Asset Building Program

Promoting Defiant Apples

Exploring the Potential of an Economic Mobility Policy Agenda

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This essay explores the issue of economic mobility from a variety of perspectives. It was designed to inform the work of the Economic Mobility Project (EMP), an initiative of The Pew Charitable Trusts. The essay begins by considering whether we should focus on relative or absolute mobility, and how we should collectively decide the optimal and desired levels of mobility. The essay closes with some principles and policy recommendations for promoting economic mobility in America.[1]

The Normative Questions

Given that (a) wealth and income inequality are high by historical standards, (b) wealth inequality—which, data suggest, may matter more than income inequality in predicting mobility—has gotten worse between 1962-2004, and (c) both income and wealth inequality are not likely to significantly improve for the foreseeable future given structural changes in the U.S. economy since the early 1970s, then I believe our focus must be on relative mobility more so than absolute mobility. While both absolute and relative mobility matter in achieving the American Dream, in a highly unequal society in which some boats are lifted by economic growth but many more are not, we especially need to know why some persons succeed and others do not—what measures of relative mobility tell us.[2]

Relative mobility should also be the focus of our efforts to achieve optimal levels of intra- and inter-generational mobility. Ideally, we would have historical data on rates of relative mobility and then strive to ensure that, at a minimum, we did not regress and, preferably, that we always progress. Data do exist and do show that since our nation was established absolute mobility has grown primarily due to robust economic growth (the rising tide indeed lifted nearly all boats), although it has declined for most families since about 1973. But we do not have such data on relative mobility. So it is difficult, in my view, to posit an optimal level of relative mobility when we do not have benchmarks.

However, we can pivot from the EMP paper by Isabel V. Sawhill, "Trends in Intergenerational Mobility," which looks at the best available data over the last half-century and concludes that, "Although the research base for coming to any firm conclusions is limited and the studies do not all agree, taken as a whole, the current literature does not suggest that the rate of relative mobility has changed much since about 1970. If anything, relative mobility may have declined."

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[2] The Economic Mobility Project's definitions of relative, absolute, inter-generational, and intra-generation mobility are included at the end of this essay.

Other Pew-supported research shows that about two-thirds of Americans make more than their parents in absolute dollars but fewer also move up a rung on the economic ladder. Digging deeper, though, Julia B. Isaacs in her EMP paper, "Economic Mobility Across Generations," states that when integrating elements of absolute and relative mobility, "[O]nly half of the two-thirds of Americans who make more family income than their parents are upwardly mobile in the sense of also moving up one or more quintiles. Another one-third of Americans are either 'riding the tide,' that is, moving up in income without changing relative standing, or falling in relative rank despite making more than their parents in family income. Finally, one-third of Americans are actually downwardly mobile in both income and economic rank."

In formulating optimal levels of relative mobility, other key data presented by Isaacs for the EMP should be considered as well—especially the lack of mobility or "stickiness" at the bottom rungs of the ever-widening ladder and the alarming stickiness and downward mobility among blacks:

- 42 percent of children born to parents in the bottom quintile are themselves in the bottom quintile as adults.
- Similar stickiness at the bottom of the income distribution exists when looking intra-generationally over 10-year periods.
- Racial differences in mobility are startling: 45 percent of black children whose parents were solidly middle income end up falling to the bottom quintile, while only 16 percent of white children do. And 54 percent of black children who start at the bottom remain there, while only 31 percent of white children do.

Given these data about the lack of mobility for the majority of Americans—all but one-third of Americans either stay in the same income bracket or move down, with significant levels of stickiness and differences in outcomes by race—what should be our optimal levels of mobility? While bold and somewhat arbitrary, I would suggest we nonetheless measure our progress against five quantifiable goals over the next two generations:

Economic Mobility Goals

Current Status of Relative Mobility	Intragenerational Mobility Goal	Intergenerational Mobility Goal
Top one-third—Already upwardly mobile	No fewer than one-third remain upwardly mobile	No fewer than one-third remain upwardly mobile
Middle third—No change, or falling mobility	10% of children move up one quintile by age 30	10% of children do better than their parents at comparable ages
Bottom third—Declining mobility	Bottom fourth of Americans experience downward mobility	Bottom fifth of Americans experience downward mobility
Children born to parents in bottom quintile—42% remain there as adults	30% of children born to parents in the bottom quintile remain there as adults	—
Black children—45% fall from the middle to the bottom, while 54% who start at the bottom remain there as adults	35% fall from the middle to bottom, while 40% who start at the bottom remain there as adults	—

Framing and articulating a mobility agenda

Given that I would like to see our efforts focused on the middle and, especially, bottom one-third of the population, and given the urgent need to improve mobility for African Americans and persons in the lowest quintile, we must frame our arguments in ways that have the greatest likelihood of directing public resources—without which major progress on economic mobility cannot be achieved—to these segments of society. We also should direct our efforts towards children—those now living, those yet to be born—and youth since, by definition, economic mobility is a long-term process and investments in them are likely to have the greatest longer-term returns.

While I am not a public relations expert, two recent reports could be helpful in framing a mobility agenda directed at households with children in the bottom two-thirds of the population and at other disadvantaged groups discussed above.

The first is the recently released national poll and focus group research commissioned by EMP and conducted by Greenberg Quinlan Rosner Research and Public Opinion Strategies. Relevant findings for crafting our message include:

- Americans are more concerned about stickiness at the bottom than at the top.
- When presented with a series of facts about mobility in this country—such as the difficulty many people have moving up the economic ladder—most Americans express significant concern.
- Americans are optimistic that their children will enjoy a higher standard of living, even though they might have to work harder for it. Surprisingly and overwhelmingly, African Americans are more optimistic than whites or Hispanics.
- While a plurality of Americans is skeptical of government's ability to help promote economic mobility, a majority are open to a variety of policies they think could enhance mobility.
- Americans believe that hard work and talent bring a just reward, and that our society should aim to provide equality of opportunity, not guarantee equality of outcome. This is true across income groups, as well as among racial and ethnic groups, including African Americans.

Weaving these findings together, it appears that Americans are likely to support government policies directed at the lower rungs of the economic ladder that promote mobility and opportunity for children and future generations. And Americans, even amidst a recession and even among those most disadvantaged, appear to have retained enough optimism about their own children's futures to engage in this effort.

The second report I'd like to reference is entitled "Yes We Can: The Emergence of Millennials As a Political Generation," published in 2009 by the New America Foundation and authored by Neil Howe and Reena Nadler. My view is that an argument for public resources directed at future generations is more likely to succeed if we understand the attitudes and politics of future generations. As the report states, "The generation that has already transformed K-12 classrooms, the enlisted ranks, college campuses, and the entry-level workforce is now beginning to transform politics…[I]n the coming decades, we predict they will become America's next political generation." The findings most relevant for our purposes are:

- Today's youth want government to participate actively in building communities and helping those who are in need.
- Millennials put more importance on engaging in the formal political process than Boomers or Gen Xers did at the same age.
- Today's young people agree 2-1 that "government should do more to solve problems" rather than that "government

does too many things better left to businesses and individuals."

- Like older liberals, they believe that government is a force for good in domestic affairs and that bold, large-scale social programs can dramatically improve Americans' lives.
- With their signature optimism, Millennials believe that the right public policy framework can both promote market efficiency and encourage social equity—thus their policy priorities cut across the traditional divide between free markets and government intervention.
- Millennials are less interested in the "identity politics" that distinguish one group from another and more interested in making room for everyone in a broad American middle class. They take diversity for granted and are drawn to the vision of a unified American melting pot.
- Millennials want policymakers to plan strategically for the long-term—and they believe that if this is done right, America's greatest problems can be solved and potential difficulties averted. For example, they strongly favor policies that support successful completion of post-secondary education, and believe that government should ensure that everyone has a good job and standard of living.

Like the EMP-commissioned poll, these findings also suggest that Millennials—already a political force, and a growing one—would be very supportive of a mobility-enhancing message and policy agenda for those households now economically stuck or falling backwards.

Policy Principles and Recommendations

In this final section I suggest three inter-related principles that should guide policy recommendations to expand economic mobility in America.

Principles

Begin at the Bottom. Reflecting both secular political philosophy (such as Rawls's "difference principle") and religious teachings (such as the Catholic idea of "preferential option for the poor"), our efforts should strongly emphasize policies that have the greatest likelihood of expanding mobility for those whom data suggest are the least likely to advance. Referring to the EMP data cited above, we therefore should evaluate existing and proposed policies in terms of how they affect the mobility prospects of the bottom 20 percent to one-third of the population and children in African American households.

Inclusion. Recognizing that, according to EMP research conducted by Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle, 72 percent of the existing $746 billion in federal mobility expenditures (or $540 billion) mainly benefit middle- and upper-income households, we should emphasize that low- and moderate-income Americans should be *included* in these massive policies. That is, if the federal government is *already* spending massively to promote economic mobility, then *every* American—not just better off ones—should be included in that policy. Inclusion, there, also reflects the first principle of Begin at the Bottom, but goes further by recognizing that the federal government is already massively but regressively in the mobility advancement business. While the remaining 28 percent of the $746 billion in federal mobility expenditures does favor low- and no-mobility households, a more just inclusive policy would provide at least *equal* incentives across economic ranks, while an even better policy would *invert* these proportions so that at least two-thirds of federal expenditures are accruing to the bottom one-third of the population.

The Defiant Apple Principle. Finally, we should attempt to minimize the effect of inheriting a low-economic rank so that every child truly has a fresh shot at upward economic mobility. To reiterate, EMP data show that there is significant stickiness in the bottom quintile (42 percent of children born to parents in the bottom quintile are themselves in the bottom quintile as adults). EMP also reports that similar stickiness at the bottom exists when looking intra-generationally over 10-year periods. In addition, Bhashkar Mazumder, as reported in the State of Working America 2008/2009, shows that the correlation between parents' and children's economic positions to be 0.6, meaning that "it would take a poor family of four with two children approximately nine to 10 generations—over 200 hundred years—to achieve the income of the middle-income four-person family." Accordingly, we should emphasize policies that reduce the likelihood that "the apple will fall close to the tree," or what I call the Defiant Apple Principle. Stated another way, how can we break the vicious cycle where inequality of outcomes in one generation becomes inequality of opportunity in the next?

Policy Recommendations

In 2008 EMP published research conducted by Stuart M. Butler, William W. Beach, and Paul L. Winfree showing that social capital, human capital, and financial capital are the most likely drivers of economic mobility, especially inter-generational mobility. Accordingly, I would suggest we use these predictors, as well as the principles outlined above, as the basis for our policy recommendations.

Promote social capital formation, especially marriage. Social capital, which means the non-financial resources available through relationships to people and institutions, includes family structure, parenting skills, and education. Family structure—especially whether a child grows up with one or both parents—plays an enormous role in family outcomes: children in single-parent families, usually headed by the mother, are much more likely to experience poverty, while children with married parents perform significantly better in terms of academic achievement (secondary and post-secondary), employment, and occupational status.

Policymakers should therefore promote marriage and responsible fatherhood. While modest sums are now expended by the federal government to promote marriage and responsible fatherhood (including $150 million per year authorized in the Deficit Reduction Act of 2005), more could be done. For example, as recommended by the Poverty Forum, a prominent group of Christian leaders led by the Reverend Jim Wallis and Michael Gerson, the federal government could evaluate current and proposed anti-poverty programs to assess how well they promote healthy family formation. The EITC, for example, which moves more children out of poverty than any other federal program, should be expanded to cover single workers (which would make work more attractive, and thus make marriage more likely), and the EITC's current penalties for marriage (on two earners with custodial children) and on work (among second earners in married couples) should be removed, as also recommended by the Poverty Forum. However, policymakers might see more marriages among low-income households by improving their economic standing than by promoting marriage per se or directly, as other researchers suggest. Ron Mincy of Columbia University, for example, states, "Without addressing these structural barriers [such as earning and employment], relationship skills programs may make little headway in strengthening African-American families."

Promote human capital formation, especially post-secondary degree completion, in low-income families. Human capital includes the parent's and child's skills, education and health, and the personal traits that enable some people to better leverage economic opportunities than others. Education, especially, plays a powerful role: it is the largest known factor in explaining the connection between parents' earnings and their children's. For example, according to 2008 data from the National Center for Children in Poverty, child poverty is 8 percent if the parents have some college or more, 28 percent if the parents have only a high school degree, and 51 percent if the parents did not finish high school.

As recommended by New America's Education Policy program, the federal government should do three things. First, improve the Pk-16 (or pre-Kindergarten through college) pipeline by (a) providing states with incentives to come together and adopt national college and work-readiness standards in math, science, and the language arts; (b) mandating and providing funding for high school graduation plans that include an expectation of college enrollment even for students who intend to enter the workforce immediately after graduation; and (c) working directly with states to foster partnerships between high schools and post-secondary institutions to smooth the transition between high school and college. Second, the federal government should significantly restructure and adequately fund its current approach to early intervention college readiness programs. And third, the federal government must also play a leading role in restructuring the current college remediation system. It should play the primary role in collecting data on the scope and depth of the problem so that an adequate and appropriate response can be developed.

One bold, innovative idea to consider is setting up a 529 college savings plan—or a "College Success Fund"—for every child once he or she enrolls in kindergarten and seeding that account with $100. For any child whose household qualifies for any low income public assistance program—TANF, EITC, Food Stamps/SNAP, SSI—he or she would automatically receive an additional $400. Alternatively, as proposed by the College Board, progressive funding for College Success Fund accounts could come from Pell Grants—any child whose family qualifies for Pells at the time of enrollment in Kindergarten would receive an "early Pell" equal to what they would have received upon entering college. Under either scenario, the accounts could be used to attract funding from other sources (family, foundations, states, etc.), could reward good behavior and academic achievement, and—perhaps most importantly—would send a signal to all children that they are expected to go to college, which data generated by Michael Sherraden, Trina Shanks, Fred Ssewamala, and others suggest changes attitudes and behavior for the better.

Promote the accumulation of financial assets, especially early in life. Financial capital (or financial assets, including savings, investments, homes, and gifts from parents) is the other key driver of economic mobility reported by EMP. Other research corroborates EMP's findings on financial assets. New York University's Dalton Conley, in "Savings, Responsibility and Opportunity in America" commissioned by the New America Foundation in 2009, looked at SIPP and PSID panel data that had added questions about wealth, debt, and assets types, and found that:

> [A]long with parental education, parental assets are the single best predictor of educational (and other socioeconomic) success for blacks and whites. Parental wealth proves so powerful, in fact, that when added to statistical models, parental income, occupation and race no longer appear to matter. That is, while race, income, job status and net worth all tend to vary hand-in-hand, careful statistical parsing shows that it is really net worth that drives opportunity for the next generation. Most recently, the PEW mobility project has highlighted the importance of assets to enhancing mobility and opportunity. These various statistical models on the role of wealth on the attainment of offspring are based on observational data—meaning they result from analysis of existing responses to economic surveys. So there is always a lingering worry that the effect of parental net-worth (or education for that matter) is not really causal but instead reflects the unobserved differences between asset-holders and the asset-less. However, given the number of "control" variables, I am betting that the possibility that unobserved differences explain these strong effects is minimal.

With 2004 Survey of Consumer Finance data showing that, *prior* to the meltdowns in the financial and housing sectors, one in three Americans had no more than $10,000 in net worth, and one in six had negative net worth, there is much wealth that needs to be created to enhance economic mobility. Four specific policies are recommended:

First, to ensure every child has a fresh shot at economic mobility and has flexible, deployable financial assets from cradle to grave, every child born in America should receive $500 at birth with low-income children receiving twice that at birth as well as the opportunity to earn matching funds through age 18. Funds could then be used to pursue post-secondary education, lifelong skills upgrading, homeownership, and retirement security. Second, to help the working poor build savings and wealth, families receiving (ideally, an expanded) EITC would have their savings matched automatically at tax time, on a 1-1 basis, up to $500 per year, for saving in any existing savings product—CD, Savings Bonds, 529s and Coverdells, 401(k)s, and all IRAs. Third, to help more Americans build homeownership wealth, a 30-year fixed "Basic American Mortgage" should be the "default" product offered to all Americans, and this should be combined with a 15 percent flat, refundable mortgage credit (in place of the current mortgage interest deduction). Finally, to help low-mobility Americans build financial know-how, a "Financial Service Corps" should be established and integrated with other existing national service programs such as the Legal Services Corporation and AmeriCorps. The FSC would be made up of financial experts, planners, and advisors who volunteer their time to deliver one-on-one financial advice to those most in need.

Hopefully, this essay has made a contribution to our efforts to improve economic mobility in America by offering a brief review of the literature, some benchmarks to measure our progress, and a set of principles and policy recommendations to guide our efforts. The dream of upward economic mobility remains alive and robust in America, even for struggling Americans, yet the reality has fallen behind over the last generation. Perhaps with the inspiration and drive of the Millennial generation, who without fail renew America, and with the commitment of policymakers, moving up the economic ladder can once again be realized for millions of hard-working Americans.

Economic Mobility Definitions

(as used by the Economic Mobility Project of the Pew Charitable Trusts)

Economic Mobility: The ability of a person or family to move up or down the economic ladder – in absolute terms or relative to others—within a lifetime or from one generation to the next.

Intragenerational Mobility: Intragenerational mobility measures the change in one's economic situation over a period of years within a single generation, or one lifetime. By measuring the evolution of an individual's or family's income over time, one can determine intragenerational mobility in absolute or relative terms.

Intergenerational Mobility: This measure refers to mobility from one generation to the next and captures the extent to which a child's economic success is independent from that of his or her parents. A society will have greater intergenerational mobility when there is a weaker correlation between a child's income and his or her parents' income

Absolute Mobility: Absolute mobility measures increases or decreases in a person's income or economic condition over time, both within a lifetime or across generations. For example, upward absolute mobility can be due to nationwide economic growth, which normally ensures that each generation is better off than the one before.

Relative Mobility: Unlike absolute mobility, relative mobility captures the movement of individuals or families relative to others in society, irrespective of the strength of the underlying economic tide. Is someone climbing the ladder? Is someone falling? Relative mobility is an important indicator of the health of a society's economic meritocracy. It shows, among other things, how closely a child's chance of achieving financial success is tied to the income of his or her parents. Absolute and relative mobility are independent from one another—one could see low degrees of relative mobility in societies with high rates of absolute mobility, and vice versa.

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