the balance

What Is Economic Mobility?

How It May Impact the American Dream

By **Kimberly Amadeo**

Updated on March 4, 2021

Economic mobility is the ability of someone to change their income or wealth. It is measured over generations or during one's lifetime. Research has found that the best way to improve one's mobility is through education, but the increasing cost of education is creating a block to those starting out in low-income families. It's a form of structural inequality that keeps the poor from improving their lives.

The biggest block to mobility is widening income inequality. And unfortunately, race has also been a factor over the years. As a result, the United States has lower levels of economic mobility than other developed countries.

How Is Economic Mobility Measured?

Mobility is calculated using earnings, income, or wealth. The measurement used will give different results. Earnings are wages and salaries from paid jobs and businesses, including farms. Income is revenue from all sources before taxes but after transfers. It includes earnings plus settlements, government programs, such as Social Security, and income from investments. Wealth is the net worth of the household.

The Federal Reserve Bank of Minneapolis found that age was the greatest determinant of mobility in all measurements. As people age, they get better jobs and have a higher net worth. Older people who are retired have lower incomes, although they might have the highest wealth. [1]

Mobility is also measured through time. Some studies look at intergenerational, or whether children have higher incomes than their parents. Others may only consider intragenerational, or how far someone can go in their lifetime.

Note
There is absolute mobility, which is how likely it is that children can exceed their parents' income at that same age. Relative mobility compares someone to others, such as their race, nationality, gender, or another quality.

How Education Impacts Economic Mobility

Research shows that the greatest single correlation of high income is the education level of one's parents.

The Federal Reserve Bank of Minneapolis study found that income, earnings, and wealth increased with education levels. It also found that college graduates had the most wealth compared to earnings than those without college. They were able to save and invest more of their earnings.[1]

- In 2019, 28% of American adults had only a high school education. On average, they earned $746 per week. Those without a high school degree only earned $592 a week. Another 10% had an associate's degree. They earned $887 a week.
- About 21% of Americans had a college degree in 2019. Weekly media earnings, on average, for this group was about $1,248.
- Only 9% had a master's, earning an average of about $1,497 per week. Even fewer, 1%, had a professional degree, such as a doctor or lawyer. They earned an average of about $1,861 a week. The 2% of the population who has doctorate degrees earned an average of about $1,883 a week.[23]

The increasing cost of education makes that pathway more difficult for those in low-income families. Instead of a pathway, it is more of a roadblock. The best way to overcome this is to create more equity in education. It would provide more resources to those at the lowest levels to help them catch up.

Note
The group with the worst economic mobility was single women with children. They were also most likely to be in financial trouble.

The Wealth Gap and Economic Mobility

Between 1979 and 2007, income inequality destroyed Americans' economic mobility. The gaps between the rich and the poor have grown wider. Household income increased by 275% for the richest 1% of households. It rose 65% for the top fifth. The bottom fifth only increased by 18%. That's true even after "wealth redistribution." In other words, subtracting all taxes, and adding all income from Social Security, welfare, and other payments.

Since the rich got richer faster, their piece of the pie grew larger. The richest 1% increased their share of total income by 10%. Everyone else saw their piece of the pie shrink by 1% to 2%. In other words, even though the income going to the poor improved, they fell further behind when compared to the richest.[4]

The 2008 financial crisis worsened the gap. The rich got richer through the recovery. In 2012, the top 10% of earners took home 50% of all income. That's the highest percentage in the last 100 years. The top 1% took home 20% of the income, according to a study by economists Emmanuel Saez and Thomas Piketty.[5]

Race and Economic Mobility

Black and Native American people in upper-income families are more likely to lose their status than White, Hispanics, or Asian American people, according to 2018 study. The study "Race and Economic Opportunity in the United States: An Intergenerational Perspective" reviewed racial disparities in income from 1989 to 2015.

White children whose parents are in the top fifth of the income distribution have a 41.1% chance of staying there as adults; for Hispanic children, the rate is 30.6%, and for Asian-American children, 49.9%.

But for Black children, it's only 18%, and for American Indian children only 23%. They have the same likelihood to fall to the bottom fifth of the income distribution as to stay in the top fifth.

Conversely, upward mobility for children born into the bottom fifth of the distribution is markedly higher among White people than among Black or American Indian children. Among children who grew up in the bottom fifth of the distribution, 10.6% of White people make it into the top fifth of household incomes themselves, as do 25.5% of Asian Americans. By contrast, only 7.1% of Hispanic children born in the bottom fifth make it to the top fifth, along with 3.3% of American Indian children and 2.5% of Black children.

The disadvantage is most striking among men. Black men born into families at the 75th percentile of the income distribution wind up, on average, 12 percentiles below White men born into equally affluent families.[6]

Note
Black and White women are more likely than men to remain in the income range they were born into. But women of both races earn less than men.

As a result of all these blocks, most Americans don't aspire to get ahead. In a 2017 study, 85% of respondents were more worried about falling behind. Almost 40% of those surveyed couldn't afford a $500 financial emergency. They had to go to friends or family to cover an unexpected bill that size. One reason is one-quarter of American workers make less than $10 per hour. They are living below the federal poverty level. Their focus on short-term financial survival prevents them from pursuing long-term goals.[7]

Economic Mobility and the American Dream

The U.S. has lower rates of income mobility than other developed countries. America scores lower than several other counties, such as Finland, Sweden, Germany, Canada, and Denmark, when it comes to personal, civil, and economic freedom.[8]

The American middle class has a fair amount of opportunity to move into the upper class. It's hard to move all the way from poor to rich. Research has shown that there is less intergenerational mobility than many Americans believe.[9]

As a result, the concept of rags-to-riches in a generation is no longer a realistic component of the American Dream. The American Dream is the idea that the government should protect each person's opportunity to pursue their own idea of happiness. The Founding Fathers embodied it into the Constitution, but it is limiting since over time women and Black, Indigenous, and People of Color (BIPOC) have been excluded from pursuing their own happiness and opportunities.

Sources

The Balance uses only high-quality sources, including peer-reviewed studies, to support the facts within our articles. Read our editorial process to learn more about how we fact-check and keep our content accurate, reliable, and trustworthy.

1. *Federal Reserve Bank of Minneapolis. "Quarterly Review (Downloadable)."*
2. *U.S. Census Bureau. "Educational Attainment in the United States: 2019," Download "All Races."*
3. *Bureau of Labor Statistics. "Unemployment Rates and Earnings by Educational Attainment."*
4. *Congressional Budget Office. "Trends in the Distribution of Household Income Between 1979 and 2007."*
5. *University of California Berkeley. "Striking it Richer: The Evolution of Top Incomes in the United States."*
6. *Opportunity Insights (Formerly Equality of Opportunity). "Race and Economic Opportunity in the United States: An Intergenerational Perspective."*
7. *Jonathan Morduch and Rachel Schneider. "The Financial Diaries: How American Families Cope in a World of Uncertainty." Princeton University Press, 2017.*
8. *CATO Institute. "Human Freedom Index."*
9. *Brookings. "Getting Ahead or Losing Ground: Economic Mobility in America.*