PATHWAYS TO ECONOMIC MOBILITY:

KEY INDICATORS

INTRODUCTION

The assumption that anyone can get ahead based on capabilities and effort is central to the idea of the American Dream. The purpose of this report is to provide an overview of the factors that seem to affect the likelihood that someone will move up, or down, the economic ladder in the United States. It builds on the earlier reports of the Economic Mobility Project. Previous reports identified significant patterns of mobility in the United States and differences between the United States and other countries, showing broad trends as well as trends among specific groups, such as African Americans and immigrants.[1] In contrast, this report aims to reveal what might be behind those trends by summarizing the primary indicators that seem to be responsible for economic mobility.

What is Economic Mobility? Economic mobility is a measure of how much a person's income changes over time. In a country or neighborhood with high mobility, people more often move up or down more rungs of the economic ladder than in countries or neighborhoods with low mobility. We can look at changes in the level of income of a person or group compared with an earlier point in time, which is called *absolute mobility*. We can also look at how a person or group changes in relation to others, which is called *relative mobility*. Because of the Economic Mobility Project's focus on why some people seem to be more successful than others in achieving the American Dream, this report is particularly concerned with relative mobility.

Intragenerational and Intergenerational Mobility. There are two ways of further refining the idea of economic mobility. One is to look at how much a person's income changes over his or her lifetime, in other words the mobility of that person's income compared with earlier points in his or her life. That is called *intragenerational mobility*. If people in a society tend to move up, or down, many rungs of the economic ladder over time, and thus people change economic places on the ladder frequently, then that society is marked by high intragenerational mobility.

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A second way uses parents' income as a benchmark. *Intergenerational mobility* is a measure of how children's income as adults compares with their parents' at a similar age. In a society characterized by low intergenerational mobility, the income of children more closely matches their parents' income than it does in a society with high relative mobility.

This report touches on both forms of mobility, but like previous reports for the Economic Mobility Project, it will focus in particular on factors or indicators that influence intergenerational mobility.

Indicators. In this chartbook, we use *indicator* to describe a factor that may affect the likelihood that a person will move up or down the economic ladder over time. An indicator not only coincides or correlates with economic mobility, but research may also suggest that it has a causal relationship. An indicator can be a factor that influences mobility in either a *direct* or an *indirect* way, or both.

ORGANIZATION OF THE REPORT

In the following chapters, we explore a set of possible indicators in our effort to identify how certain aspects of American life may influence some of the patterns of mobility identified in the Economic Mobility Project report *Getting Ahead or Losing Ground: Economic Mobility in America.*[2] We have categorized these potential determinants of mobility into different forms of capital.

Social capital comprises the nonfinancial resources available through relationships to people and institutions, including family, neighborhood and other social influences, that appear to shape a person's path of economic mobility. Social capital seems to interact with and reinforce other factors that influence mobility, such as educational opportunities. Social capital indicators include both family and community elements:

- Family structure
- Parenting skills and education
- Parental similarity
- School-based relationships
- Community influences
- Work-related networks

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Human capital includes such individual attributes as education and health—the skills and personal traits that seem to cause some people to be able to take greater advantage of economic opportunities open to them. Like social capital, human capital rarely operates in a vacuum; it interacts with other factors in helping to explain different patterns of economic mobility. Human capital indicators include both education and health characteristics:

- Parents' educational attainment
- Child's educational attainment
- Interactions between health and the economy
- Individuals' general health status
- Health insurance
- Obesity
- Low birth weight
- Race, ethnicity and health

Financial capital refers to the financial resources that so often seem to affect the ability to get ahead. The most common form of financial capital is personal savings and investments or gifts from parents or other relatives. Financial capital can be a cushion to help a person get through hard times, pay for education or start a business. Typically, there is a relationship between financial capital and other forms of capital that may help to explain economic progress or the lack of it. Apparently, similar people differ in their ability or desire to save rather than consume, or to steward and use resources prudently. This report identifies a variety of financial capital indicators as the most important in assessing mobility prospects. Financial capital indicators include both savings and wealth factors:

- Wealth transfers
- Homeownership
- Retirement savings
- Entrepreneurship

IDENTIFYING THE INDICATORS

In preparing this report, researchers were guided by two principles for selecting the economic mobility indicators we describe here: (1) they are prominent in the leading academic research on economic mobility; and (2) in aggregate they support a coherent explanation of what drives, directly and indirectly, economic mobility across generations.

We identified a much broader set of indicators after carefully reviewing the leading work on economic mobility and consulting with the academic advisors and other research organizations in the Economic Mobility Project. The Urban Institute's literature reviews proved particularly helpful in suggesting indicators and sharpening our grasp of the best academic research.[3]

Reducing this larger set to the group reported here largely turned on discussions at Heritage about which among the many indicators are most directly related to economic mobility and enjoy the highest academic support. The Brookings Institution's recent volume for the Economic Mobility Project on the current state of economic mobility in the United States has helped substantially in providing a solid foundation of the facts, figures and trends from which to understand what drives mobility.[4] Finally, the list of indicators contained in this report was further honed through productive discussions among the project's principals and professional staff.

NOTES

[1] Isaacs, Sawhill, and Haskins, 2008.
[2] Ibid.
[3] Urban Institute, 2008.
[4] Isaacs, Sawhill, and Haskins, 2008.