self-esteem, depression, shyness and many other traits that may affect economic mobility.⁹ Mothers and fathers play different parenting roles, and a child brought up with both of these influences is likely to be better placed to take advantage of certain opportunities in life. For instance, fathers who take an active role in parenting their children, such as by helping to build their language skills through reading or talking to their children, tend to have children who academically outperform those with fathers who are less involved.¹⁰ Also, children who grow up in two-parent families where the father is not involved are more likely to have substance abuse problems later in life and are more likely to drop out of high school.¹¹

Other ways that parents' education and parenting skills affect child human capital:

- The likelihood that a young child is read to every day increases with a mother's education level.¹²
- More-educated mothers and mothers who score higher on academic aptitude tests tend to create better home environments for their children, and better home environments may aid young children in their early behavioral and cognitive development.¹³
- Stronger parent-child bonds influence children at a critical early age. There is some evidence to suggest that sensitivity and responsive care from the mother secure mother-child attachment during the first years of a child's life, which appears to bolster early childhood development of socio-emotional, behavioral, cognitive and language skills.¹⁴ Children who have stronger bonds with their parents tend to exhibit better behavioral outcomes than do children whose parents are less engaged in their lives.¹⁵
- Parents who combine warmth toward children with discipline generally have children with better school outcomes and fewer behavior problems than other children, and parents who exhibit little warmth and impose little discipline generally have children with worse outcomes.¹⁶

INDICATOR: PARENTAL SIMILARITY

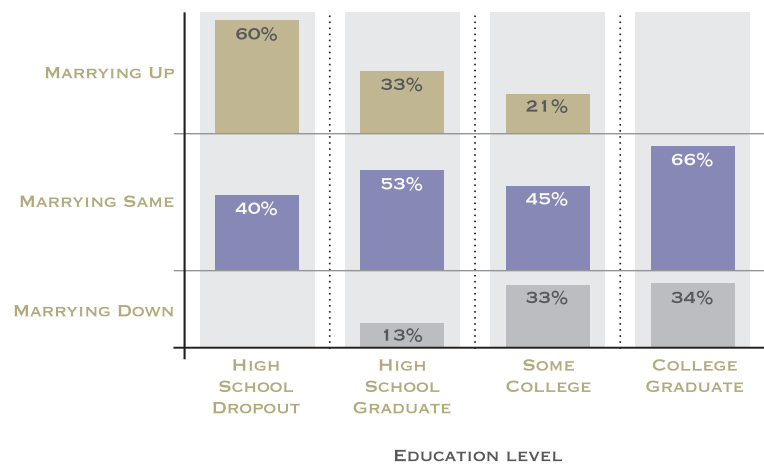
Likes attract, and so marriage tends to reinforce good or bad parental factors in shaping a child’s long-term prospects. In the way people seek out and marry each other, there is a tendency for spouses to resemble each other in terms of education and other characteristics. The result: parents tend to reinforce each others’ influence on a child’s future rather than moderating each others’ influence.

For instance, a high school graduate is more likely to marry another high school graduate than someone with more or less education. Likewise, a college graduate is more likely to marry another college graduate than someone who did not graduate from college. In fact, this pattern holds for people at every level of education except those who drop out of high school, who are probably more hard-pressed in today’s world than those with more schooling to find and marry someone of a similar background.

FIGURE 4

Married Couples Tend to Have The Same Level of Education

In general, there is a higher probability that a person will marry someone with the same level of education, as opposed to someone with less education (“Marrying Down”) or more education (“Marrying Up”).



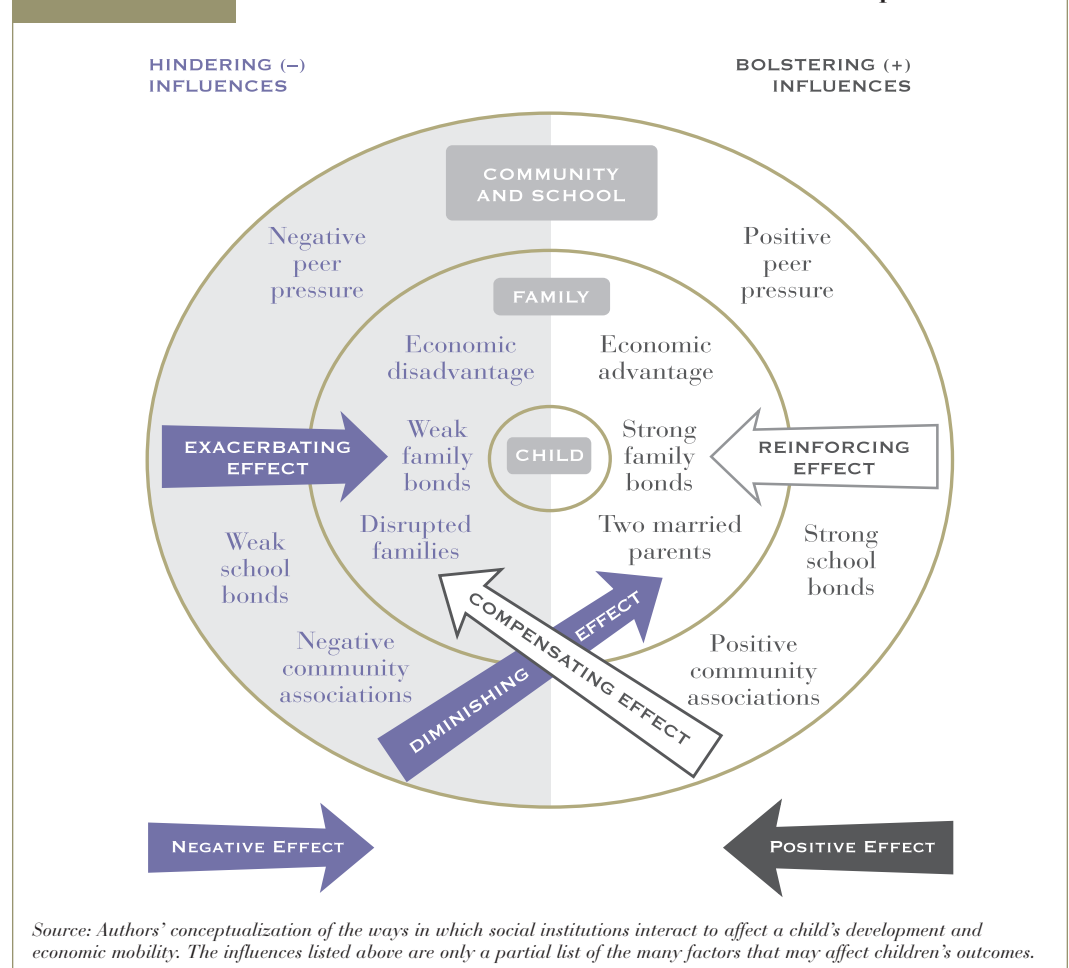
Source: Authors’ calculations for all individuals who are married and over 18 in the 2000 U.S. Census.

These patterns of “assortative mating” have serious implications for economic mobility, since education has such a strong influence on parents’ lifetime earnings, access to employer-provided health insurance and saving for retirement—each of which influences the chances that their children will do well in life. The reinforcement of parents’ individual traits, for better or for worse, within marriage highlights how complicated family structure effects are and qualifies the conclusion that marriage facilitates the mobility of children.

SOCIAL INSTITUTIONS AND COMMUNITY INFLUENCES

The wider community and society also exercise considerable influence on economic opportunity and the ability of children to take advantage of it. This influence grows along with age, becoming influential as children enter school and considerably more important in adulthood. Influences from outside the family interact with family influences to hinder or bolster the mobility of children. Figure 5 illustrates these interactions. For example, strong family bonds typically have a positive effect on outcomes, while weak family bonds can be expected to have a negative effect. Community and school factors, such as positive peer influences from other students, can independently bolster child outcomes. In addition, community and school factors can reinforce positive family factors while compensating for negative family factors. Conversely, hindering community influences can exacerbate negative family factors while also diminishing positive family factors.

FIGURE 5 Social Institutions Are Critical Drivers of Child Development



INDICATOR: SCHOOL-BASED RELATIONSHIPS

Relationships formed in school are critical in determining attitudes and outlooks that affect academic achievement. The relationships formed in school and the culture of the school can have particularly decisive effects on a child's attitude toward education, vision of the future, values and other traits that are critical to success in school and the workplace. A number of relationships originating in the school setting generate social capital, some bolstering and others hindering children's success, some reinforcing or diluting the earlier parental influence. These include parent-teacher and teacher-child relationships, as well as relationships between children, between children and their friends' parents, and between the parents of children.

For example, one study found that the school-wide level of parent involvement in school activities, such as the PTA, fundraisers and classroom volunteer work, increased children's math achievement even after accounting for a number of family, school and other social capital factors.¹⁷ Other research shows that the achievement levels of classmates affects how much children learn in school and that teacher quality affects child achievement.¹⁸

School-based relationships with peers can have particularly influential impacts that can be both positive and negative. Sometimes interactions with peers can have a positive effect on academic achievement, such as when students having trouble with their coursework seek help from other students who have a stronger understanding of the material. At other times, peer interactions may reinforce negative behavior. This may occur when a student becomes involved with a group that has negative views of academic success or of high-achieving students. There has been growing concern among middle-class African American parents, for instance, that their efforts to raise the expectations of their children and encourage success at school are blunted by discouraging peer pressure among other African American children—especially boys—at high school.¹⁹

However, interactions within neighborhoods can be just as influential as those relationships found in schools.

INDICATOR: COMMUNITY INFLUENCES

The neighborhood matters. Neighborhoods that are socially disorganized, economically depressed or filled with distrust, as well as those with a lower proportion of married households, tend to be associated with negative community-level outcomes, such as increased crime rates.²⁰ In particular, one study that examined low-income Boston neighborhoods found that living in a neighborhood where other youths are involved in crime, using drugs, unemployed or not in school increases a youth's probability of being involved in the same activity even after controlling for family and personal characteristics.²¹

Socially disorganized communities that suffer from disrupted or weakened family, friendship and associational ties often lack a culture that reinforces positive behaviors and discourages negative behaviors.^{22, 23} The social organization of neighborhoods partially explains variations in crime rates that are independent of the aggregated characteristics of neighborhood residents.²⁴ Neighborhoods filled with individuals willing to intervene on behalf of the common good have less crime.²⁵ In contrast, neighborhood-concentrated disadvantage appears to be associated with increased tolerance of deviance.²⁶ Family disruption on the community level is associated with increased unsupervised peer networks and property and violent crime.²⁷

A Positive Influence: Religion-Based Networks. For an example of one way that social networks may increase economic well-being, consider how people are affected by living in a city where they share the same religion as many of that city's residents.²⁸ One study reveals that if Catholics, for instance, live in a metropolitan area that is 40 percent Catholic rather than 30 percent Catholic, Catholics' incomes will be about 1 percent higher where Catholic density is greater (see Figure 6). That difference may reflect the greater social interaction with neighbors and religious institutions that comes from social networks available to Catholics in areas where co-resident Catholics are more common.

The density of one's religious group in a metropolitan area not only raises the probability of household income growth for those in that group, it also increases the likelihood of educational attainments and marriage, among other outcomes. Further, some research has found that an increase in religious density has a substantially positive effect on religious attendance, which in turn may be socially significant and positively affect household income or college graduation.²⁹

Such a result is not unexpected, as individuals who share a common thread are able to take advantage of more opportunities through interaction with members of their community. Potential mechanisms through which involvement in religious institutions affects child outcomes could include increased social interaction with one's neighbors as well as the additional insurance that religious organizations may offer families against sudden economic shocks, both prime examples of the resources to which social capital provides access.

FIGURE 6 Effect of Religious Density on Outcomes

A 10-PERCENTAGE-POINT INCREASE IN RELIGIOUS DENSITY LEADS TO A:

0.9% increase in household income
0.05 year increase in education
0.9% increase in the likelihood of graduating from college
0.4% increase in the likelihood of being married
0.4% decrease in the likelihood that of dropping out of high school
0.3% decrease in the likelihood of being divorced

Source: Gruber, 2005.

It is important to note that this same study found that ethnic density does not reveal a similar effect on income or other outcomes as was found for religious density. Further, the benefits of religious density may well reach a threshold or tipping point where high religious density may mean religious segregation, thereby increasing the costs of such density to exceed the benefits that the social networks bring.

A Negative Influence: Gangs. At the other extreme of social networks, criminal gangs offer forms of social capital that can be damaging or disastrous to a child's likelihood of doing well later in life. As described in Figure 7, a 1995 survey of public school eighth-grade gang members found that 52 percent reported joining their gangs for protection, 48 percent joined to gain respect and 46 percent joined because of a friend in the gang, reflecting the potential for a strong peer effect associated with joining a gang. Gangs may supply youth with needs that are unfulfilled because of weak family and community bonds. By joining a gang, youths are exposed to high levels of criminal activity and risk incarceration, which can damage future chances of going to college or later employment. Furthermore, those who have previously been incarcerated tend to have lower wage mobility than do those without a criminal history.³⁰

FIGURE 7

Why Do School-Aged Students Join Gangs?

52% reported joining a gang for protection
48% reported joining a gang in order to gain respect from peers
46% reported joining a gang because a friend was in the gang

Source: Freng and Winfree, 2004, based on a 1995 survey of public school eighth-grade gang members.

Another source of evidence that neighborhoods matter is the Moving to Opportunity housing voucher experiment. Results from the experiment, in which families in poor communities were given vouchers to use for rent in higher-income communities, indicate that moving to a neighborhood with lower poverty rates helped girls by improving their mental health, reducing risky behavior, and improving educational outcomes.³¹

Once children reach adulthood, other social institutions increase in importance, while those that influenced development in childhood matter less.

INDICATOR: WORK-RELATED NETWORKS

The notion that social networks and networking leads to greater job opportunities resonates strongly with many. In fact, there are strong associations between networking through professional organizations and a number of occupational outcomes, such as executive compensation, job opportunities, product innovation, entrepreneurship, as well as occupational advancement or promotion.³²

FIGURE 8

What is The Likelihood of Starting a New Business?

If your business network is maximally diverse (comprises at least five different types of relationships) rather than minimally diverse (only one type of relationship, such as coworkers or kin)	An increase in the odds of starting a new business by over 400 percent.
If your business network comprises only family members , rather than having no family members	A reduction in the odds of starting a new business by 95 percent.

Source: Renzulli, Aldrich, and Moody, 2000.

The diversity of social networks, in particular, can help to create entrepreneurs, since having personal connections with business owners and more knowledge of successful business models increases the probability of starting a business. (See Figure 8.) Social networks with other business owners may also increase the likelihood of entrepreneurial success, since members of the network are granted relatively open access to the group's collective knowledge of what works and what does not.

Finally, social networks are a primary way in which people find jobs. The size and nature of individuals' social networks influence the kind of jobs that they hear about.³³

SUMMARY

The parental traits that have important positive influences on a child's future economic trajectory are associated with good economic conditions for the parents as well. By contrast, single-parenthood, low levels of parental education and similar traits are associated both with poorer prospects for the child and worse economic conditions for the parent. While social capital acquired through the family plays a significant role from the very beginning, as a child moves into adolescence and then into adulthood, social capital acquired through the wider community becomes comparatively more important and interacts with parental influence. It can reinforce benefits associated with good parenting or it can weaken those benefits. It can compensate for weak or damaging parental influences or exacerbate them. In that sense, it does indeed "take a village to raise a child," and the interplay of social and parental influences within that village seems to help explain why some children are more likely than others to move up the economic ladder or slip down the rungs.

NOTES

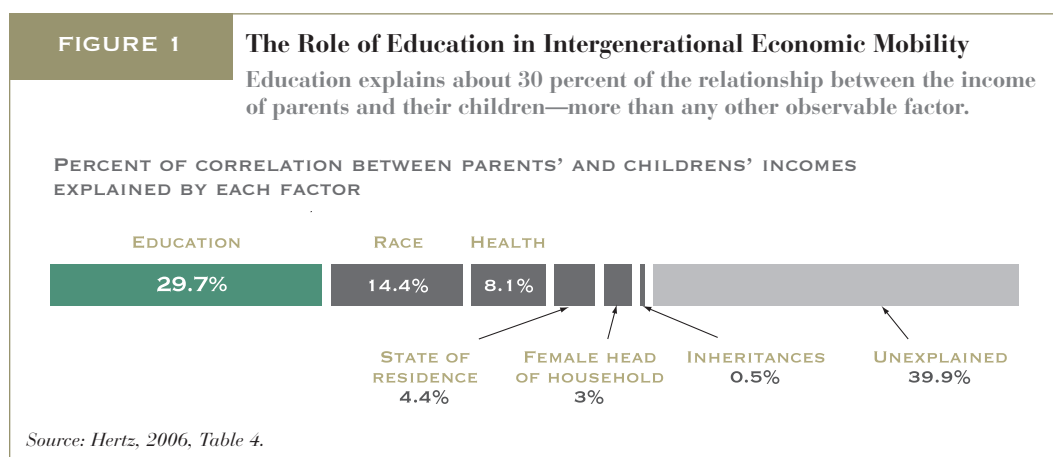
- ¹ McLanahan and Gary Sandefur, 1994; Coleman, 1988; Furstenberg and Hughes, 1995; Teachman, Paasch, and Carver, 1996; Teachman, Paasch, and Carver, 1997; Biblarz and Raftery, 1999; McLanahan, 1997.
- ² Sampson and Laub, 1993; Jang and Johnson, 2001; McLanahan and Sandefur, 1994.
- ³ For challenges to the conventional wisdom on family structure, see (among others) Harding, Jencks, Lopoo, and Mayer, 2005; Lang and Zagorsky, 2001; and Maire Ni Bhrolchain, 2001.
- ⁴ Ahituv and Lerman, 2005.
- ⁵ Heckman, 2008.
- ⁶ Ibid.
- ⁷ Mazumder, 2008.
- ⁸ Hart and Risley, 1995.
- ⁹ Duncan, Kalil, Mayer, Tepper, and Payne, 2005.
- ¹⁰ Cooksey and Fondell, 1996.
- ¹¹ Salem, Zimmerman, and Notaro, 1998.
- ¹² Federal Interagency Forum on Child and Family Statistics, 2006.
- ¹³ Votruba-Drzal, 2003.
- ¹⁴ Belsky and Pasco Fearon, 2002; Baumwell, Tamis-LeMonda, and Bornstein, 1997; McCartney, Owen, Booth, Clarke-Stewart, and Vandell, 2004.
- ¹⁵ Parcel and Dufur, 2001.
- ¹⁶ Lamborn, Mounts, Steinberg, and Dornbusch, 1991.
- ¹⁷ Parcel and Dufur, 2001.
- ¹⁸ Hanushek, Kain, Markman, and Rivkin, 2003; Rockoff, 2004.
- ¹⁹ Fryer, 2005.
- ²⁰ Sampson and Groves, 1989; Messner, Baumer, and Rosenfeld, 2004; Rosenfeld, Messner, and Baumer, 2001.
- ²¹ Case and Katz, 1991.
- ²² The definition we use of a socially disorganized community is one with a high concentration of low economic status, ethnic heterogeneity, high residential mobility, and family disruption. See Sampson and Groves, 1989.
- ²³ Sampson, 2004.
- ²⁴ Sampson, Raudenbush, and Earls, 1997.
- ²⁵ Sampson and Raudenbush, 1999.
- ²⁶ Sampson and Bartusch, 1998.
- ²⁷ Sampson and Groves, 1989.
- ²⁸ Gruber, 2005.
- ²⁹ Ibid.
- ³⁰ Western, 2002.
- ³¹ Kling, Liebman, and Katz, 2007.
- ³² See Adler and Kwon, 2002, p. 17 for a brief review.
- ³³ Granovetter, 1995.

II. ECONOMIC MOBILITY INDICATORS:

HUMAN CAPITAL

EDUCATION

Education is the largest known factor in explaining the connection between parents' earnings and their children's. As Figure 1 illustrates, roughly 30 percent of the similarity in income between children and parents is accounted for by the effect of parents' income on children's education and that of the child's spouse.



INDICATOR: PARENTS' EDUCATIONAL ATTAINMENT

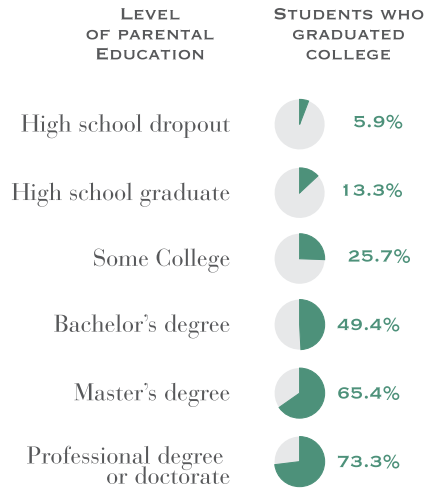
Not only does parental income influence their children's educational attainment and income, but, as Figure 2 indicates, parents' education also appears to be a decisive influence. In particular, parental education strongly affects the likelihood their children will graduate from college. The great key to today's economy is a college degree, and children are more likely to have one if their parents graduated from college.

As discussed below, education's significant influence on earnings is likely driving most of the connection between parents' educational attainment and their children's educational attainment.

FIGURE 2

College Education Runs in The Family

The percentage of students who graduated from four-year colleges increased as parents' education increased.



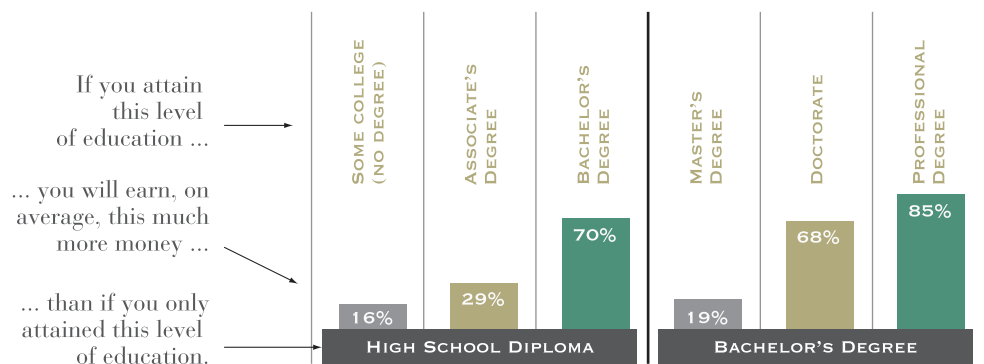
Note: Figures are for adults who were high school sophomores in 1990 and reflect educational attainment as of 2000.

Source: National Center for Education Statistics, 2007, Table 313.

INDICATOR: CHILD'S EDUCATIONAL ATTAINMENT

In today's economy, education strongly influences one's earnings. That is, more education leads to a higher annual income, as represented in Figure 3.

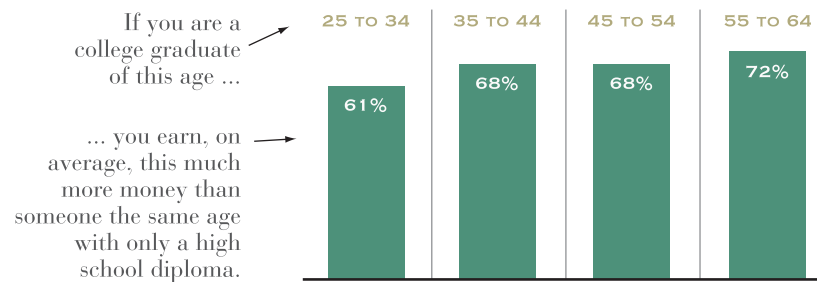
FIGURE 3

Greater Education Leads to Greater Prosperity

Source: U.S. Census Bureau, 2008. Figures are for 2006 and based on median annual earnings for a person age 25 and older.

Graduating from college seems to make a profound difference in one's ability to get ahead. Although just the act of attending college corresponds with wages that are 16 percent higher than what one would most likely earn with only a high school diploma, one must graduate in order to maximize the return on the time and money invested in college. Those earning a two-year associate's degree will earn an average of 29 percent more than those with only a high school diploma. Likewise, those who graduate from college with a bachelor's degree will make an average of 70 percent more than those with only a high school diploma. In addition, graduate school beyond a bachelor's degree is a relatively good investment. As Figure 4 indicates, these wage premiums increase over the course of a career.

FIGURE 4

Higher Education Can Pay Off Even More as One Gets Older

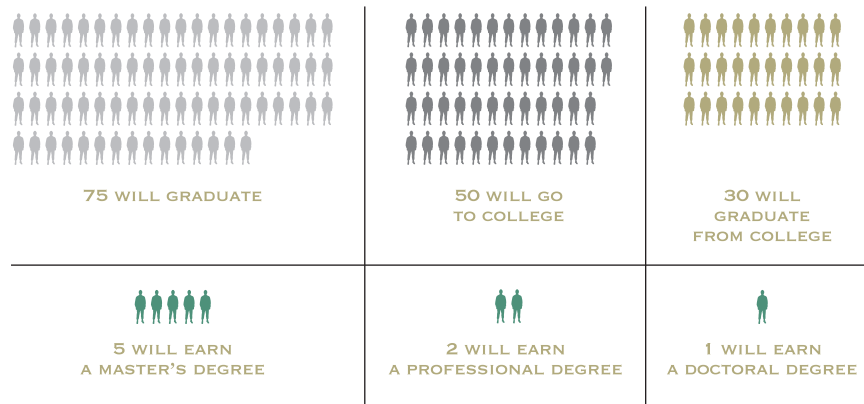
Source: U.S. Census Bureau, 2008; figures are for 2006 and based on median annual earnings.

Despite the higher earnings obtained by getting a college degree, relatively few people are going on to take advantage of the high college wage premium by graduating.

FIGURE 5

Breakdown of Educational Attainment in The United States

FOR EVERY 100 STUDENTS WHO GO TO HIGH SCHOOL:



Note: Authors' estimates using data from 2000 from the October and March Current Population Survey, U.S. Census Bureau, and National Center for Education Statistics.

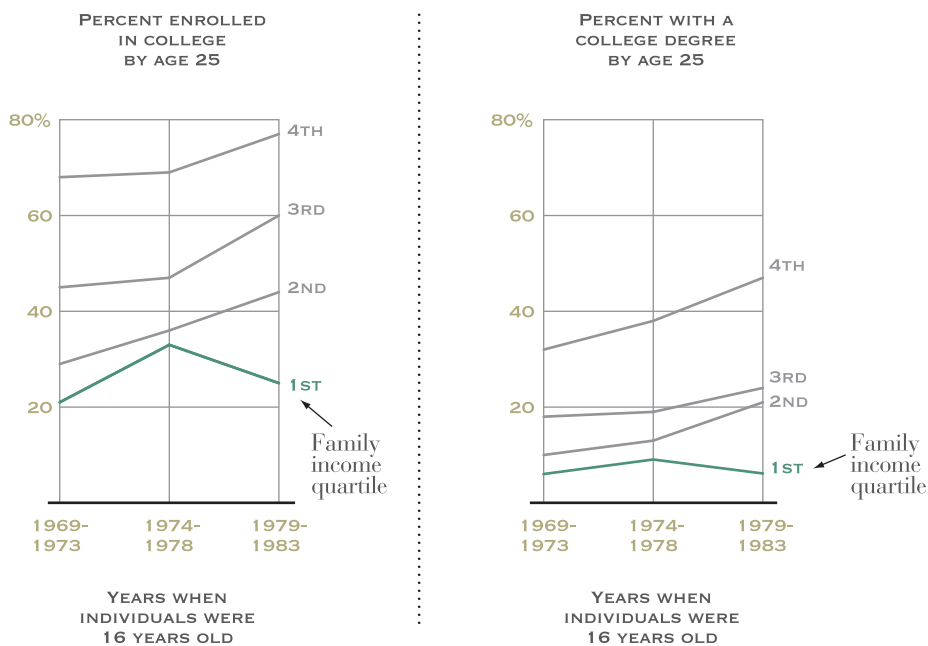
As illustrated by Figure 5, out of every 100 high school students, roughly 50 will make it to college, while only 30 will ever graduate. An even smaller number of individuals are going on to graduate and professional schools after earning a bachelor's degree. While a college degree is increasingly becoming the best investment that individuals can make early in life and higher education is becoming a prerequisite for many occupations, it is becoming ever more critical to determine why some are not going to college. Family income may play a part in limiting some individuals from taking advantage of the benefits a college degree brings.

Children of low-income families tend to have lower levels of college enrollment and graduation. Although the college wage premium has risen over the last few decades, those raised in families with low incomes have not responded by going to college at higher rates. In fact, those in the bottom quartile have been graduating from college at the lowest rate in 30 years, as described in Figure 6. Family income also seems correlated with whether an individual will go to a two- or a four-year college.

FIGURE 6

Low-Income Families Take a Step Back in Sending Kids to College

Families in the lowest quartile of earnings made great strides in the 1970s in the percent of their children who enrolled in college, but in the early 1980s the numbers dropped back down again while other income groups surged ahead.



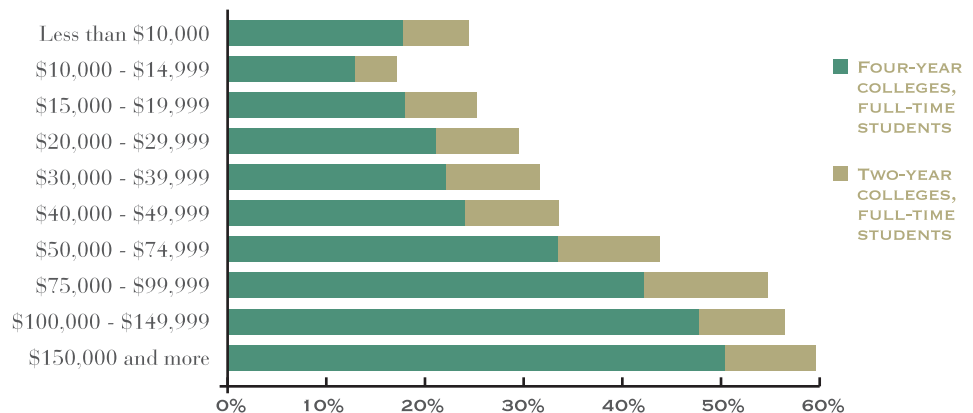
Source: Carnevale, Fry and Turner, 2001.

FIGURE 7

Enrollment Rates and Type of College Chosen Reflect Family Income

Children from lower-income families are less likely to go to college, and if they do are more likely than those from middle- and upper-income families to enroll in two-year colleges.

PERCENTAGE OF 18- TO 24-YEAR-OLDS ENROLLED IN COLLEGE BY FAMILY INCOME



Note: These figures exclude those who have already attended college and have either dropped out or graduated.

Source: U.S. Census Bureau, 2006.

Other characteristics, such as cognitive and non-cognitive skills picked up in early childhood or adolescence, may also be influencing differences in college enrollment. These abilities and personality traits, such as patience and academic determination, appear to influence academic achievement, individual tastes or preferences towards schooling and eventually preparation for college. They are likely developed and fostered through interactions within the family and the wider community. Without the family or community institutions in place to foster these attributes, some children are severely limited by the time they reach late adolescence in their ability to successfully complete college.¹

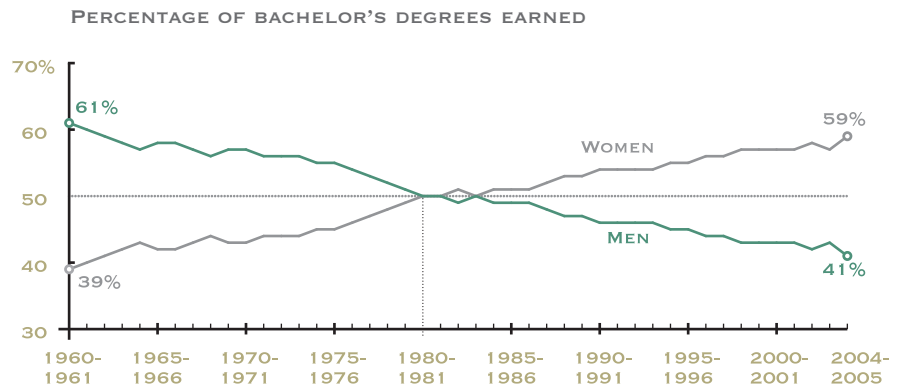
Some of these attributes may be leading to a growing gap in college graduation rates between men and women. As described in Figure 8, women now make up almost 60 percent of all bachelor's degrees earned, and, as a consequence, they are also closing the earnings gap, as outlined in Figure 9.

The positive trends for women in both college graduation rates and earnings could have quite dramatic implications for economic mobility in the future. As more women graduate from college today than before, they will experience more access to professional opportunities with higher incomes than were available to previous generations of women. The result could be greater economic mobility for women than men, with relatively low or even downward mobility for men. In addition,

FIGURE 8

Women Earning More College Degrees Than Men

In the 1980-81 academic year, women matched men for the first time in terms of the number of bachelor's degrees earned. Since then, women have widened the graduation gap.

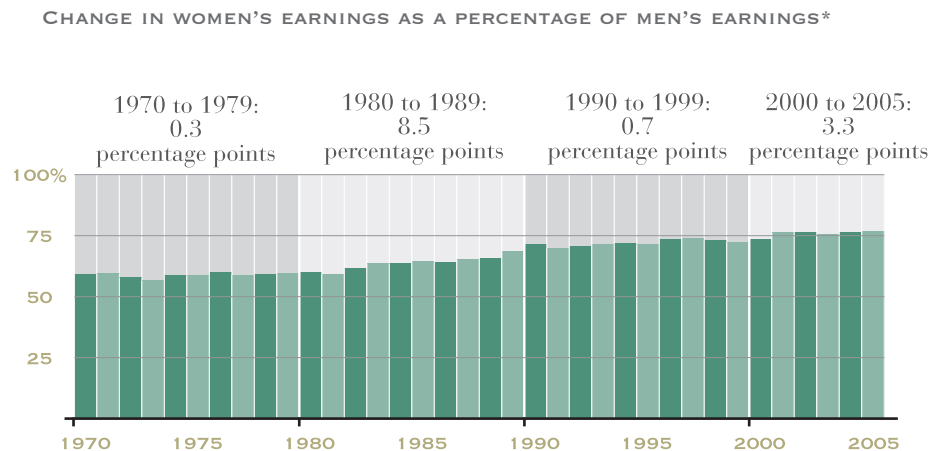


Source: National Center for Education Statistics, 2007. Table 258.

FIGURE 9

Women Continue to Gain on Men's Income Levels

Women made the greatest strides during the 1980s, closing the gender gap by 8.5 percentage points.



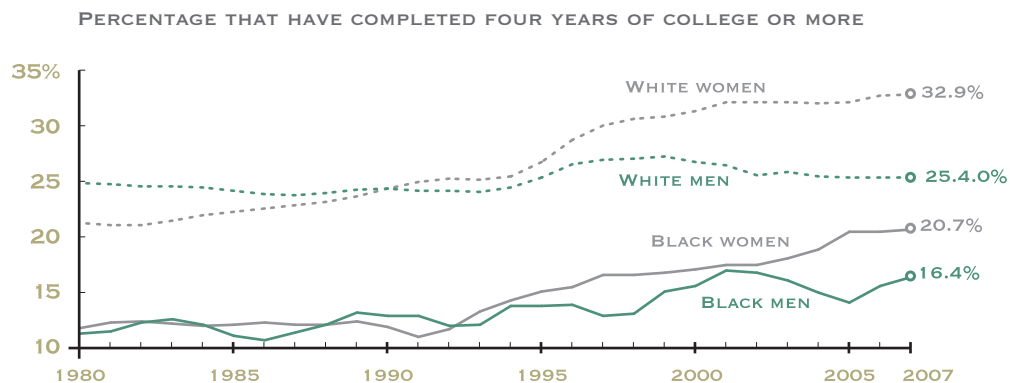
* Based on median earnings of full-time, year-round workers 15 years old and over as of March of the following year.
Source: Authors' calculations using data from the March Current Population Survey 1970 to 2005. U.S. Census Bureau.

the income of women relative to their parents is increasing and likely will increase even more sharply in the future as the higher education levels of women translate into higher earnings.² However, as noted in other reports from the Economic Mobility Project, women do have lower rates of upward mobility, particularly those born to parents in the bottom of the income distribution compared to men born to similar circumstances.³

Although the percent of college graduates is increasing for all groups, as indicated in Figure 10, the racial gap is still pronounced. Further, in the African American community, women are moving ahead, increasingly becoming more educated than African American men. While this is good news for African American women's economic prospects, the potential for an increasing gap with black men is likely to have serious long-term implications for the economics and sociology of the black community.

FIGURE 10

Percent of College Graduates Ages 25–29 Has Increased For All Racial Groups, But The Racial Gap is Still Pronounced



Note: The data represent a three-year rolling average of the percent of the population between the ages of 25 and 29 that have completed a college degree.

Source: 1980 to 2002, March Current Population Survey; 2003 to 2007, Annual Social and Economic Supplement to the Current Population Survey (noninstitutionalized population, excluding members of the Armed Forces living in barracks), Historical Table A-2.

At the other end of the educational spectrum, black men are falling behind. Today, only 30 percent of black male high school dropouts between the ages of 22 and 30 are employed; even adding in high school graduates who did not go to college, nearly half are jobless.⁴ One reason these figures are so problematic is the high incarceration rate for black males, where one in nine men between the ages of 20 and 34 is in prison.⁵

SUMMARY: EDUCATION

Having a college degree is a major factor in determining who will move up the economic ladder and who will not. The role of parents is particularly important in this regard. Parents with a college degree not only earn more and can afford more resources for their children than parents without, but they are also more likely to have children who also graduate from college and earn more in life. Although education has the potential to serve as a leveler over time, in practice it remains a divider. We see this in current patterns of education and income and in likely future patterns as well.

HEALTH

Health both influences and is affected by economic mobility. Health and access to health care at specific points in people's lives seem to contribute to differences in economic mobility. There are many health pathways that can influence economic mobility, some direct, some indirect. Poor health can directly affect income over a lifetime through employment disruptions, or it can do so indirectly by affecting other indicators of mobility, such as academic achievement in childhood and productivity in the workplace. Parental attitudes to health services and lifestyle have lasting effects, like income, on the health and therefore on the future earnings of their children. These factors, in conjunction with the genetic endowment from parents, suggest that health influences intergenerational economic mobility. It is also important to note that good health is often the result of good income, not the cause of it.

The effect of parents' incomes on their children's health as adults accounts for only 8 percent of the similarity between the incomes of parents and children, as indicated in Figure 1. In perspective, health is not nearly as important as education or even race, which account for about 30 and 14 percent, respectively, of the similarity in incomes.

However, the education attained by parents, as well as their lifestyle, can be very influential in determining behavior important to the long-term health of their children. Timing is very important. Parents transmit powerful mobility attributes to their children through seemingly simple daily activities, and prenatal care and early attention to child wellness are important. Children who grow up in households with good diets, exercise and healthy living practices (no smoking, for example) can be set on a course for leading healthier lives and doing better in the workplace, especially if better health enables them to get a better education. In particular, it appears that both maternal and child nutrition can have lasting effects on the health and economic mobility of children.

In addition to family influences, health can be significantly affected by broader social or cultural influences. Social attitudes about smoking and alcohol use in previous generations and, more recently, about drug use are examples of influences with significant consequences to health and economic mobility.⁶

INDICATOR: INTERACTIONS BETWEEN HEALTH AND THE ECONOMY

Healthier populations promote wealthier societies. Economies with healthier workers are more productive, promoting the absolute mobility of current and future generations.

In previous generations worker health was worse and had more significant implications for a worker's economic success than it does today. Today's knowledge and service economy places new health demands on workers.

With today's economy placing a much higher value on educational attainment and personal skills than on physical, manual labor, the workplace has become safer and the general health of workers has increased. In the past, health problems that involved physical impediments routinely would dim a person's job prospects.⁷ In the new economy that is generally less true. However, medical conditions that once were not such serious impediments, such as attention problems, can now be a large problem if they limit educational attainment and other skills.⁸

INDICATOR: INDIVIDUALS' GENERAL HEALTH STATUS

It is difficult to determine whether, within someone's lifetime, health and economic mobility are directly or indirectly linked. The degree to which health status in adulthood is a result of income rather than a cause of income is difficult to measure and remains unclear.

Good health may be as much the result of a good income as a cause of it.

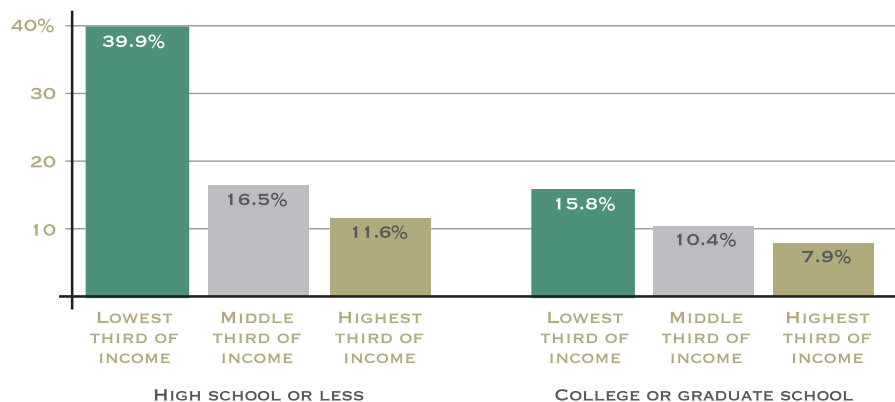
Better health could lead to higher income for an individual. It could also be that good health is a by-product—a result, not a cause—of higher personal income. The evidence does generally indicate that health status improves with increases in income.⁹ Part of the apparent effect may be a result of healthier living that higher incomes make more possible, such as exercise, better diet and less exposure to environmental toxins. Of course, part of the effect may also result from more ready access to better health care, which can be purchased by those with higher incomes.

On the other hand, people with persistent poor health face barriers to income mobility. Individuals with low incomes tend to report having poor health in adulthood, as illustrated in Figure 11. This relationship appears to persist even after accounting for education and age, which also have important influences on health.¹⁰ However, those with low education levels and low incomes are more likely to report poor health by age 55 than does any other group. Those with only a high school diploma or less are more likely to have physical jobs in adulthood than are those with at least a college degree, which surely has health consequences.

Although many factors contribute to an individual's health, income seems to be particularly important.

FIGURE 11 Individuals with Lower Income, Regardless of Education, Report Having Poorer Health Later in Life

PERCENTAGE OF WHITE MALES, AGES 55 TO 64, REPORTING POOR HEALTH BY INCOME

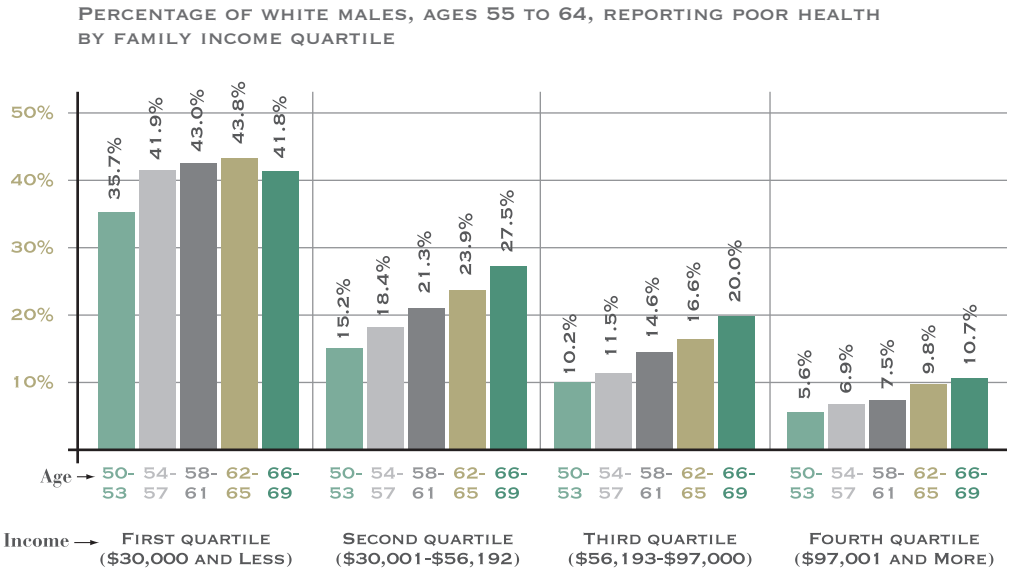


Source: Banks, Marmott, Oldfield, and Smith, 2006; the data used to produce these findings is from the 2002 wave of the Health and Retirement Survey, which is a representative sample of the population and includes only white males between the ages of 55 and 64.

Prolonged poor health can lead to lower earnings, as indicated in Figures 12 and 13. Poor health throughout a working life may cause work disruption, such as surgeries and rehabilitation and lower productivity on the job. In terms of intragenerational economic mobility, this could directly influence the mobility of a worker through both current pay and future promotion. In addition, chronic conditions may lead to potentially large out-of-pocket spending and other economic limitations. Moreover, poor health may limit the earnings of those with already low rates of economic mobility. African American women in poor health have a higher percentage of earnings lost relative to those in good health than do whites and black men.

Further, Americans with disabilities experience lower earnings and higher unemployment rates. In 2003, 23 percent of individuals with at least one disability were living in poverty, compared with 9 percent of individuals without disabilities.¹¹ For those who continue to work for the duration of the disability, income drops largely due to a decrease in hours worked. Among those who report disability in continuous years, individuals were 23 percent below earnings expectations in the first year of disability and 15 percent below earnings expectation after a decade.¹²

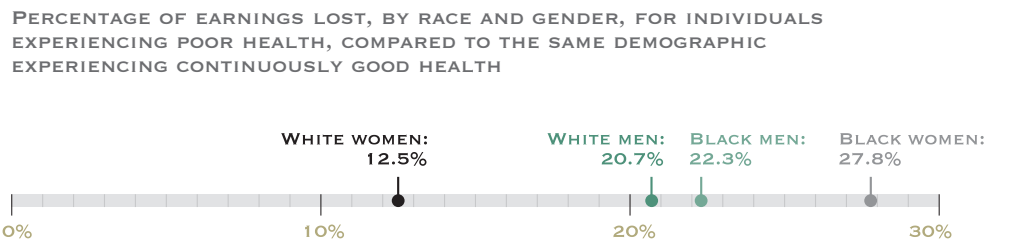
FIGURE 12 Individuals with Higher Income Are Less Likely to Report Having Poor Health



Note: The data is from the 2002 wave of the Health and Retirement Survey, which is a representative sample of the population born between 1931 and 1947, and includes only white males.
 Source: Banks, Marmot, Oldfield, and Smith, 2006.

In terms of intergenerational economic mobility, low earnings can also increase the likelihood of having a child who suffers from poor health conditions that may last a lifetime.¹³ Therefore, the income of parents directly influences the health of their children and may help to explain some of the observed “stickiness” or immobility of children born to parents at the bottom of the income distribution.

FIGURE 13 Poor Health Can Result in Lost Earnings



Note: Data from the National Longitudinal Surveys (NLS) of Older Men from 1966 to 1976 and Mature Women from 1967 to 1977. The sample includes only men and women between the ages of 45 and 64.
 Source: Chirikos and Nestel, 1985.

While health generally is not directly connected with the ability to earn a particular level of income, poor health that gets in the way of education can be a serious, if indirect, obstacle to upward economic mobility because of the relationship between educational attainment and future earnings, as noted earlier in this chapter. At the same time, however, more education may also lead to better health, as better educated individuals may not only be more likely to access jobs with health insurance, but may also be able to make more informed decisions regarding their current and future health.

INDICATOR: HEALTH INSURANCE

Income matters in accessing basic health services, but having health insurance does not appear to be a significant advantage in moving up the economic ladder, even though it is linked to better health services. However, the presence of coverage in one's current job might actually discourage an individual from seeking another job.

Many policy makers worry about the large number of workers without health insurance. They assume that the absence of health insurance means these workers have poorer health. However, simple correlations between coverage and health condition can be misleading. For instance, the uninsured are relatively younger than the insured.¹⁴ Many uninsured young adults are healthier than the insured, which means they naturally would seek fewer health care services. Still, coverage in the private or public sector can make a big difference for those with chronic problems that can interfere with work, such as diabetes, and for basic care for young children, such as prenatal care and wellness services.

Nevertheless, America's largely employer-based system of health coverage itself likely affects economic mobility in at least an indirect way. The absence or availability of health insurance through the workplace affects basic labor and employment decisions, such as whether one enters the workforce or changes jobs. The reduction in job mobility caused by health insurance concerns—commonly referred to as “job lock”—is generally considered an impediment for workers seeking to move to more productive, and possibly more lucrative, employment arrangements.¹⁵ Fear of losing health benefits can also steer people away from choosing self-employment and the opportunity for increased upward mobility through entrepreneurship. (See Chapter III, “Financial Capital.”)

Without comprehensive health insurance, health care costs can also exhaust disposable income and lower savings accumulation and thus may cause downward mobility.

(See Chapter III, “Financial Capital.”) One study measuring the financial consequences of poor health found that 27 percent of households that file for bankruptcy do so primarily because of medical debt, while an additional 36 percent are bankrupt by some combination of medical and credit card debts.¹⁶

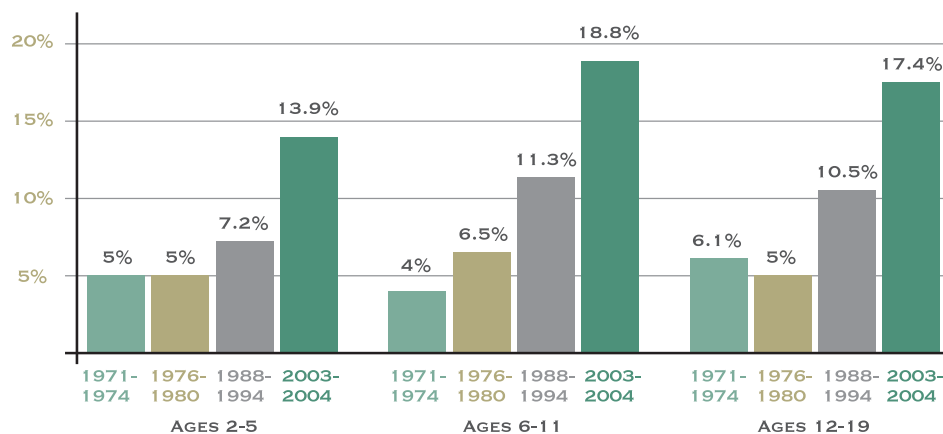
Financial distress caused by poor health can have serious implications for both intergenerational and intragenerational mobility, since a chronic condition may limit the amount of resources that parents can dedicate to their children.

INDICATOR: OBESITY

Having markedly increased since the mid-1970s, obesity is now widely considered a near epidemic. Moreover, the more than tripling in the rate of childhood obesity over the same time, as shown in Figure 14, suggests obesity may pose a serious threat to intergenerational mobility. Obesity has been shown to lead to a series of health problems, primarily diabetes and hypertension, which may influence earnings by decreasing workplace productivity.¹⁷ Obesity in childhood can lead to lower academic performance, which may intensify the impact of poor health on mobility. The continued increase in the prevalence of obesity, particularly among children, is expected to result in significantly higher health expenditures, which could offset any wage gains, or increased mortality, which effectively reduces lifetime earnings.¹⁸

FIGURE 14 More Children Are Becoming Overweight, Regardless of Age

PERCENTAGE OF OVERWEIGHT CHILDREN, BY AGE



Source: Ogden, Flegal, and Johnson, 2002; Hedley and others, 2004; Ogden and others, 2006.

INDICATOR: LOW BIRTH WEIGHT

An entirely different problem from obesity is low birth weight. Low birth weight and other physical conditions in early childhood can significantly limit earnings in adulthood. The poor health in both childhood and adulthood caused by low birth weight seems to significantly reduce time spent at work, workplace productivity and academic performance. As illustrated in Figure 15, these and other factors lead to those with low birth weight earning, on average, 22 percent less than those with normal birth weight.¹⁹

FIGURE 15

Low Birthweight Can Inhibit Earnings

A 2007 study of pairs of brothers in which one had low birth weight and the other had normal birth weight shows the ones with low birth weights tend to earn less and work less, and the gap tends to increase as they grow older.*

	BROTHER WITH NORMAL BIRTH WEIGHT	BROTHER WITH LOW BIRTH WEIGHT	% DIFFERENCE
ANNUAL EARNINGS			
18-26 years old	\$17,541	\$15,773	-10.1%
27-36	\$26,886	\$20,164	-25.0%
37-52	\$37,511	\$27,743	-26.0%
All ages	\$26,047	\$20,390	-21.7%
HOURLY WAGES			
18-26 years old	\$10.02	\$9.05	-9.7%
27-36	\$13.85	\$12.46	-10.0%
37-52	\$19.10	\$14.97	-21.6%
All ages	\$13.66	\$11.92	-12.7%
ANNUAL HOURS WORKED			
18-26 years old	1,042	991	-4.9%
27-36	1,812	1,623	-10.4%
37-52	1,972	1,824	-7.5%
All ages	1,438	1,331	-7.4%

* Survey participants were born between 1951 and 1971 and monitored through 2003. Data on their health became available after 1984.

Source: Johnson and Schoeni, 2007.

INDICATOR: RACE, ETHNICITY AND HEALTH

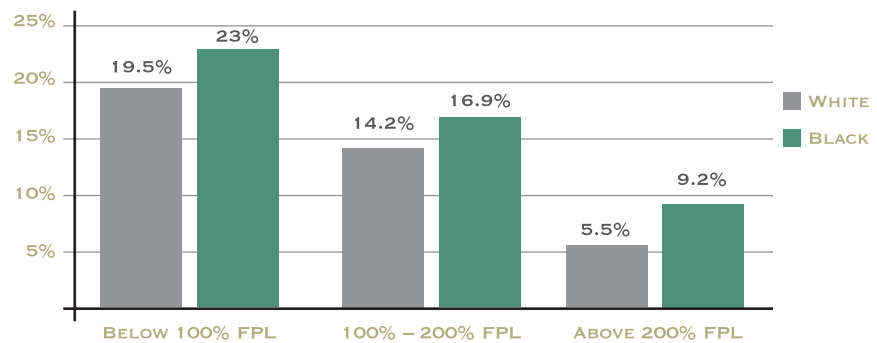
On average, African Americans tend to have more health problems than do whites. For example, African Americans have higher infant mortality rates than whites, even after controlling for income and mothers' education.²⁰ African American

mothers are also more likely to have a preterm birth—birth before 37 weeks of gestation—than are white women.²¹ As indicated in Figure 16, blacks are also more likely than whites to be obese, to report having poor health in adulthood, to die from a chronic condition such as heart disease or cancers and to contract diabetes.²² Racial health disparities seem to hold even after accounting for income, although the differences grow smaller.

FIGURE 16

Blacks Report More Health Problems Than Whites

PERCENTAGE OF POPULATION REPORTING FAIR OR POOR HEALTH, BY INCOME (FEDERAL POVERTY LEVEL, OR FPL) AND RACE



Source: National Center for Health Statistics, 2007, Table 60.

There is, in fact, some evidence suggesting that health and health care disparities between geographic areas may be driving the black-white health gap. Also, differences in income may be driving differences in the quality of health care services. For example, one study found that African Americans disproportionately live in areas with lower-quality health providers, such as hospitals and individual caregivers.²³ Another study investigating mortality rates of low birth weight births in New York City hospitals concluded that if white and black mothers both delivered in the same hospitals, 34.5 percent of the racial gap would disappear.²⁴

SUMMARY: HEALTH

There is a deep connection between health, parental incomes and access to good health services over a lifetime. The health gap between children who grow up in rich and poor families increase as the children get older. This is mainly because

children from lower-income families are more likely to contract a chronic condition and also more likely to be seriously affected by the condition than are those who have the same chronic ailments but come from families with higher incomes. Moreover, those with poor health as children are more likely to begin adulthood with poor health and to continue to experience economic setbacks related to their health through adulthood.²⁵

NOTES

- ¹ This report does not address early childhood education as an indicator of economic mobility. However, we do recognize that this is an important factor to consider; forthcoming reports from the Economic Mobility Project will pursue this connection further.
- ² Isaacs, “Economic Mobility of Men and Women,” in Isaacs, Sawhill, and Haskins, 2008.
- ³ Mazumder, 2008.
- ⁴ Eckholm, 2006.
- ⁵ The Pew Center on the States, 2008.
- ⁶ Cutler and Glaeser, 2007; Case and Katz, 1991.
- ⁷ Costa, forthcoming.
- ⁸ Currie and Stabile, 2004.
- ⁹ Case, Lubotsky, and Paxson, 2002.
- ¹⁰ Banks, Marmot, Oldfield, and Smith, 2006.
- ¹¹ Stapleton, O’Day, Livermore, and Imparato, 2006.
- ¹² Charles, 2003.
- ¹³ Case, Lubotsky, and Paxson, 2002.
- ¹⁴ Fronstin, 2007.
- ¹⁵ Gruber, 2000, pp. 654-655.
- ¹⁶ Mathur, 2006.
- ¹⁷ Worker productivity may be influenced by chronic ailments if the conditions result in a decrease in the ability to either attend work or continue to work at the same efficiency level. It is possible that projected productivity may also be influenced if the chronic conditions associated with obesity limit future opportunities, such as those associated with job mobility.
- ¹⁸ Baum and Ruhm, 2007; Datar, Sturm, and Magnabosco, 2004; Cawley, 2004; Conley and Glauber, 2005.
- ¹⁹ Case, Paxson, and Fertig, 2005; Rasmussen, 2001; Johnson and Schoeni, 2007; Conley, and Bennett, 2000.
- ²⁰ Kaiser Family Foundation, 2007.
- ²¹ Institute of Medicine, 2006.
- ²² Kaiser Family Foundation, 2007.
- ²³ Chandra and Skinner, 2003.
- ²⁴ Howell, and others, 2008.
- ²⁵ Case, Lubotsky, and Paxson, 2002.

III. ECONOMIC MOBILITY INDICATORS:

FINANCIAL CAPITAL

SAVINGS AND WEALTH

One of the keys to economic mobility is saving and creating wealth that can be used during one's working life to advance up the economic ladder or be given to children to improve their economic prospects. A strong connection exists between the wealth of parents and their children.

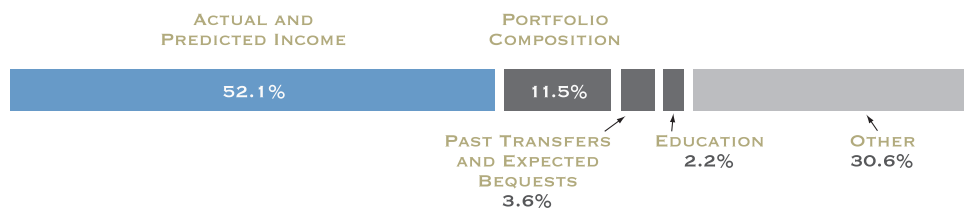
Evidence suggests that parents whose wealth is 50 percent above the average in their generation have children whose wealth will be between 17 percent and 25 percent above average in their own generation.¹ As illustrated in Figure 1, about half of the similarity between the wealth of parents and children reflects their similar incomes. Aside from income similarities, the next most important factor is the similar investment decisions they tend to make.

FIGURE 1

The Role of Income in Intergenerational Wealth Mobility

Income is the primary factor—representing more than half of the total—that influences similarities between adult children's wealth and their parents' wealth.

PERCENT OF CORRELATION BETWEEN PARENTS' AND CHILDRENS' INCOMES EXPLAINED BY EACH FACTOR



Note: Age was also controlled for in addition to the factors above.

Source: Charles and Hurst, 2003.

INDICATOR: WEALTH TRANSFERS

Parents also help shape the savings and wealth of their children by giving them gifts of cash and assets. Income matters as well, but so, apparently, does race. Wealth transfers are received by one in five households and account for one-fifth of the net worth of those receiving them at the time of transfer. Whites are significantly more likely to receive wealth transfers than are African Americans,

Asian Americans, and Hispanics; the average net worth of the households receiving transfers is much lower for African Americans than for any of the other groups, as indicated in Figure 2.

FIGURE 2

White Households and Households with High Incomes Are More Likely to Receive Wealth Transfers

	PERCENTAGE OF ALL HOUSEHOLDS THAT HAVE RECEIVED WEALTH TRANSFERS	AVERAGE WORTH OF TRANSFERS RECEIVED	AVERAGE NET WORTH OF ALL HOUSEHOLDS WITH TRANSFERS	AVERAGE TRANSFERS AS A PERCENTAGE OF NET WORTH OF ALL HOUSEHOLDS WITH TRANSFERS
All households	20.4%	\$256,900	\$1,324,200	19.4%
INCOME LEVEL				
Under \$15,000	13.7%	\$155,400	\$346,900	44.8%
\$15,000–\$24,999	21.9%	\$140,900	\$499,300	35.2%
\$25,000–\$49,999	19.9%	\$208,700	\$617,500	33.8%
\$50,000–\$74,999	21.5%	\$131,100	\$1,040,500	12.6%
\$75,000–\$99,999	20.5%	\$176,000	\$1,600,000	11.0%
\$100,000–\$249,999	32.2%	\$357,300	\$2,748,500	13.0%
\$250,000 or more	38.9%	\$2,416,800	\$13,426,700	18.0%
RACE				
White	23.8%	\$264,900	\$1,344,700	19.7%
African American	10.8%	\$171,600	\$537,900	31.9%
Hispanic	4.2%	\$118,600	\$1,882,500	6.3%
Asians and other races	9.1%	\$272,600	\$2,810,300	9.7%

Note: Data from 1998 Survey of Consumer Finances.

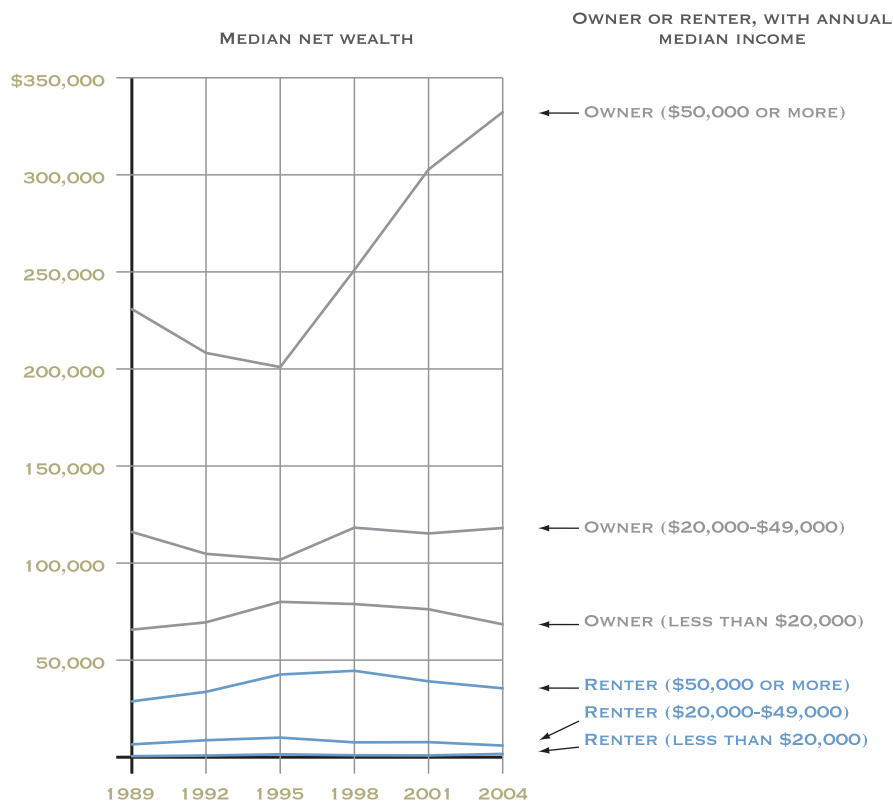
Sources: Wolff, 2002; authors' computations.

Figure 2 shows that wealth transfers increase as income goes up. Moreover, white households are more likely than other households to get a wealth transfer. And while wealth transfers account for a larger percentage of the total net worth of blacks who receive transfers, both the size of the average transfer and the average net worth of those receiving the transfer are significantly smaller than those of whites, which puts African Americans at a disadvantage.

INDICATOR: HOMEOWNERSHIP

Owning a home is the most significant way Americans build net worth, especially for lower-income Americans. As shown in Figure 3, at all income levels, median net worth of homeowners is greater than that of renters.

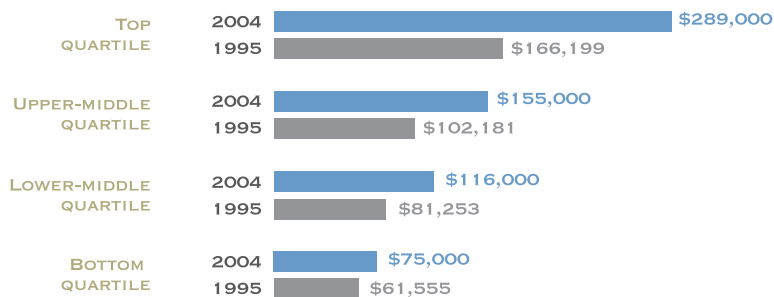
FIGURE 3 Median Net Wealth of Owner and Renter Households



Source: Joint Center for Housing Studies, 2007.

Nevertheless, building wealth through homeownership, particularly in the late 1990s and early 2000s, increased most rapidly for those at the higher end of the income distribution. Housing wealth, as defined either by housing value or by home equity, increased much more rapidly between 1995 and 2004 for higher-income households, than for lower-income households, as shown in Figure 4.²

FIGURE 4 Median Housing Value by Income Quartile, 1995 and 2004

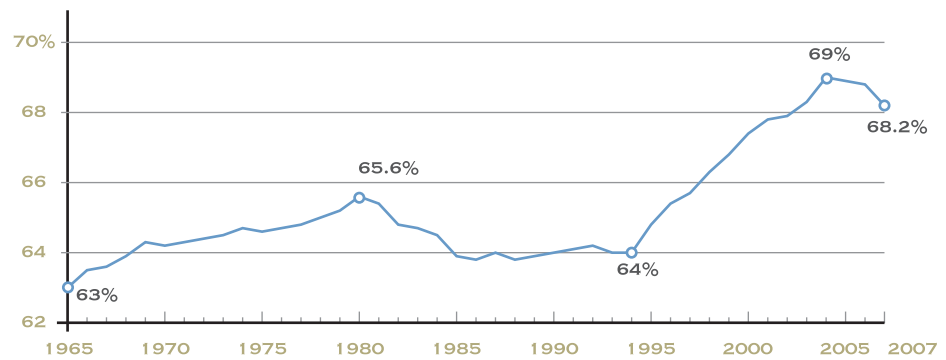


Source: Di, 2007, Table 6.

Homeownership is similar to other assets in that children are more likely to own a home if their parents owned one as well.³ The relationship is partly attributable to the help children receive from parents, such as parent-guaranteed bank loans or direct wealth transfers.⁴ Like other investments, the likelihood of buying a home is linked to income, with homeownership more likely in households with higher income.

FIGURE 5

Homeownership Rates for The United States, 1965 to 2007



Notes: Part of the increase in homeownership in the mid-1990s was because of the introduction of new types of loans such as interest-only, zero-down, and adjustable-rate mortgages which has made homeownership more accessible to greater numbers of households. At the same time, lenders took on increasingly higher risk through subprime loans, lending to credit-risky borrowers or even qualifying borrowers for mortgages which their incomes could not support.

Figures computed by taking the average of all four quarters for each year. An exception is made for the year 2007, where data for only the first three quarters existed at the time when this database was completed.

Source: U.S. Census Bureau, 2007.

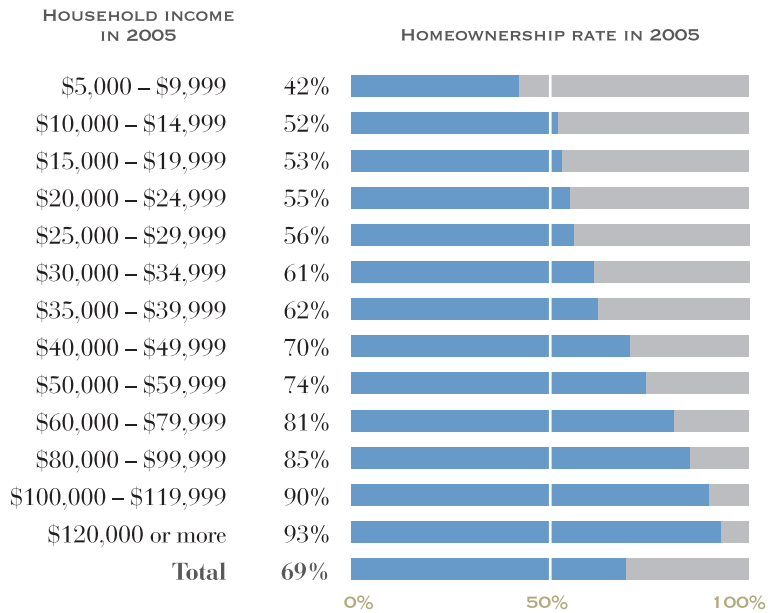
Dramatic changes occurred in homeownership rates over the last decade, as Figure 5 shows. However, homeownership rates differ significantly by income, as Figure 6 shows. Although ownership rates rise with income, these rates still are surprisingly high for families with modest incomes. Nearly 70 percent of all households in the United States own their homes, and in only the lowest income group do less than half own their home.

The tax incentive provided through the federal income tax code for homeownership and the role of housing as an asset has implications for mobility. The income tax subsidy for mortgage interest provides the most wealth building help to those Americans who already have high incomes, rather than primarily helping lower-income Americans struggling to acquire their first significant asset.⁵ Still, low-income families are much more likely to own homes than they are to invest in other financial assets.⁶

FIGURE 6

Homeownership is Common Across All Income Groups

Nearly 70% of all households in the U.S. own their homes, and in only the lowest income group do less than half own their home.



Source: U.S. Census Bureau, 2006. Table 2-12.

Because equity in a home is less flexible and liquid than some financial assets, their preference for this form of saving may affect their ability to use wealth for education, emergencies, transportation costs or starting a business—uses of wealth that typically aid mobility. Moreover, as the recent subprime debacle indicates, making it easier to acquire a home by relaxing down-payment or income requirements carries the risk of harming the mobility prospects of low-income owners and may even lead to downward mobility when homeowners face default or foreclosure.

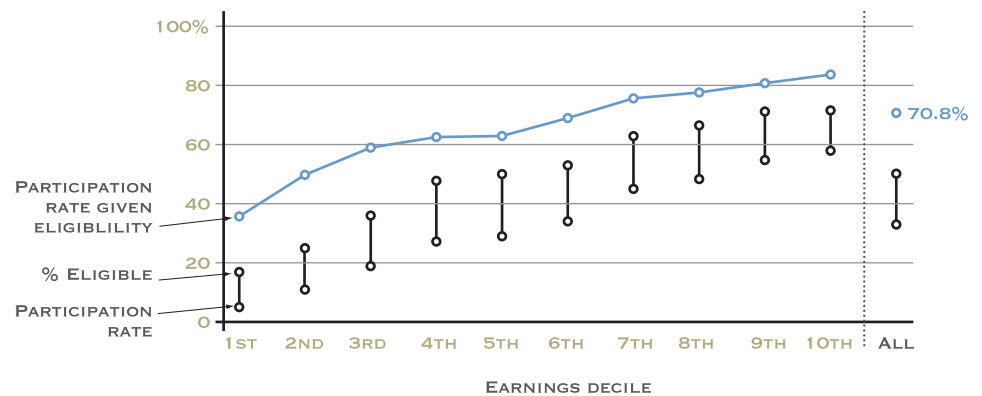
In addition to building financial wealth, homeownership is also found to have some very significant, if indirect, impacts on intergenerational mobility. Parental homeownership not only leads to greater wealth for the parents, but is also shown to increase educational attainment for children, especially children of home-owning low-income parents. In sum, the positive effects of homeownership on children are stronger among disadvantaged families, but the positive effect on wealth is greater among high-income families.⁷

INDICATOR: RETIREMENT SAVINGS

Private retirement saving is increasingly dominated by plans consisting of individual accounts rather than traditional pensions. When employees at any income level participate in tax-advantaged individual account plans, like IRAs and 401(k)s, they increase their savings, which enhances their economic mobility. However, low-income workers, whose savings and hence mobility would be most helped by these plans, are the least likely to participate in them, as illustrated in Figure 7.

FIGURE 7

Low-income Workers Are Less Likely to Participate in Personal Retirement Savings Programs, Even When Eligible



Source: Poterba, Venti, and Wise, 1998; source used the Current Population Survey.

This lack of participation compounds the reduced ability of low-income earners to contribute substantial amounts of current income to their retirement savings accounts and so further limits their economic mobility. It limits the mobility of their children, too, since many children of savers receive wealth transfers. Savings in these tax-advantaged plans can produce substantial sums for retirement and for transfer to the next generation, as projected in Figure 8.

Figure 8 shows the amount of 401(k) savings as a percentage of those savings combined with Social Security benefits for people in each earnings decile who will be retiring in 2010 and 2040. As we see here, by 2040 the percent of retirement funds made up of 401(k) assets will grow in importance for those in every earnings decile and by an average of almost 40 percentage points overall.

FIGURE 8

Relative to Social Security, 401(k) Plans Will Grow in Size, Significance

Between 2010 and 2040, 401(k) assets as a portion of retirement funds will increase dramatically for every earnings group except the lowest earners. The table below shows the portion of 401(k) funds as part of the combined total of 401(k) funds and Social Security wealth, based on historical rates of return on equity.

EARNINGS DECILE	2010 401(K) RATIO	2040 401(K) RATIO	CHANGE FROM 2010 TO 2040 (PERCENTAGE POINTS)
1 (Lowest)	0.22%	4.93%	4.70
2	3.36%	34.19%	30.83
3	10.11%	53.79%	43.69
4	17.41%	66.39%	48.97
5	31.53%	73.24%	41.71
6	32.19%	76.80%	44.61
7	33.17%	78.40%	45.23
8	42.12%	79.52%	37.40
9	41.84%	81.37%	39.53
10 (Highest)	55.16%	81.67%	26.51
All	36.42%	75.98%	39.56

Source: Poterba, Venti, and Wise, 2007.⁸

This increase has enormous implications for the savings of future retirees. A person retiring in 2010 with lifetime earnings within the second lowest earnings decile and who enrolled in a 401(k) plan is projected to have an average of \$3,405 in 401(k) assets. By 2040, a retiree enrolled in a 401(k) plan with the same lifetime earnings is projected to have an average of \$50,857 in 401(k) assets.⁸

However, the enrollment and participation rates of those with low incomes are very low: only 11 percent of those in the second lowest earning decile participate in a 401(k) plan (see Figure 7). Policies and enrollment programs that encourage those with low incomes to save for retirement with a 401(k) plan, such as automatic enrollment, would increase the retirement savings of those with low incomes relative to others.

INDICATOR: ENTREPRENEURSHIP

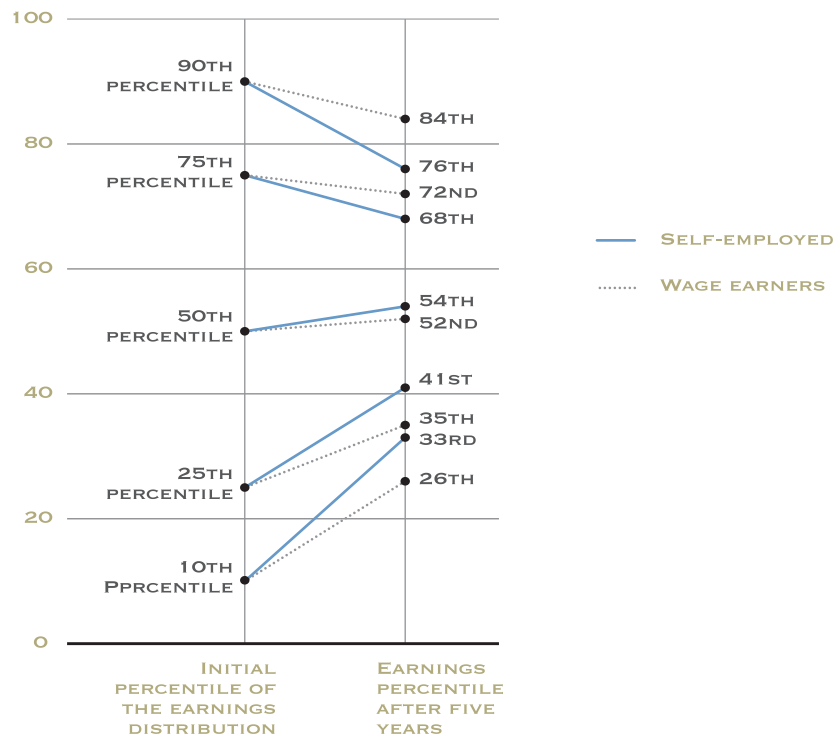
Going into business for oneself is widely seen as part of the American Dream and a road to prosperity. In fact, entrepreneurship often does promote mobility, though typically in an incremental way that is inconsistent with the “rags-to-riches” stereotype.

As Figure 9 indicates, entrepreneurs who are successful enough to survive five years in business generally see more upward mobility over those years than wage and salary workers, except among those starting out toward the top of the earnings distribution. On the other hand, it is relatively unusual for an entrepreneur to survive that long in the marketplace,⁹ and those who do not endure tend to experience less upward mobility than wage and salary workers.

FIGURE 9

Self-Employment Can be a Good Strategy For Those with Low Incomes

Low-income earners can advance themselves up the economic ladder more quickly by becoming entrepreneurs. After five years of running their own businesses, 10th-percentile earners can become 33rd-percentile earners.

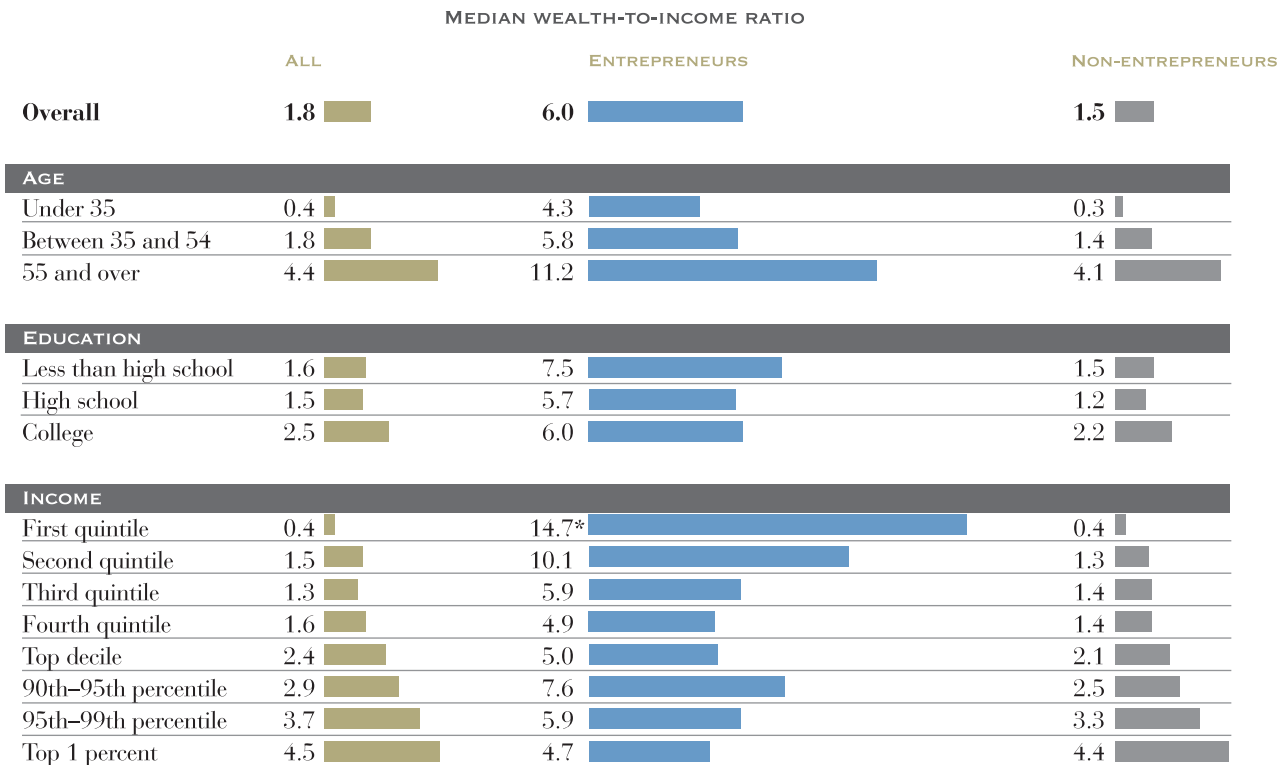


Note: The sample used is of men and women ages 25 to 55 from the Panel Study of Income Dynamics (PSID) for the years 1969 to 1990.

Source: Holtz-Eakin, Rosen, and Weathers, 2000, Table 6.

As Figure 10 indicates, part of the reason low-income entrepreneurs often rise so rapidly is that they are generally better savers than others with similar incomes.¹⁰ Indeed, entrepreneurs in the lowest 20 percent of the income distribution have roughly 10 times more savings relative to their income than do non-entrepreneurs.

FIGURE 10 Entrepreneurs Tend to Have High Savings Rates Relative to Their Household Income



* Figure represents fewer than 10 households.

Note: The figures above are based on median wealth and income values from the 1989 Survey of Consumer Finances which defines wealth as assets minus liabilities. Assets include residences, other real estate, businesses, all types of financial assets, pensions, and other assets. Liabilities include mortgages, installment loans, credit card debt, pension loans, and other debts.

Source: Gentry and Hubbard, 2004.

There are, however, significant differences between black entrepreneurs and those of other racial and ethnic groups, not only in income, as suggested in Figure 11, but also in overall entrepreneurial success. African Americans are less likely to succeed in business despite being more likely to explore starting a business, in part because they have limited savings and are less likely to have gained experience and business contacts by having parents in business.¹¹ There is also some evidence to suggest discrimination in the market for small-business loans.¹²

Women also find it harder to get ahead by going into business. Figure 11 shows that male entrepreneurs of all races tend to do better on average (mean or median) than their salaried counterparts, though this is not true for women. Perhaps for this reason, there are only half as many female business owners as male ones.¹³ Women-owned firms tend to be less profitable, even though women entrepreneurs generally have acquired similar experience levels as their male counterparts. However, the factors driving these differentials are difficult to pin down, although they may include differences in preferences about becoming an entrepreneur and the sort of business to go into, differences in risk tolerance or discrimination.

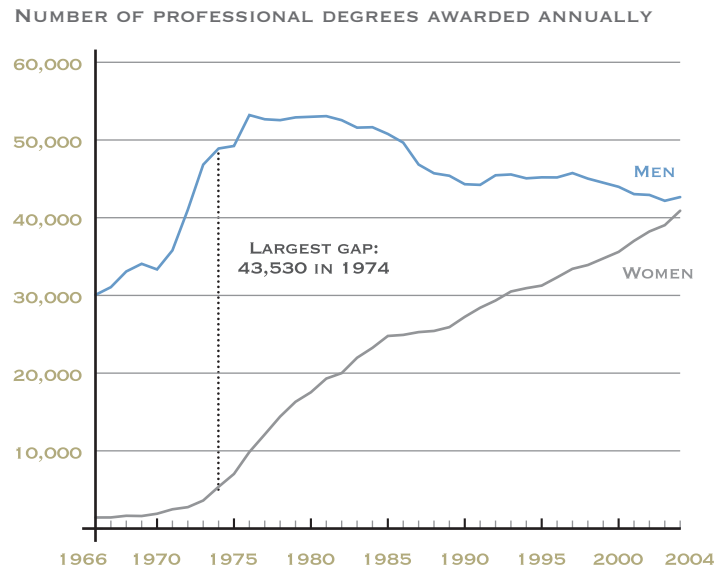
FIGURE 11 Male Entrepreneurs More Likely to Make Gains Over Salaried Counterparts Than Women

	MEN			WOMEN		
	SELF-EMPLOYED	WAGE OR SALARY	DIFFERENCE	SELF-EMPLOYED	WAGE OR SALARY	DIFFERENCE
BLACKS						
Mean	\$31,280	\$24,461	\$6,819	\$20,584	\$20,168	\$416
Median	\$22,261	\$21,523	\$738	\$14,916	\$18,002	-\$3,086
HISPANICS						
Mean	\$38,678	\$27,697	\$10,981	\$24,702	\$21,660	\$3,042
Median	\$26,344	\$24,801	\$1,543	\$17,899	\$19,693	-\$1,794
WHITE						
Mean	\$46,952	\$33,663	\$13,289	\$24,509	\$24,088	\$421
Median	\$33,002	\$29,290	\$3,712	\$17,912	\$20,912	-\$3,000

Note: Sample from the NLSY (1979–1998), consisting of individuals who worked at least 1,400 hours during the survey year.
Source: Fairlie, 2004, Table 2.

It is altogether possible that female entrepreneurs have not succeeded at the same rate as their male counterparts in part because historically they have been less likely than males to receive formal training in professional and graduate school programs. This educational disparity may soon disappear. The increasing female graduation rate from graduate schools and professional degree programs, such as in law and medicine, shown in Figure 12, may change this pattern in the future.

FIGURE 12

In 2004, Women Nearly Closed The Gap in Professional Degree Attainment

Note: First professional degrees are defined as those that require at least 6 years of college work for completion and 2 years of preprofessional training. First professional degrees include chiropractic, dentistry, medicine, optometry, osteopathic medicine, pharmacy, podiatry, veterinary medicine, law, divinity/ministry, and rabbinical and Talmudic studies.

Source: National Science Foundation, 2004.

SUMMARY

Having the ability and the desire to save for the future are keys to upward economic mobility. Wealth transfers from parents build wealth among children, either directly or by facilitating investment in human capital, homeownership or business opportunities. As noted in this chapter, significant differences in the likelihood of receiving transfers between racial and income groups may help to explain differences in economic advancement between groups.

Homeownership affects mobility by increasing parents' wealth and by raising educational attainment among children, especially low-income children. On the other hand, low rates of investment relative to homeownership among lower-income households in individual retirement accounts and equities can mean low liquidity levels on top of low net worth. Going into business can be a good way of increasing economic mobility for those who initially have low incomes, but business failure is a substantial risk.

In addition to inequality in financial capital, disparities among individuals in their experience of and access to the human and social capital that promote wealth accumulation, such as educational attainment, exposure to self-employment and access to entrepreneurial networks, also explain general patterns of mobility. As noted in all of the chapters in this chartbook, parental income—perhaps the most crucial source of financial capital—greatly affects the accumulation and value of all three types of capital, social, human and financial, that foster upward mobility and prevent downward mobility.

NOTES

- ¹ Grawe, 2008; see also Haskins, “Wealth and Economic Mobility,” in Isaacs, Sawhill, and Haskins, 2008.
- ² Di, 2007.
- ³ Boehm and Schlottmann, 1999.
- ⁴ As noted in Grawe 2008, receiving financial assistance is common when buying a home. About 20 percent of first-time homebuyers receive financial assistance when making a down payment on a home. See Engelhardt and Mayer, 1994. Also, receiving a wealth transfer increases the likelihood of owning a home from 62.2 percent to 83.2 percent.
- ⁵ Carasso, Reynolds, and Steurle, 2008.
- ⁶ Bucks, Kennickell, and Moore, 2006.
- ⁷ Grawe, 2008.
- ⁸ Proterba, Venti and Wise’s projections are based on 401(k) and employment information from the Survey of Income and Program Participation and earnings history data from the Social Security Administration. Contribution rates (employee and employer combined) are assumed to be 10% of earnings, portfolio allocation is assumed to be 60/40 between equities and bonds, and returns are based on those from the past 80 years.
- ⁹ Knaupp, 2006.
- ¹⁰ Quadri, 1999.
- ¹¹ Lofstrom and Bates, 2007; Fairlie, forthcoming; Fairlie, 1999; Hout, and Rosen, 2000; Fairlie and Robb, 2007.
- ¹² Blanchflower, Levine, and Zimmerman, 2003.
- ¹³ Fairlie and Robb, 2007.

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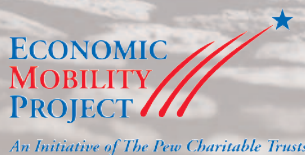
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ABOUT THE PROJECT

The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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