US PARTNERSHIP ON MOBILITY FROM POVERTY

WORKING PAPER

What Would Substantially Increased Mobility from Poverty Look Like?

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ABOUT THE US PARTNERSHIP ON MOBILITY FROM POVERTY

With funding from the Bill & Melinda Gates Foundation, the Urban Institute is supporting the US Partnership on Mobility from Poverty, chaired by David Ellwood and consisting of 25 leading voices representing academia, practice, the faith community, philanthropy, and the private sector.

Partners will consult widely, seeking out diverse voices and expertise as they examine the causes of persistent poverty and stagnant mobility. Ideas will not come only from the partners themselves: the Partnership will solicit new thinking from innovative leaders, programs, and individuals around the country. The Partnership will learn from communities and families experiencing poverty, from the nation's leading service providers and advocates, from a wide network of experts, and from the latest research findings. The Partnership's approach is geographically agnostic and politically nonpartisan; its findings will be transparent and available to all.

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The views expressed are those of the authors and should not be attributed to the organizations represented by the 25 members of the US Partnership on Mobility from Poverty or to the Urban Institute, its trustees, or its funders.

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What Would Substantially Increased Mobility from Poverty Look Like?

Substantially increasing mobility from poverty means different things to different people. Some goals for reducing poverty and increasing mobility may sound ambitious but fall well within historical experience, while others may require levels of economic growth or redistribution that are beyond all precedent. This paper considers different ways to think about mobility from poverty, shows differences in poverty and mobility over time and across people, and illustrates the potential effects of changing underlying patterns and trends on poverty and mobility. Because rates of poverty and mobility vary across racial and ethnic groups, we report and discuss these differences. However, data limitations constrain our ability to produce indicators for Latinos, Asian Americans/Pacific Islanders/Native Hawaiians, and American Indians and Alaska Natives. We focus mainly on differences between black people and white people.

Reducing Poverty

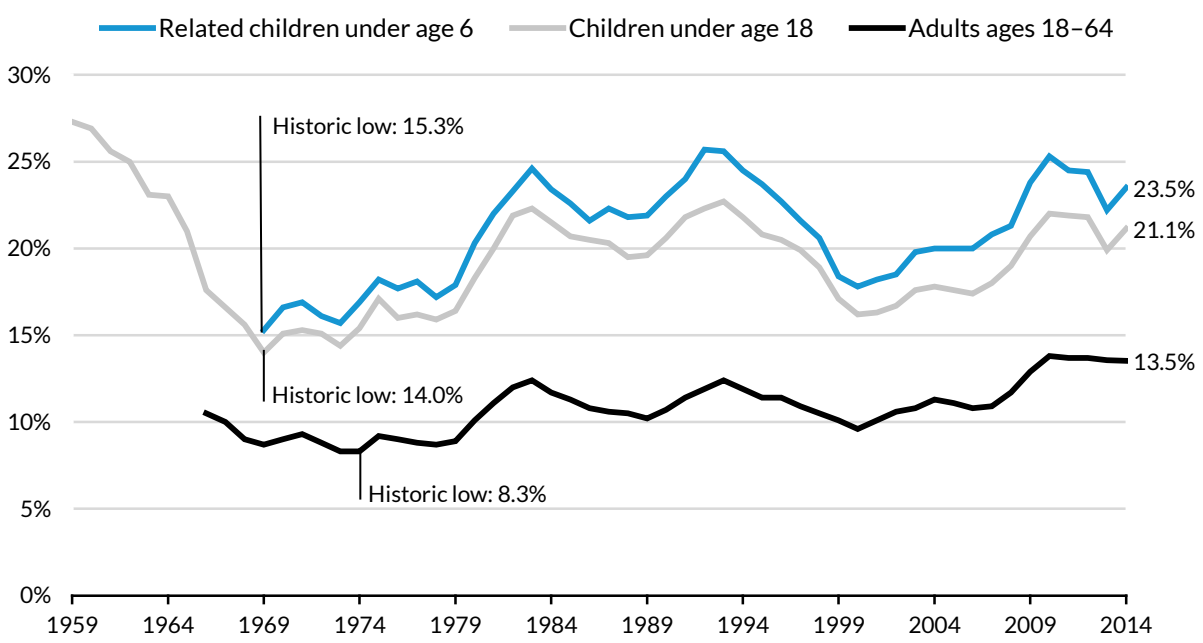
The official poverty measure compares pretax, post-transfer cash income to a standard of need adjusted for family size and composition. Children, particularly young children, are far more likely to be poor than working-age adults. Poverty rates rise and fall over time, fluctuating with the business cycle (figure 1).

Some possible targets for reducing poverty based on past experience and the attendant results:

- Reducing poverty for adults ages 18–64 from 13.5 percent (the 2014 level) to its historic low of 8.3 percent would lift 10.2 million adults out of poverty.
- Reducing poverty for children under age 18 from 21.1 percent (the 2014 level) to its historic low of 14.0 percent would lift 5.2 million children out of poverty.
- Reducing poverty for children under age 6 from 23.0 percent (the 2014 level) to its historic low of 15.3 percent would lift 1.9 million young children out of poverty.

FIGURE 1

Share in Poverty by Age, 1959–2014



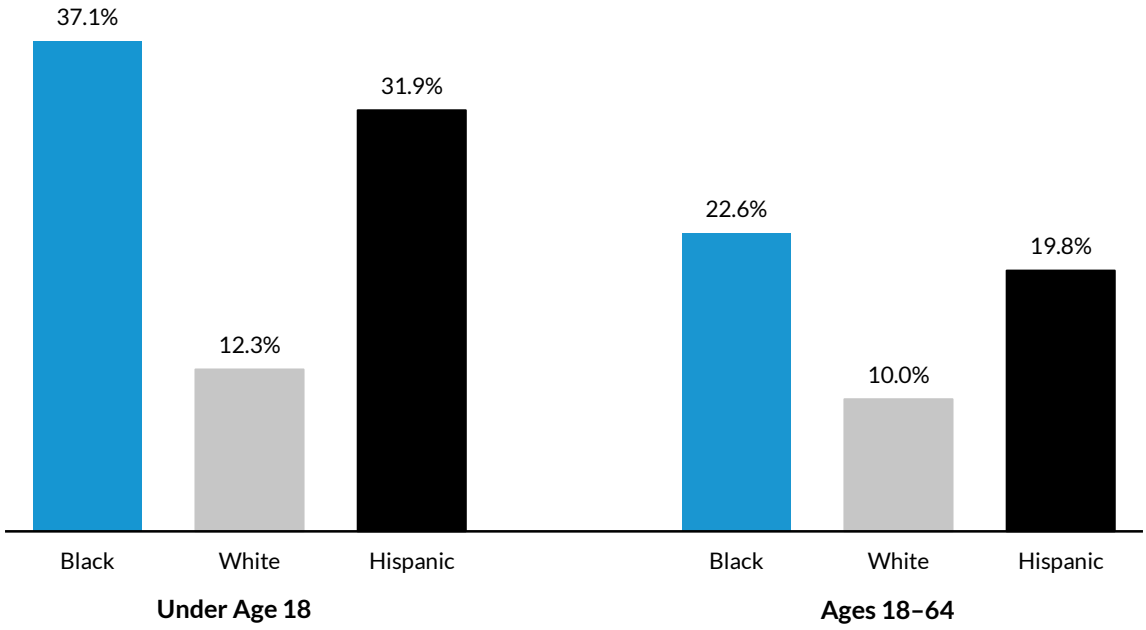
Source: US Census Bureau, Current Population Survey, Annual Social and Economic Supplements, Historical Poverty Tables 3 and 20, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html.

Poverty rates are considerably lower for white people than for people of other races and ethnicities. Another possible goal for poverty reduction would be bringing the poverty rates of black and Hispanic people in line with those of white people (figure 2).

- Reducing the poverty rate for black children from 37.1 percent to 12.3 percent (the poverty rate for white children) would lift 2.7 million children out of poverty.
- Reducing the poverty rate for Hispanic children from 31.9 percent to 12.3 percent would lift 3.5 million children out of poverty.
- Reducing the poverty rate for nonelderly black adults from 22.6 percent to 10.0 percent (the poverty rate for nonelderly white adults) would lift 3.3 million adults out of poverty.
- Reducing the poverty rate for nonelderly Hispanic adults from 19.8 percent to 10.0 percent would lift 3.3 million adults out of poverty.

FIGURE 2

Share in Poverty by Age and Race or Ethnicity, 2014



Source: US Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements, Historical Poverty Table 3, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html.

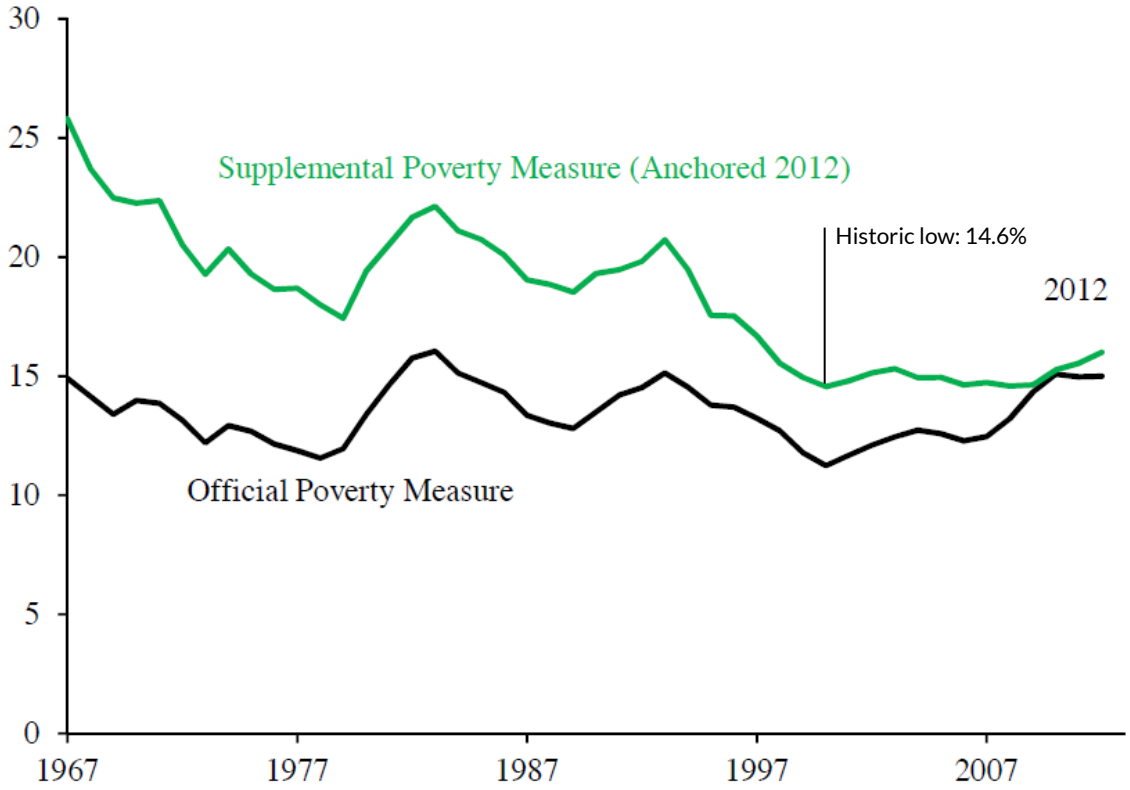
The supplemental poverty measure (SPM) adds the value of near-cash transfers like SNAP benefits along with refundable tax credits like the earned income tax credit to traditional income and compares it to a contemporary standard of need that accounts for broader living expenses than the traditional poverty

measure. As such, the SPM shows that families have both greater resources and higher needs than the official poverty measure. On net, the poverty rate in recent years is slightly higher when using the SPM rather than the official measure (figure 3). To generate the long, historical trend shown below, analysts take the poverty thresholds for a single year (the anchor year; here, 2012) and deflate them to compute poverty for earlier years.

FIGURE 3

Official versus Anchored Supplemental Poverty Rates, 1967–2012

Percent



Sources: Census Bureau and Wimer et al. (2013).

The SPM roughly tracks official poverty into the late 1990s. Over the past 15 years, the SPM captures the growing importance of in-kind transfers (particularly SNAP benefits) and low-income tax credits (particularly the earned income tax credit) for low-income families. Again, we can use history to set a goal for poverty reduction:

- Reducing poverty as measured by the SPM from 16.0 percent in 2012 to its historic low of 14.6 percent (in 2000) would lift nearly 3.4 million people out of poverty.[1]

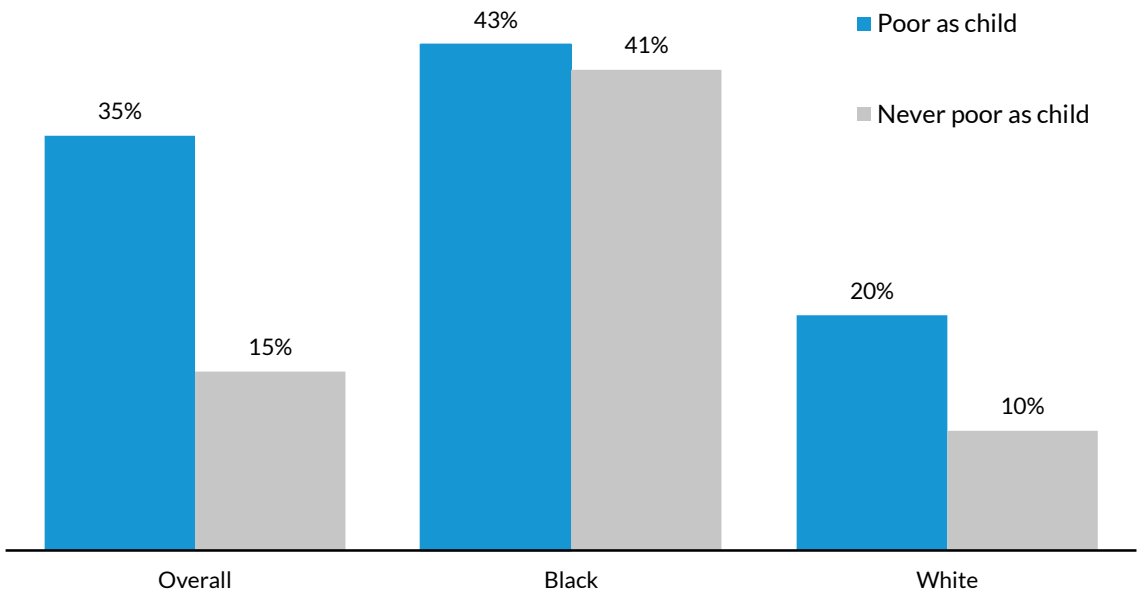
Breaking the Cycle of Intergenerational Poverty

People who were poor for at least one year out of ten during childhood are more than twice as likely to experience poverty in their 30s than people who were never poor during childhood (35 percent versus 15 percent; figure 4). Over 40 percent of black adults experience at least one year of poverty during their 30s regardless of their childhood experiences. Black adults who had never been poor as children are more likely to experience poverty in their 30s than white adults who were poor as children (41 percent versus 20 percent). A possible goal for reducing poverty would be to bring the experiences of black children in line with those of white children.

- For white adults, experiencing poverty as a child strongly correlates with experiencing such deprivation later in life. For black adults, the odds of experiencing poverty are high even if they did not experience poverty during childhood. Poverty and race must both be addressed to reduce poverty in the next generation.

FIGURE 4

Share of Adults Who Experienced Poverty in Their 30s by Poverty Status in Childhood



Source: Urban Institute analysis of Panel Study of Income Dynamics data.
Notes: All adults were ages 0–5 in 1968 and in their 30s from 1993 through 2009. Their childhood poverty status is based on the status of the head of household in 1968 and the head's poverty and income data from 1967 to 1976.

Increasing Intergenerational Mobility

Intergenerational mobility (how children do compared with their parents) can be measured in several different ways. Here we explore measures that compare people's real incomes to those of their parents, measures that capture real income growth at various levels of the income distribution, and measures that compare people's rank in the income distribution with their parents' rank.

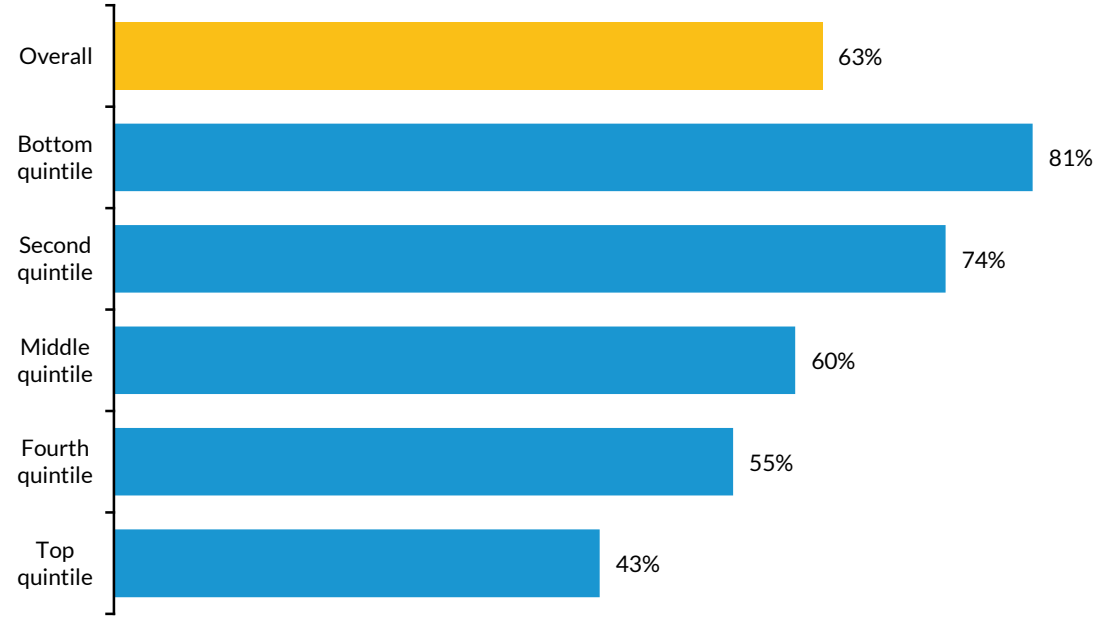
Do Children Have Higher Real Incomes Than Their Parents?

Almost two-thirds of children have higher inflation-adjusted incomes as adults than their parents had at similar ages (figure 5). The lower the parents' income, the more likely the child is to have a higher income.

- Because children from lower-income families are already more likely to make more than their parents than children from higher-income families, targeting the absolute mobility rates of children from higher-income families as a goal for children from lower-income families would not be beneficial.

FIGURE5

Adults with Higher Family Income in Their 30s Than Their Parents, by Childhood Income Quintile, 1967–2009



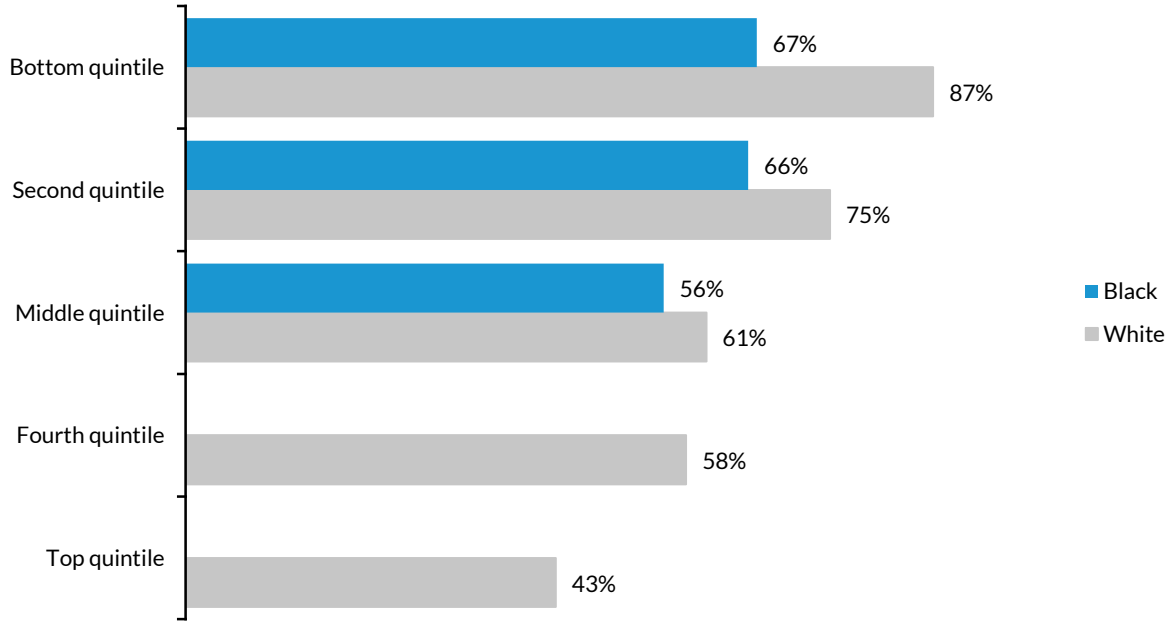
Source: Urban Institute analysis of Panel Study of Income Dynamics data.
Notes: Adults were ages 0–5 and were the child of the head of household in 1968; they were in their 30s from 1993 through 2009. Their parents' income information is based upon an average of all reported years of income from 1967 onward, when their parents were also in their 30s.

Absolute mobility (a child's inflation-adjusted income relative to his/her parents' income) is higher for white children than for black children at all levels of parental income (figure 6). The data source we use (the Panel Study of Income Dynamics) includes so few black children raised in the fourth and top quintiles that absolute mobility cannot be shown for these families. One strategy for improving absolute mobility from the bottom would be to bring the absolute mobility for black families up to that of white families.

- If black children from the bottom quintile experienced the same absolute intergenerational mobility as white children in the bottom quintile, 20 percent more would have higher income than their parents.

FIGURE 6

Adults with Higher Family Income in Their Thirties Than Their Parents, by Childhood Income Quintile and Race, 1967–2009



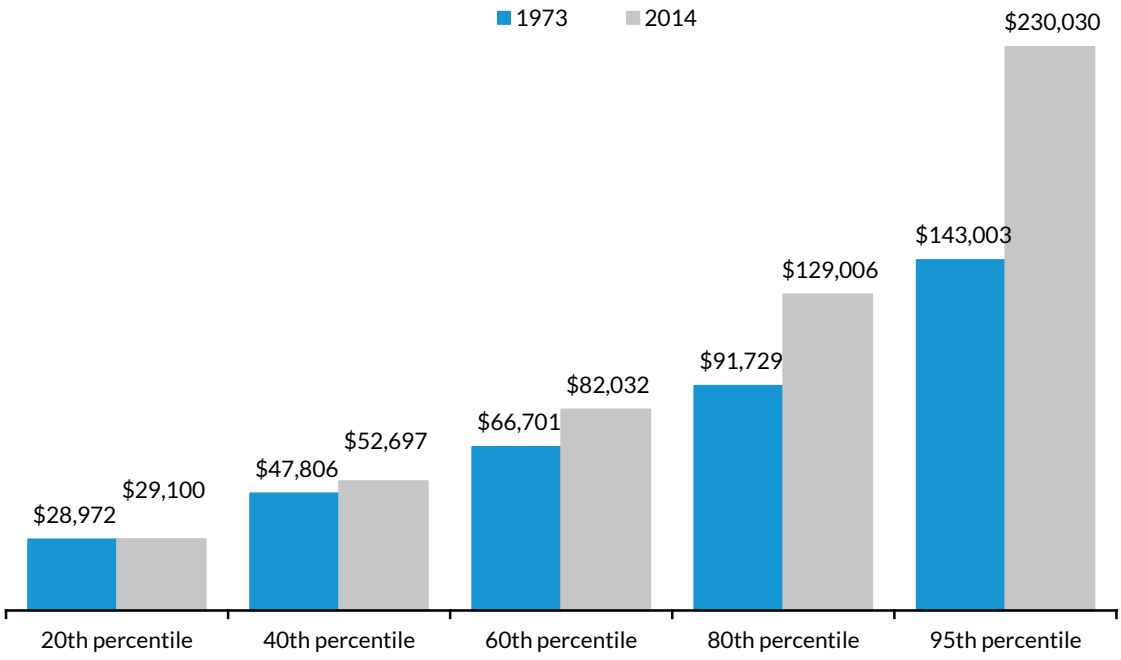
Source: Urban Institute analysis of Panel Study of Income Dynamics data.
Notes: All adults were ages 0–5 and were the child of the head of household in 1968; they were in their 30s from 1993 through 2009. Their parents' income information is based on an average of all reported years of income from 1967 onward, when their parents were also in their 30s. There were not enough black parents with income in the fourth and top quintiles in the previous generation to reliably show absolute mobility for black children.

Income at the 20th percentile rose by less than 1 percent over the past four decades after taking inflation into account. At the 95th percentile, income grew 61 percent (figure 7). Using income growth from higher-income quintiles can provide a benchmark for mobility.

- If income at the 20th percentile had grown at the same rate as income at the 95th percentile between 1973 and 2014, income at the 20th percentile would be over $46,600 today.

FIGURE 7

Percentiles of Family Income, 1973 and 2014



Source: Current Population Survey Annual Social and Economic Supplements.

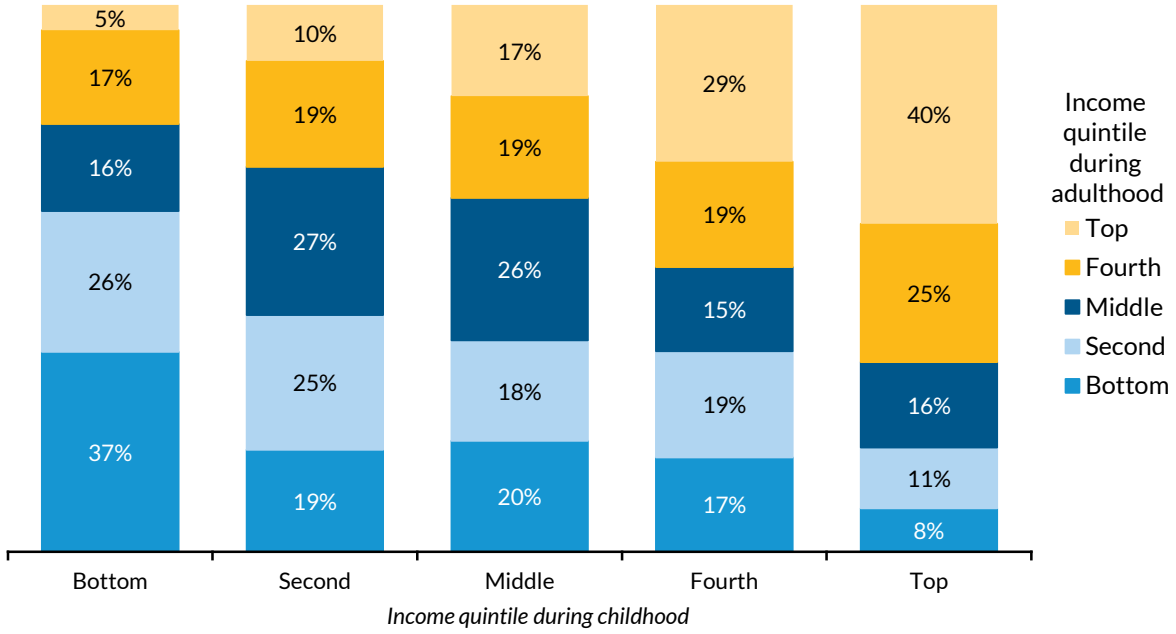
Are Children Moving Up the Income Ladder Relative to Their Parents?

Among children raised in the bottom income quintile, 37 percent were still in the bottom as adults, 16 percent had made it to the middle, and only 5 percent had made it to the top. Forty percent of children raised in the top quintile remained in the top as adults (figure 8). Intergenerational relative mobility varies from place to place in the United States, and that can help set a benchmark for mobility. San Jose, California, has the highest mobility rate from the bottom to the top quintile among the 50 largest commuting zones in the United States, at 12.9 percent.[2]

- If children from the bottom quintile nationwide reached the top quintile as frequently as bottom-quintile children raised in San Jose, California, the share that would climb from the bottom to the top would more than double.

FIGURE8

Relative Intergenerational Mobility: Adults' Income Quintile by Childhood Income Quintile, 1967–2009



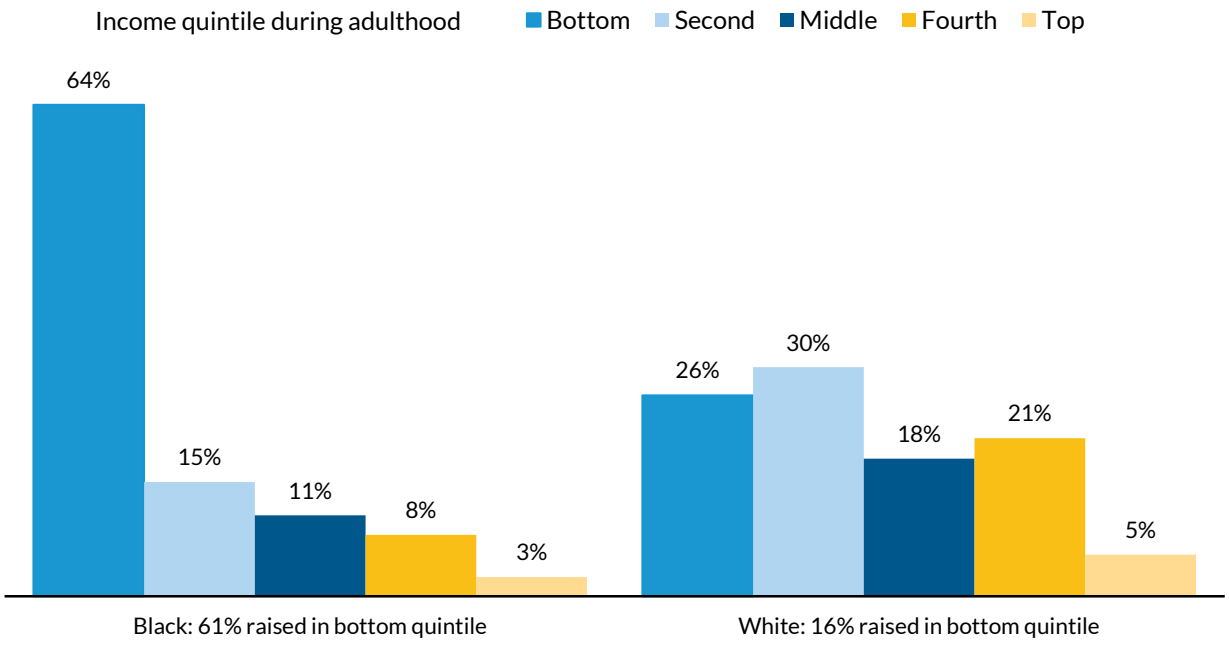
Source: Urban Institute analysis of Panel Study of Income Dynamics data.
Notes: All adult children were ages 0–5 and were the child of the head of household in 1968. These adult children were in their 30s from 1993 through the 2009 survey. Their parents' income information is based upon an average of all reported years of income from 1967 onward, when their parents were also in their 30s.

Sixty-one percent of all black children were raised by parents in the bottom quintile, compared with just 16 percent of white children. Sixty-four percent of those black children remained in the bottom quintile as adults while only 26 percent of white children raised in the bottom quintile remained there (figure 9). A possible goal for increasing mobility from the bottom would be bringing the mobility rate of black people in line with those of white people.

- If black children experienced the same relative intergenerational mobility rates as white children, the share of black children raised in the bottom quintile who made it to the third quintile or higher (middle class or above) would double.

FIGURE9

Income Quintiles for Adults Who Were in the Bottom Income Quintile during Childhood, by Race, 1967–2009



Source: Urban Institute analysis of Panel Study of Income Dynamics data.
Notes: Adults were ages 0–5 and were the child of the head of household in 1968; they were in their 30s from 1993 through 2009. Their parents' income information is based on an average of all reported years of income from 1967 onward, when their parents were also in their 30s.

Considering Measures beyond Income

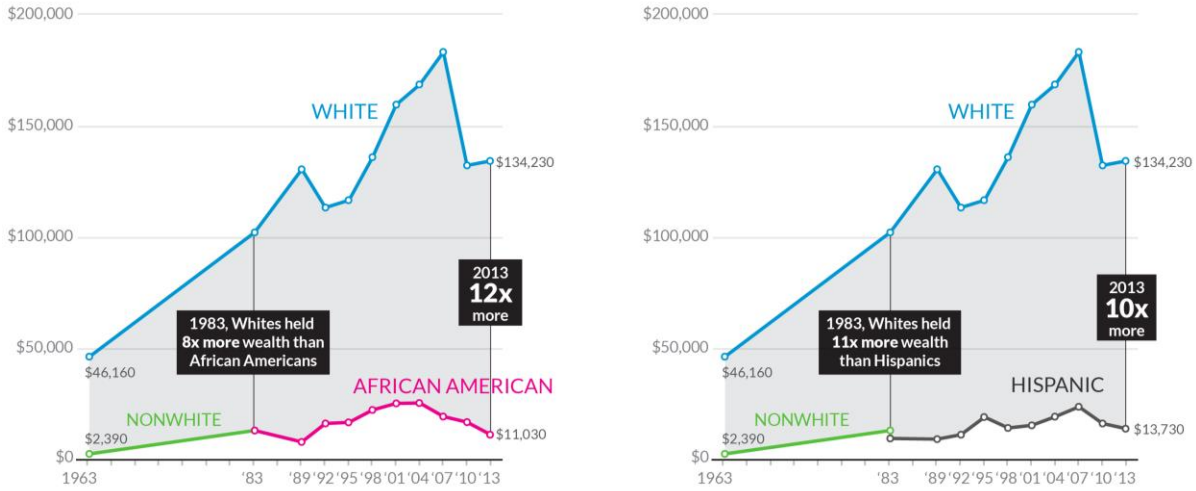
Measuring income is not the only way to assess social and economic mobility. Wealth, or the savings and assets that a family holds, also represents an important indicator of generational movement up the ladder. Today's generation of young Americans has less wealth than previous generations had at similar ages (Steuerle et al. 2013). Wealth is especially low among African American and Hispanic families, and the racial wealth gap has grown over time (figure 10). This is perhaps one reason Americans are increasingly pessimistic about their own financial security, especially Americans with low wealth (Pew Charitable Trusts 2015). Cultural markers of middle-class life such as homeownership, vacations, a college degree, or even retirement may be perceived as out of reach partly because savings and wealth are not on par with previous generations. Among families with low incomes, even modest savings can buffer the negative effects of economic shocks and support the journey toward greater economic security.

Wealth

- If the gap in median wealth between white and black families in 2013 were cut in half by raising the wealth of black families, the typical black family would have over $60,000 more in net worth.
- If the gap in median wealth between white and Hispanic families in 2013 were cut in half by raising the wealth of Hispanic families, the typical Hispanic family would have about $60,000 more in net worth.

FIGURE10

Median Family Wealth by Race/Ethnicity, 1963–2013



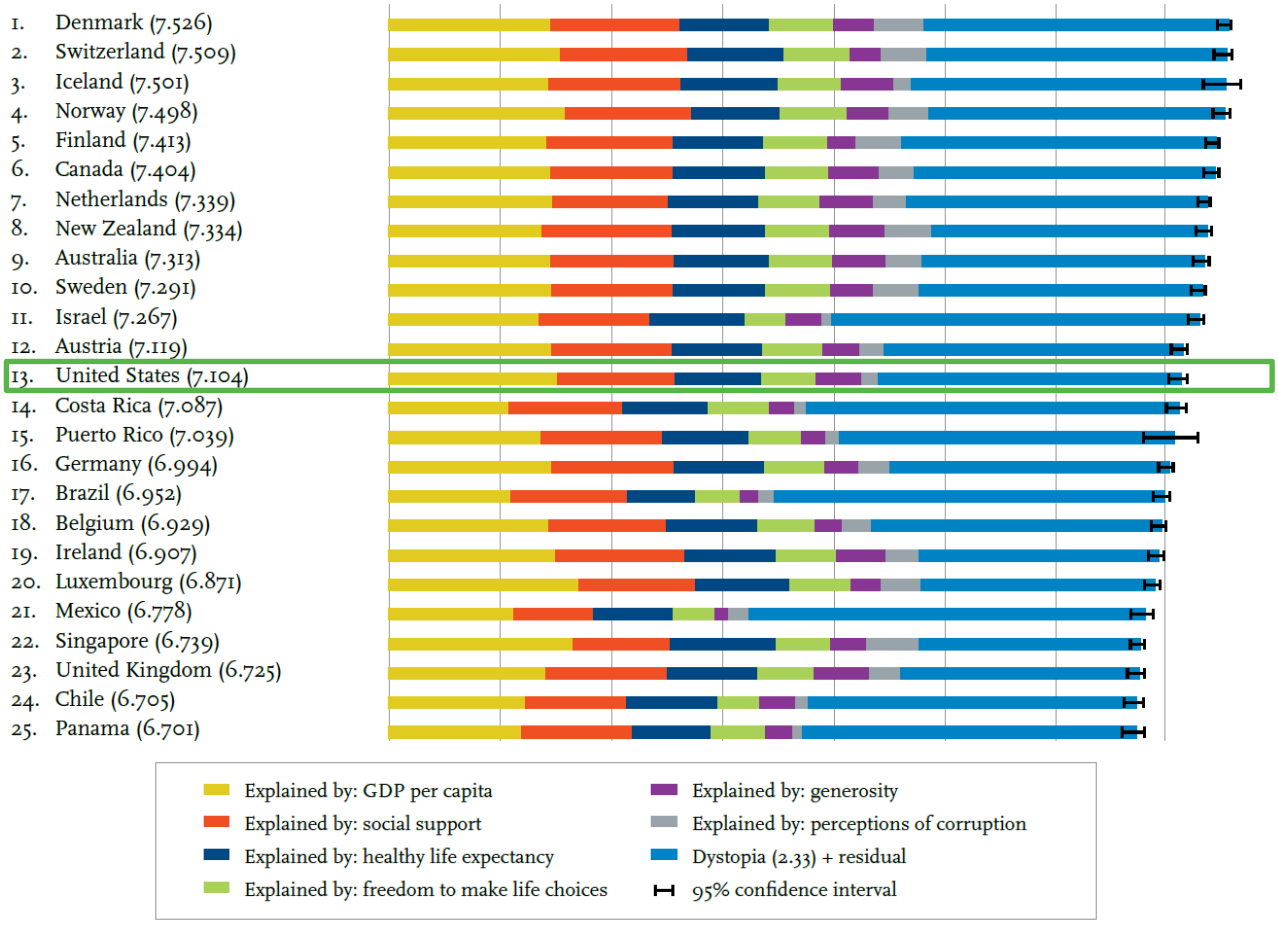
Source: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2013.
Notes: 2013 dollars. No comparable data are available between 1963 and 1983. African American/Hispanic distinction within nonwhite population available only in 1983 and later.

Happiness

Aside from economic measures, people's well-being over time and across place can be quantified based on other important outcomes. Some analysis suggests that today's generation is more socially isolated than previous generations were, contributing to diminished well-being (Putnam 2015). The World Happiness Index takes social inclusion and self-reported well-being into account, among other factors. On this international measure, the United States is ranked 13th out of 157 countries, below Canada (6) but above the UK (23; figure 11). It is entirely possible that happiness varies considerably across groups within the United States, given differences by gender and age cohort reported in other regions of the world (Helliwell, Layard, and Sachs 2016).

FIGURE11

Top 25 Countries on the World Happiness Index, 2016



Source: Helliwell, Layard, and Sachs (2016).

Health

Health measures offer another important set of indicators for assessing well-being. Life expectancy is one measure on which the United States has been lagging behind other wealthy countries for decades (figure 12). Deaths before the age of 50 are especially high for men and women in the United States relative to other countries (Plewes 2013). And health measures vary substantially within the United States, by geographic region, income, race and ethnicity, and gender. Improving life expectancy—especially the high rate of premature death in the United States relative to other high-income countries—or narrowing differences between socioeconomic groups could be important goals to consider.

FIGURE 12

Seventeen High-Income Countries Ranked by Life Expectancy at Birth, 2007

MALES		FEMALES	
Country	**e_0**	**Country**	**e_0**
Switzerland	79.33	Japan	85.98
Australia	79.27	France	84.43
Japan	79.2	Switzerland	84.09
Sweden	78.92	Italy	84.09
Italy	78.82	Spain	84.03
Canada	78.35	Australia	83.78
Norway	78.25	Canada	82.95
Netherlands	78.01	Sweden	82.95
Spain	77.62	Austria	82.86
United Kingdom	77.43	Finland	82.86
France	77.41	Norway	82.68
Austria	77.33	Germany	82.44
Germany	77.11	Netherlands	82.31
Denmark	76.13	Portugal	82.19
Portugal	75.87	United Kingdom	81.68
Finland	75.86	United States	80.78
United States	75.64	Denmark	80.53

Source: Woolf and Aron (2013).

- If the life expectancy in the United States in 2007 (75.64 years) were like Canada's (78.35), Americans would live 2.7 years longer, on average.
- If the homicide rate in the United States in 2013 (5.1 deaths per 100,000 people) were the same as the Canadian rate (1.44), over 11,500 people would have lived.[3]
- If the death rate for the black population (860.8 deaths per 100,000) mirrored that of the white population (731.0), the black population's mortality rate would fall by about 15 percent (Xu et al. 2016).

Notes

1. Urban Institute calculations based on data presented in Council of Economic Advisers (2014).
2. Urban Institute calculations based on data from Chetty et al. (2014).
3. Urban Institute calculations based on the Canadian homicide rate reported by the OECD in 2013, and US homicide death rates and counts reported in Xu et al. (2016).

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