Direct Investments Are Needed to Improve Upward Social Mobility

Social mobility and why it matters for keeping the American dream alive

Social mobility, or the ability for an individual or group to improve their standing in society, has been faltering for decades. This is at odds with the tradition of "achieving the American dream" that has long since been the cornerstone of the U.S. economy: The sense that if you work hard enough you will do well, and your children will have a better quality of life than you. However, this reality has been increasingly difficult for Americans to reach regardless of their education or work ethic.

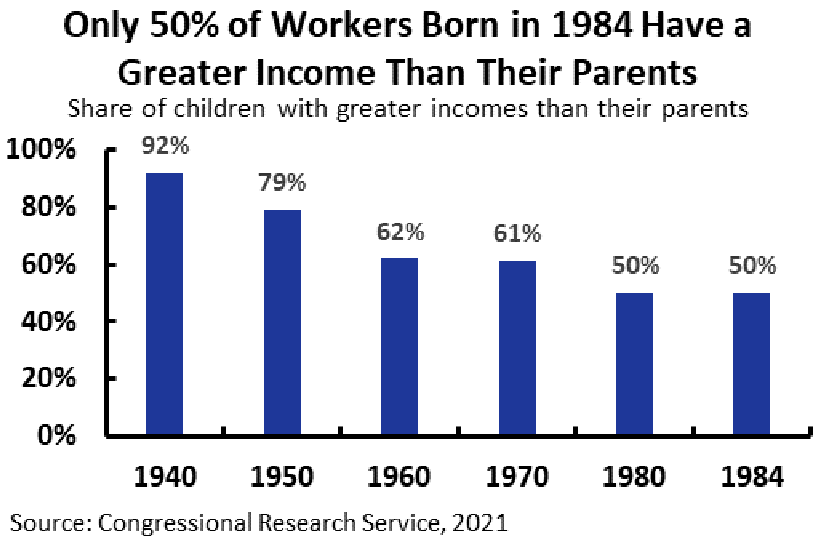
As a result of declining public investment and rising inequality, upward economic mobility, or the ability for an individual to improve their economic status, has been declining for decades. Policy areas that are crucial for encouraging upward social mobility include childhood education and wellbeing, affordable housing, education and workforce development. However, in recent decades economic policy has not invested in these items that help those at the bottom and has instead focused on tax cuts for those at the top. This disinvestment has stunted mobility for the vast majority of Americans.

Increasing investments to improve upward social mobility will also work to address the longstanding economic inequities faced by people of color. People of color, particularly Black Americans, are overrepresented at the bottom of the income distribution and face additional barriers to maintaining gains in mobility over generations. Investing in areas that improve conditions for upward social mobility will narrow racial economic disparities.

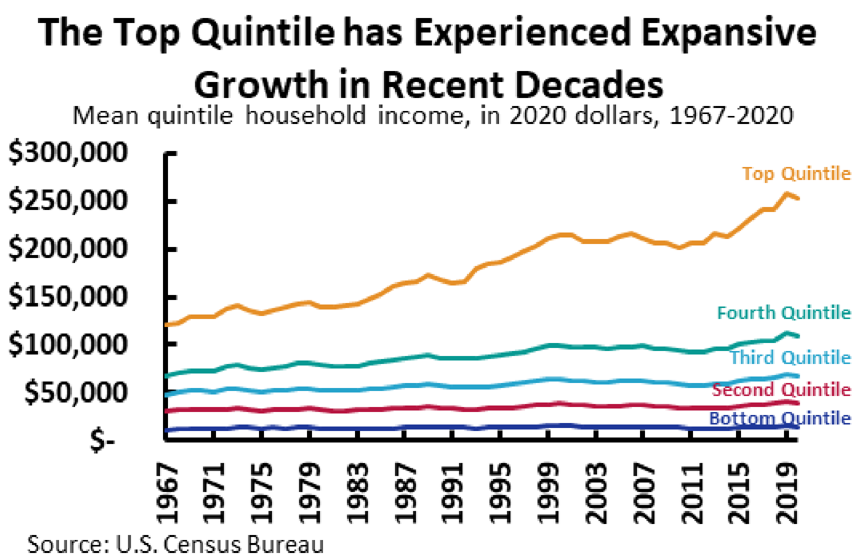
Supporting policy proposals that are responsive to the needs of families, such as the Build Back Better package, is necessary to reprioritize investments that benefit people across the income distribution, not just those already at the top. The problem of declining mobility can be addressed with key investments in universal pre-k, child tax credits, affordable housing and expanding educational opportunities beyond high school.

Decades of trickle-down economics rather than investing in people has caused declining social mobility

Wage stagnation has played a role in declining social mobility over the past half-century. Income mobility–the fraction of children who grew up to earn more than their parents–has declined substantially over the past 50 years. More than 90% of U.S. children born in 1940 had higher real incomes at age 30 than their parents did, but only about 50% of children born in 1980 could say the same. Moreover, researchers have also found that from the cohort of workers that entered the labor market in 1967 to the cohort that entered in 1983, median lifetime income of men actually declined by 10%–19%.



One of the causes of this decline in mobility is the shift over the past three decades from economic policy that invests in people to a focus on tax cuts for the wealthy and big corporations. This shift has happened at the same time as the decline in mobility and rising income inequality, and there is a strong relationship between rising income inequality and declining social mobility. The wealthiest have seen expansive growth over the past four decades at the expense of everyone else: The top income quintile has seen expansive growth, while the bottom quintiles have remained relatively flat (see figure below). By shifting economic policy priorities back to investments in people, especially children, policymakers would boost social mobility once more.



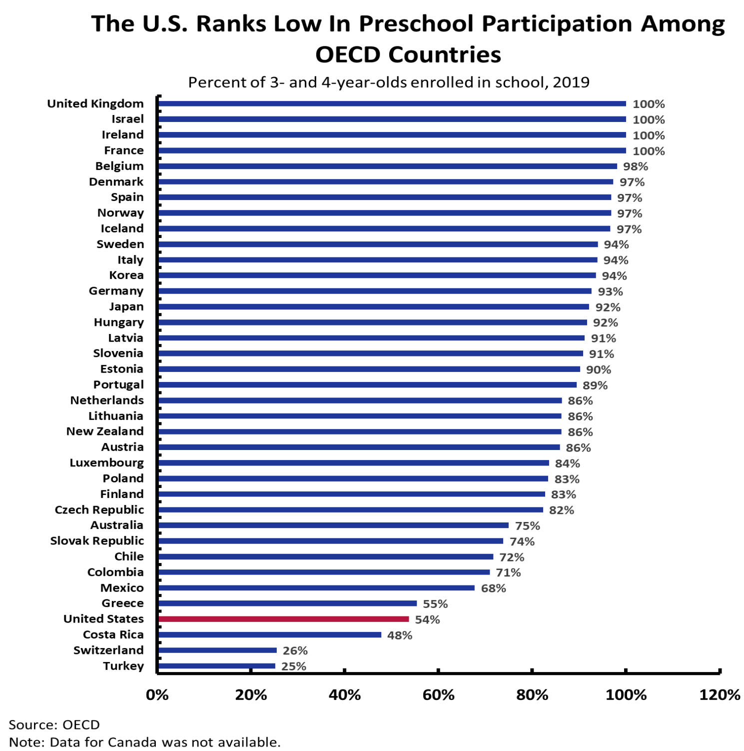
Investments that boost mobility will also help address pervasive racial economic disparities. People of color, particularly Black Americans, are disproportionately represented at the bottom of the income distribution. For example, 37% of all households had annual incomes under $50,000 in 2019. Among those with a Black head of household, the share of was notably higher: 53%. These disproportionate income distributions have remained largely stable for Black-headed households compared to white-headed households.

Furthermore, higher-income Black families are more likely to experience downward mobility than white families. Black boys who grow up in higher-income families are more likely to experience downward mobility than white boys who grow up in similar income households.

Because of the overrepresentation of people of color at the bottom of the income distribution, combined with the systemic barriers that Black families face in maintaining mobility gains across generations, policies that improve upward mobility will also help combat pervasive racial economic disparities.

Early childhood investments are crucial for boosting future social mobility

The first five years of a child's life are hugely formative for their social and cognitive development. Financial and educational investments made in early childhood have profound economy-wide impacts on educational, earnings and mobility outcomes. Yet the United States ranks near the bottom among its peer economies in the amount of money it invests in children. For example, recent data from the Organisation for Economic Co-operation and Development find that the United States ranks fourth from the bottom in preschool enrollment. This lack of public investment in its children is one of the reasons that the United States also has worse mobility outcomes than its peer economies.



Ensuring that children receive quality care, attention and education in their early years sets them on a path to better educational, health and economic outcomes far into the future. Investment in early childhood supports the social and cognitive development that underlie the skills that are rewarded in life. Research has found that children that attend preschool grow up to be healthier, better educated and more productive workers who pay more in taxes and are less likely to be involved in the criminal justice system or to access income support programs. They also have higher lifetime earnings, a key metric of upward mobility: children who attend preschool grow up to earn as much as up to 60% more than their peers who did not attend preschool.

Increasing the financial resources that families have to take care of their children is another key driver of future upward mobility: an extra $3,000 in a family's annual income when a child is younger than five leads to 19% higher future earnings. The Child Tax Credit (CTC) not only helps families pay for household expenses but also yields enormous long-term dividends for children and their lifetime economic opportunities.

The temporary expansion of the CTC by the American Rescue Plan (ARP) dramatically increased the value of the CTC from $2,000 per child to up to $3,600 per child under six and $3,000 per child six and older. It also made the CTC fully refundable, allowing the neediest families to benefit from the full value of it. The ARP expansion of the CTC was temporary and expired in December 2021.

Expanding access to affordable rental housing and pathways to homeownership can improve economic mobility while ensuring housing stability for millions of American families

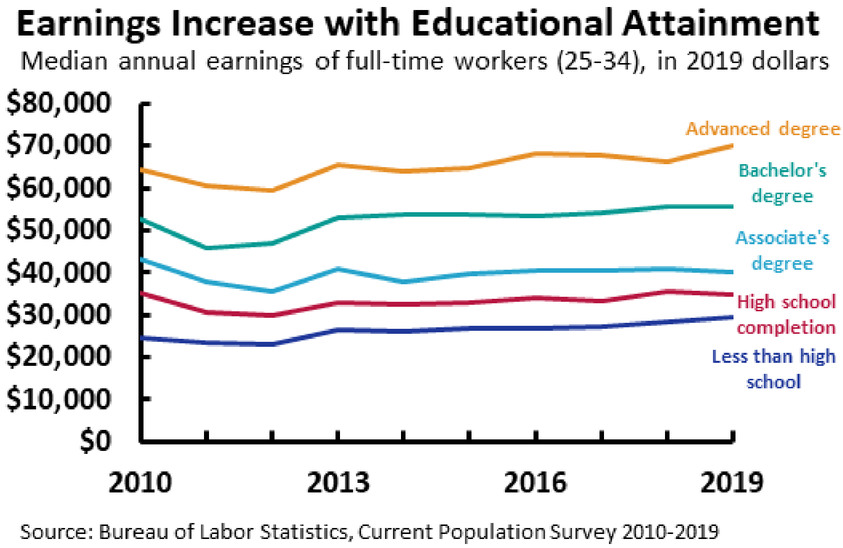
Research from sociology, economics and public health routinely shows how access to stable housing in childhood improves future earnings, educational attainment, health and other measures of well-being, particularly for children from low-income families. However, more than 7.6 million extremely low-income renters spent more than half of their income on rent, and rapidly increasing house prices are putting homeownership out of reach for many families. Federal affordable housing programs improve social mobility in a variety of ways. Kids from low-income families who get housing vouchers have been found to earn more as adults, attend college at higher rates and have better long-run health outcomes. The evidence for the impact of vouchers on social mobility is strongest when the program helps families move to lower-poverty neighborhoods and then stay there for several years.

Public housing developments have also shown positive impacts on kids' future earnings and other adult outcomes. The nation's public housing stock currently faces a significant repair backlog that has contributed to a decades-long decline in the number of available public housing apartments. Investing federal funds to address this backlog will preserve these vital investments in both short-term housing stability and long-run social mobility.

Purchasing a home is often the main way that American families can both build wealth and then invest in their children's well-being. Increasing homeownership for low-income families gets them an asset they can use to invest in their kids' short and long-term success. This issue is especially important for Black families, who, because of decades of discrimination in the housing market, now have homeownership rates that are 30 percentage points lower than white families. Creating a down-payment assistance program for first-time, first-generation homebuyers could help hundreds of thousands of families from lower-wealth backgrounds buy their first home.

Making education beyond high school accessible and affordable will lead to greater job opportunities, higher earnings and greater social mobility

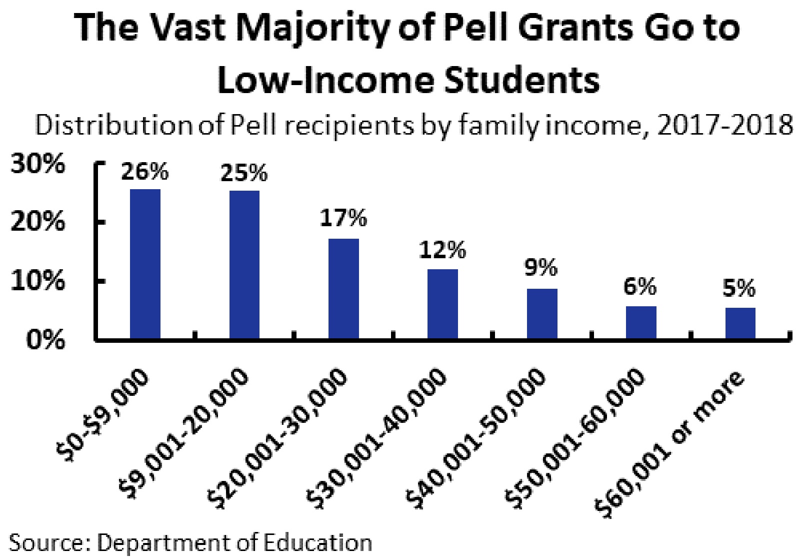
In general, those with greater educational attainment tend to have better economic outcomes. For example, the 2019 median earnings of 25- to 34-year-olds with a master's or higher degree ($70,000) were 26% higher than the earnings of those with a bachelor's degree ($55,700), while the median earnings of those with a bachelor's degree were 59% higher than the earnings of those who completed high school ($35,000) (see figure below).



A higher level of education positively impacts one's economic mobility. However, access varies significantly by parental income and institution, and affordability is becoming an increasing concern. Children from families in the top 1% are 77 times more likely to attend an Ivy League school than those whose parents are in the bottom income quintile. In general, more years of formal education is correlated with upward mobility, but the rates of bottom-to-top quintile mobility are highest at mid-tier public universities that are more accessible to middle- and low-income students but are becoming increasingly less affordable.

Alarmingly, access to higher education is becoming increasingly difficult for low- and middle-income families because the cost of college is rising while the amount provided through grant aid is falling. This has led to more students and families relying on federal loans and taking on enormous debt: Total student debt in the U.S. increased 144% from 2007 to 2020. College affordability and rising student debt are especially concerning when considering that Black and Hispanic students are more likely to come from families with less wealth than white families. This means Black and Hispanic families have to rely more heavily on loans to finance their education, increasing their risk of loan delinquency and default.

Pell grants, which are designed specifically for low-income students, can increase college affordability and access. Expanding Pell grants can enable the most in-need students to access higher education. In the most recently available data, over 7.1 million undergraduate students received Pell grants, and more than half of Pell recipients had family incomes below $20,000 and 95% had family incomes below $60,000 (see figure below).



Expanding Pell grants would create conditions for upward mobility because they result in higher enrollment rates of low-income students, increased retention and completion rates and reduced need for students to balance work and school. Pell grants are also associated with students transferring from community colleges to four-year institutions, further increasing their educational attainment. By making college more affordable and accessible, more low-income students will have the opportunity to receive a quality education and better their chances for upward social mobility.

For those who do not go to college, the economy currently offers few organized pathways for upward social mobility. Nearly 67% of the U.S. population has education below a bachelor's degree. Automation and globalization have caused the labor market to become increasingly polarized, meaning work is bifurcated between occupations that are ranked as higher-skilled and therefore paid higher wages and occupations that are categorized as lower-skilled and therefore paid lower wages. There are few options for people with less education and experience to have a middle-skill job—typically white-collar clerical, administrative, sales occupations or blue-collar production, craft and operative occupations. Due to this polarization, it's important to create new pathways to upward social mobility, such as increasing access to apprenticeships and investing in workforce development. Apprenticeships and trade jobs are an alternative pathway from post-secondary education to higher-paying occupations.

Investing in key areas will have long-term positive impacts on social mobility and continue the American tradition of creating a better life through hard work

The ability to "achieve the American dream" has been faltering for decades. Congress has the opportunity to address these challenges by making targeted investments that will boost social mobility. The Build Back Better Act includes critical investments in policies that will boost upward mobility, such as funding universal preschool, expanding the Child Tax Credit, providing housing vouchers for low-income renters, expanding Pell Grants and creating programs to expand apprenticeships and workforce development. Enacting these investments will cement America as a global economic power and continue the tradition of creating a better life for one's self and family through hard work and perseverance.