RENEWING

THE AMERICAN DREAM:

A ROAD MAP TO ENHANCING

ECONOMIC MOBILITY

IN AMERICA

BY THE PRINCIPALS OF THE ECONOMIC MOBILITY PROJECT

ECONOMIC MOBILITY PROJECT

An Initiative of The Pew Charitable Trusts

The Economic Mobility Project is a unique nonpartisan collaboration led by The Pew Charitable Trusts and comprised of a group of principals from five leading policy institutions: The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, The New America Foundation, and The Urban Institute. Together, we are producing the best available facts, figures and trends in economic mobility, and broadening the focus of the national economic debate to include an understanding of the health and status of the American Dream.

Each of the project's principals believes that economic mobility plays a central role in defining the American experience and that more can and should be done to improve one's ability to move up the income ladder. Based on a shared commitment to renewing the American Dream, this road map presents a comprehensive set of nonpartisan policy ideas to enhance economic mobility. Consisting of more than twenty-five recommendations that address the key factors of mobility (including education, family and community, and savings), this document represents the culmination of more than four months of thoughtful and spirited discussions about how best to ensure the American Dream is kept alive for all our nation's citizens and for generations to come.

Pew is grateful to the Economic Mobility Project Principals for their partnership and commitment to producing this road map.

PROJECT PRINCIPALS

Richard Burkhauser, Ph.D., American Enterprise Institute
Marvin Kosters, Ph.D., American Enterprise Institute
Ron Haskins, Ph.D., *Center on Children and Families*, The Brookings Institution
Stuart Butler, Ph.D., *Domestic and Economic Policy Studies*, The Heritage Foundation
William Beach, *Center for Data Analysis*, The Heritage Foundation
Ray Boshara, *Domestic Policy Programs*, The New America Foundation
Harry Holzer, Ph.D., The Urban Institute
Eugene Steuerle, Ph.D., *Urban-Brookings Tax Policy Center*, The Urban Institute
Sheila Zedlewski, *Income and Benefits Policy Center*, The Urban Institute

PEW'S ECONOMIC MOBILITY PROJECT TEAM:

John Morton, Managing Director
Ianna Kachoris, Project Manager
Scott Winship, Research Manager
Jeremy Ratner, Communications Officer
Samantha Lasky, Communications Manager
Erin Currier, Senior Associate
Colleen Allen, Specialist
Lindsay Nelson, Administrative Assistant

www.economicmobility.org

RENEWING

THE AMERICAN DREAM:

A ROAD MAP TO ENHANCING

ECONOMIC MOBILITY

IN AMERICA

BY THE PRINCIPALS OF THE ECONOMIC MOBILITY PROJECT

CONTENTS

ECONOMIC MOBILITY PROJECT

An Initiative of The Pew Charitable Trusts

RENEWING THE AMERICAN DREAM: A ROAD MAP TO ENHANCING ECONOMIC MOBILITY IN AMERICA

INTRODUCTION

An unwavering belief in upward mobility and an economic meritocracy anchors the American Dream. But EMP's research has shown that for many, particularly low-income Americans, the Dream may be difficult to achieve. To renew our national commitment to upward economic mobility, this road map presents a range of policies that will ensure that the Dream remains a reality for all, for generations to come

—John E. Morton
The Pew Charitable Trusts

For more than two centuries, economic opportunity and upward mobility have formed the foundation of the American Dream, and they remain at the core of our nation's identity. A nation of strivers, Americans believe that the circumstances of one's birth will not unduly affect future success, and that society should be constructed to provide equality of opportunity, not to guarantee equality of outcomes. Americans are optimists and have confidence that hard work and talent bring a just reward and that each generation will do better than the one that came before. Even during the height of the most recent recession, 8 in 10 Americans—rich and poor alike—believed that it was still possible for people to improve their economic standing.[1]

Particularly in the decades after World War II, the United States witnessed a period of strong and sustained economic growth, creating a rising tide that lifted all boats and ushering in an era of unprecedented prosperity. In the last generation, however, an increasingly competitive global economy has caused the growth of median family income to slow notably. Nonetheless, despite troubling signs, a majority of American parents still believe that their children will enjoy a higher standard of living than they do.[2]

Do these perceptions match economic realities? Growing evidence assembled by the Economic Mobility Project (EMP) reveals that for too many, the American Dream may be out of reach.

We, as leading scholars with perspectives spanning the ideological spectrum, believe that more can and must be done to make the American Dream accessible to all Americans. Our shared goal is to improve upward mobility for everyone, with a particular emphasis on lower-income Americans, those who face the most difficulty in moving up the income ladder. We are calling for nothing less than a fundamental shift toward government policies that are mobility-enhancing and a more targeted allocation of existing mobility expenditures towards low- and moderate-income families.

In this document, we present a nonpartisan policy road map. Based on the trends and analysis conducted by EMP, we believe that the portfolio of policies represented here will boost economic mobility for all Americans. Comprising more than 25 policy ideas, the breadth of topics is consistent with our belief that there is no silver bullet to improve economic mobility in America. To the contrary, there are a number of critical moments throughout life when individuals make choices and experience institutions, such as schools and labor markets, that, when taken together, determine their future economic outcomes. This road map includes recommendations to improve education and workforce development outcomes (human capital); to strengthen the bonds of family and community (social capital); and to enhance Americans' ability to build assets (financial capital).[3]

Absolute mobility refers to the concept of a rising tide lifting all boats—incomes rise because of overall economic growth.

Relative mobility refers to the process of individuals changing their position on the income ladder relative to others. It suggests that boats are changing places, but says nothing about the strength of the tide.[6]

WHY IS THE ROADMAP NEEDED?

After nearly three years of developing the most comprehensive data available on the status of economic mobility in America, we find a story that is at once reassuring and troubling. While a rising tide, fueled by continued economic expansion, enabled increasing incomes for a large majority of American families during the last generation, a significant minority of Americans seem to be stuck on the income ladder. Many others have fallen down a rung or more.

Almost two-thirds of Americans have higher family incomes than their parents did at a similar age (absolute mobility), but a significant portion of Americans are not able to climb the rungs of the income ladder relative to their peers (relative mobility).[4] Of particular concern to us is the 42 percent of Americans born to parents on the bottom rung of the income ladder who remain at the bottom as adults—a figure that is nearly twice the percentage seen in many other industrialized nations.[5]

For certain groups, upward mobility from one generation to the next is even less likely to occur. Women experience less upward mobility and more downward mobility than men.[7] African Americans are more likely to remain stuck at the bottom of the income ladder and to fall from the middle-income rung than are whites. Strikingly, almost half of children born to middle-income black parents fall to the bottom rung as adults, compared to only 16 percent of middle-income white children.

Although many parents struggle to pass on economic advantages to their children, our findings also confirm that *within a lifetime*, many Americans remain stuck on the bottom rung. More than 50 percent of individuals who start in the bottom fifth of the income distribution are still there 10 years later, and 70 percent remain below middle-income status.[8] Despite the growth in the U.S. economy since the 1980s, such lack of movement, or "stickiness," at the bottom has remained unchanged.[9]

A "PORTFOLIO SHIFT" TO PRIORITIZE MOBILITY-ENHANCING POLICIES

We believe that current federal policy is not well designed to improve Americans' chances to experience upward economic mobility. Many government programs and expenditures do not incentivize the behaviors and activities that would lead individuals on a path to upward mobility, and those that do often are not accessible to low- and moderate-income individuals and families. Thus, we are recommending a fundamental "portfolio shift" toward policies that both promote mobility and those thatdirect incentives and expenditures to lower-income individuals and families in particular.

A policy is "mobility-enhancing" if it aims to develop human capabilities, raise work effort or encourage saving or asset formation and goes to individuals or well-defined groups.

EMP's analysis of the federal budget reveals that government expenditures are often not designed to help Americans realize their potential to move up the income ladder.[10] EMP considers a policy to be "mobility-enhancing" if it aims "to develop human capabilities, raise work effort or encourage saving and asset formation and goes to individuals or well-defined groups."[11] Although the federal government spends large sums to boost economic mobility, it spends far more on income maintenance programs. Such programs ensure that recipients have a minimum level of income, but they do little to help them build skills or assets to move up the income ladder. In 2006, $1.3 trillion went to income maintenance programs (10 percent of GDP) versus $746 billion to programs with a mobility objective (5.7 percent of GDP).

Promoting economic mobility is a difficult task. But the federal government's portfolio of programs can and should be weighted more heavily toward that goal, by devoting a greater share of spending and tax subsidies to the task, and ensuring that low- and moderate-income households share more fully in those efforts.

— Eugene Steuerle
The Urban Institute

Further, federal "mobility" expenditures tend to flow disproportionately to higher-income families, those who are least in need of a leg up on the income ladder. For example, only about one-quarter of the "mobility budget" is targeted to moderate- and lower-income families. Moreover, although the $1.3 trillion in income maintenance programs is more often directed to those with low incomes, these programs may actually impede mobility by discouraging work or the acquisition of skills and assets that are essential to realizing upward mobility.

Thus, we agree, to boost economic mobility there must be two specific shifts in the federal budget and policies. First, we recommend a shift within the "mobility budget" to better target existing mobility-enhancing investments toward individuals and families who face the most difficulty moving up the ladder. For example, resources for homeownership subsidies and savings incentives that disproportionately benefit middle- and upper-income families should be retargeted to increase incentives for low- and moderate-income families to save and accumulate assets.

Second, we recommend a shift within social welfare programs toward those that provide greater incentives for improving mobility. For example, as we suggest below, raising asset limits in public assistance programs and incentivizing savings would encourage mobility for many. In much the same way that welfare reform shifted priorities away from simply writing checks to requiring recipients to work, social welfare spending should be reoriented to emphasize incentives that enhance skills and asset development and that encourage employment.

IMPORTANT CONSIDERATIONS

The country is reeling from the effects of a prolonged recession, with record federal budget deficits and unemployment levels at thirty-year highs. In this environment, we recognize that policy responses that address the specific complexities of the moment may need to receive priority over those that we recommend to shore up the long-term health of the American Dream. For example, temporary income transfers to those not working may be more necessary and work incentives may be less effective now than they would be in a healthier economy. With that said, our road map offers a compelling guide to reorienting the country's policies over a longer term.

The American Dream is alive and well, but we need new and better policies to help yet more Americans—especially kids from poor families—achieve it.

*— **Ron Haskins***
The Brookings Institution

We recognize that economic mobility, for lower-income Americans in particular, is strongly affected by factors such as the nature and quality of jobs that our economy generates, the access different individuals and groups have to those jobs, and by the skills of our workers. These factors are in turn the product of a complex combination of state and federal policies and market forces, such as technology and globalization. While our roadmap does not address many of these issues, we believe they too are important topics that merit additional attention.

Further, we understand that in a fiscally constrained environment, policies that require significant new federal expenditures are politically challenging and may exacerbate the nation's fiscal pressures over the long term. Therefore, we propose a set of recommendations that we believe can be implemented at no net cost to taxpayers through a combination of (a) retargeting existing mobility expenditures to those who are facing the most obstacles to mobility, and (b) prioritizing investments to make income maintenance programs more mobility-enhancing.

Finally, our policy recommendations are supported by the best available evidence. Throughout the document, we use stars (★) to recommend policies that we agree are either proven, as evidenced by strong, existing evaluation research, or that we believe hold the most promise to improve upward economic mobility. Where compelling evidence is not available, however, we urge that implementation be accompanied with a strong evaluation component. We unanimously urge that the government prioritize the development of datasets that track program participants and their families over time (while maintaining privacy), allowing mobility programs to be rigorously and regularly evaluated. With hundreds of billions of dollars already spent annually on mobility-related policies, the American taxpayer deserves to better understand the impact and efficacy of those programs. Our final set of recommendations addresses this need.

HUMAN CAPITAL

We use "human capital" to capture the individual skills and attributes that allow Americans to live well, earn income, and take advantage of economic opportunities. Education, health, and access to health care at specific points in people's lives are significant human capital determinants of economic mobility. These are not one-time considerations, but are crucial to economic mobility throughout the life course from prenatal experiences through college and into adulthood. Evidence points to earlier interventions as having higher rates of return. For example, prenatal care and early attention to child wellness are particularly important for setting children on a course for lifelong health, which may enable them to complete educational milestones and maintain employment as adults.[12] And programs such as Career Academies that provide the incentives to keep at-risk youth in school improve their earnings long after high school graduation.[13]

It is well documented that earnings increase with each additional level of educational attainment. EMP's research shows that over two recent ten-year periods (1984–1994 and 1994–2004), the probability that an individual would leave the bottom income quintile was thirty percentage points higher for those with more than a high school diploma than for those who never graduated.[14] Community colleges also play a key role in promoting economic mobility: attaining a community college degree increases an individual's annual earnings by an average of $7,900, or 29 percent more than the earnings of those with only a high school diploma.[15] Earning an occupational certificate at a community college or from another recognized training provider in sectors with strong demand and well-paying jobs can also significantly increase the earnings of disadvantaged youth and adults.[16]

EMP research also finds that for children born to low-income parents, getting a college degree quadruples their chances of making it to the top of the income ladder as adults.[17] However, low-income students are less likely to enroll and graduate from college than their middle- and upper-income peers—nearly 80 percent of children born to families in the top fifth of the income ladder enroll in college and 53 percent graduate, compared to only 34 percent of children in the bottom fifth who enroll and only 11 percent who graduate.[18]

Despite these strong economic returns to education and training, as many as a quarter of the nation's young people still drop out of high school, while another quarter receive no postsecondary education.[19] Among low-income and especially minority young men who drop out of high school, the tendency to completely disconnect from the labor market and to engage in criminal activity is very high.[20] Special efforts are needed to prevent their dropping out and disconnecting. And for the many low-income Americans whose limited education and personal skills will continue to prevent them from attaining better-paying jobs, a range of supports and incentives are needed to encourage their steady work effort.

As mentioned above, in the postsecondary arena, the government is already spending a significant amount of money, but we believe that money is not effectively targeting low- and moderate-income students.[21] As such we make the recommendations listed below.

Greater public and private investment in human capital development, starting at the youngest ages, is essential for ensuring greater opportunity for all Americans.

*—**Sheila Zedlewski***
The Urban Institute

PROMOTE CHILDREN'S HUMAN CAPITAL DEVELOPMENT EARLY IN LIFE

PROMOTE ACCESS TO HIGH-QUALITY HEALTHCARE BENEFITS FOR ALL CHILDREN, INCLUDING PRENATAL CARE, CHILD WELLNESS, AND MATERNAL AND CHILD NUTRITION.

This could include the following recommendations:

- ★ Together with other goals of healthcare reform, assure basic health coverage to all children throughout their years of schooling.
- ★ Strengthen the system of public clinics and other necessary services to children in areas of high poverty and inadequate health services.

EXPAND AND IMPROVE THE COORDINATION OF FEDERAL INVESTMENTS IN EARLY CHILDHOOD EDUCATION AND CARE (INCLUDING HOME VISITING, PRENATAL CARE, CHILD CARE, EARLY HEAD START/HEAD START AND PREKINDERGARTEN) WITH AN EMPHASIS ON DISADVANTAGED AND LOW-INCOME CHILDREN.

This could include the following recommendations:

- ★ Give states the flexibility to coordinate investments in early childhood education and care, and hold them accountable for measurable results.
- ★ Establish a federal challenge grant for states to provide voluntary, high-quality early childhood education (prekindergarten or their own version of Head Start) with an emphasis on disadvantaged and low-income children.[22]
- Provide greater funding for child care targeted to low- and moderate-income working parents. Build in quality regulations but with a balance so as not to price out low-income families from accessing affordable child care.
- Increase funding for Head Start for poor children. Allow states more flexibility in Head Start implementation and require follow-up services once children enroll in school to ensure benefits are maintained over time.

ENSURE ALL CHILDREN AND TEENS HAVE ACCESS TO EFFECTIVE EDUCATIONAL PROGRAMS

IMPROVE QUALITY AND ACCOUNTABILITY IN DISADVANTAGED K-8 SCHOOLS.

This could include the following recommendations:

- ★ Recruit high-quality teachers to low-income school districts through salary incentives and federal support for non-traditional recruitment and training programs, like Teach for America.[23]
- ★ Encourage the expansion of charter schools.
- ★ Federally fund whole-school reform programs that have been rigorously evaluated (such as Success for All).
- ★ Reform No Child Left Behind accountability measures, including moving towards expected annual improvements in quality across the skills spectrum using uniform national tests and standards, and improving transparency about school performance.
- ★ Encourage the use of sophisticated designs to evaluate inner-city programs that emphasize better teaching, strong discipline, and more hours of instruction, such as the Knowledge Is Power Program schools, that seem to be achieving success. If these evaluations find programs are successful, the federal government should work with states to expand them while maintaining quality.
- Continue to experiment with vouchers, but only with technical assistance and information dissemination to parents about how to judge the quality of alternative schools.

> *Sustained economic growth and job creation have produced a record of rising living standards in America, a record that can be built upon and extended by placing more emphasis on policies that strengthen families and encourage investment in education and skills.*
>
> —***Marvin Kosters***
> *The American Enterprise Institute*

FUND AND EVALUATE HIGH SCHOOL PROGRAMS THAT IMPROVE EDUCATIONAL AND LABOR MARKET OUTCOMES.

This could include the following recommendations:

- ★ Expand high-quality Career and Technical Education, such as Career Academies and apprenticeships.
- ★ Expand funding for and evaluation of current high school dropout prevention programs.
- ★ Support experimentation with and evaluation of other high school reform efforts, like Talent Development high schools and Small Schools that Work (small learning communities with a theme).

PROMOTE ENROLLMENT IN AND COMPLETION OF POSTSECONDARY EDUCATION

IMPROVE PREPARATION FOR AND AWARENESS OF HIGHER EDUCATION OPPORTUNITIES AMONG LOWER-INCOME HIGH SCHOOL STUDENTS.

This could include the following recommendations:

- Enhance funding for counseling, mentoring and information dissemination efforts regarding college academic requirements, the availability of financial assistance, and how to apply for financial aid.[24]

- Increase support for programs that improve college readiness and require those that receive federal funds to prepare students from low-income families for college to demonstrate success through evaluation.[25]
- Provide tutoring and supplementary education services to disadvantaged students such as dual-enrollment programs that provide special services for low-income students or career/technical pathways at postsecondary institutions.

Help low- and middle-income families pay for college.

This could include the following recommendations:

- ★ Modify federal supports and tax provisions to better target middle- and lower-income children.
- ★ Simplify the application for federal aid and provide early notification of awards to families.[26]
- ★ Make the implicit tax treatment of savings more equal under all forms of educational financial assistance (such as Pell Grants) and, in particular, reduce the heavy penalty on money put directly into savings accounts.

> *By broadly raising the levels of education, job training and work experience among disadvantaged youth and adults, we can strongly improve their earnings and, therefore, their potential for upward mobility over time.*
>
> *—**Harry Holzer***
> *The Urban Institute*

Improve the retention and completion rates of low-income students at two- and four-year colleges.[27]

This could include the following recommendations:

- ★ Implement longitudinal performance measurement systems in states to assess completion rates by race, income, and other demographic indicators.
- Reward states for students' completion of academic goals or milestones rather than simply for per capita enrollment.

HELP LOW-WAGE WORKERS ACQUIRE SKILLS NEEDED FOR HIGH-QUALITY, WELL-PAID JOBS

Expand education and training opportunities for less-skilled adults and provide incentives to states to bring effective workforce development models to greater scale.

This could include the following recommendations:

- Make competitive grants to states to:
  - ★ expand sectoral and/or apprenticeship models that link education and training to existing well-paying jobs;[28]
  - – encourage supports and services within the community college system and better link them to workforce development (as the Obama Administration's American Graduation Initiative seeks to do); and

  - generate more effective "advancement systems" that provide more education and training, greater access to well-paying jobs, and more robust financial incentives and supports.
- Given the evaluation evidence to date and what is known about workforce needs and program performance measurement, reauthorize the Workforce Investment Act to increase workforce development funding, better integrate employment services (Title I) and adult basic education and literacy (Title II), and improve performance measures for formula funding to encourage more skills certification and earnings improvement while discouraging "creaming" (i.e., removing incentives to prioritize service delivery for easy-to-serve populations).

Promote policies and programs that encourage various "hard-to-employ" groups, including at-risk youth, ex-offenders, low-income single and non-custodial parents, and the disabled, to work more consistently. This could include the following recommendations:

- Expand support for programs with proven effectiveness that reconnect disadvantaged young people to school and the labor market.[29]
- Provide financial incentives to encourage work, such as allowing disability beneficiaries to keep more benefits when they work, expanding the availability of health coverage, and making it easier for those who lose their jobs to quickly regain disability benefits.
- Expand and bring to scale proven comprehensive workforce programs that combine job search and placement support with services addressing individuals' specific barriers to employment.[30]
- Encourage job placement of hard-to-employ Temporary Assistance for Needy Families (TANF) recipients by providing employers wage subsidies and workers soft-skills and basic training, support services and counseling.[31]

Expand both work subsidies and work supports for low-income workers, particularly those excluded from the current support system. This could include the following recommendations:

- Integrate the Earned Income Tax Credit (EITC) and the Child Tax Credit to generate a coherent set of refundable tax credits for working adults and their children.
- Encourage states to expand support for high-quality child care through federal grants and subsidies. These subsidies should enable low-income parents that need paid care to purchase it with a reasonable share of their income and in ways that give states the flexibility and incentives to create high-quality early childhood education systems.
- Encourage states to expand paid parental leave for childbirth and illness, possibly through social insurance systems.

SOCIAL CAPITAL

"Social capital" is the term we use to encompass the nonfinancial resources available through personal relationships and interactions with institutions that promote economic mobility. Family structure, neighborhoods, social connections and support systems all fall into this category of factors that determine economic mobility. EMP research has found that economic mobility is increasingly a "family enterprise" as, more often than in the past, two incomes are necessary to experience income growth compared to one's parents. While median personal income for men in their 30s decreased by 12 percent between 1974 and 2004, median family income increased by 9 percent over the same period.[32] Forthcoming research by the project also shows that experiencing downward mobility compared to one's parents has much to do with whether one's parents divorce.[33] The literature also shows that parental involvement, emotional bonds, expectations, and knowledge transfer can impact children's economic mobility outcomes.

Further, the neighborhood environment in which children grow up matters a great deal. Growing up in a high poverty neighborhood, even in a family that is not itself poor, strongly increases the chances that a child will be downwardly mobile as an adult. In fact, children who are raised in a high-poverty neighborhood have a risk of downward mobility that is 52 percent higher than if they had grown up in a low-poverty neighborhood. Two-thirds of all African American children are raised in high-poverty neighborhoods, compared to only 6 percent of white children, a statistic that has not changed in the last 30 years.

The recommendations that follow focus on income maintenance programs and reorienting them towards building the social, human and financial assets that are essential to achieving economic mobility. In addition, our ideas are aimed at improving policies to reduce or remove disincentives in the tax code that make marriage "uneconomic," thereby reinforcing a pathway to mobility for individuals with and without children.

REORIENT PUBLIC ASSISTANCE PROGRAMS TOWARDS MOBILITY ENHANCEMENT

IMPROVE MOBILITY-ENHANCING INCENTIVES AND INVESTMENTS IN PUBLIC ASSISTANCE PROGRAMS.

This could include the following recommendations:

- Remove disincentives to savings, such as raising asset limits in order to qualify for assistance.
- Remove disincentives to marriage, such as earnings tests that penalize married applicants over single ones.

- ★ Encourage more creativity and flexibility for states to coordinate work requirements and supports across the welfare system via waiver programs that include strong evaluation requirements.
- ★ Reinforce expectations for economic mobility through work, including stronger work requirements in food stamps and housing assistance.
- ★ Ensure that no unreasonable and overly burdensome requirements are put on single mothers and others with multiple barriers to employment.
- Provide more funding for work supports such as child care, education and training.

Whether or not people live in a positive, supportive environment is critical to their chance of achieving economic mobility. We can take steps to help strengthen this social capital, from family composition to services and encouragement within the local community, and make a real difference to a person's future ability to move up the income ladder.

—Stuart Butler
The Heritage Foundation

Reform disability programs to ensure that states' incentives are aligned with the goal to target parents, children, and disabled individuals with the greatest need. Where appropriate, include program funding and incentives for long-term self-sufficiency and economic mobility of parents of disabled children, disabled children and disabled adults.

This could include the following recommendations:

- ★ Reduce incentives both for parents receiving TANF and for states to use the federally funded SSI-children program as a primary means of family support.
- ★ Target funding on the actual needs of disabled children and make it more likely they will be prepared to enter the labor force, such as requiring children on the SSI-children program to receive the education and training that is necessary to move into the labor market as adults by closely integrating state education programs with state vocational rehabilitation programs and the payment of federal SSI-children benefits. Continue to support the Youth Transition Demonstration experiments that test methods for doing so.[34]

FAMILY FORMATION AND TEEN PREGNANCY REDUCTION

Provide funding for effective, evidence-based comprehensive education to prevent teen pregnancy. This should include both abstinence and birth control education to discourage risky adolescent sexual behavior that could negatively affect the prospects for mobility for teens and their children.

Expand awareness of healthy and safe marriage as a pathway to economic mobility.

This could include the following recommendations:

- Take steps to ensure that the tax code and public assistance programs do not penalize marriage, including basing some portion of work supports on individual earnings or avoiding high effective tax rates. In doing so, incentives should not increase taxes on individuals.

- Continue the marriage education grant program in Title IV-A of the Social Security Act at its current funding level, but make grants contingent on evaluation. Include standard reporting requirements for each site. Evaluate existing programs so that more is learned about the effect they have on increasing healthy family formation and persistence.
- Encourage vocal leadership from community leaders, celebrities and elected officials to address the decline of marriage and promote healthy and safe marriage.
- Create a publicly-funded education/advertising campaign on the importance of marriage to mobility.

As with other children, for most children with disabilities, it is their social environment rather than their impairment that limits their social mobility. Hence all roads to mobility should be equally accessible.

—Richard Burkhauser
The American Enterprise Institute

RESPONSIBLE FATHERHOOD

Encourage work and payment of child support by providing education and training opportunities as well as work supports to non-custodial, low-income fathers, including many men now excluded from the social support network.

This could include the following recommendations:

- ★ Extend the EITC to low-earning individuals without custody of children on the basis of their own earnings.
- ★ Reform child support enforcement for men with arrearages, both those with unpaid child support judgments or parolees leaving prison, to make work pay and to strengthen effective and fair work requirements.
- ★ Provide opportunities for education and training with the goal of increasing work.
- Continue funding the fatherhood grants under Title IV-A of the Social Security Act, including requirements for evaluation.

NEIGHBORHOODS

Increase pathways for mobility for residents of disadvantaged communities by improving their neighborhoods and by providing opportunities for residents to move to more prosperous neighborhoods.

- Invest in disadvantaged and economically distressed neighborhoods to generate positive outcomes and opportunities. This could include the following recommendations:
  - Make investments in communities to provide comprehensive interventions that may improve mobility-related outcomes. For example, provide comprehensive education, parenting support, and culturally reinforcing activities such as those employed in the Harlem Children's Zone and proposed in the President's Promise Neighborhoods. These programs should be implemented on a limited basis until evidence shows them to be effective.

- Reduce regulatory or tax barriers that make it more difficult for residents to transform their neighborhoods. This could include zoning and regulatory changes to incentivize development; forgiving property tax liens and removing other barriers to sensible neighborhood development; and encouraging wider use of resident management in public housing or transferring ownership to former tenants of publically subsidized housing developments as discounted cooperatives.

- Provide families the chance to move to neighborhoods, or positive communities within a neighborhood, with greater education, employment and housing opportunities. This could include the following recommendations:
  - ★ Foster charter schools that emphasize strong, positive social environments and make it easier for children to cross jurisdictional boundaries to attend such schools.
  - Further experiment with and evaluate the use of school vouchers that enable students to use vouchers across jurisdictional boundaries.
  - Facilitate flexibility for families to use housing vouchers across jurisdictions.

FINANCIAL CAPITAL

This group of policies refers to "financial capital" as assets such as personal savings or investments that individuals might leverage to get ahead and to complement the human and social capital development activities listed above. EMP's research has found that homeownership, entrepreneurship and retirement vehicles like 401(k)s and IRAs are among the primary ways that Americans save.[35] However, those opportunities are often limited for low- and moderate-income individuals and families.[36] The federal budget and tax code provide subsidies for such financial-capital-building purposes, but they are less available to low- and moderate-income households. In fact, there are significant subsidies for households at the upper end of the income distribution (such as mortgage interest tax deductions on second homes),[37] while there are significant penalties (such as asset limits in public assistance programs) for those at the lower end.[38] Further, forthcoming research shows greater upward mobility among children of parents who have relatively high liquid savings compared to children whose parents have relatively low savings.[39]

The policy recommendations below follow four agreed-upon principles to expand economic mobility through financial capital accumulation that can be leveraged for social- and human-capital-building opportunities, such as education.

1. Savings incentives in the federal budget should be fairly and efficiently allocated and shifted to target individuals and families at the low end of the income ladder.
2. The default position in America should be to save rather than go into debt—savings should occur in well-defined "plan" structures, that help to make saving easy and automatic.
3. Savings should be integrated into each individual's life course from cradle to retirement to prepare for future contingencies and opportunities.
4. Financial literacy is a key component that should be provided at essential points throughout the life cycle including for parents at the birth of a child, for children during school years and preparing for college, and for individuals entering the workforce, buying a first home, starting a business, and saving for retirement.

ENCOURAGE AND PROMOTE LIFELONG SAVINGS EARLY IN LIFE

Beginning early in life, promote a culture of lifelong savings and financial education. Start by auto-enrolling all newborns into lifetime savings and asset development accounts restricted to mobility-enhancing purposes, including postsecondary education, homeownership, entrepreneurship, and retirement.

This could include the following recommendations:

- Accounts created automatically, triggered by the issuance of Social Security numbers, for all children born in the United States after a specified date. Accounts would be defaulted into a structured savings plan (like the federal Thrift Savings Plan), with age-appropriate and balance-appropriate defaults for investment allocations. Encourage roll-over of accounts and consumer protections to approved private-sector financial institution at any time.
  - Savings would be encouraged and easily facilitated at tax time, as well as through direct deposits facilitated by employers.
  - Graduated subsidies for parents and children to save (in the form of a match) and build wealth, with incentives increasing as households move down the income ladder.
  - Contributions to the accounts from all sources (private, charitable, and public), with possible links to constructive behavior, such as completing education.
  - Linked to the accounts, a financial education component for children and parents, integrated into k-12 curricula and local organizations, to develop financial knowledge and skills, and to help integrate un-banked households into the financial mainstream.

As the American Dream eludes more and more hard-working Americans, these recommendations—backed by both rigorous analysis and a broad range of thinkers—deserve serious consideration by Congress and the Administration.

—Ray Boshara
The New America Foundation

PROVIDE MORE EQUAL TREATMENT OF SAVINGS FOR HIGHER EDUCATION

Reform and improve education savings opportunities, expanding access particularly for low-income students.

This could include the following recommendations:

- Remove or reduce penalties in financial aid (for example, the Pell Grant formula) for children or families who save.
- Create greater equity among savers who save in different vehicles (for example, remove the significant discrimination against savings accounts, which face a much higher implicit tax rate than do other forms of saving such as 529s). Thus, taxpayers who save in traditional savings accounts and pay taxes on the interest earnings of those accounts would pay no more tax than those who save in tax-deferred savings accounts.

INCREASE ACCESS TO HOMEOWNERSHIP AS A SAFE AND SECURE SAVINGS VEHICLE

Encourage savings for and through secure homeownership.

This could include the following recommendations:

- Create flexibility in the housing voucher program to allow for greater geographic mobility, as well as for homeownership. Any use for homeownership, however, should be done in a way that maintains the progressivity of the voucher program overall.
- Provide greater funding for and expand availability of financial education particularly for homeownership.
- Make available and expand awareness of simple, clean and "default" mortgage products for households to access without fear of unfavorable terms and conditions.
- Increase subsidies in the form of tax credits for a portion of down payments and mortgage payments to increase access to and sustainability of homeownership for a greater number of families. Such subsidies could be graduated as one moves down the income ladder and could be in lieu of other homeownership subsidies.

PROMOTE AND INCREASE RETIREMENT SAVINGS

Make the default in America to save for retirement by creating more universal retirement savings plans for workers, either through add-on accounts or significantly reformed 401(k)s.

This could include the following recommendations:

- ★ Encourage employers to adopt opt-out/default 401(k) provisions.
- ★ Expand savings to more workers by incentivizing employers to provide more universal employer contributions and use opt-out provisions; in exchange, the Saver's credit would be expanded and other retirement plan rules, including limitations on saving by higher earners, would be vastly simplified.
- Improve awareness and knowledge of retirement savings through financial education.
- Special provisions for those who do not have access to employer-based retirement savings, including stay-at-home parents and disabled individuals.

SUPPORT ENTREPRENEURSHIP THROUGHOUT THE BUSINESS LIFE-CYCLE

PROMOTE SMALL BUSINESS LITERACY AND EDUCATION, REDUCE BARRIERS TO SMALL BUSINESS CREATION AND IMPROVE SMALL BUSINESS SUSTAINABILITY. This could include the following recommendations:

- Provide business education at tax time to help filers with self-employment income, business planning, accounting, and record keeping.
- Encourage the Small Business Administration (SBA) to provide educational support to new businesses, particularly as they access government financing.
- Reform health care such that individuals leaving current employment to start a firm do not lose health coverage or face undue experience ratings.
- Expand capacity of community based organizations that provide business and savings technical assistance, particularly in low-income and rural communities and geared toward minorities and women.
- Increase women's and minorities' access to capital, including expanding access to loans and venture capital.
- Create a small business volunteer/mentor corps to expand entrepreneurship networks and knowledge of new entrepreneurs.
- Evaluate effectiveness of SBA programs that seek to decrease small business risk (such as fire, flood and other insurable events).
- Provide greater funding and improve incentives to microenterprise development, particularly for disadvantaged groups and communities.
- Target small business subsidies to those who are less advantaged, as measured by wealth, income and education.
- Ensure proper enforcement and oversight of government investment in small businesses through small- and micro-business grants and loan programs.

IMPROVING DATA AND EVALUATION TO MEASURE ECONOMIC MOBILITY

Currently, researchers who explore trends and patterns in economic mobility rely on two key longitudinal *survey* datasets: the Panel Study on Income Dynamics and the National Longitudinal Survey of Youth. Additional research can also be done with data from the US Census Bureau, the Bureau of Labor Statistics, and the Social Security Administration, and a patchwork of other smaller datasets that individual federal agencies may or may not be required to collect. In particular, increases in computing power now enable analysis of new *administrative* datasets on workers and the many programs or institutions that serve them. However, much of this data is neither readily available nor linked in a way that lets researchers assess program implementation and outcomes and trends over time. We strongly believe that significant priority should be given to creating systems that allow data and information to be linked, making it possible to track program participants and their families over generations (while protecting identities) so that researchers have better information by which to evaluate the effectiveness of a given policy on boosting economic mobility.

ENABLE GREATER RESEARCH AND EVALUATION OF ECONOMIC MOBILITY

Improve data collection to monitor the effectiveness of the social, human and financial capital support systems in enhancing economic mobility.

This could include the following recommendations:

- Establish a formal commission of some of the nation's leading economists, statisticians, and program administrators to determine what is most feasible in merging administrative records to create longitudinal files. Legal privacy experts should also be included on the commission to ensure proper authorization and confidentiality provisions are included in legislation and implementation.
- Incentivize states to merge data—particularly, administrative data—on all programs they administer, or on as many as possible.
- Include a set-aside in funding for programs with mobility objectives to gather data and make data comparable across programs.

To understand how well our society is fulfilling its commitment to the American Dream, it is vital that researchers have access to reliable, low-cost data to study trends in income movement over generations. Armed with this analysis and evaluation, policymakers can make informed decisions about the effectiveness of policies and programs instituted to promote upward economic mobility for all.

—William Beach
The Heritage Foundation

- Provide authority to and place a requirement on the Internal Revenue Service (IRS) and Census Bureau to join in these efforts, at least for samples of the population, and grant them legislative authority to further merge records and to encourage research among qualified researchers. Then follow individuals and households over time. Such longitudinal data are particularly important with respect to programs affecting children, including educational data (such as merging information on early childhood learning programs and regular school programs with data on child care, TANF, the EITC, and so forth).
- Allow administrative data files to be merged with Census and tax data to examine questions related to potential program effects on outcomes such as earnings.

NOTES

1 EMP poll, 2009.

2 Ibid.

3 This categorization parallels that of the project's work to identify the key factors that influence one's pathway to economic mobility. See Butler, Beach, and Winfree, 2008.

4 EMP measures economic mobility by tracking changes in family cash income. Using income is more comprehensive than earnings, but does not account for fringe benefits, taxes, non-cash assistance and other measures of well-being and thus has its limitations.

5 Isaacs, Sawhill, and Haskins, 2008.

6 Sawhill and Morton, 2007.

7 Mazumder, 2008.

8 Acs and Zimmerman, 2008.

9 Ibid.

10 Carasso, Reynolds, and Steuerle, 2008.

11 Ibid.

12 Butler, Beach, and Winfree, 2008.

13 Kemple, 2008.

14 Acs and Zimmerman, 2008.

15 Furchtgott-Roth, Jacobson, and Mokher, 2009.

16 Ibid; Maguire, Freely, Clymer, and Conway, 2009.

17 Isaacs, Haskins, and Sawhill, 2008.

18 Haskins, Holzer, and Lerman, 2009.

19 Heckman and Lafontaine, 2007.

20 Western and Pettit, forthcoming.

21 Carasso, Reynolds, and Steuerle, 2008.

22 Gormley and Gayer, 2005; Garces and Currie, 2002; Ludwig and Miller, 2008.

23 Staiger, Gordon, and Kane, 2006.

24 Examples of this include the Coach program at Harvard and Strive for College at Washington University.

25 Such as TRIO, AVID, and others.

26 Dynarski and Scott-Clayton 2007; Dynarski and Scott-Clayton 2008.

27 Richburg-Hayes, Brock, LeBlanc, Paxson, Rouse, and Barrow, 2009; Scrivener and Weiss, 2009.

28 Maguire, Freely, Clymer, and Conway, 2009.

29 Bloom, Gardenhire-Crooks, and Mandsager, 2009; Schochet, Burghardt, and McConnell, 2008; Jastrzab, Bloomquist, Masker, and Orr, 1997.

30 Redcross, Bloom, Azurdia, Zweig, and Pindus, 2009.

31 Hollister, Kemper, and Maynard, 1984.

32 Sawhill, and Morton, 2007.

33 DeLeire and Lopoo, forthcoming.

34 Fraker and Rangarajan, 2009.

35 Isaacs, Sawhill, and Haskins, 2008.

36 Carasso, Reynolds, and Steuerle, 2008.

37 Ibid.

38 Cramer, O'Brien, Cooper, and Luengo-Prado, forthcoming.

39 Ibid.

RESOURCES

Acs, Gregory and Seth Zimmerman. 2008. U.S. *Intragenerational Economic Mobility From 1984 to 2004: Trends and Implications*. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Butler, Stuart M., William W. Beach, and Paul L. Winfree. 2008. *Pathways to Economic Mobility: Key Indicators*. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Bloom, Dan, Alissa Gardenhire-Crooks, and Conrad Mandsager. 2009. "Reengaging High School Dropouts: Early Results of the National Guard Youth Challenge Program Evaluation." MDRC. http://www.mdrc.org/publications/512/full.pdf.

Carasso, Adam, Gillian Reynolds, and C. Eugene Steuerle. 2008. *How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?* Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado. *Advancing Mobility Through Savings*. Forthcoming. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts.

DeLeire, Thomas and Leonard M. Lopoo. Forthcoming. *Family Structure and Economic Mobility*. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts.

Dynarski, Susan and Judith E. Scott-Clayton, 2008. "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis." National Bureau of Economic Research Working Papers 13801, National Bureau of Economic Research, Inc. http://www.nber.org/papers/w13801.

Dynarski, Susan, and Judith E. Scott-Clayton. 2007. "College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid." John F. Kennedy School of Government Working Paper RWP07-14. http://web.hks.harvard.edu/publications/workingpapers/By_Number.aspx.

Findings from a National Survey & Focus Groups on Economic Mobility. 2009. Washington, D.C.: Economic Mobility Project, an Initiative of The Pew Charitable Trusts. http://www.economicmobility.org/poll2009.

Fraker, Thomas and Anu Rangarajan. 2009. "The Social Security Administration's youth transition demonstration projects." *Journal of Vocational Rehabilitation 30*(2009):223-240.

Furchtgott-Roth, Diana, Louis Jacobson, and Christine Mokher. 2009. *Strengthening Community College's Influence on Economic Mobility*. Washington D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Garces, E., D. Thomas, and J. Currie. 2002. "Longer-term Effects of Head Start." *American Economic Review*, *92*(4): 999-1012.

Gormley, Jr., William T. and Ted Gayer. 2005. "Promoting School Readiness in Oklahoma: An Evaluation of Tulsa's Pre-K Program." *Journal of Human Resources, 40*(3):533-558.

Haskins, Ron, Harry Holzer, and Bob Lerman. 2009. *Promoting Upward Mobility by Increasing Postsecondary Education*. Washington: D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Heckman, James and Paul Lafontaine. 2007. "The American High School Graduation Rate: Trends and Levels." National Bureau of Economic Research Working Paper. 13780. http://www.nber.org/w13780.

Hollister, Robinson G., Peter Kemper, and Rebecca A. Maynard. 1984. *The National Supported Work Demonstration*. Madison WI: University of Wisconsin Press.

Isaacs, Julia, Isabel Sawhill, and Ron Haskins. 2008. *Getting Ahead or Losing Ground: Economic Mobility in America*. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Jastrzab, JoAnn, John Bloomquist, Julie Masker, and Larry Orr. 1997. "Youth Corps: Promising Strategies for Young People and Their Communities." Abt Associates. http://www.abtassoc.com/reports/Youth-Corps.pdf.

Kemple, James J. with Cynthia J. Willner. 2008. "Career Academies: Long-Term Impacts on Labor Market Outcomes, Educational Attainment, and Transitions to Adulthood." MDRC. http://mdrc.org/publications/482/full.pdf.

Ludwig, Jens and Douglas L. Miller. 2007. "Does Head Start Improve Children's Life Chances? Evidence from a Regression Discontinuity Design." *The Quarterly Journal of Economics*, *122*(1): 159-208.

Maguire, Sheila, Joshua Freely, Carol Clymer, and Maureen Conway. 2009. *Job Training that Works: Findings from the Sectoral Employment Impact Study*: Philadelphia: Public/Private Ventures. http://ppv.org/ppv/publications/assets/294_publication.pdf.

Mazumder, Bhashkar. 2008. *Upward Intergenerational Mobility in the United States*. Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Redcross, Cindy, Dan Bloom, Gilda Azurdia, Janine Zweig, and Nancy Pindus. 2009. "Transitional Jobs for Ex-Prisoners: Implementation, Two-Year Impacts, and Costs of the Center for Employment Opportunities (CEO) Prisoner Reentry Program." MDRC. http:/www.mdrc.org/publications/529/full.pdf.

Richburg-Hayes, Lashawn, Thomas Brock, Allen LeBlanc, Christina Paxson, Cecilia Elena Rouse, and Lisa Barrow. 2009. "Rewarding Persistence: Effects of a Performance-Based Scholarship Program for Low-Income Parents." MDRC. http://www.mdrc.org/publications/507/full.pdf.

Sawhill, Isabel and John E. Morton. 2007. *Economic Mobility: Is the American Dream Alive and Well?* Washington, D.C.: Economic Mobility Project, an initiative of The Pew Charitable Trusts. http://www.economicmobility.org/reports_and_research/.

Schochet, Peter Z., John Burghardt, and Sheena McConnell. 2008. "Does Job Corps Work? Impact Findings from the National Job Corps Study." *American Economic Review*, *98*(5): 1864-86.

Scrivener, Susan and Michael J. Weiss with Jedediah J. Teres. 2009. *More Guidance, Better Results? Three-Year Effects of an Enhanced Student Services Program at Two Community Colleges*. MDRC. http://www.mdrc.org/publications/524/full.pdf.

Staiger, Douglas O., Robert Gordon, and Thomas J. Kane. 2006. "Identifying Effective Teachers Using Performance on the Job" Brookings Institution, Hamilton Project Discussion Paper. http://www.brookings.edu/papers/2006/04education_gordon.aspx.

Western, Bruce and Becky Pettit. Forthcoming. *The Impact of Incarceration on Employment, Wages and Mobility*. Washington, D.C.: Public Safety Performance Project and Economic Mobility Project of The Pew Charitable Trusts.

The Pew Charitable Trusts (www.pewtrusts.org) is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public and stimulate civic life. We partner with a diverse range of donors, public and private organizations and concerned citizens who share our commitment to fact-based solutions and goal-driven investments to improve society.

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 five leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, The New America 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.

PROJECT PRINCIPALS

Richard Burkhauser, Ph.D., American Enterprise Institute
Marvin Kosters, Ph.D., American Enterprise Institute
Ron Haskins, Ph.D., *Center on Children and Families*, The Brookings Institution
Stuart Butler, Ph.D., *Domestic and Economic Policy Studies*, The Heritage Foundation
William Beach, *Center for Data Analysis*, The Heritage Foundation
Ray Boshara, *Domestic Policy Programs*, The New America Foundation
Harry Holzer, Ph.D., The Urban Institute
Eugene Steuerle, Ph.D., *Urban-Brookings Tax Policy Center*, The Urban Institute
Sheila Zedlewski, *Income and Benefits Policy Center*, The Urban Institute

PROJECT ADVISORS

David Ellwood, Ph.D., *John F. Kennedy School of Government*, Harvard University
Christopher Jencks, M. Ed., *John F. Kennedy School of Government*, Harvard University
Susan Mayer, Ph.D., *Irving B. Harris School of Public Policy*, The University of Chicago
Bhashkar Mazumder, Ph.D., Federal Reserve Bank of Chicago
Sara McLanahan, Ph.D., Princeton University
Ronald Mincy, Ph.D., Columbia University School of Social Work
Timothy M. Smeeding, Ph.D., University of Wisconsin-Madison
Eric Wanner, Ph.D., The Russell Sage Foundation

ECONOMIC MOBILITY PROJECT
An Initiative of The Pew Charitable Trusts

THE PEW CHARITABLE TRUSTS

For a copy of this and other Economic Mobility Project reports visit www.economicmobility.org