

CONTACT: JEREMY RATNER, Communications

202-552-2137 | jratner@pewtrusts.org

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EDUCATION, FAMILY BACKGROUND, KEY FACTORS DETERMINING ECONOMIC MOBILITY

New report examines the leading indicators of whether a person will move up, or down, the economic ladder over time

Washington, D.C. – Educational attainment, family structure and savings are the strongest determinants of whether Americans move up, or down, the economic ladder, according to a new report authored by Stuart Butler, William Beach and Paul Winfree of The Heritage Foundation and released today by the Economic Mobility Project, an initiative of The Pew Charitable Trusts. Building upon the Project’s previous reports, which have established broad agreement about the status of mobility in America today, *Pathways to Economic Mobility: Key Indicators* explores a series of factors that affect the likelihood of economic movement within a lifetime or from one generation to the next. This report classifies the main indicators of mobility into three distinct categories: social capital, human capital and financial capital.

“Education is the key to mobility, and the golden key is a college degree,” said report author Stuart Butler. “But our findings show that success in education is crucially influenced by a range of key factors, such as the family environment, community norms, and health during childhood.”

“These indicators can provide a policy roadmap for important debates about reforms to enhance economic mobility in America,” said John E. Morton, managing director of Economic Policy at Pew. “While previous reports have identified significant pockets of economic immobility within American society, today’s report shines a light on discrete issues where policy makers need to focus if they are serious about restoring the American Dream for all citizens.”

Social Capital

Social Capital refers to the non-financial resources available through personal and institutional networks, and includes family structure, parental and community influences, and school- and work-based relationships.

As detailed in earlier Project releases, the financial resources available to children, and especially the income of their parents, are fundamental to the prospect of upward mobility. Today’s report finds that the availability of social resources, in addition to financial resources, is highly correlated with the family structure in which a child grows up. Yet the structure of many American families has changed significantly, with a declining proportion of married couple families with children and an increase in single parent families. This report shows how debilitating this can be to family economic well-being. For example, in 2006, nearly 30 percent of children lived with a single parent, compared with fewer than 12 percent in 1968. Further, single-parent families are three times more likely to live in poverty than two-parent families.

Crucial social capital determinants include parental skills, parental education levels and other community influencers such as social networks that can affect mobility both positively and

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2005 MARKET STREET, SUITE 1700 PHILADELPHIA, PA 19103-7077 T 215.575.9050 F 215.575.4939
1025 F STREET NW, 9TH FLOOR WASHINGTON, DC 20004-1409 T 202.552.2000 F 202.552.2299

negatively. Exposure to positive social networks and norms at the child's school, for instance, significantly improves his or her chances of success. Exposure to gangs, by contrast, can damage a child's chances of going to college or securing good employment, increase the risk of incarceration, and damage one's prospects for upward mobility.

Human Capital

Human Capital includes the skills and attributes acquired by individuals that impact whether they are able to take advantage of economic opportunities. The report looks specifically at the effect of educational attainment and health status on an individual's mobility prospects.

Education confirms its position as the great equalizer in American society. In today's economy a college degree is increasingly critical to future economic success, and without it many Americans may be held back from realizing gains in upward mobility. As found in previous Economic Mobility reports, nearly 20 percent of children born to families at the bottom of the income ladder are able to rise to the top rung with a college degree. And nearly 60 percent of this group achieves middle-income status. Too often, however, the likelihood of achieving this level of education is negatively affected by factors outside of the individual's control – such as parental education level, family income and race. This report finds that college graduates are more likely to have parents who graduated from college, are more likely to be from middle- and upper-income families and are more likely to be white. Significantly, women now account for most graduates each year, suggesting possible changes in future trends in women's mobility.

While education is essential to mobility, health is also an important consideration. Poor health can negatively impact long-term earnings and thus economic mobility, particularly if it causes interruptions or limitations during the critical years of education and employment.

Financial Capital

Financial Capital is defined as personal savings, investments or skills which individuals can leverage to get ahead. Financial capital indicators include wealth transfers, homeownership, retirement savings and entrepreneurship, and each positively affects mobility. Twenty percent of households receive gifts of cash and assets, which account for one-fifth of the net worth of the recipients. Moreover, these transfers can be used for mobility-enhancing investments, such as homeownership, which is one of the more significant ways Americans build wealth.

After five years in business, lower-income entrepreneurs benefit the most from owning their own business---those who start in the 10th earnings percentile, rise to the 33rd, yet business-owners who start in the 75th percentile are likely to drop to the 68th after five years. However, African-Americans are less likely to have been brought up within business-owning household, making it harder to succeed in their own firms; and women entrepreneurs are less likely to get ahead relative to salaried women. Finally, lower-income individuals are less likely to receive a wealth transfer, own a home or save for retirement than are higher income households.

“The report underscores that it does indeed ‘take a village’ and engaged parents to raise a child and assure that child's future success,” said Butler. “In particular, it shows how less tangible influences, such as social norms and pressures, and family attitudes to education, as well as differing rates of wealth transfers or homeownership help to explain differences in mobility among Americans.”

Comprised of a Principals' Group of experts from The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute, with guidance from an Advisory Board of leading academics and economists, the project seeks to investigate the status of economic mobility in America.

The report and information about the project is available at www.economicmobility.org.

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By forging a broad and nonpartisan agreement on the facts, figures and trends related to mobility, the Economic Mobility Project hopes to focus public attention on this critically important issue and generate an active policy debate about how best to ensure that the American Dream is kept alive for generations that follow.

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.