

PATHWAYS TO ECONOMIC MOBILITY: KEY INDICATORS FACT SHEET

The Economic Mobility Project's newly released report explores some of the key factors that affect the likelihood that a person will move up or down the economic ladder over time. The report reveals that certain factors of American life---such as educational attainment, family structure, and savings---are strong determinants of economic mobility. The report categorizes these indicators by social, human and financial capital.

SOCIAL CAPITAL INDICATORS

The non-financial resources available to individuals through relationships to people and institutions.

The family structure in which he or she grows up can be a major determinant of the social and financial resources available to a child.

- As previous EMP reports have found, it is increasingly important for a household to have two earners to experience upward economic mobility from generation to the next. Yet the number of single-parent families has risen dramatically – in 1968 just under 12 percent of children lived with a single parent, but in 2006, nearly 30 percent did and births to unmarried mothers are on the rise for all ethnic groups but are highest for blacks. (See Figure 2 & 3)
- Single-parent families are 3 times more likely to live in poverty than two parent families. (See Figure 1)
- However, regardless of family structure black families are less likely than whites to move out of poverty from one generation to the next. (See previous EMP report “Upward Intergenerational Economic Mobility” Figure 17)

Parental characteristics such as parenting skills and education and parental similarity are important influences on economic mobility.

- Better-educated parents tend to create home environments that foster behavioral skills and cognitive development that promote academic achievement. The likelihood that a child will be read to every day increases with their mothers' education level.
- Known also as assortative mating, people seek out and marry individuals of like education attainment which serves to reinforce the effect of parents' education on child outcomes. (See Figure 4)

The community where one lives—and the social networks that come with that community---can have both a positive and negative influence on one's economic mobility.

- **School-based relationships**: Research shows that exposure to school-wide parental involvement such as the PTA, fundraisers and classroom volunteer work, increases the achievement of all children at the school even after accounting for other family, school and other factors.
- **Community influences**: One's community can have both positive and negative effects on mobility. Exposure to gangs as a social network can damage children's chances of going to college or securing employment, and increase their risk of incarceration, all of which negatively impacts wage mobility.
- **Work-related networks**: The diversity of social networks available to an individual helps foster entrepreneurship and increase the likelihood of entrepreneurial success. (See Table 3)

HUMAN CAPITAL INDICATORS

The skills and attributes acquired by individuals that may impact whether individuals are able to take advantage of economic opportunities.

In today's economy, a child's educational attainment strongly influences his or her earnings, and is a strong determinant of economic mobility.

- Associate degree recipients earn on average 29 percent more than high school graduates, and four-year college graduates earn an average of 70 percent more. (See Figure 3)

However, the likelihood that individuals will earn a college degree depends on a number of factors related to human capital, most notably their parents' educational level and family income, their race, and sex.

- Children of college graduates are much more likely to earn a college degree than children of high school graduates (50 percent vs. 13 percent). (See Figure 2)
- Fifty percent of young adults whose parents earn more than \$150,000 a year attend a four-year college, compared to

about 20 percent whose parents earn between \$20,000 and \$29,000. (See Figure 7)

- Blacks are less likely than whites to graduate from college (See Figure 10).
- Women are increasingly more likely to earn a college degree than men, attaining almost 60 percent of all college degrees in 2004-2005. (See Figure 8)

Whether health influences or is influenced by one's economic mobility is unclear. However poor health can negatively impact a person's economic mobility if it causes interruptions in education and employment and thus leads to lower lifetime earnings.

- Individuals identified in past EMP reports as experiencing the least economic mobility (low-income families and blacks) also report the poorest **health status**. (See Figures 11, 12 and 13)

While having health insurance does not appear to be a significant advantage in moving up the economic ladder, the prospect of not having health insurance if one chooses self-employment may limit the opportunity for upward mobility. Commonly referred to as "job lock," having health insurance at one's current job may prevent workers from seeking possibly more lucrative employment or pursuing entrepreneurship where health insurance is not available, thereby limiting upward mobility.

Specific health problems such as low birth weight, and obesity which is on the rise can both decrease workplace productivity and academic performance and have a significant impact on earnings.

- Those with low birth weight earn on average 22 percent less than those born at a normal weight. (See Figure 15)
- The increase in the prevalence of childhood obesity is expected to result in significantly higher health expenditures as those children age, which could offset any wage gains.

There are significant differences in health by race.

- African Americans, regardless of their income, report more health problems than whites, are more likely than whites to be obese, to die from a chronic condition such as heart disease or cancer, and to have diabetes. (See Figure 16).

FINANCIAL CAPITAL INDICATORS

The financial assets, such as personal savings or investments, that individuals might leverage to get ahead.

The receipt of wealth transfers in the form of cash or assets from one household to another can be a positive factor contributing to economic mobility.

- One in five American households receives a wealth transfer, which can be used to make mobility-enhancing investments in such as education, starting a business or purchasing a home. (See Figure 2)
- Whites and those with incomes above \$100,000 are more likely to receive wealth transfers, and in greater sums, than those with incomes below \$100,000. (See Figure 2)

Homeownership is one of the most significant ways that Americans build wealth, especially among lower-income families.

- The median net-worth of homeowners is much higher than that of renters, at all income levels. (See Figure 3)
- Children of home-owning parents are shown to have greater educational attainment than children of renters. This difference is particularly large for low-income families.

However, the positive effect of homeownership on household wealth is much greater for higher-income households.

- The median home value for those in the bottom income quartile in 2004 was \$75,000 compared to \$289,000 for those in the top quartile and the appreciation from 1995 and 2004 was much greater for those at the top. (See Figure 4).

Retirement savings plans like IRAs and 401(k)s increase savings which increases economic mobility over a lifetime.

- However, low-income individuals, who stand to benefit most from these tax-advantaged accounts, are the least likely to participate in them. Less than 20 percent of those in the bottom two earnings deciles participate in a personal retirement savings program. (See Figure 7)

Entrepreneurship often does promote economic mobility, and those in the lower-income bracket often benefit the most from owning their own business.

- After 5 years in business, entrepreneurs who start in the 10th earnings percentile rise to the 33rd, but business-owners who start in the 75th percentile are likely to drop to the 68th percentile after 5 years. (See Figure 9)