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# Purchasing power of credit, social mobility, and economic mobility

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## PURCHASING POWER OF CREDIT, SOCIAL MOBILITY, AND ECONOMIC MOBILITY

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### ABSTRACT

Because barriers to wealth and limitations on purchasing power have a negative effect on career mobility, individuals planning their careers need to understand the factors that may influence their long term job prospects and attainable career goals. This paper takes a qualitative approach to examine how purchasing power can limit social and economic mobility. While occupational choice provides a primary path to wealth accumulation and access to social networks, financial decisions and other influences can limit career, social, and wealth building opportunities.

**Key words:** Purchasing power, credit availability, social mobility, economic mobility, career prospects.

### 1. INTRODUCTION

Most societies use some method of exchange (e.g., currency, credit, trade) to facilitate economic transactions. Without currency or bartering, transactions are dependent on consumers' purchasing power. In most cases, purchasing power is associated with income; however, credit can bridge gaps between future income and immediate consumption to build wealth and has become a major factor in the development of a consumer's purchasing power. Credit and debt can be positive when used for purchases associated with home ownership, education, and vehicles, provided that these purchases are used to better a consumer's economic and social standing. Credit can be negative when used to consume goods beyond what future income can sustain.

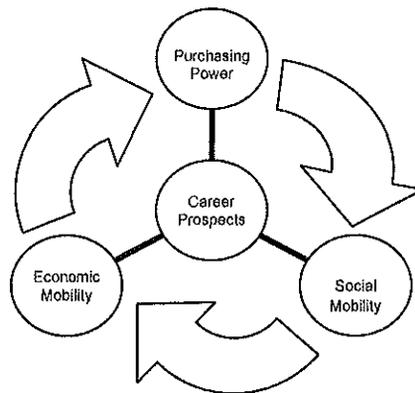


Figure 1- Purchasing Power and Career Mobility

Social mobility and economic mobility are two factors consumers can focus on to work towards improving their social standing and economic circumstances. Several articles concerning relationships between social mobility and economic mobility (see Aaronson & Mazumder, 2007; Ermisch, Francesconi, & Siedler, 2006; Gans, 2007; Munshi & Rosenzweig, 2006) have been published. Definitions offered by Gans (2007, p. 154) seem most appropriate: economic mobility is "...the move to a higher or lower level of income, wealth, education, employment status and standard of living; and social mobility is the movement to a higher or lower class or status position."

While wealth building can be defined in economic terms such as asset accumulation and consumption, social standing can be contingent upon emotional bonds among similar groups (Wydick, 1999). Social groups can be formed based on similarities, such as, academic (Munshi & Rosenzweig, 2006), culture (Gans, 2007; Munshi & Rosenzweig, 2006), family (Ermisch, Francesconi, & Siedler, 2006; Gans 2007; Wilson, 1998), political (Szelényi & Kostello, 1996; Wydick, 1999), and wealth (Kim, 2007). Distinctions among and within social groups can contribute to perceived differences in equality. For example, career paths tend to have a direct effect on social status and economic prosperity: Physicians earn more money and respect than janitors. Therefore, children are encouraged to dream and explore careers society views as having strong attributes such as, earnings, social status, and quality of life. But, how do individuals materialize childhood dreams in reality? Purchasing power is the ability to acquire resources and direct those resources towards life's goals. Purchasing power can be provided by an individual's accumulation of assets or wealth or by a third party known as a creditor. A creditor facilitates transactions by being a financial intermediary among consumers and sellers of products and services. Consumers are expected to repay any indebtedness and expenses incurred by creditors plus any pre-negotiated fees. In some cases, indebtedness causes a consumer to suffer undue hardship and experience financial disaster.

Previous research and discussion provides general clarification of the factors involved in long term career potential and a deeper understanding surrounding relationships among purchasing power, social mobility, and economic mobility.

## 2. LITERATURE REVIEW

This section presents relevant literature concerning (a) the purchasing power of credit, (b) social mobility indicators, and (c) economic mobility indicators. Each subsection presents information outlining critical concepts and ideologies that form a basis for discussion.

### 2.1 The Power Purchasing Power of Credit

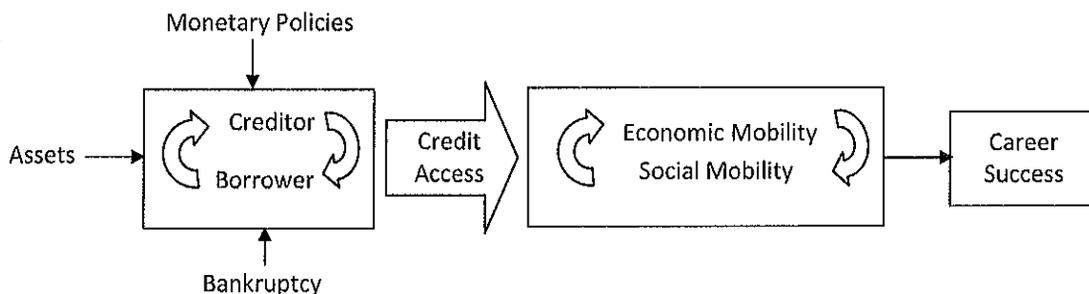


Figure 2- The Purchasing Power of Credit

Credit access can significantly improve economic and social mobility (Wydick, 1999). As mentioned, the relationship between consumer (borrower) and creditor (lender) is essential to obtaining access to credit. Historically, most financial transactions have been between and among individuals that were familiar with each other (Hart, 2007). This is not the case in today's economies. Plastic cards and digital transactions, which are steadily replacing currencies, have removed much of the personal relationships that were once relied upon for credit purchases.

Currencies have a long and traditional history extending back to around 3,000 B.C.E. (Hart, 2007). A currency may be backed by the good faith and name of an issuer or by a commodity like gold and silver. To facilitate trade, early currencies were created by individuals within communities and not by governments. Only during the Renaissance did governments establish partnerships with individuals to advance society economically. These partnerships revolved around regulation and standardization of a money supply and legitimizing financial intermediaries.

With most credit systems, sometimes individuals cannot satisfy creditors. When an individual has extended credit beyond repayment, legal protections against creditors may be obtained through bankruptcy proceedings. According to Thorne (2007), bankruptcy can stabilize economic conditions for a short term but can have long term damaging consequences through credit reporting.

Within the United States, most credit scores and information are obtained from Equifax, Experian, and TransUnion (Thorne, 2007). While there are differences concerning the presentation of information among suppliers, most credit scoring systems are very similar. Each credit scoring system reduces individuals, as well as organisations, to a numeric value that project a borrower's default risk (Kolesar & Showers, 1985).

## 2.2 Social Mobility indicators

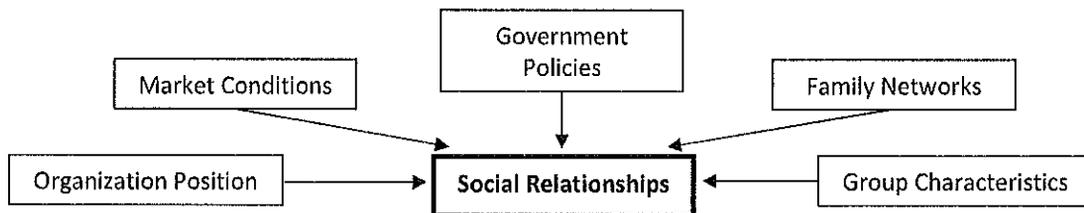


Figure 3- Social Mobility

Social mobility directly effects credit access and economic mobility (Ermisch, Francesconi, & Siedler, 2006; Hart, 2007). While market conditions provide a basis for mobility, society creates market constraints through establishing governments and crafting policies. For example, Szelény and Kostello (1996, p. 1094) suggested the extent of *market penetration*, some point between a centralized public economy and a free market capitalistic economy, establishes a range of social and economic mobility. Thus, advancing social and economic status may be hindered by market penetration.

Social mobility is somewhat dependant on family positions and family networks. Family members can provide social and economic support (Henly, Danziger, & Offer, 2005). More often, support functions diminish among less fortunate families. To survive, less fortunate families tend to share resources and responsibilities for raising children. Limited access to family support and other supportive networks can reduce social mobility and hinder meeting economic obligations. To illustrate this concept, Zhan (2006) asserts single mothers with limited social connections may limit asset accumulation and employment opportunities.

As an example of family survival, Wilson (1998) notes early farming families established long-term goals centring on land. Land represented the most valuable asset and a means of production for future generations. Loss of land could devastate and destroy economic prospects and social standings of individuals and families. Therefore, family economic and social standing goals were focused on survival. Gains in economic and social standing were realised over subsequent generations. Thus, individual geographic relocation was seldom done if everything was held constant.

Historically, marriage was sometimes used as a method to improve both social mobility (mostly upward through ties with more affluent families) and increase economic mobility by acquiring wealth through social connections. However, marriage as a means of mobility can be contingent on established family dynamics (e.g., the caste system) (Munshi & Rosenzweig, 2006). For example, career choices of family members directly affect the next generation's career choice (Gans, 2007). In most cases, offspring tend to be oriented towards higher skilled and greater knowledgeable positions than parents.

Positions within organizations can provide opportunities for altering an individual's social status (Gans, 2007). Usually, initial opportunities for social mobility are from employers. Social mobility through employment offers are normally contingent on skills and knowledge required of an organizational position (Gans, 2007) even with a recommendation from another employee (Henly, Danziger, & Offer, 2005).

Social mobility can be a slight or a grand move either upward or downward (Gans, 2007). An example of a grand move in social mobility would be obtaining membership within a closed organisation, such as a country club, as these organizations provide access to larger social networks.

Gans (2007) suggests social mobility is achieved through acceptable assimilation of group values and characteristics. Shah (2007) suggests assimilation is never total and individuals will still retain some form of cultural identity after being accepted as a group member. Differences in ethnicity can cause differences in social values and hamper assimilation. Therefore, social mobility is contingent upon being accepted as a member of a particular group, which could change economic mobility.

### 2.3 Economic Mobility Indicators

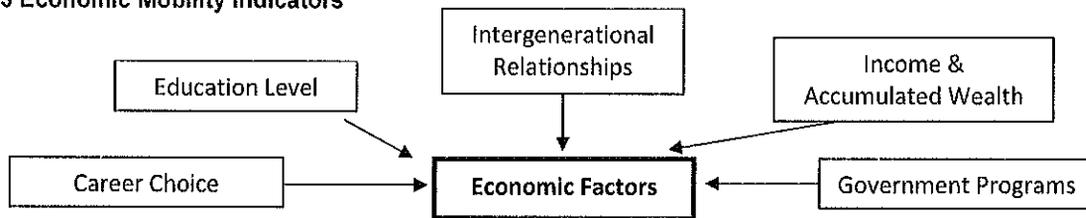


Figure 4- Economic Mobility

Income, career choice, and education are critical driving forces that can alter economic mobility (Thorne, 2007). The more one earns, the more one can consume and accumulate. A better career equals better pay. More education translates to more money. Zhan (2006, p. 143) found families below 200% U.S. federal poverty level were less likely to have access to assets. In some cases, having access to assets and the ability to direct and control those assets can facilitate economic mobility. To assist individuals and families meet some basic needs, public assistance programmes offer resources to qualifying individuals (Henly, Danziger, & Offer, 2005). Ideally, these resources are meant to stabilise a family's economic decline, at least minimise a decline, until circumstances improve. Greater effectiveness of public assistance programmes has been linked to strong relationships between recipients of public assistance and social networks. Likewise, education has been linked to increased assets and the accumulation of wealth (Zhan, 2006).

Finland, according to Pekkala and Lucas (2007), experienced intergenerational elasticity (as defined by cohorts born between date ranges) decreases from 1930 to 1950, stagnation from 1950 to 1960, and increases from 1960 to 1990. "Inter-generational mobility refers to the changes in social status and economic mobility which may occur from one generation to another." (Wikipedia.com, 2012). This has a direct effect on career potential.

Literature (Gans, 2007, Munshi & Rosenzweig, 2006; Wydick, 1999; Zhan, 2006) suggests education is integrated into economic mobility. So much so, education level dramatically shifts employment and earnings opportunities for individuals. Sometimes access to educational programs makes differences in an individual's earnings potential. Because access to education and job training can be contingent on available financial resources, education is a component of economic mobility (Gans, 2007; Thorne, 2007; Wydick, 1999; Zhan, 2006).

From this section economic mobility appears to be both subject to and dominate to social mobility.

### 2.4 Theoretical, Empirical and Practical Limitations

Theoretical evidence illustrates relationships exists between purchasing power and economic mobility; and economic mobility partly results from social relationships. Labour markets can affect social mobility (Ermisch, Francesconi, & Siedler, 2006), especially in urban settings (Wydick, 1999).

To illustrate the relationships between labour markets and social mobility, Gans (2007) suggests educational pursuit may be driven by competition within labour markets. Tight competition causes individuals to pursue education and better credentials to obtain increased chances at economic movement. Thus, economic mobility is directly linked to education (Aaronson & Mazumder, 2007; Ermisch, Francesconi, & Siedler, 2006; Pekkala & Lucas, 2007).

From a practical standpoint, employers provide a means to advance economically and socially (Gans, 2007; Szelény & Kostello, 1996). Barriers to employment are barriers to advancement. For example, a poor credit check (Applegate, 2001; Lofton, 2007; Thorne, 2007) can remove an applicant from an employer's selection and hiring process or cause termination of employment (Thorne, 2007).

Literature provides theoretical, empirical, and practical evidence that social mobility can drive economic mobility and restraining social relationships can prohibit economic prosperity. In many cases, these restraining relationships are a result of debt. But, literature does not clearly define how credit or purchasing power can create a restraining relationship, especially given today's modern economic purchasing tools (e.g., credit cards and digital transactions). Therefore, the contribution of this paper is extending knowledge concerning relationships between purchasing power and its affect on an individual's career as expressed in economic mobility and social mobility.

### 3. CONCLUSION

The general theory of this paper is *barriers to wealth and limitations on purchasing power can have a negative effect on career mobility*. To review this statement, several relationships were identified to assist in the evaluation of aspects of this general theory:

- *Individuals that have poor financial situations, such as bad credit and limited financial resources, experience reduced career choices.*
- *Reduced career choices restrict economic mobility.*
- *Reduced career choices restrict social mobility.*

Barriers to wealth and limitations on purchasing power can have a negative effect on career mobility. Laws and traditions become a basis of social and economic relationships and the ability to change social standing and economic circumstances. Career mobility can be an effective means to shift social standing and economic circumstances. Career choice is the common preference for mobility. However, limited career choices restrict mobility.

Unequal social relationships can restrict career choices. Likewise, career choices may be limited as a result of poor financial situations. In turn, career restrictions become barriers to asset accumulation and wealth building through income limitations. This is the heart of purchasing power: the ability to consume and build wealth. Thus, limitations on consumption and wealth limit purchasing power.

Globalization, automation, and virtual interactions have dramatically changed the business environment where production was tied to land into a new environment where digital transactions are common. Like feudal barons, credit organizations speak (through credit reports) to limit a debtor's ability to economically or socially advance: restricted employment, increased rents, and increased living expenses. Unlike feudal barons, the power of credit organizations is not tied to land, but to individuals and individual relationships.

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