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INSIDE

Brakes on economic mobility

New research points to host of factors likely impacting upward mobility — and causing large regional variations

by Laura Tomaka (ltomaka@csg.org)

For every 100 children born to a poor family in Iowa's largest metropolitan area, Des Moines, about 11 will eventually reach the nation's top quintile of income earners.

In Indiana's most populous metro area, Indianapolis, the rate is much less: Fewer than 5 of every 100 low-income children rise to the top rung of the income ladder.

These large variations in economic mobility occur across the country — among different cities, states and regions.

What is the cause?

It is a question that has been raised as the result of recent groundbreaking research, and that has become part of a broader discussion about how real the "American Dream" actually is — the idea that people have equality of opportunity regardless of their economic status at birth.

Comparative studies have shown, for example, that Americans are actually less economically mobile than populations in many European countries.

And the recent findings that show huge differences in mobility within the United States have added a new wrinkle.

"Where you live does matter," says Erin Currier, director of The Pew Charitable Trusts' Economic Mobility Project. "And the policies that people are putting in place at the state level, and even down to the local level, really do influence rates of opportunity and rates of economic growth for the citizens of those states."

Pew's research shows nine states, all in the South, with consistently lower rates of economic mobility compared to the national average. "Highly mobile" states are concentrated in the Northeast; in the Midwest, only Michigan falls into this "highly mobile" category.

The wide variations in economic mobility among different local areas were unearthed by researchers at The Equality of Opportunity Project, an initiative led by a team of Harvard University and University of California-Berkeley economists.

Harder to pinpoint, though, are what exactly accounts for these differences, and which state and local public policies might have an effect.

Still, this recent research is providing some new ideas for legislators interested in improving rates of upward economic mobility in their states.

"It's not a zero-sum game," Currier says. "Everybody can benefit when the investment made in enhancing economic mobility is made, particularly for families at the bottom."

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Mobility in the Midwest

When investigators for The Equality of Opportunity Project began their work, their idea was to explore the role of tax policy, such as the earned-income tax credit, in providing greater opportunity to people from poor backgrounds.

To do so, they examined intergenerational mobility in 741 communities across the country: Where a person, at about the

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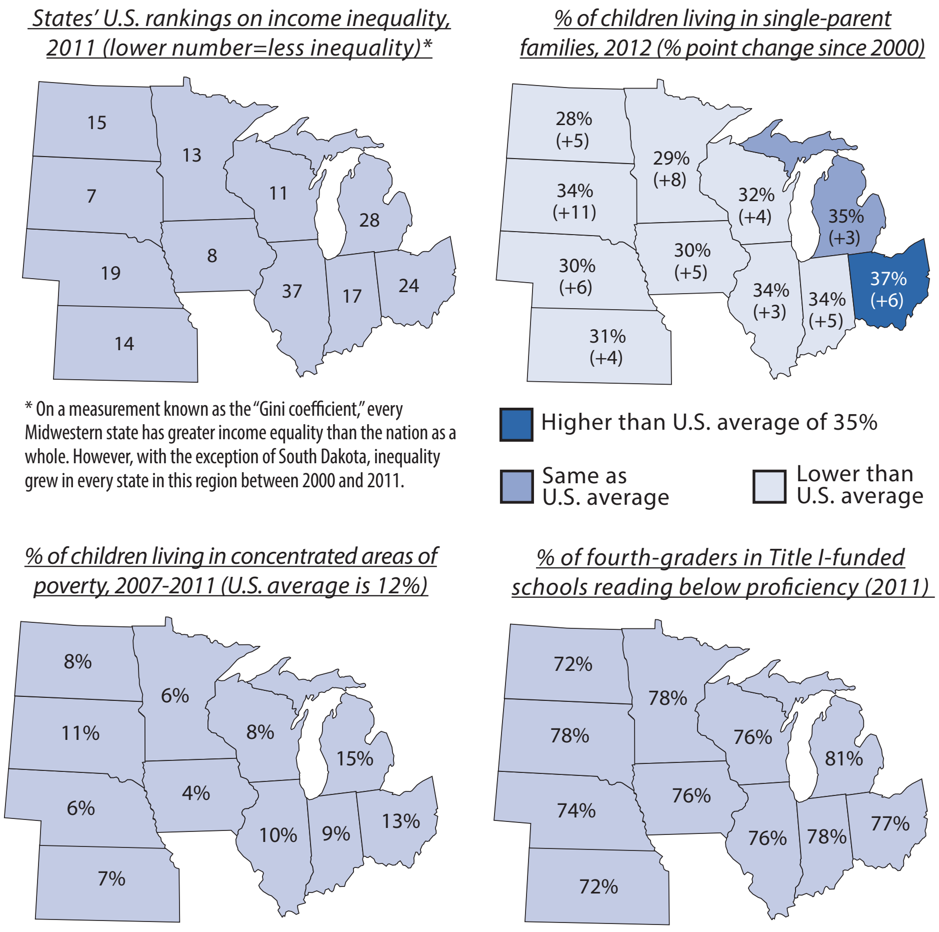
Midwest data on factors that impede upward economic mobility, from income inequality to where children live and go to school



* On a measurement known as the "Gini coefficient," every Midwestern state has greater income equality than the nation as a whole. However, with the exception of South Dakota, inequality grew in every state in this region between 2000 and 2011.

Sources: National KIDS COUNT and U.S. Census Bureau, American Community Survey

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Rates of upward economic mobility vary widely between Plains and industrial Midwest

age of 30, ended up on the nation's income ladder in comparison to the households in which they were raised. Researchers discovered a much more complicated picture.

"We were not expecting to find so much variation in mobility across areas," says Nathaniel Hendren, an assistant professor of economics at Harvard.

The Des Moines vs. Indianapolis comparison is just one of many examples.

Among the 50 largest U.S cities, the project found, the most economically mobile communities are concentrated on the coasts: The odds of children from low-income families in these areas achieving economic success are much greater than the national norm.

For example, about 10 percent of children born into poverty in these areas make it into the top one-fifth of earners as adults. (A noncoastal city, Salt Lake City, ranked as the nation's most economically mobile big city.)

In contrast, many of the Midwest's most populous communities fell near the bottom on rankings of economic mobility for the nation's 50 largest cities.

Children born to poor families in Milwaukee, Cincinnati, Cleveland, Columbus, Detroit and Indianapolis have among the worst odds of reaching the top quintile of income earners — with upward-mobility rates hovering at around 5 percent.

Smaller communities in the Great Plains region, on the other hand, tend to rank much higher on measures of economic mobility.

"Places like North Dakota, which has experienced a lot of economic growth recently, do seem to be floating the economic boats of a wide range of citizens," Hendren says.

Among the 791 communities studied, nine of the 10 areas with the highest rates of upward mobility (when measured as moving from the lowest quintile to the highest) were in North Dakota and South Dakota.

The Equality of Opportunity Project also distinguished between two different types of mobility: absolute and relative. On both measures, the Great Plains region once again fared well.

Absolute mobility looks at whether individuals make economic gains over the course of a lifetime compared to their parents, based on international income and wealth data. Relative mobility is based on this data as well, but it also includes a comparison of these individuals' economic standing to the rest of the population — whether or not they have been able to climb the economic ladder, going from low-income to middle-income, for example.

Nine of the top 10 U.S. places with the highest rates of "absolute mobility" are in the Midwest, in communities in North Dakota, South Dakota and Nebraska. Five of the top 10 areas for relative mobility are in this region as well (South Dakota, North Dakota and Kansas), according to the project's findings.

"We don't have a good explanation of what causes higher mobility," Hendren says. "But what we can do is say what are the characteristics of regions that have low versus high mobility."

Communities with relatively high upward-mobility rates, for example, are less segregated by race and economic class. On the other hand, areas where the poor are geographically isolated are less mobile.

"Neighborhood poverty in childhood can explain between one-quarter and one-third of the black-white mobility gap," Currier says. "Research shows that neighborhood poverty is more important than family background, parents' occupation, parents' educational attainment, and the individual's education and occupation — combined."

Hendren adds that the prevalence of two-parent households makes a big difference, as does access to quality elementary and secondary schools. His project's research also revealed a correlation between higher levels of civic engagement (measured through membership in community and religious groups) and higher rates of mobility.

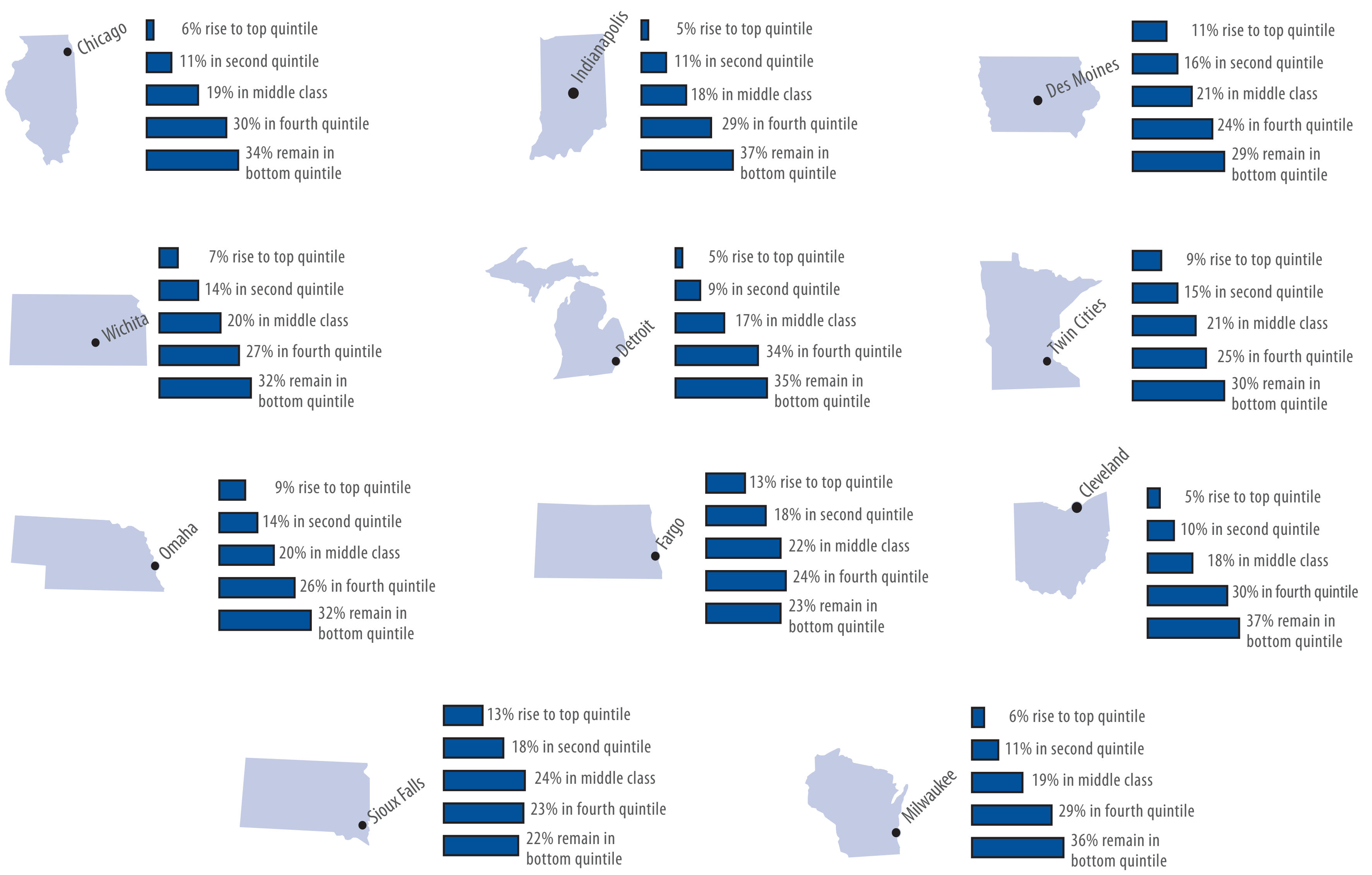
And for individuals, the key to upward mobility is

Trends in poverty rates, median household incomes in Midwest

State	Poverty rate (2012)	% point change since 2000	Median household income	Inflation-adjusted change since 2000
Illinois	14.7%	+3.6	$55,137	-9.5%
Indiana	15.6%	+5.5	$46,974	-13.2%
Iowa	12.7%	+2.7	$50,957	+0.1%
Kansas	14.0%	+4.4	$50,241	-5.9%
Michigan	17.4%	+7.3	$46,859	-19.1%
Minnesota	11.4%	+4.5	$58,906	-7.4%
Nebraska	13.0%	+3.4	$50,723	+1.8%
North Dakota	11.2%	-0.4	$53,585	+17.0%
Ohio	16.3%	+5.2	$46,829	-11.3%
South Dakota	13.4%	+2.0	$48,362	+4.1%
Wisconsin	13.2%	+7.3	$51,059	-9.3%
United States	*15.9%*	*+3.7%*	*$51,371*	*-6.6%*

Source: U.S. Census Bureau, American Community Survey Briefs

Economic mobility in Midwestern states' largest metropolitan areas: Income distribution of individuals, at about age 30, who were raised by parents whose incomes were in bottom fifth of nation's income quintile



Sources: The Equality of Opportunity Project and The New York Times pretty clear: Earn some kind of postsecondary degree, particularly a four-year degree.

"Over the last generation, there has been an exponential increase to the return on a college education," Currier says.

A host of choices for policymakers

For lawmakers, then, policies designed to improve struggling schools or expand college access may be two ways to improve upward economic mobility.

Hendren suggests that lawmakers also think about policies that "provide opportunity to people from poor backgrounds to get access to jobs, to integrate people from poor and rich backgrounds together."

But he and Currier urge caution as well.

"It is hard to know to what degree it was [a specific] policy versus family environment versus neighborhood versus education versus prenatal care," Currier says. "So many things are happening at the same time that it becomes hard to pick them apart."

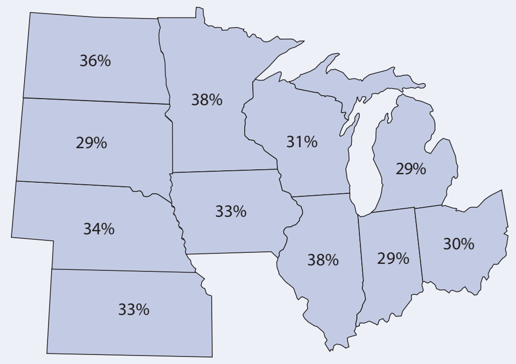
At every stage of a person's life, from before he or she is born (access to prenatal care) through old age (retirement security), numerous factors can enhance or detract from economic mobility and security.

"Policymakers thinking about ways to enhance economic mobility have a whole range of options available to them," Currier says. "There are data that support any number of interventions as being helpful potentially for Americans' mobility and opportunity prospects."

Currier and other Pew researchers identify more than 25 "mobility-enhancing" interventions in a 2009 report titled "Renewing the American Dream: A Road Map to Enhancing Economic Mobility in America."

Their recommendations generally fall into one of three broad categories: building human capital, social capital or financial capital.

% of 25- to 34-year-olds with bachelor's degree or higher, 2012 (U.S. average is 33%)



Source: National KIDS COUNT

Human capital includes individual attributes, such as education and health care, that allow people to take advantage of opportunities. Policy ideas in this area include improving career and technical education in high schools, expanding access to quality early-childhood education, and investing more in workforce training for less-skilled workers and "hard-to-employ" individuals (ex-offenders and at-risk youth, for example).

Social capital includes family structures and other nonfinancial resources. Pew's recommendations in this area include focusing on teen-pregnancy prevention, encouraging responsible fatherhood through work and payment of child support, restructuring public-assistance programs, and investing more public dollars in distressed neighborhoods.

Financial capital includes assets that individuals might leverage to get ahead financially. One idea, for example, would be to establish asset-development accounts for newborns — with money from the accounts eventually used for mobility-enhancing purposes such as postsecondary education and entrepreneurship.

"There is no one silver bullet to enhancing economic mobility," Currier says. "Lots and lots of things matter, and they matter across the life course."

The Midwest's economic opportunity

When looking at the broader topic of economic opportunity, the Midwest has a lot to offer what matters most to individuals and families, according to Joel Kotkin, the author of "The Next Hundred Million: America in 2050" and the executive editor of NewGeography.com.

For starters, he says, most of the region makes a part of the "American dream" more attainable to more people: home ownership.

"The opportunity for the Midwest is affordable, quality of life," Kotkin says, "the opportunity to own a home and raise a family, which is becoming very, very difficult in the coastal areas."

He adds that factors such as cost of living and quality of life often aren't emphasized enough in studies of economic stability and mobility.

But they don't get lost on people when they have to make decisions on where to live.

"I could name about 20 cities [in the Midwest] that people are beginning to opt to either return to or stay in because they simply offer a better deal, especially for the next generation," Kotkin says.

"As you look at people's values, there are many people who want something calmer," he adds. "They want something with more of a sense of community. They want a good place to raise kids and they want to have a home.

"That dream and that opportunity has diminished [in many places], and that could be a tremendous opportunity for the middle part of the country."

Stuck in the bottom: Pew study shows uneven rates of mobility

According to The Pew Charitable Trust's Economic Mobility Project, 43 percent of Americans born to parents at the bottom of the income ladder remain there as adults, while 70 percent fail to reach middle class in adulthood.

And in a November 2013 report, Pew researchers dig even deeper into the numbers to find the factors that influence a low-income child's long-term economic future. They cite at least four that make a big difference: race, educational attainment, the number of earners in a family, and steady employment.

College graduation, for example, is one of the surest paths to upward economic mobility: 86 percent of children born in the nation's bottom income quintile move up the income ladder if they have a college degree, and 53 percent of them reach the middle class.

"A four-year college education provides an incredible boost to people who are starting from the bottom of the income ladder, and also protects against downward mobility for people who are in the middle and the top," says Erin Currier, director of Pew's Economic Mobility Project.

Pew's research also shows large gaps in intergenerational upward mobility between low-income black and white Americans (upward mobility is more common among white Americans). In addition, a person raised in poverty is much more likely to move up the income ladder if he or she is part of a dual-earner family as an adult.

Financial security plays an important role as well.

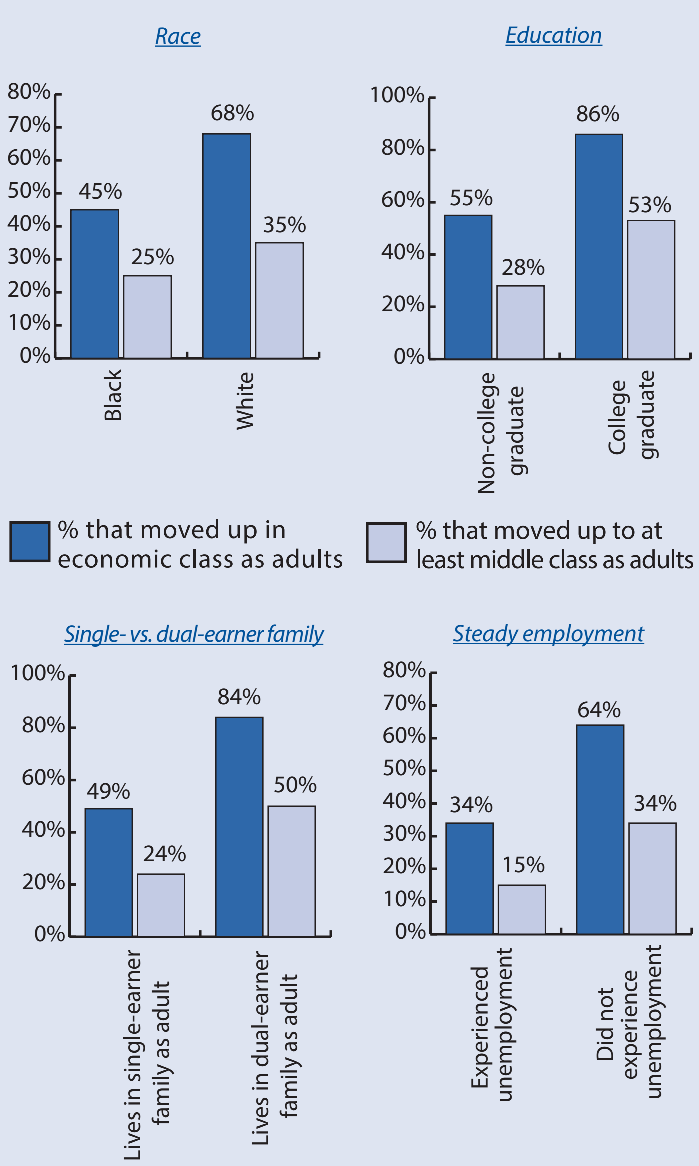
"We're talking about [people's] day-to-day financial cushion," says Currier, noting factors such as savings, wealth and equity in a home. "What research is showing is that families who are not able to be economically secure in their day-to-day [lives] have little hope of being economically mobile in the long run.

"Families have to have some kind of cushion to rely on so that one small financial mishap doesn't turn into a financial catastrophe for a family."

Pew has found, too, that class itself makes a big difference in terms of mobility. People in the middle class are much more likely to move up or down the income ladder. Such movement is not as common among low-income and high-income Americans.

"There are data that support any number of interventions as being helpful potentially for Americans' mobility and opportunity prospects — everything from birth all the way through to retirement security and preventing downward mobility once people exit the labor market," Currier says. "So there's a lot of opportunity for intervention that could have a really significant impact on the way that families experience mobility over the course of their lives."

Factors impacting upward economic mobility of individuals raised in families in lowest income quintile



Source: The Pew Charitable Trusts, Economic Mobility Project