Moving On Up

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

Overview

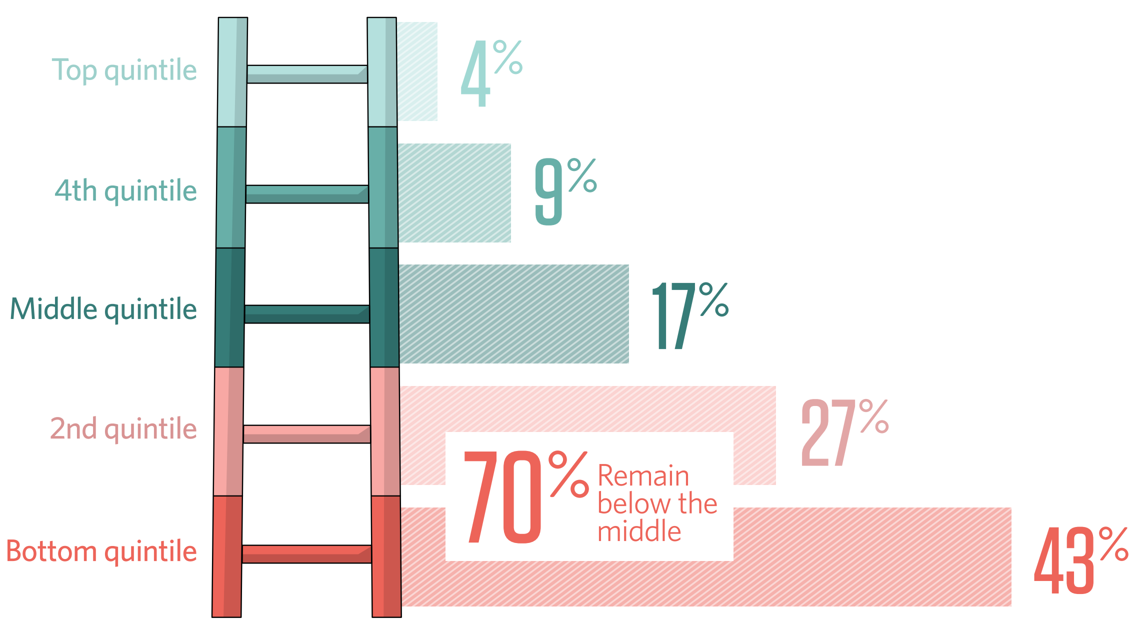
One of the hallmarks of the American Dream is equal opportunity: the belief that anyone who works hard and plays by the rules can achieve economic success. Polling by The Pew Charitable Trusts finds that 40 percent of Americans consider it common for a person in the United States to start poor, work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

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.