



ECONOMIC MOBILITY OF OF FAMILIES ACROSS GENERATIONS

EXECUTIVE SUMMARY

ECONOMIC MOBILITY
DESCRIBES THE
ABILITY OF
PEOPLE TO MOVE
UP OR DOWN THE
ECONOMIC LADDER
WITHIN A LIFETIME
OR FROM ONE
GENERATION TO
THE NEXT.

“Doing better” than one’s parents has long been a key element of the American Dream. Not only can people earn more, but they can move up the ladder compared to others. The story, embedded in our history and our literature, suggests any person can start from humble beginnings and achieve great wealth, or at least reach the middle class. But how are Americans doing today? Are they better off than their own parents were and how much does their eventual success depend on their family background?

The report takes a comprehensive view of economic mobility, asking questions about both *absolute* and *relative* mobility. The first key question is, “To what extent do American families improve their incomes over a generation?” Each generation should have higher income than the last, assuming economic growth, so the issue here is the amount of growth and how it is distributed across society. A less frequently asked question is “How often do individual Americans end up with higher family incomes than their own parents, either because economic growth has boosted their income or because that individual has moved up or down the economic ladder?” A third question ignores the overall increases due to economic growth and focuses exclusively on relative mobility: “To what extent does where one ends up in the income distribution depend on where one began?” Put differently, are the economic fortunes of children tied to that of their parents or is there a lot of movement up and down the economic ladder from one generation to the next?

To answer these questions, the report’s author, Julia B. Isaacs of The Brookings Institution, uses a widely respected national data source that enables direct matching of family income of parents in the late 1960s to their children’s family income in the late 1990s to early 2000s.¹ The report concludes with a four-part mobility typology, developed in collaboration with John E. Morton and Ianna Kachoris of Pew’s Economic Mobility Project.

¹ All data presented in this summary are the results of tabulations using the Panel Study for Income Dynamics (PSID). The report focuses on family cash income and does not include the effects of non-wage compensation, taxes or non-cash benefits. For further discussion of income measures and the PSID, see the full report. All income data presented here are in 2006 dollars, using the CPI-U-RS to adjust for inflation.

The report's findings are as follows:

The current generation of adults is better off than the previous one but their incomes are more unevenly distributed.

- ★ Real income growth makes the current generation better off than the previous one. Median family income for adults who were children in the late 1960s and are now in their 30s or 40s increased 29 percent, from \$55,600 for parents to \$71,900 for their children, adjusting for inflation.² Moreover, family sizes have shrunk over this same period (from 3.1 to 2.3 individuals between 1969 and 1998), so higher incomes are spread over fewer people.
- ★ Income growth has not been evenly divided. The biggest gains have occurred at the top of the distribution and the smallest at the bottom.

Two out of three Americans have higher incomes than their parents, while one third are falling behind.

- ★ After data are adjusted for inflation, 67 percent of Americans had higher levels of family incomes than their own parents.
- ★ Compared to their parents, they also live in families or households that are smaller and where there is more often a second earner.
- ★ It is easier to surpass parental income if one's parents are low on the income ladder, because then one's income can increase both because of economic growth and because of moving up the ladder relative to one's parents. Indeed, four out of five children whose parents were in the bottom fifth of the income distribution end up with higher incomes than their parents.

Contrary to American beliefs about equality of opportunity, a child's economic position is heavily influenced by that of his or her parents.

- ★ Forty-two percent of children born to parents in the bottom fifth of the income distribution remain in the bottom, while 39 percent born to parents in the top fifth remain at the top.
- ★ Children of middle-income parents have a near-equal likelihood of ending up in any other quintile, presenting equal promise and peril for those born to middle-class parents.
- ★ The "rags to riches" story is much more common in Hollywood than on Main Street. Only 6 percent of children born to parents with family income at the very bottom move to the very top.

² Family incomes are somewhat higher in the PSID sample than in traditional Census Bureau statistics, for reasons discussed in the full report.

FAMILY SIZES HAVE SHRUNK, SO HIGHER INCOMES ARE SPREAD OVER FEWER PEOPLE.

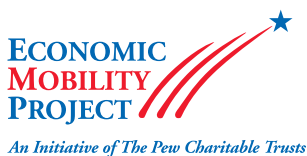
Americans have higher incomes than a prior generation, but that does not necessarily mean they are moving up the economic ladder compared to their parents or to other families. Only one third are what the report calls “upwardly mobile.” Another one third is “downwardly mobile.”

The report classifies Americans into the following four categories, based on their change in income levels and their movement across five equal sized income groups (or quintiles) that range from bottom to top of the income distribution:

- ★ **“Upwardly mobile”**—One third (34 percent) of Americans are “upwardly mobile,” surpassing their parents’ income and their parents’ economic ranking (by one or more quintiles). This means that of the 67 percent of families who make more money than their parents, only half move ahead enough to place them in a new position on the income ladder.
- ★ **“Riding the tide”**—About one quarter (27 percent) are “riding the tide”, making more than their parents’, but remaining in the same economic position as their parents.
- ★ **“Falling despite the tide”**—A small group of individuals (5 percent) surpass their parents’ income, yet fall behind their parents in economic standing, and are “falling despite the tide.”
- ★ **“Downwardly mobile”**—Another third of Americans (33 percent) are “downwardly mobile,” making less than their parents and failing to rise above their parents’ economic position.

**THE “RAGS TO RICHES”
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All Economic Mobility Project materials are guided by input from the Principals' Group and the project's Advisory Board. However, the views expressed in this report represent those of the author and not necessarily of any affiliated individuals or institutions.

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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