

Our fading American Dream and what we can do about it



BY MARTIN HART-LANDSBERG
CONTRIBUTING COLUMNIST

A recent study published in Science Magazine, "The fading American dream: Trends in absolute income mobility since 1940," makes clear that the workings of the contemporary U.S. economy have largely undermined one of

the core tenets of the so-called American Dream – that children can expect to enjoy a higher standard of living than their parents.

In particular, the six authors, all economists and sociologists, found that the percentage of children that earn more than their parents – what they call the rate of "absolute income mobility" – has "fallen from approximately 90 percent for children born in 1940 to 50 percent for children born in the 1980s."

The study and its results

The authors used data from a variety of government sources to calculate the percentage of children with earnings greater than those of their parents at a comparable age. As a first step, they defined the income of the child as the sum of the pre-tax incomes of the child and their spouse when the child was age 30, and the income of the parents as the sum of the spouses' pre-tax incomes when the highest earner was between ages 25 and 35.

More specifically, 92 percent of children born in 1940 grew up to earn more than their parents. In sharp contrast, only 50 percent of children born in 1984 grew up to earn more than their parents. The downward trend was especially steep for children born between 1940 and 1964. There was a pause in the decline in absolute mobility over the next 10 years, thanks in large part to the economic boom of the late 1990s. However, the percent of children earning more than their parents resumed its decline in the mid-1970s, hitting 50 percent for children born in 1980 and 1984.

The authors tested the reliability of their work in a number of ways. In each case, the authors' initial conclusion, that the percent of children earning more than their parents has fallen substantially since 1940, was

confirmed. And, given the general stagnation in earnings over the last twenty years, it is a good bet that the percentage of children earning more than their parents has now fallen below 50 percent.



"Brother can you spare a dime," by Albert Potter, Woodcut, 1933/36.

Explanations

If we are going to reverse this decline we have to understand its cause. The authors examined two different possible explanations. The first was that the decline was caused by slowing rates of economic growth. The second was that it was caused by growing income inequality.

Ultimately, the message of the study is clear: The decline in absolute mobility is primarily due to the rise in inequality, not the slowdown in growth. Therefore, efforts to speed up growth, even if successful, are unlikely to do much to boost the relative well-being of future birth cohorts. If we want to substantially improve things we need to reverse the rise in inequality.

The take-away

Unfortunately, the authors left unexamined the causes of the growth in inequality. But really there is nothing very mysterious about these causes. In brief, they can be found in the workings of the contemporary U.S. economy or more specifically, the core strategies embraced by corporations in their pursuit of profit: weaken unions and restructure work, globalize economic activity, promote privatization, and embrace financialization.

For example, corporate-directed attacks on unionization and the intensification and fragmentation of work has left workers with little power to defend their rights in the workplace or capture a fair share of the income they produce with their labor.

Globalization has enabled corporations to produce using lower cost third world labor and win concessions from workers in this country who fear losing their jobs. Privatization has turned public goods like education into new tax-supported profit centers for large corporations, and almost always with the replacement of unionized public sector workers by lower paid non-union workers.

Financialization, by privileging mergers and acquisitions, stock buybacks, and higher dividend payouts over real job-creating investments in plant and equipment, rewards top managers and stockholders while weakening the overall health of the economy. These strategies in combination have successfully pushed up corporate profits and the incomes of the very rich at the expense of average worker earnings. The outcome: growing inequality and a decline in absolute mobility.

It is important that we understand this, that the generational decline in well-being is largely caused by growing inequality that is driven by corporate strategies that are all too often supported by government policies. It means that the steady decline in generational fortunes is not the result of some "natural," unalterable modernization process.

Hopefully we are seeing the birth of a new, powerful social movement that is willing and able to challenge and change those strategies and policies.

Financialization is often described as the process by which financial institutions, markets, etc., increase in size and influence.

street smart economics

Martin Hart-Landsberg is a Professor of Economics Emeritus at Lewis and Clark College. Street Smart Economics is a periodic series written by professors emeriti in economics for Street Roots.

A Clarion Call

by Edmundo Cardenas

I love downtown when opulence meets homelessness, addiction and poverty. I myself live at the margin of life on fixed income, a dialysis patient and recovering bipolar sufferer. I see people every day gesturing and talking to themselves. I weep for them and myself. The situation here requires a community-wide effort and response. To borrow a line from an old cartoon, Pojo, "We have met the enemy and it is us!"

We must care even if it means expenditures to get more professionals to serve God's "little ones." Don't avert your eyes or put earphones on and try to view the homeless, the disaffected as our citizens, our children to be helped not avoided, or worse, shunned.