



Parachutes and Ladders

Education and Social Mobility in the U.S.

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The Ladder is Broken

The Promise and Stark Realities
of the American Dream

Emily Rauscher
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March 29, 2016

Faith in the American Dream

“Education then, beyond all other devices of human origin, is the great equalizer of the conditions of men” – Horace Mann 1849

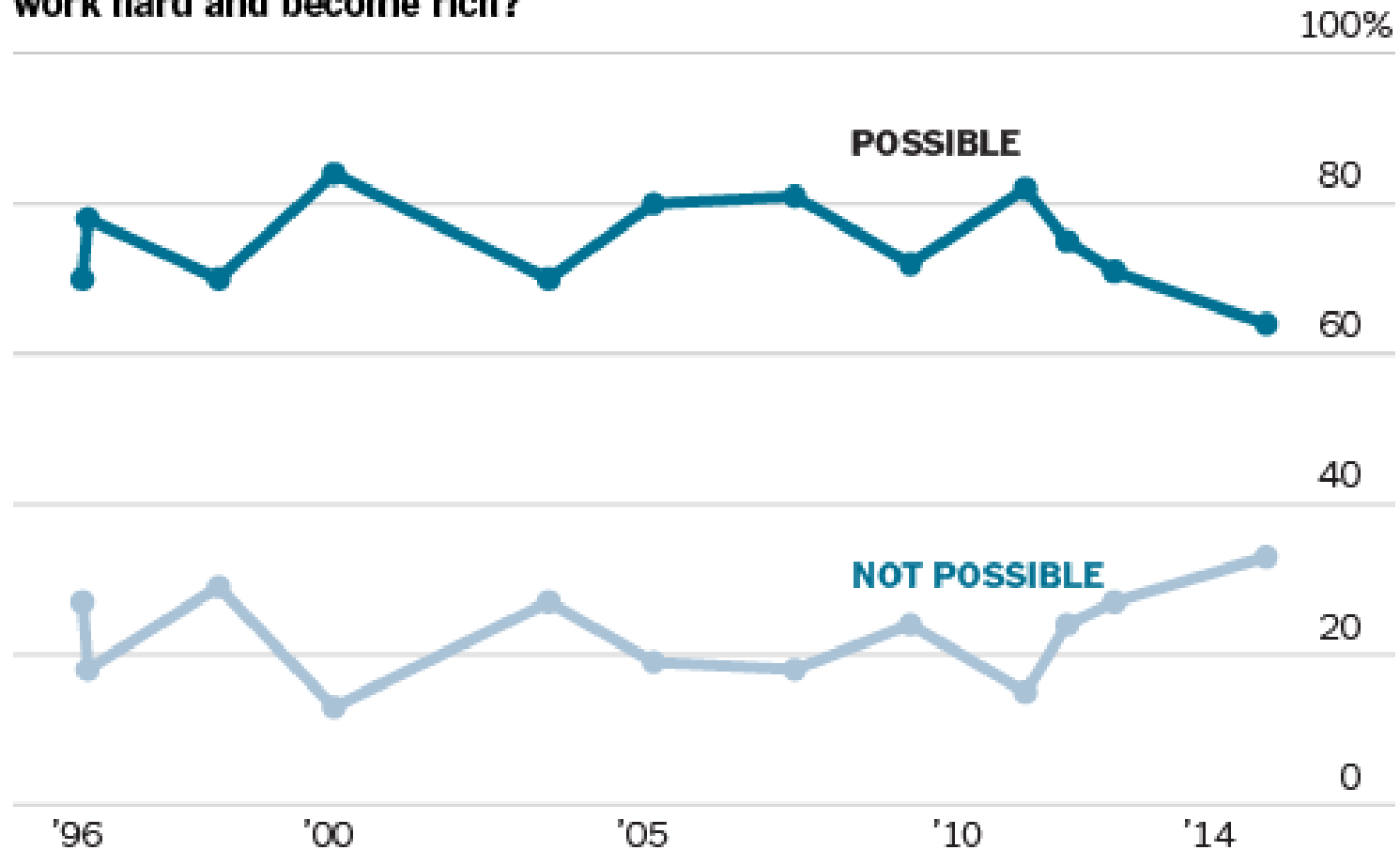
“Anything is possible in America” – Ronald Reagan 1985

“Anything is possible in America” – Barack Obama 2009

“In America, education is still the great equalizer” – Arne Duncan 2011

Losing Faith?

Do you think it is possible to start out poor in this country, work hard and become rich?

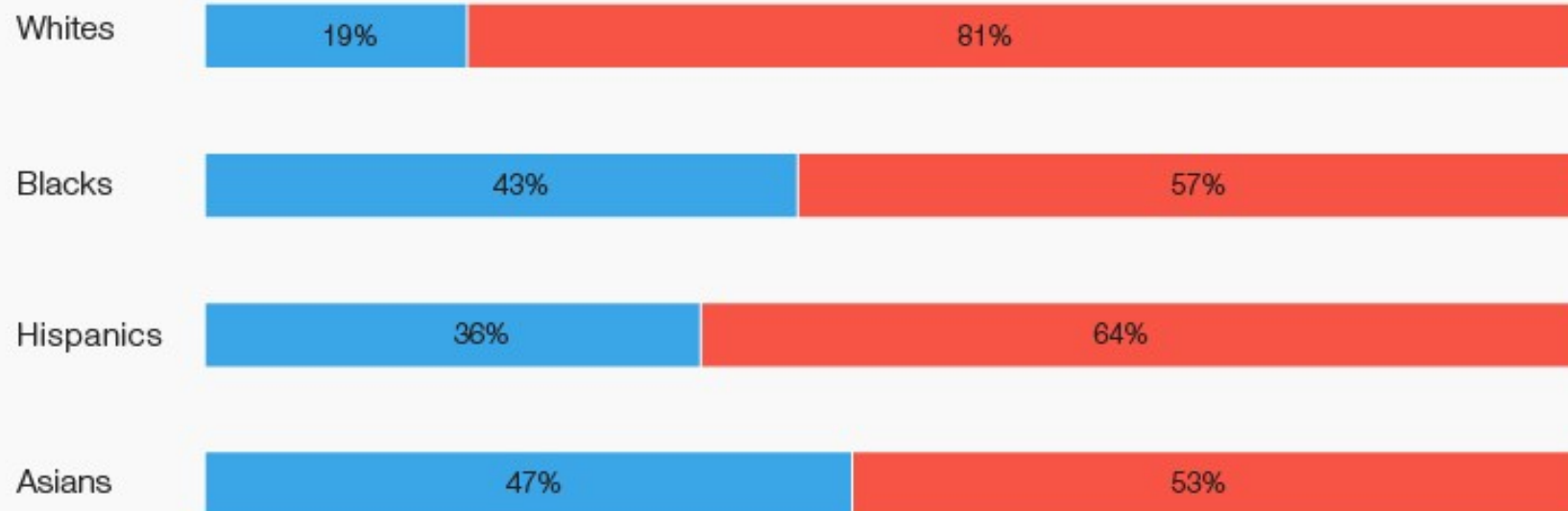


Source: NY Times; Andrew Ross Sorkin and Megan Thee-Brenan, December 10, 2014

Losing Faith?

The American Dream is...

■ Alive and Well ■ Suffering

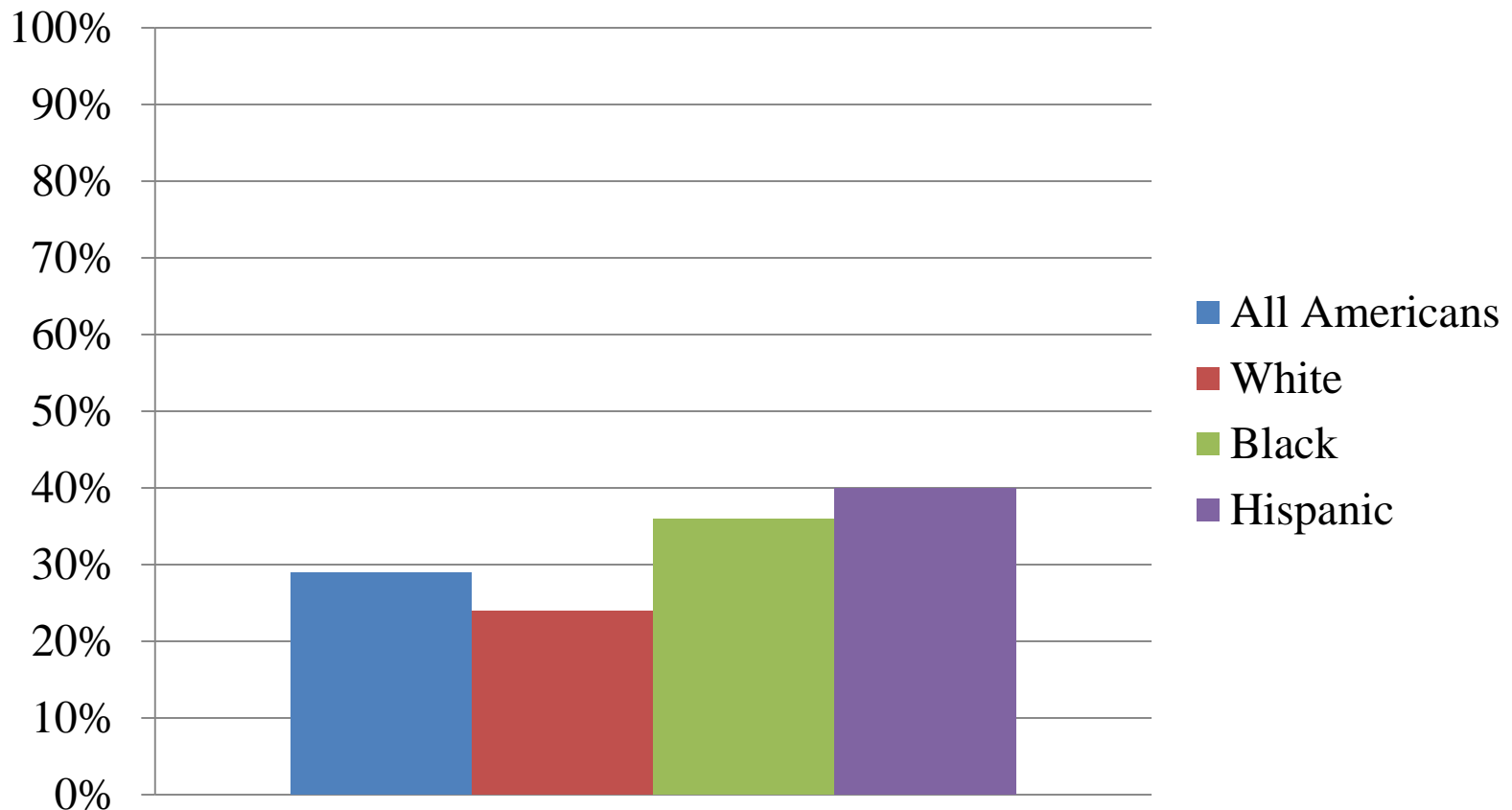


SOURCE: THE ATLANTIC/ASPEN INSTITUTE

2015

Losing Faith?

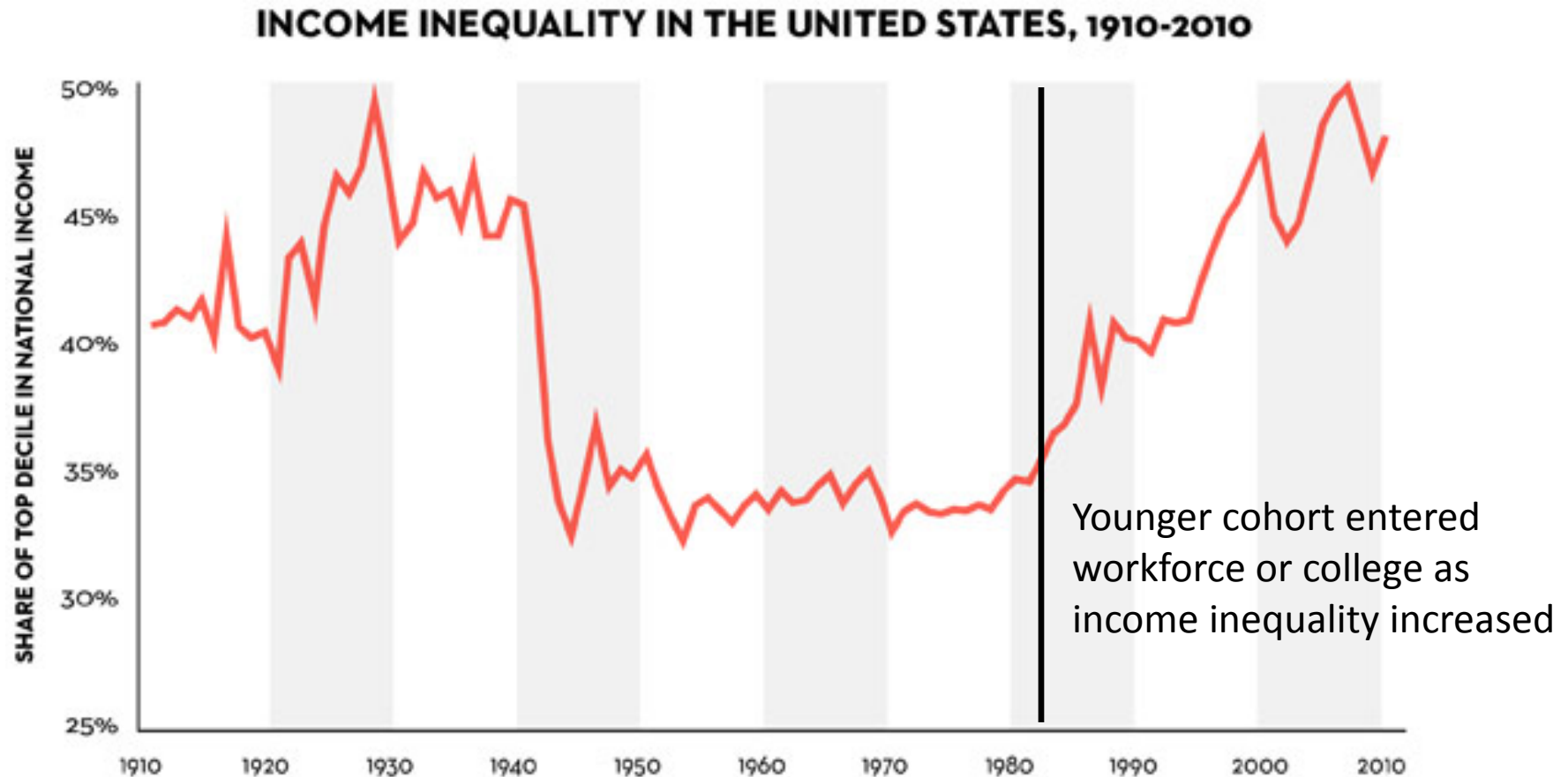
My children's generation will be better off than mine:



Is Loss of Faith Justified?

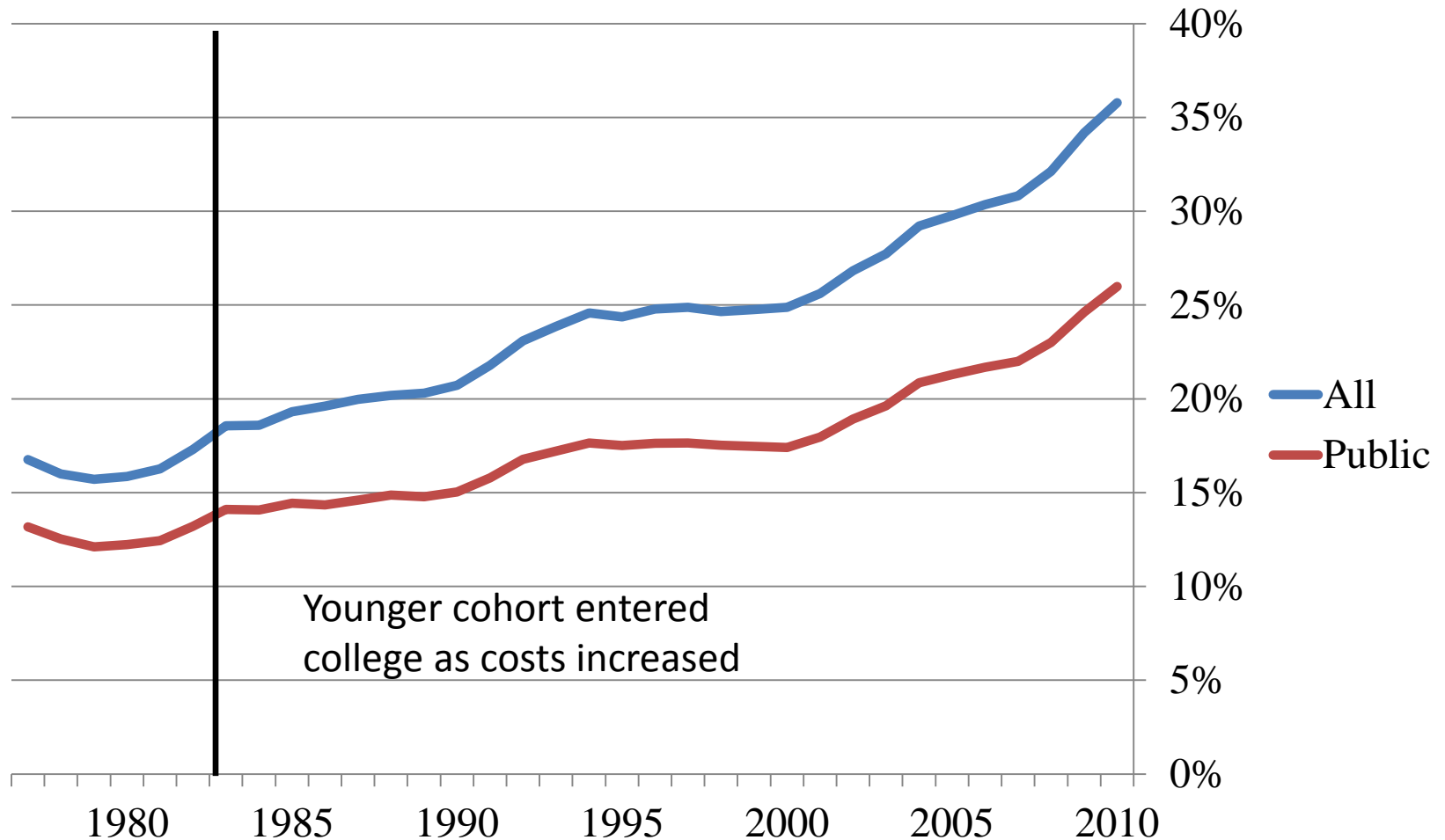
- Panel Study of Income Dynamics 1968-2013
- ~ 9,000 households, ~ 13,500 heads or partners
- How long does it take to reach median income?
And median wealth?
 - Median – $\frac{1}{2}$ the population is above; $\frac{1}{2}$ below
 - Two cohorts – born before and after 1965
 - From age 22 – traditional age of college completion
 - Until just before age 50 – same ages for both cohorts
 - By cohort, race, education level

Inequality over Time



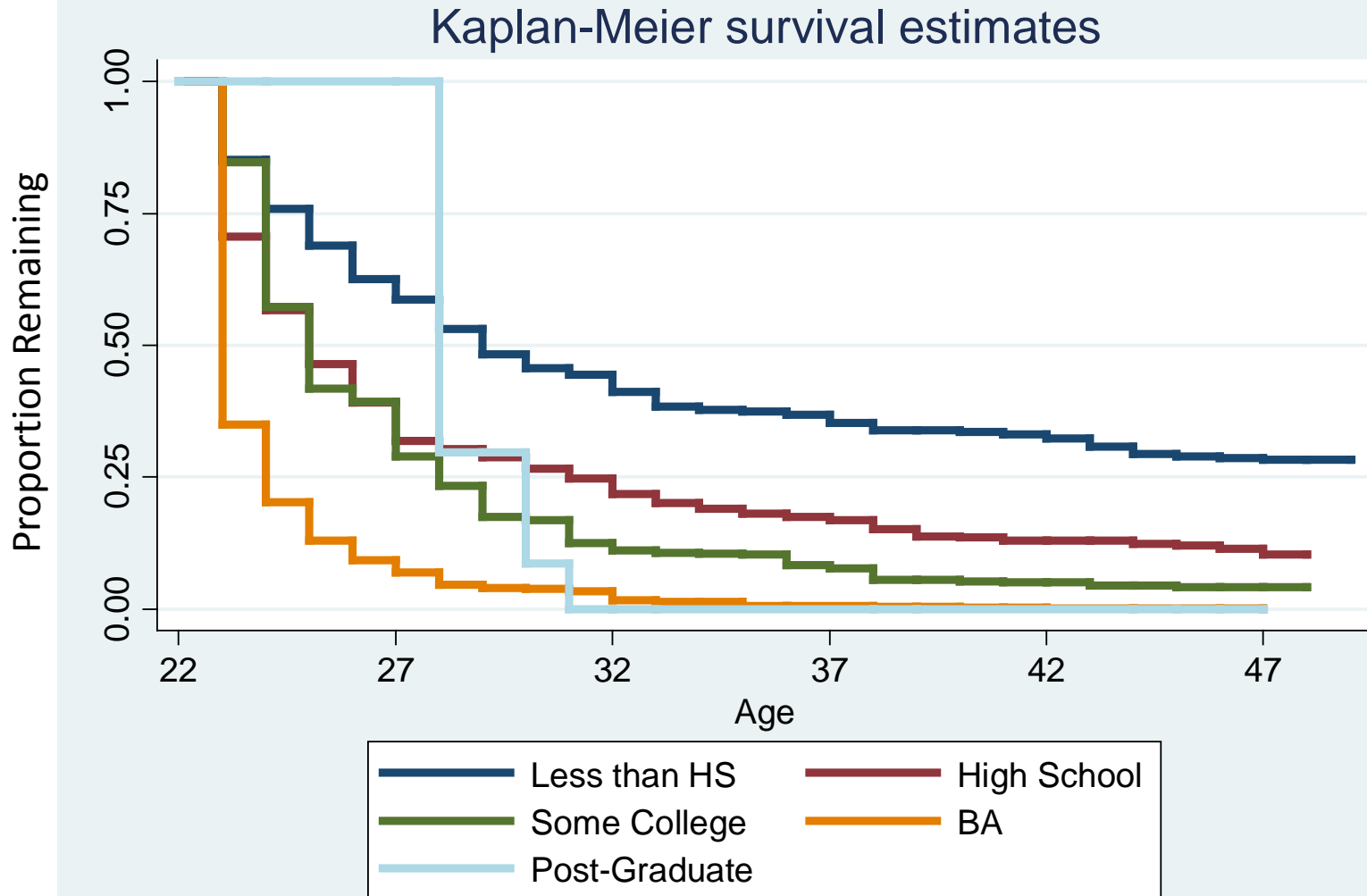
Source: The New Yorker <http://www.newyorker.com/news/john-cassidy/pikettys-inequality-story-in-six-charts>

Average Tuition, Room, and Board as a % of Median Income



Time to Median Income

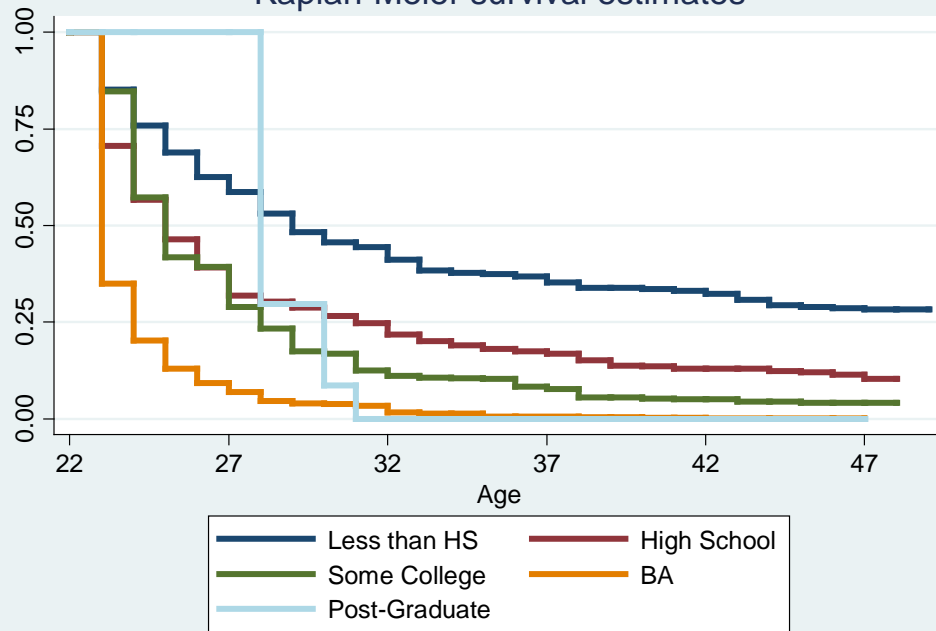
Born in or before 1965



Time to Median Income

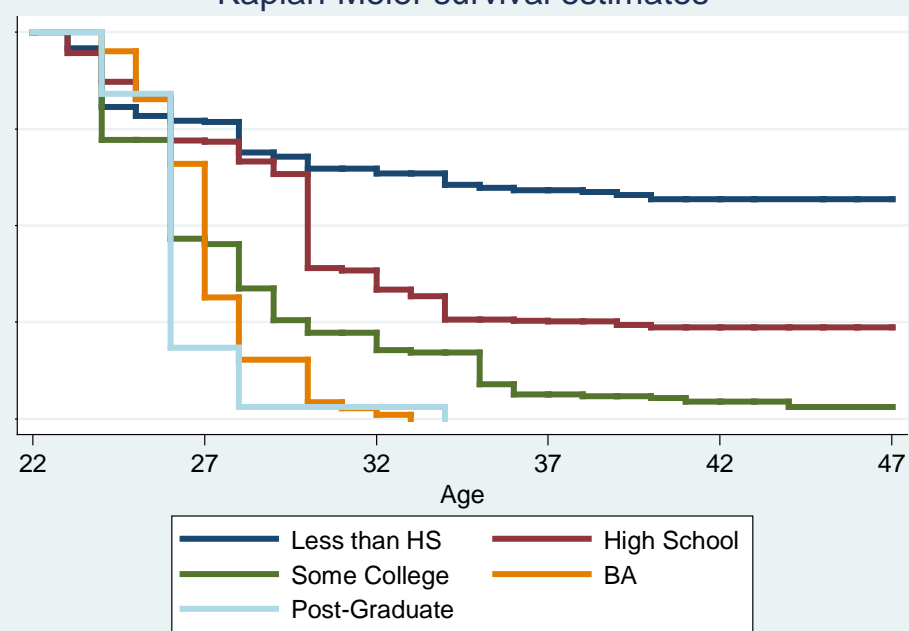
Born in or before 1965

Kaplan-Meier survival estimates



Born after 1965

Kaplan-Meier survival estimates

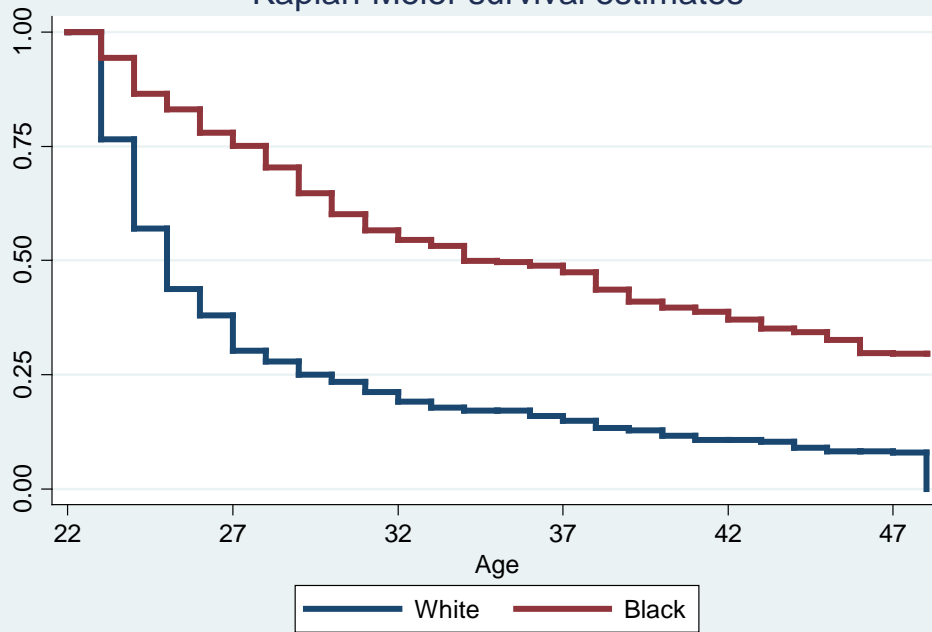


Differences in timing and likelihood by education level
Those differences are wider in later cohort

Time to Median Income

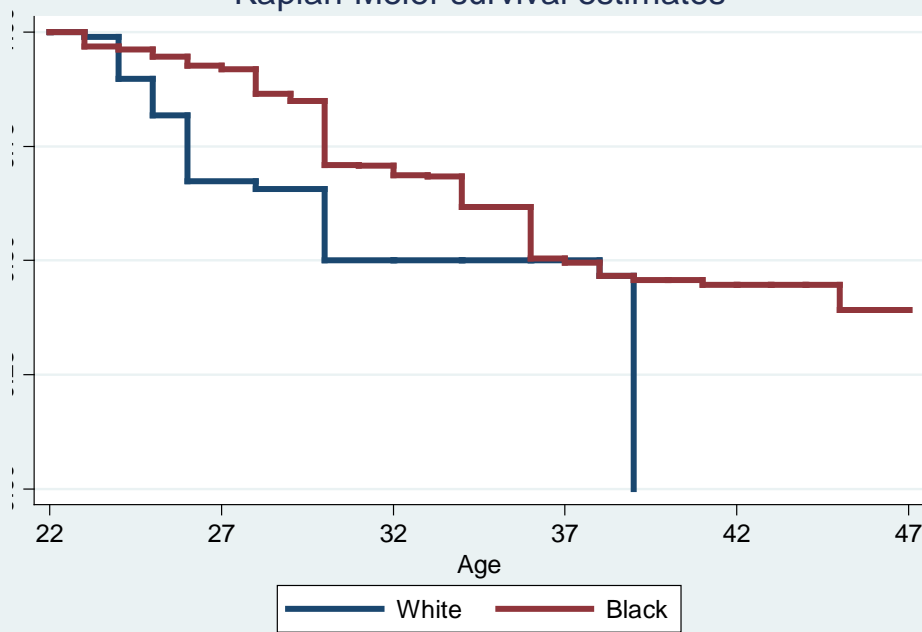
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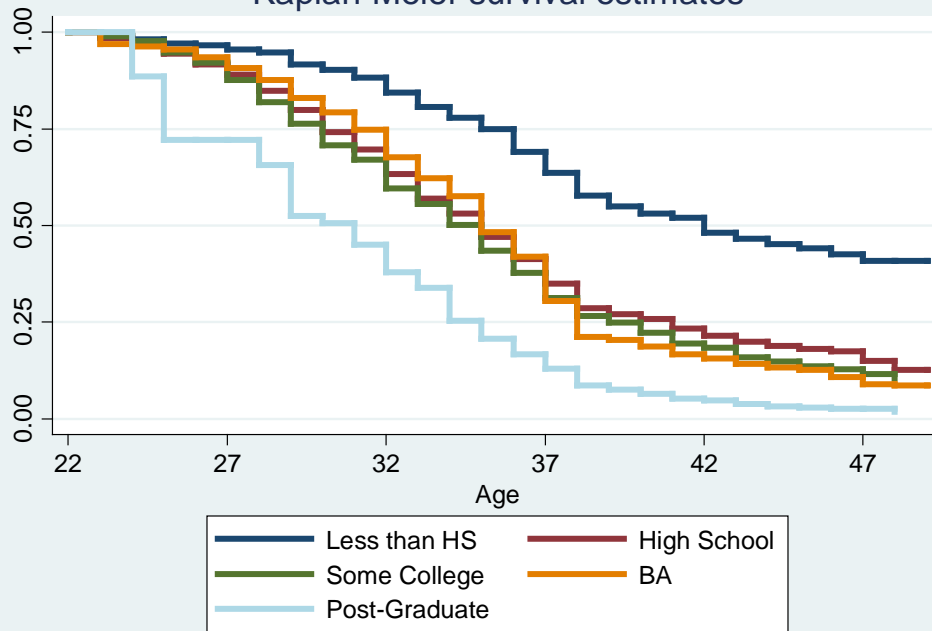
Differences in timing and likelihood by race

By about age 50, those differences are wider in later cohort

Time to Median Wealth

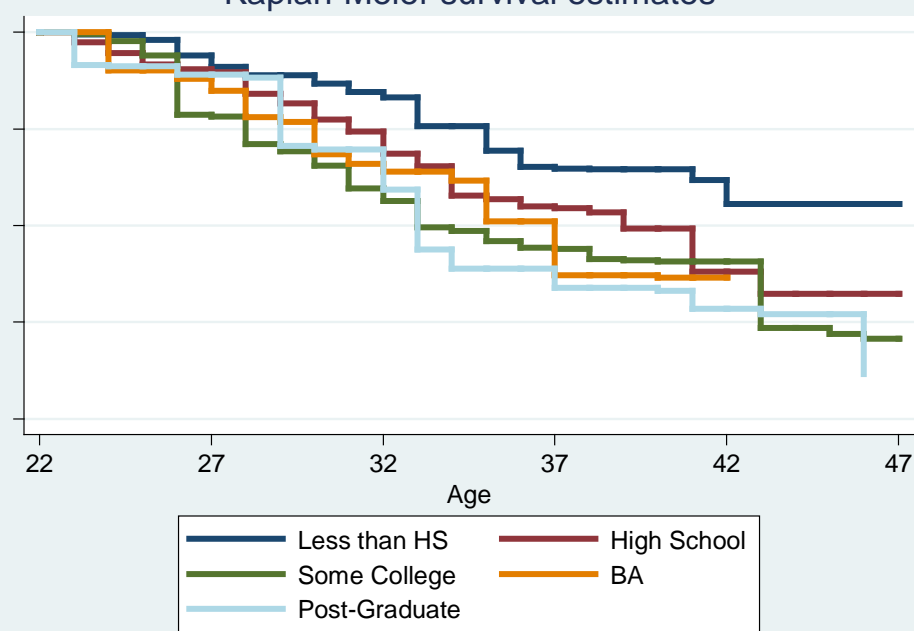
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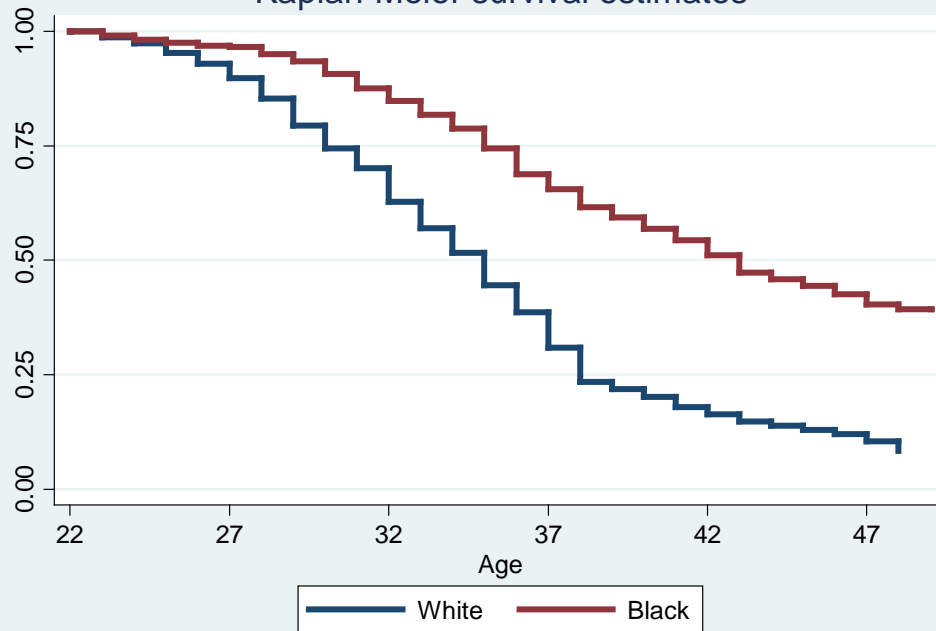


Differences in timing and likelihood by education level
Likelihood is lower in later cohort, differences narrowed

Time to Median Wealth

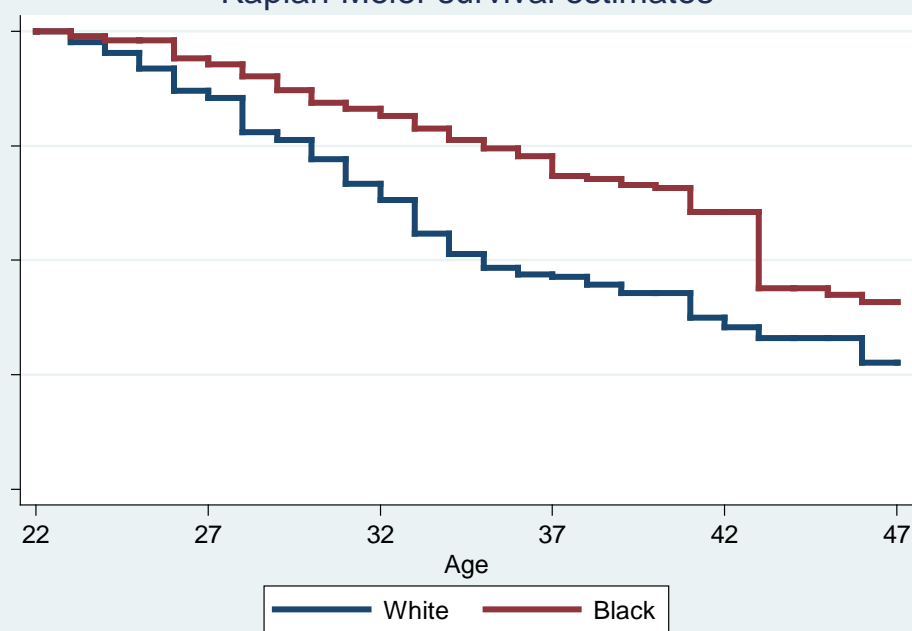
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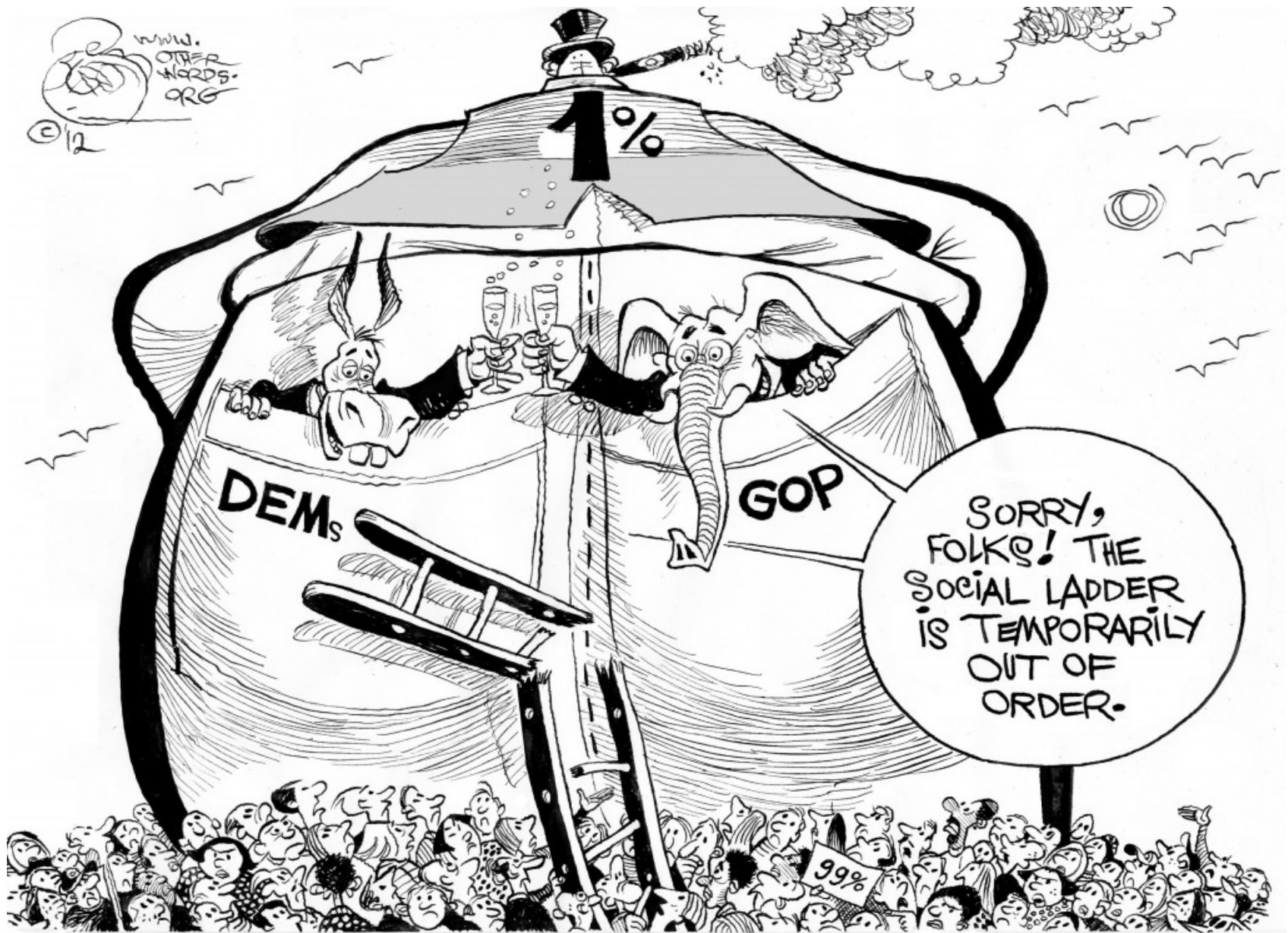
Differences in timing and likelihood by race

Likelihood is lower for whites in later cohort, difference narrowed

Loss of Faith Justified

- Income inequality grew by education and race
- Median wealth less attainable – esp. for whites
- Many contributing factors
 - Wealth inequality
 - Labor market
 - **Education**
 - K-12 growing class gap
 - Post-secondary expansion but rising costs, inequality of type, financing, return







Absolute mobility

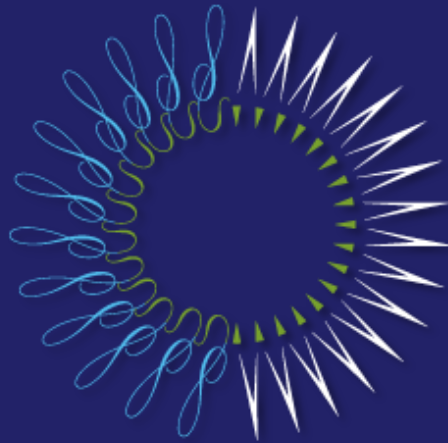


Trading Places 1983



Relative mobility

Thank you



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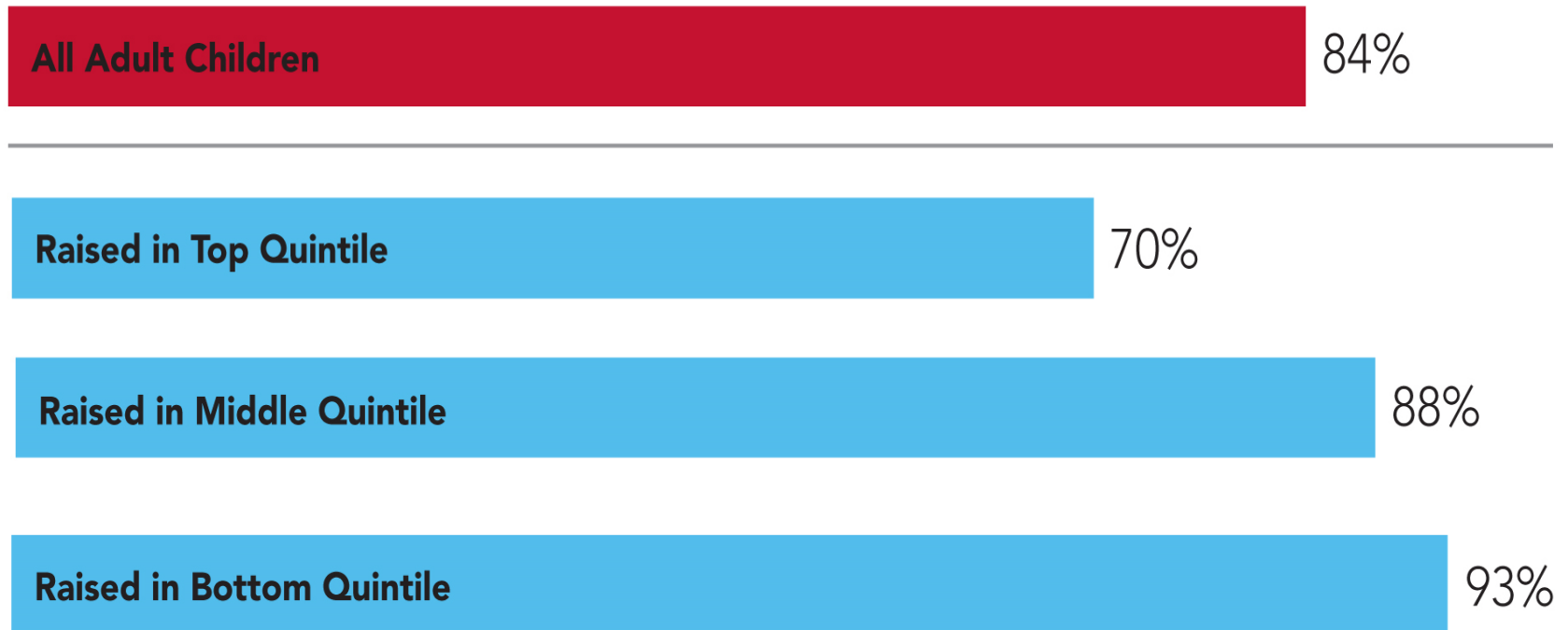
Parachutes and Ladders: Education and Social Mobility in the U.S.

Erin Currier

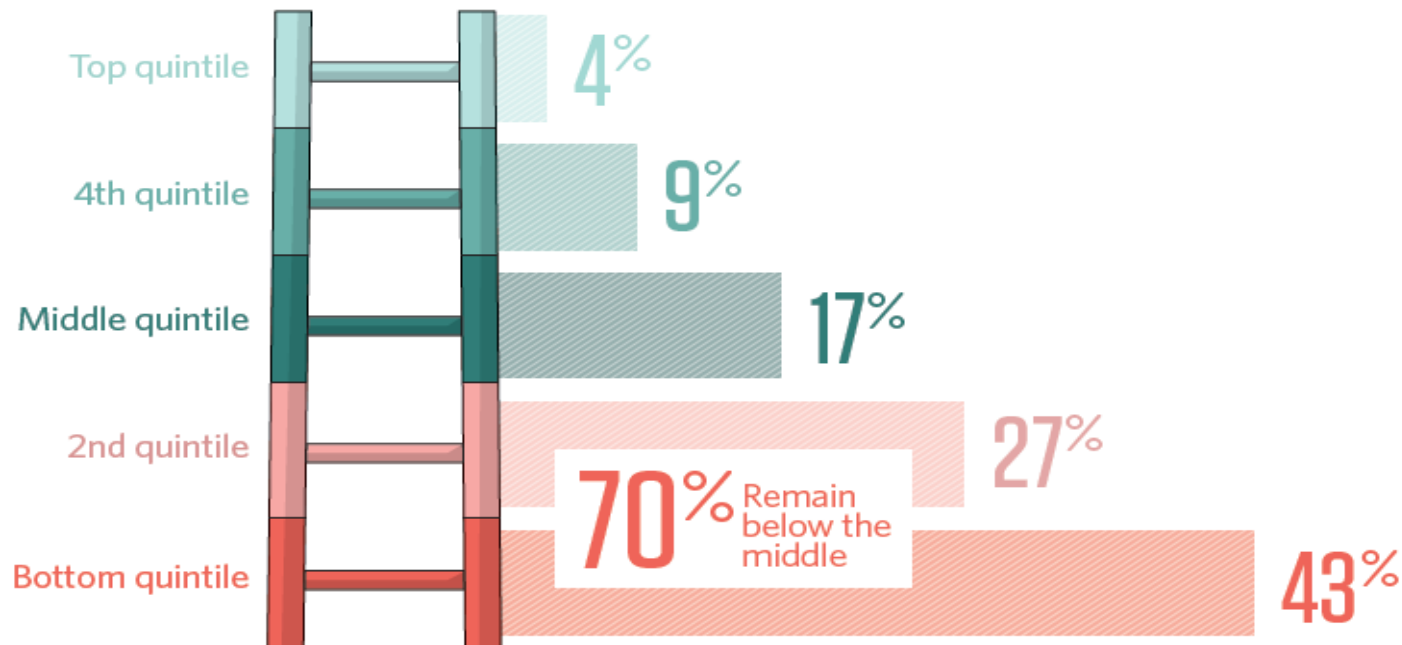
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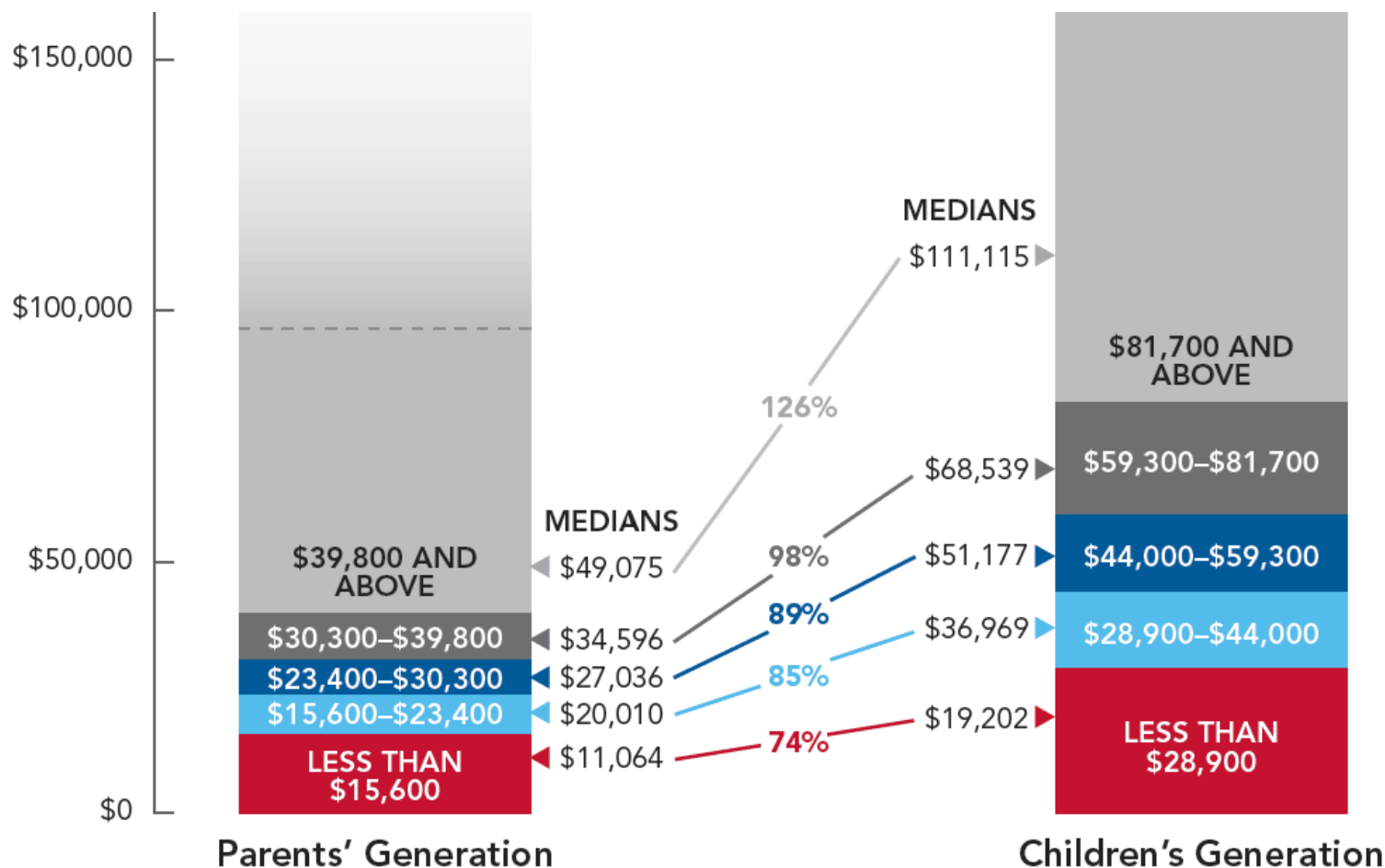
Glass Half Full: 84% of Americans Have Higher Family Incomes Than Their Parents



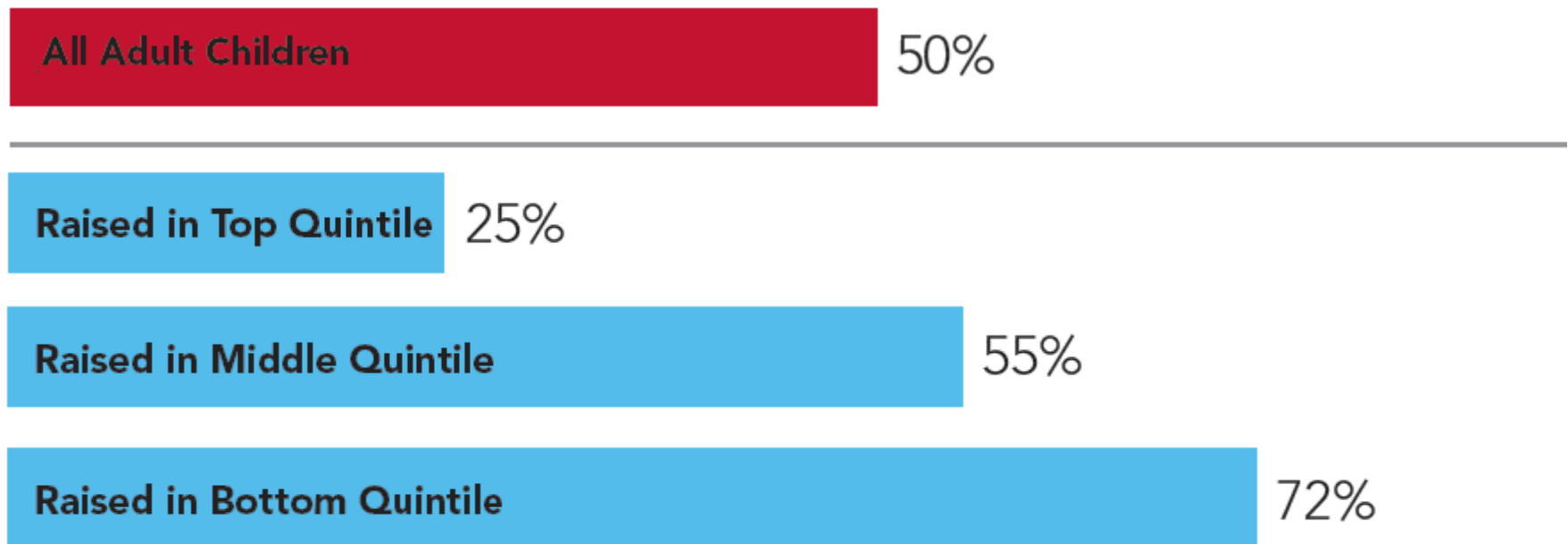
Glass Half Empty: Americans Raised at the Top and Bottom are Likely to Stay There as Adults



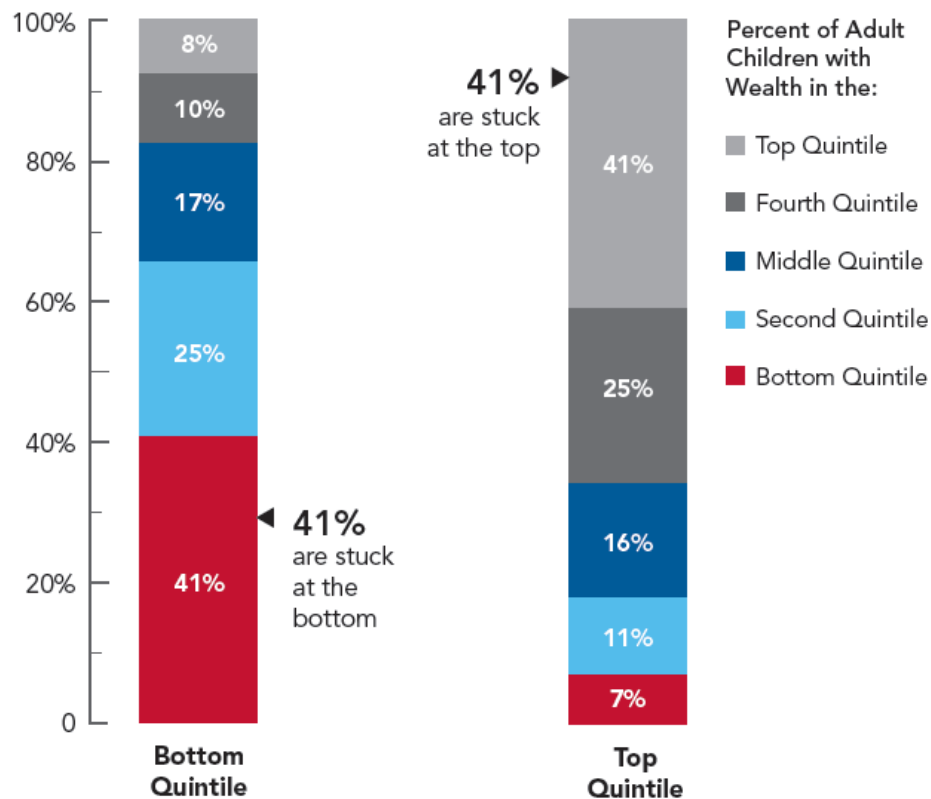
Understanding Absolute and Relative Mobility Together



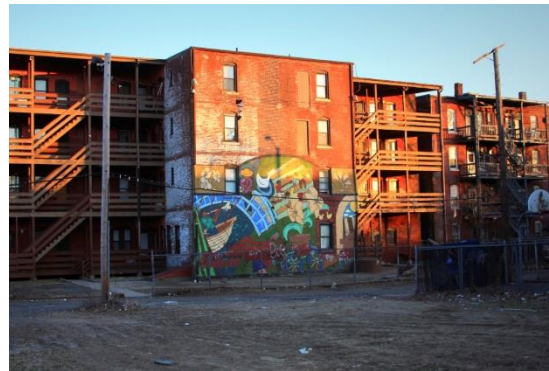
Just Half of Americans Exceed Their Parents' Wealth



Family Wealth is as Sticky as Income

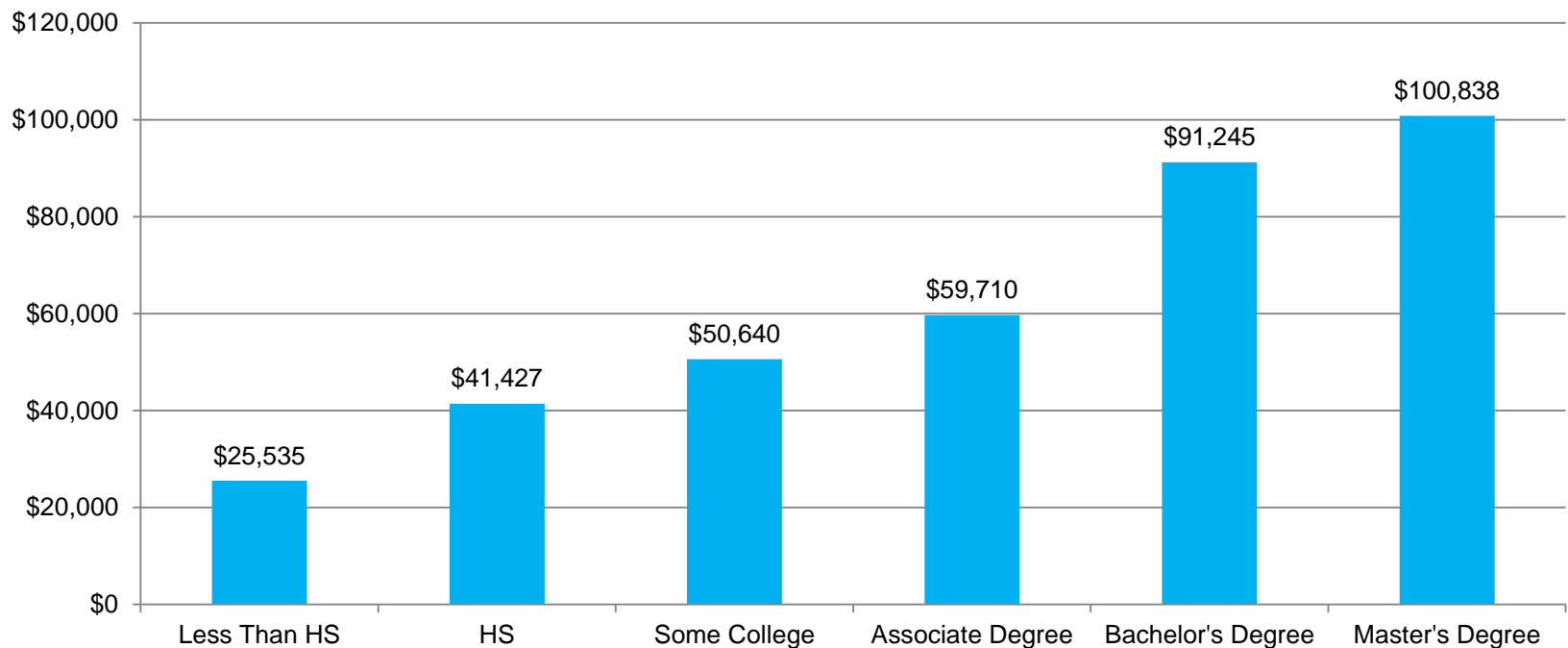


There is No Silver Bullet to Enhancing Economic Mobility



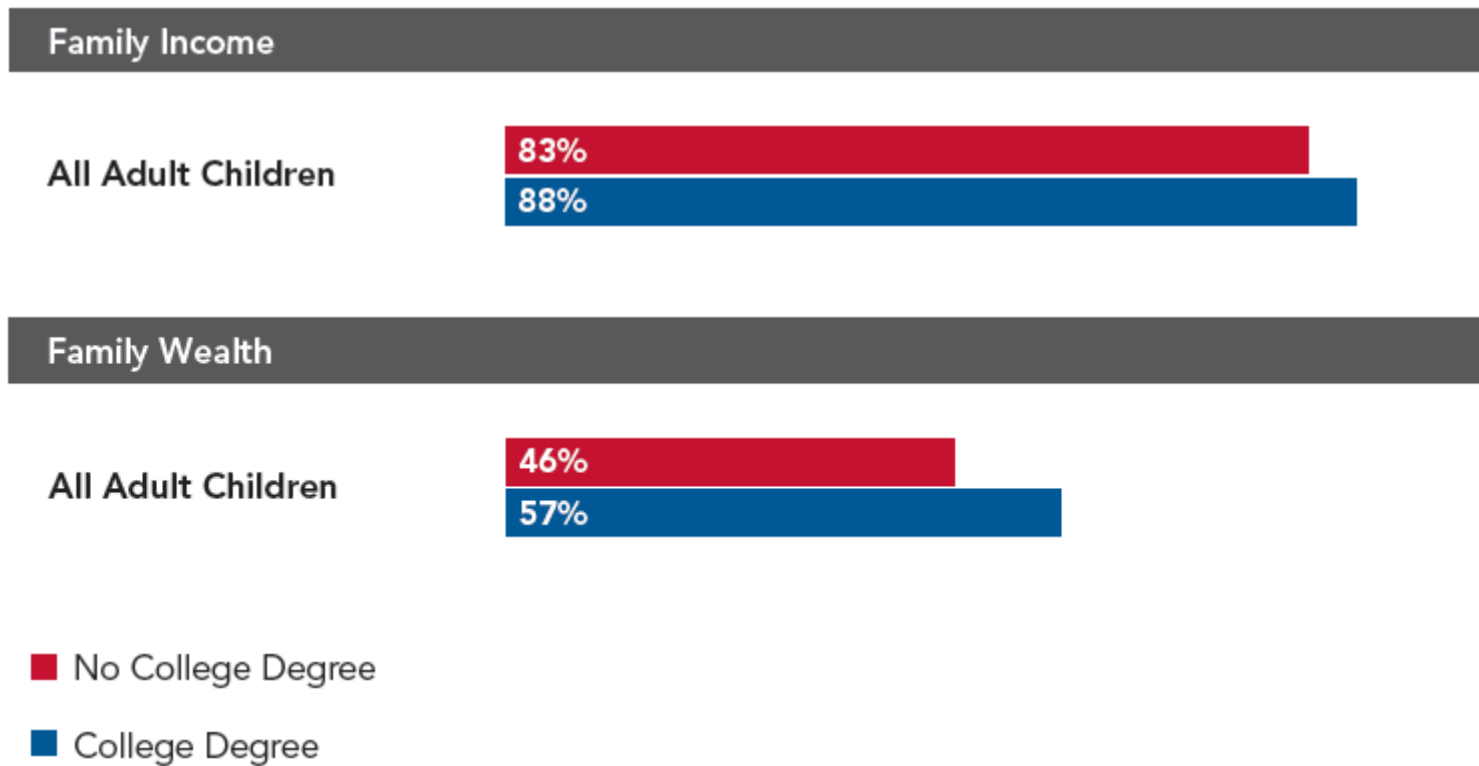
Returns to Education Are High

Median Income by Educational Attainment of Householder, 2014





College Graduates Are More Likely to Exceed Their Parents' Income and Wealth

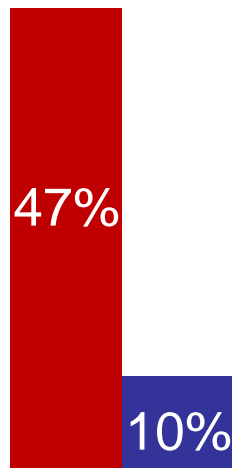




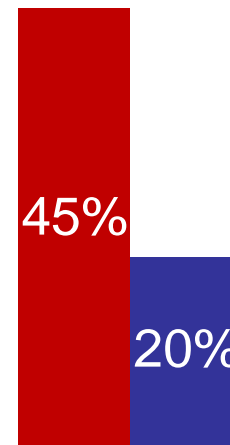
College Graduates Are More Likely to Move Up The Income and Wealth Ladders

Among those raised at the bottom:

Percent stuck at the bottom
of the income ladder

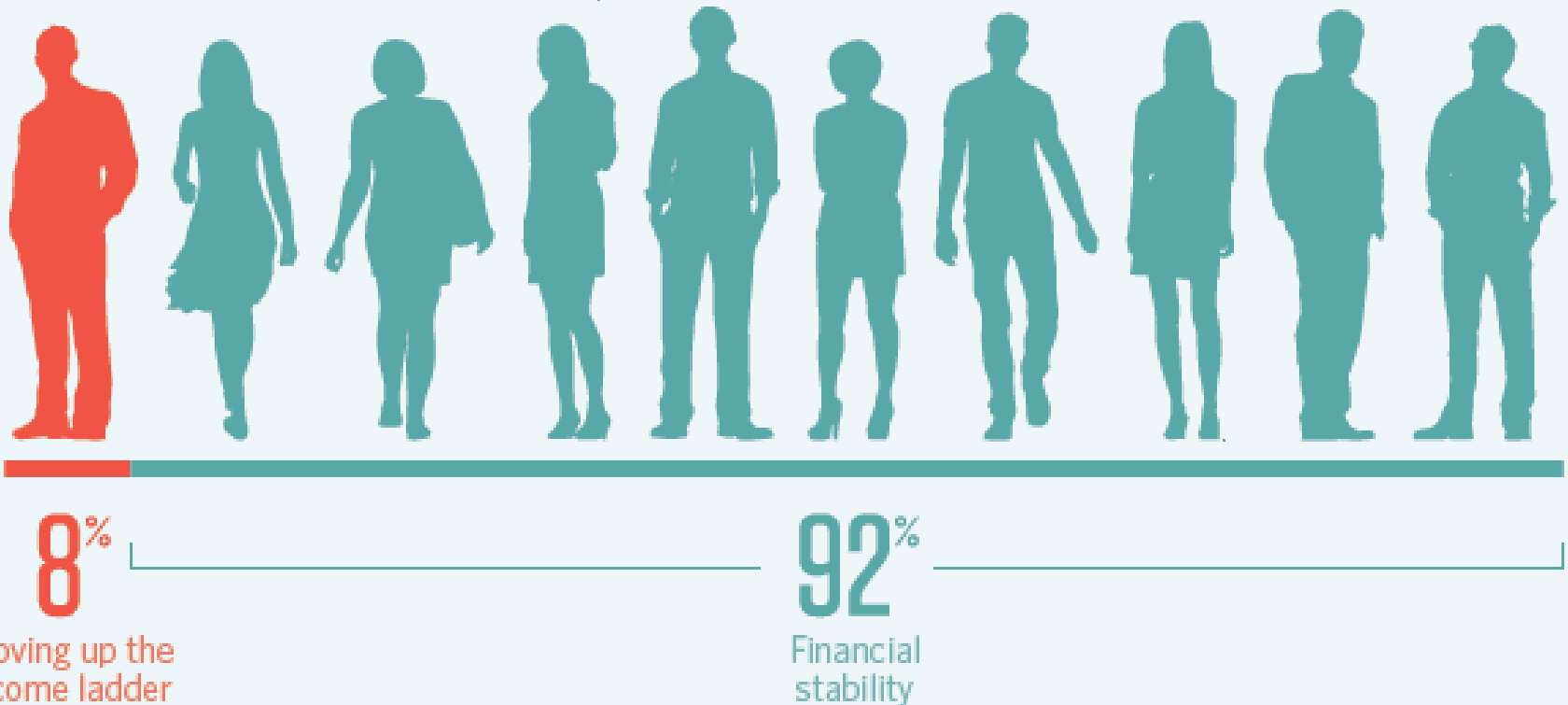


Percent stuck at the bottom
of the wealth ladder



■ No college degree
■ College degree

Most Americans Value Financial Stability Over Income Mobility





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@CurrierErin

www.economicmobility.org

Education and Mobility: Evidence and Limits

Fabian T. Pfeffer
University of Michigan

Education & Mobility

1. **Educational expansion** has improved social mobility ...
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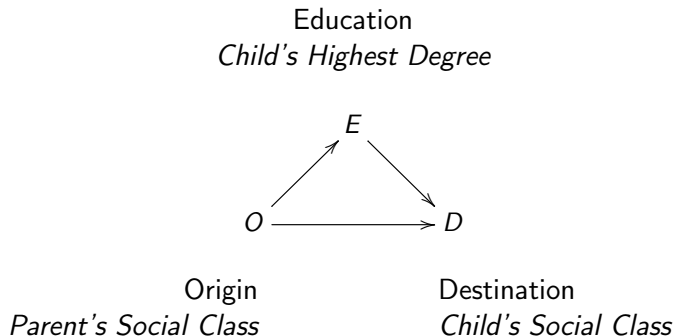
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3. The need for intervention:
Family wealth and educational inequality

The “Social Mobility Triad” & Educational Expansion



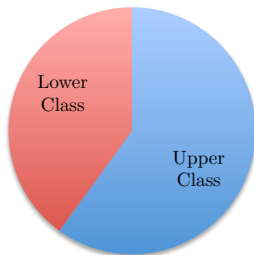
Source: Pfeffer/Hertel (2015, *Social Forces*)

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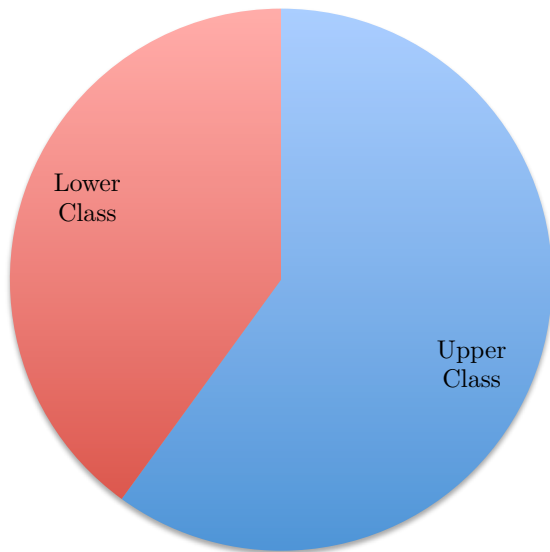


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Educational Inequality & Limits to Educational Policy

- ▶ Educational inequality has been quite stable over last half-century
 - ▶ in most Western industrialized countries
 - ▶ despite educational expansion

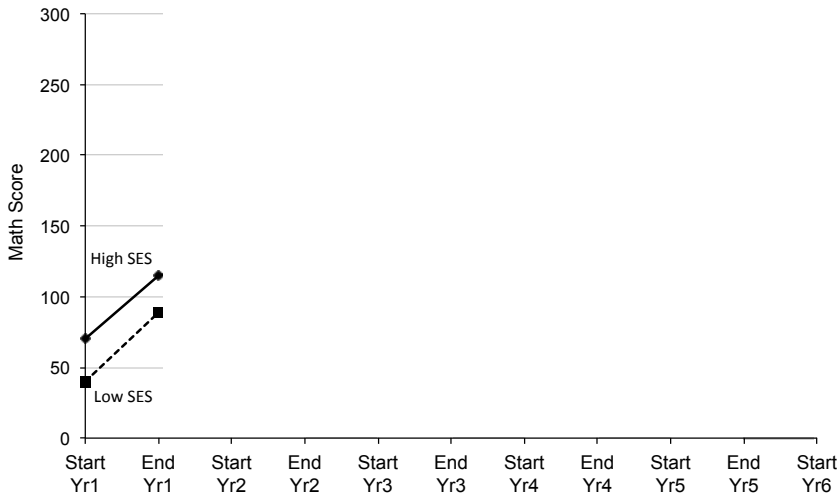
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 - ▶ radical transformation of education system
 - ▶ broad egalitarian reforms

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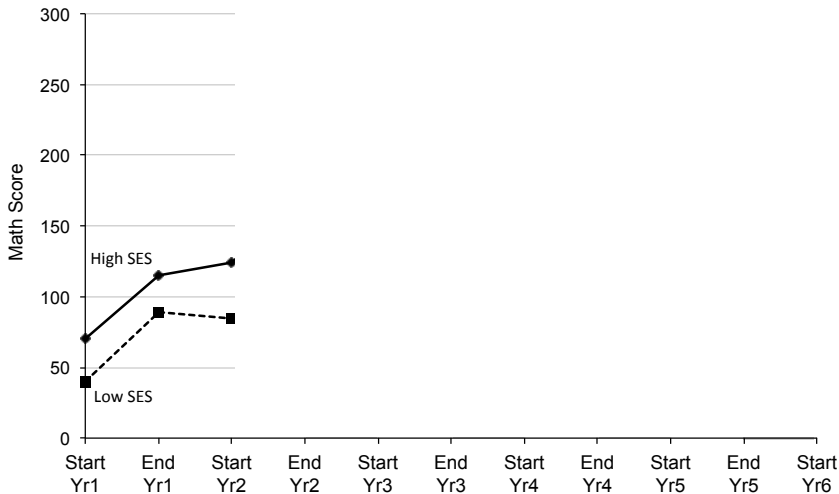
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- ▶ Limits of educational interventions

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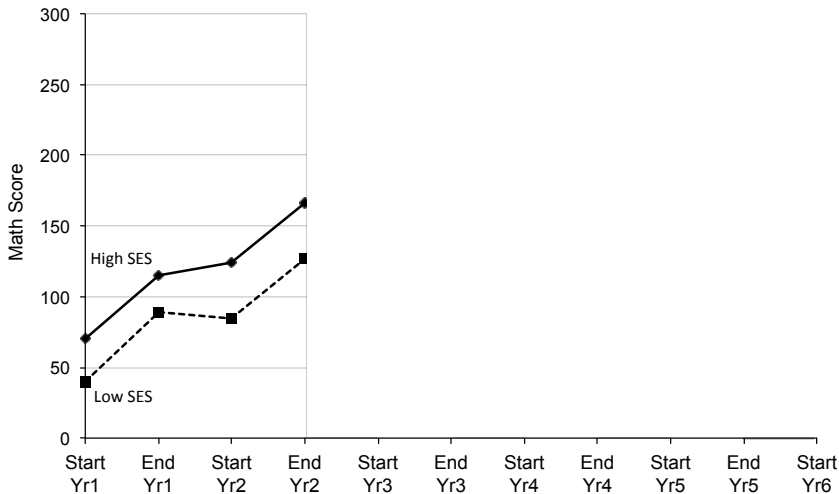
Source: Entwisle/Alexander/Olson (1997): Children, Schools, and Inequality

Educational Inequality & Limits to Educational Policy



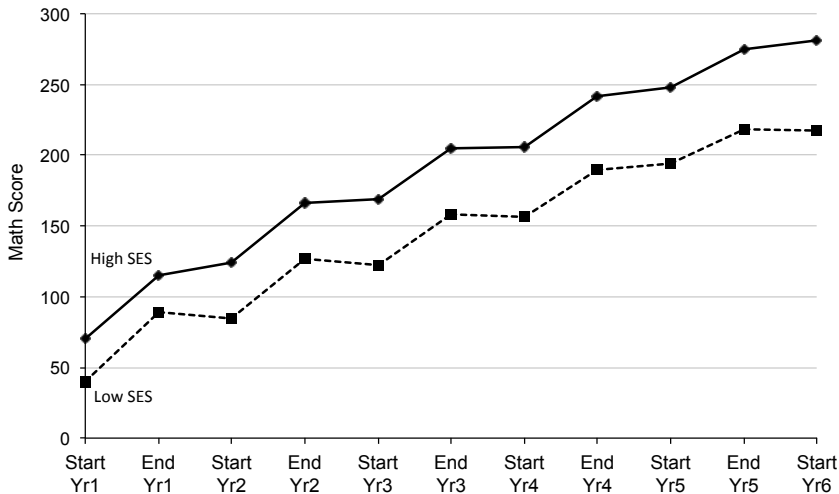
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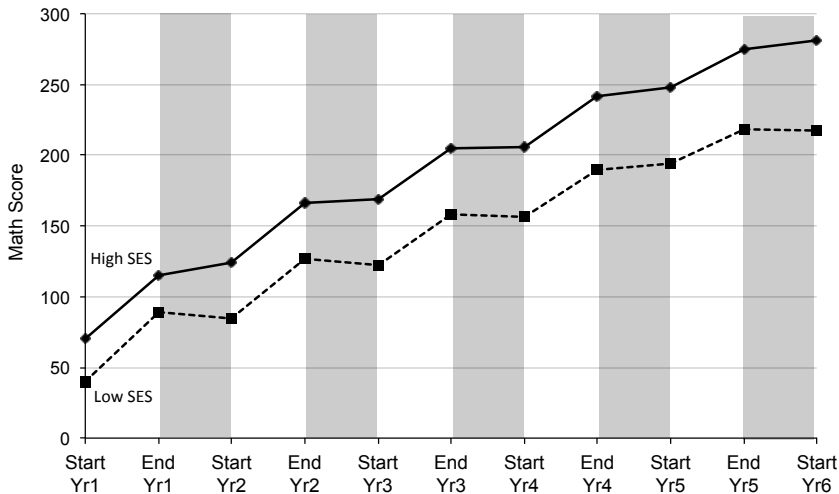
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Wealth and Education

Family wealth / net worth

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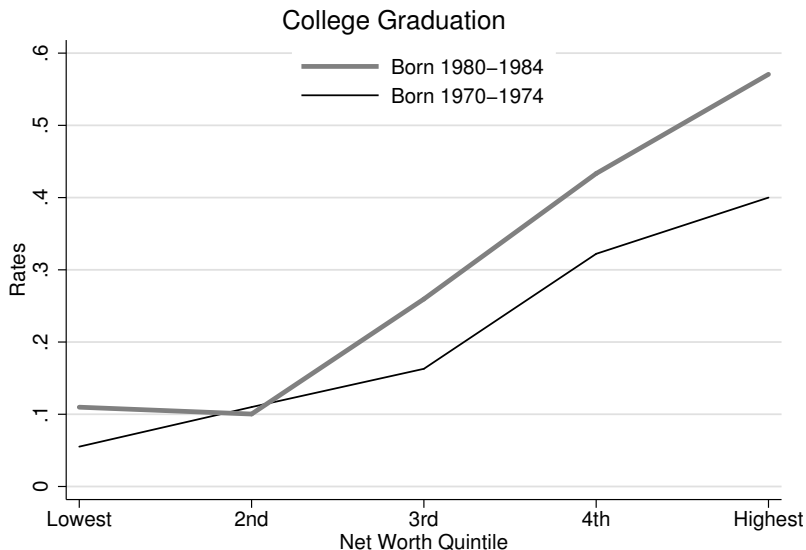
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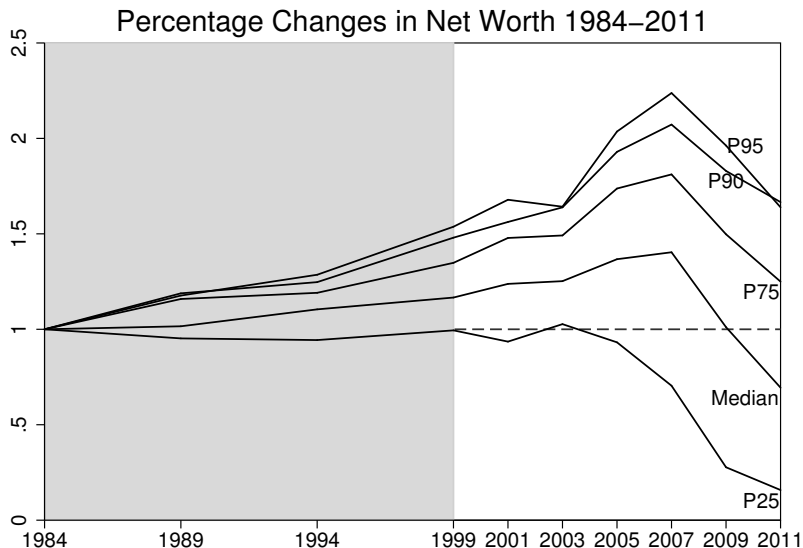
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- ▶ purchasing and insurance function of parental wealth (Pfeffer 2011, Pfeffer/Haellsten 2012)

Wealth and Education



Source: Pfeffer (2016): Growing Wealth Gaps in Education

Wealth and Education



Source: Pfeffer/Danziger/Schoeni (2014, *Annals*)

Parachutes and Ladders: Education and Social Mobility in the U.S.

March 29, 2016

Presentation by

William Elliott, Director of The Center on Assets, Education, and Inclusion



Equity Defined as Affordability

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- The thought process has been, we just have to provide more children with access, **access is equity**. And so, the main goal of financial has been defined as paying for college.
 - As a result, research has focused on showing a college degree pays off. If we get them to college they will earn more.
 - Is a child who attends college and graduates with student debt better off than if they did not attend college at all?

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 - As a result, research has focused on showing a college degree pays off. If we get them to college they will earn more.
 - Is a child who attends college and graduates with student debt better off than if they did not attend college at all?
- Moreover, if the main goal is paying for college, then how people pay for college does not matter.
 - This mindset has helped open the doors for student loans becoming the dominant way we finance education today.

Prophecy of the Pending College Debt Crisis

“But I expressed deep concern that we had not even the remotest idea of what **reasonable debt limits might** be, and that having discovered loans, we might be **tempted to rely more and more** on them as substitute for, rather than a supplement to, societal and parental support. I feared we might place the **heaviest burden on debt on our poorest citizens**. And I expressed concern that if we did, **collection and default problems would grow**, to the disillusionment of all who created the problem.”

John F. Morse, 1977

Coming to Fruition – We Still Don't Know What a Reasonable Debt Limit Is

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Structure of a Financial Aid Revolution

- In *The Structure of Scientific Revolutions* Thomas Kuhn discusses how periods of normal science are interrupted by periods of revolutionary science.
 - Kuhn suggests that during periods of normal science researchers **identify questions to investigate based on existing knowledge**.
 - The insights gained from these analyses are constrained, then, by the limits of the prevailing paradigm. Resulting **changes tend to mostly comprise tweaks around the margins, rather than fundamental reconsiderations**.
 - Periods of normal science persist until the current paradigm becomes **increasingly less able to solve a growing number of the problems**, or when **external events provoke a clamor for a different vision**. A revolution.
- Revolutions seldom start, however, without a spark.

The Spark that has Led to a New Paradigm of Equity

- The Great Recession drew America's attention to the issue of equity in a way that it maybe had not been since the Great Depression.
 - Average household wealth declined 15% between 2007 and 2010 and has only recovered 45% of its value (Boshara and Emmons, 2013)

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 - Average household wealth declined 15% between 2007 and 2010 and has only recovered 45% of its value (Boshara and Emmons, 2013)
- A New Way of Thinking is Helping to Usher in a New Paradigm
 - Are children who have to pay for college with student loans able to achieve similar outcomes as children who do not have to pay for college with student loans when effort and ability are the same?

Doubts about the Ability of the Current Paradigm to Solve a Growing Number of Problems

- Diminishes the Return on a Degree – Post College Financial Health
 - Psychological: Adults 18–39 with a 2- or 4-year degree with outstanding debt are less likely to perceive payoff from degree (Fry, 2014).
 - Labor Market Decisions (Rothstein & Rouse, 2011)
 - Delay Marriage (Gicheva, 2011)
 - Earn less by the time they reach their 40s (Hiltonsmith, 2013)
 - Net Worth (Elliott & Nam, 2013)
 - Retirement Savings (Egoian, 2013)
 - Home Ownership (Cooper & Wang, 2014)

Growing Defaults & Delinquency Rates have Led to Tweaks Around the Margins: Treating the Symptoms not the Underlying Cause

- Policy Tweaks to the Student Debt Program
 - Deferment and Forbearance; Income-Based Repayment; Pay-It-Forward

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- Policy Tweaks May Mask the Growing Crisis
 - About 21% of borrowers avoid delinquency by using deferment or forbearance (Cunningham and Kienzl, 2011).
 - 9 half years after leaving school, the 2005 cohort **has paid down only 38% of its original student debt**. Under a standard 10-year amortization schedule, these loans would be approaching full repayment, and only about 10% of the original balance would remain. (Brown et al., 2015)
 - Of high-balance borrowers, **22% have student loan balances higher in 2014 than they did in 2009**, even without ever falling into severe delinquency or default. (Brown et. al., 2015)

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 - The average time that it takes to repay student loans grew from about 7 years in 1992 to a little more than 13 years in 2010 (Akers and Chingos, 2014). Use of Income-Based Repayment, which extends normal repayment from 10 to up to 25 years, **has doubled over the last two years**.

Why a Fundamental Reconsideration of the Financial Aid System is Needed in America

- Young adults who grow up poor earn less from their degree
 - College graduates from families with an income below 185% of the federal poverty level (FPL) earn 91% more over their careers than high school graduates from the same income group. However, college graduates from families with incomes above 185% of the FPL earn 162% more over their careers than those with just a high school diploma (Hershbein, 2016)

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- Minority children earn less from their degree
 - Researchers at the Federal Reserve Bank of St. Louis find that Hispanic (\$68,379 income/\$49,606 net worth) and Black American students (\$52,147 income/\$32,780 net worth) receive less benefit from having obtained a degree than their White (\$94,351 income/\$359,928 net worth) and Asian (\$92,931 income/\$250,637 net worth) counterparts with regard to their 2013 annual median income and median net worth (Emmons and Noeth, 2015).

Free College Another Tweak?

- The unequal return on a degree suggests that strategies that **focus only on college affordability**, even free college, may fail to achieve some of our most cherished aspirations for education to fulfill its role as an antipoverty strategy or equalizer.
 - It also means that where you start off in life matters and whether or not you have assets growing up matters for the types outcomes you will be able to achieve and for whether education pays off equally for all.
- When it comes to investing in higher education as a path to the American Dream of equitable opportunity for all, then, 'free' without asset building will fall to reduce inequality.

Fundamental Reconsideration of the Financial Aid System: From Debt Dependency to Asset Empowerment

- Children's Savings Accounts (CSAs)
 - Universal programs that serve all young people
 - Leverage investments by individuals, families, and, sometimes third parties
 - Initial deposits (sometimes \$25, \$50, \$500, or \$1,000)
 - 1:1 to 5:1 match
 - Sometimes combined with financial education
- Unlike student debt, CSAs have the potential to work on multiple dimensions—early education, affordability, completion, and post-college financial health

CSAs Combined with a Promise

- Given that the poor can only save small amounts, there is also a need for a Promise.
- Example of a Promise Program
 - The Kalamazoo Promise in Kalamazoo Michigan guarantees that students who live in the school district and attend public schools from elementary through high school will receive a grant equivalent to the cost of tuition and fees at in-state public institutions.
- Through the mechanisms of initial seeds and savings incentives, CSAs provide a vehicle to facilitate a Promise to all of America's children.
- Adding the Promise is critical for CSAs to become the equalizer they have been envisioned to be.

CSAs are a Long-Term Solution, but we also Need a Short-Term Solution: A Targeted Bailout

- A bailout for all households might *increase* the racial wealth gap
 - While eliminating student debt for all households regardless of income increases median net worth for young white and Black households, white families see a greater benefit likely due to a higher likelihood of completing college and graduate degree programs.

CSAs are a Long-Term Solution, but we also Need a Short-Term Solution: A Targeted Bailout

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 - While eliminating student debt for all households regardless of income increases median net worth for young white and Black households, white families see a greater benefit likely due to a higher likelihood of completing college and graduate degree programs.
- A progressive student bailout policy would dramatically reduce the racial wealth gap among low-wealth households
 - Eliminating student debt among those making \$50,000 or below reduces the Black-white wealth disparity by nearly 37% among low-wealth households, and a policy that eliminates debt among those making \$25,000 or less reduces the Black-white wealth gap by over 50%.
- Note. This comes from directly from report by Demos and the Institute on Assets and Social Policy
<http://www.demos.org/publication/less-debt-more-equity-lowering-student-debt-while-closing-black-white-wealth-gap>

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Thanks