Boosting Opportunities and Growth Through Tax Reform: Helping More Young People Achieve the American Dream

Written testimony to the Senate Finance Committee

Erin Currier, The Pew Charitable Trusts

Chairman Baucus, Ranking Member Hatch, and Members of the Committee: Thank you for inviting me to testify today. My name is Erin Currier, and I manage The Pew Charitable Trusts' Economic Mobility Project. The Pew Charitable Trusts 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.

The idea that all people have equality of opportunity regardless of their economic status at birth is at the core of the American Dream. The Economic Mobility Project examines the health and status of that dream by analyzing economic mobility – Americans' movement up and down the economic ladder within a lifetime and across generations. Our goal is to generate a nonpartisan fact base that informs policy makers and the public.

Rates of Intergenerational Economic Mobility

Today our project released *Pursuing the American Dream: Economic Mobility Across Generations*, the newest data available on intergenerational mobility in the United States. The report reveals a mixed picture of Americans' access to opportunity.[1]

On the one hand, measures of absolute mobility – how likely Americans are to have higher incomes, earnings, or wealth than their parents did at the same age – show a glass half full. For example, 84 percent of Americans have higher family incomes than their parents did at the same age (after adjusting for inflation and family size), and across all levels of the income distribution, this generation is doing better than the one that came before it. In fact, those at the bottom of the income ladder are the most likely to exceed their parents' income as adults—93 percent do so. Similarly, 50 percent of Americans exceed their parents' wealth, and 59 percent of sons exceed their fathers' earnings.

However, measures of relative mobility – where a person ranks on the economic ladder as a whole compared to where their parents ranked – show a glass half empty. That's because Americans raised at the top and bottom of the economic ladder are highly likely to stay where their parents were– a phenomenon called "stickiness at the ends."

For these analyses, the income distribution is divided into five equal parts, or quintiles. The data show that 43 percent of those who start in the bottom fifth of the income distribution remain there as adults, and an additional 27 percent only move up one rung. In other words, 70 percent of those raised in the bottom remain below middle-income as adults. Moreover, only 4 percent who start in the bottom make it all the way to the top, showing that the rags-to-riches story is more often found in Hollywood than reality. At the other end of the distribution, there is a similar story. Forty percent of those raised at the top of the income ladder remain at the top as adults, and two-thirds never fall even to the middle.

The data on African-Americans' relative mobility is even more stark. More than half of blacks (53 percent) raised at the bottom remain stuck there as adults compared to only a third of whites (33 percent). Blacks also are more downwardly mobile than are whites, particularly when it comes to those raised in middle-income families. Over half (56 percent) raised in the middle income quintile fall to the bottom or second rung as adults compared with just a third (32 percent) of whites.

To put the relative mobility numbers in perspective, if your parents' income ranking had absolutely no bearing on where you ranked as an adult, we would see 20 percent of people in each of these fifths, compared to the 40-some percent we see at the top and bottom ends overall. Again, this pattern is repeated when analyzing relative intergenerational mobility by earnings and by wealth: Family background is highly influential, and there is notable stickiness at the ends.

International Comparisons of Economic Mobility

Certainly the persistence of stickiness at the ends challenges the notion that the United States promotes equality of opportunity. This is further underscored, however, by international comparisons of economic mobility, which reveal that the United States has less relative mobility than Canada and many European countries, including France, Germany, and Sweden.[2, 3]

The Economic Mobility Project recently co-funded a series of multi-country studies on economic mobility, for which researchers in 10 countries investigated how socioeconomic advantage, as measured by parents' education, is transmitted over the course of one's life.[4]

The research revealed that in the United States, there is a stronger link between parental education and children's economic, educational, and socio-emotional outcomes than in any other country investigated. The research also found that family background begins affecting children's outcomes as early as they can first be measured, even by age 3, and the gaps between advantaged and disadvantaged children persist into adolescence and likely beyond.

However, while family background influenced children's mobility prospects in all countries, the very fact that the magnitude of the influence differed across countries suggests that policies and institutions can and do influence economic mobility. A persons' mobility outcome is not predetermined and understanding the drivers of economic mobility can enhance opportunity in America.

Mobility Drivers

Our project has commissioned a host of research to identify the factors that help push someone up the economic ladder or propel them down. These factors can be divided into three categories: human, financial, and social capital.[5]

- *Human capital* refers to the skills and attributes acquired by individuals that impact whether or not they are able to take advantage of economic opportunities, such as education and health.
- *Financial capital* refers to the financial assets that individuals acquire and leverage to get

ahead, such as savings, home equity, and other investments.

- *Social capital* refers to the non-financial resources available to individuals through relationships to people and institutions, such as neighborhoods, families, and professional networks.

What follows are examples of EMP research on each of these categories.

Human Capital Example: Post-secondary Education

A host of research by the Economic Mobility Project has shown that a four-year college degree both promotes upward economic mobility from the bottom and protects against downward mobility from the top and middle. The wage premium associated with earning a college degree has risen dramatically over the last generation, and increased returns to education translate directly into upward mobility gains. For instance, almost one half (47 percent) of those raised in the bottom income quintile without a college degree remain stuck there as adults, compared to only 10 percent with a four-year college degree.[6] In fact, having a four-year college degree makes it more than three times as likely that someone raised in the bottom fifth of the family income distribution will rise all the way to the top fifth.

A college education additionally protects against downward mobility. Of those raised at the top of the income ladder, over half (51 percent) with a college degree remain at the top as adults compared to only a quarter of those without a college degree. Disparities also exist for those raised in the middle: only 22 percent of degree holders fall to a lower rung of the ladder compared to 39 percent of non-degree holders.

Unfortunately, young people raised in the bottom and middle of the income ladder are less likely to enroll in some form of postsecondary education, and less likely to graduate if they do.[7] Nearly 80 percent of children in the top income quintile enroll in college, and 53 percent eventually graduate. By contrast, just 34 percent of children in the bottom income quintile enroll, and a mere 11 percent graduate.

Financial Capital Example: Personal Savings

A second key driver of upward economic mobility from the bottom is personal savings.[8] When families are able to create their own safety nets, they are less likely to be derailed by financial emergencies and are more equipped to make mobility-enhancing investments, such as college, for themselves or their children. The Economic Mobility Project has found that 71 percent of children raised by high-saving, low-income parents moved up from the bottom quarter of the income distribution over a generation, compared to only 50 percent of children of low-saving, low-income parents.[9]

Social Capital Example: Neighborhood Poverty

In addition to promoting upward mobility from the bottom, our project's research has sought to identify the factors that force Americans down the economic ladder, especially when they were raised by parents who were economically secure. On that front, one of the most powerful drivers of downward mobility our project has identified is being raised in a high-poverty neighborhood.[10]

Specifically, Americans raised in the top three quintiles of the income ladder who spend their childhood in a high-poverty neighborhood versus a low-poverty neighborhood are 52 percent more likely to be downwardly mobile.

Of note, African American children are significantly more likely to be exposed to these types of neighborhoods than are white children: Two out of three black children (66 percent) born from 1985 through 2000 were raised in neighborhoods with at least a 20 percent poverty rate compared to just 6 percent of white children.

In fact, neighborhood poverty during childhood explains between a quarter and a third of the black-white gap in downward mobility. This constitutes a greater portion of the black-white downward mobility gap than the effects of parental education, occupation, labor force participation, and a range of other family characteristics combined.

Mobility-Enhancing Policy Solutions

In 2009 and again last year, the Economic Mobility Project comissioned nationally-representative public opinion polls to better understand how Americans thought about the

American Dream and their mobility prospects, and to gauge the public's views on government intervention in this area. In both polls, respondents were remarkably optimisitic. Despite the remaining economic uncertainty, in 2011, over two-thirds (68 percent) said they have achieved or will achieve the American Dream at some point in their lives, and the same percentage believed they were in control of their economic situations.[11] This confidence may in part be driven by Americans' belief in personal responsibility: Respondents overwhelmingly cited "hard work" and "ambition" as the two most important factors driving whether a person gets ahead economically.

At the same time though, Americans were united in their belief that the government has a role to play in promoting economic mobility. An overwhelming 83 percent wanted the government to provide opportunities for the poor and middle class to either improve their economic situations, prevent them from falling behind, or both. This feeling cut across party lines, with 91 percent of Democrats, 84 percent of independents, and 73 percent of Republicans agreeing.

In fact, the government actually does spend a sizable amount of money to promote economic mobility. However, because the vast majority of those investments are delivered through the tax code, the benefits largely acrue to middle- and upper-income families, arguably those least in need of the mobility boost.[12]

Consider the current investment made to promote savings and asset building. In FY2010, the federal government devoted nearly $130 billion to incentivize contributions to retirement, health, and education savings vehicles.[13] As data from our project has demonstrated, this spending has the potential to be highly influential and effective for enhancing economic mobility at the bottom of the income distribution. Unfortunately though, very few of those benefits go to low-income households, because they often don't earn enough money to owe income taxes. As an example, in 2004, among those participating in retirement plans, those in the lowest income quintile received just 0.2 percent of the federal tax benefits (an average of $6 per tax filer), while those in the highest income quintile received 70 percent of the benefits (an average of $1,838 per tax filer).[14]

In light of these data, the Economic Mobility Project's Principals – a group of bipartisan thought leaders from a host of well-respected think tanks in Washington, DC – in 2009 drafted a set of policy recommendations to enhance economic mobility in the US.[15] They framed their recommendations as follows:

> *Our shared goal is to improve upward mobility for everyone, with a particular emphasis on lower-income Americans, those who face the most difficulty in moving up the income ladder. We are calling for nothing less than a fundamental shift toward government policies that are mobility-enhancing, and a more targeted allocation of existing mobility expenditures towards low- and moderate-income families.*

Conclusion

Americans do still believe in the American Dream, and they also believe that our nation is and should be exceptional in its ability to promote opportunity for all citizens, regardless of family background. Nonetheless, Americans are increasingly concerned about their children's economic chances and believe that policy makers can and should act more effectively to enhance the mobility prospects of low- and middle-income Americans.

The good news is that an emerging body of research provides insight into the drivers that influence economic mobility and serves as a starting point for dialogue and action on how to promote economic opportunity for all Americans.

---

[1] Economic Mobility Project. 2012. *Pursuing the American Dream: Economic Mobility Across Generations.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.

[2] Isaacs, Julia, Isabel Sawhill and Ron Haskins. 2008. *Getting Ahead or Losing Ground: Economic Mobility in America.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.

[3] As of yet, international comparisons of absolute mobility have not been published. The Economic Mobility Project is currently funding the first ever study of these compairsons.

[4] Pew Economic Mobility Project. 2011. *Does America Promote Mobility As Well As Other Nations?* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.

[5] Butler, Stuart, William Beach and Paul Winfree. 2008. *Pathways to Economic Mobility: Key Indicators.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.

[6] Economic Mobility Project. 2012. *Pursuing the American Dream: Economic Mobility Across Generations.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.

[7] Haskins, Ron, Harry Holzer, and Robert Lerman. 2009. *Promoting Economic Mobility By Increasing Postsecondary Education.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.
[8] Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado. 2009. *A Penny Saved is Mobility Earned: Advancing Economic Mobility Through Savings.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.
[9] The analysis lined up parents in order of their personal savings rates between 1984 - 1989 and divided them into the top half of savers (high-savers) and the bottom half of savers (low-savers).
[10] Sharkey, Patrick. 2009. *Neighborhoods and the Black-White Mobility Gap.* Washington, DC: Economic Mobility Project. The Pew Charitable Trusts.
[11] Pew Economic Mobility Project. 2011. *Economic Mobility and the American Dream: Where Do We Stand in the Wake of the Great Recession?* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.
[12] Carasso, Adam, Gillian Reynolds, and C. Eugene Steuerle. 2008. *How Much Does the Federal Government Spend to Promote Economic Mobility and For Whom?* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.
[13] Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado. 2009. *A Penny Saved is Mobility Earned: Advancing Economic Mobility Through Savings.* Washington, DC: Economic Mobility Project, The Pew Charitable Trusts.
[14] Ibid.
[15] The Economic Mobility Project's principals represent the American Enterprise Institute, the Brookings Institution, the Heritage Foundation, the New American Foundation, and the Urban Institute.