



Are we better off than our parents?

The data that underscores the fading “American dream”

December 2016

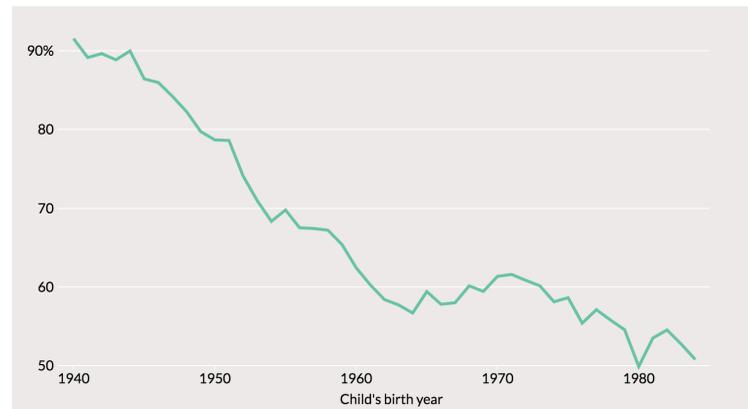
Every parent hopes that their children will have a better standard of living than their own: it is a defining feature of the American Dream. Yet this opportunity is fading for many Americans. New research by Raj Chetty, David Grusky, and Maximillian Hell (Stanford University), Nathaniel Hendren and Robert Manduca (Harvard University), and Jimmy Narang (University of California-Berkeley) shows that “absolute income mobility”—the fraction of children that are earning more than their parents—has declined over the past half century due to rising inequality. Here are some key facts from their analysis.¹

Absolute income mobility has declined for Americans across the entire income spectrum

- ▶ **Rates of absolute income mobility in the United States have fallen sharply since 1940.** Ninety-two percent of children born in 1940 earned more than their parents in inflation-adjusted terms. In contrast, only 50 percent of children born in 1984 earned more than their parents. (See Figure 1.) The downward trend in absolute mobility persists when using alternate inflation adjustments, accounting for taxes and transfers, measuring income at later ages, and adjusting for changes in household size.
- ▶ **The middle class saw the largest rate of decline.** Absolute income mobility fell across the entire income spectrum, but the middle class experienced the largest declines in the likelihood of children earning more than their parents.

FIGURE 1

Fraction of children earning more than their parents, by child's birth year
Percent of children earning more than their parents, 1940-1984



Source: Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang. “The Fading American Dream: Trends in Absolute Income Mobility Since 1940.” 2016. Cambridge, MA: National Bureau of Economic Research working paper no. 22910.



The largest declines are concentrated in Rust Belt states.

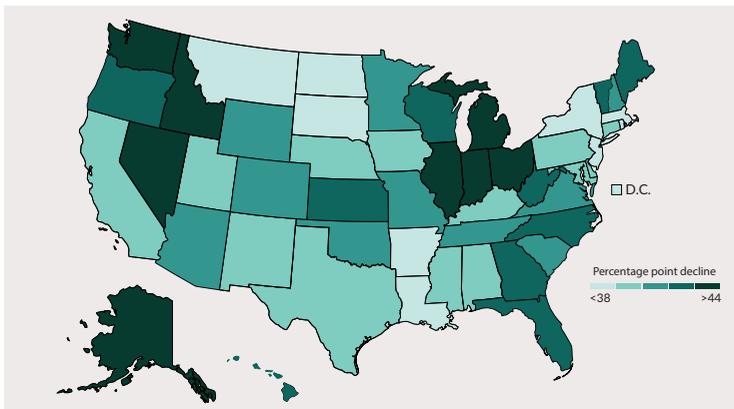
Absolute income mobility fell in all 50 states and the District of Columbia, but the largest declines were concentrated in the Rust Belt states, such as Michigan and Indiana (which registered 49 and 46 percentage-point declines, respectively). The smallest declines occurred in Massachusetts, New York, and Montana, which recorded absolute mobility declines of approximately 35 percentage points. (See Map and table, over.)

- ▶ **Men’s economic prospects declined dramatically.** Ninety-five percent of men born in 1940 earned more than their fathers compared to 41 percent in 1984 (a 54 percentage-point decline). The fraction of daughters earning more than their fathers fell from 43 percent of women born in 1940 to 26 percent of women born in 1984.

In order to revive the American dream, we must address inequality

- **The decline in absolute mobility is driven by inequality and the unequal distribution of economic growth.** Children born in 1980 experienced lower growth in gross domestic product, the broadest measure of economic growth, compared to those in the 1940s and 1950s, but the authors find that the decline in absolute income mobility was driven primarily by the increasingly unequal distribution of GDP growth rather than by the slowdown in aggregate economic growth.

FIGURE 2
Decline in absolute mobility from 1940 to 1980 cohort by state



Source: Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," 2016, Cambridge, MA: National Bureau of Economic Research.



- **Higher growth rates alone are insufficient to restore absolute mobility.** Because a large fraction of economic growth goes to a smaller fraction of high-income households today compared to the 1940s and 1950s, higher GDP growth does not automatically increase the number of children who earn more than their parents.
- Restoring GDP growth rates to the levels experienced in the 1940s and 1950s while distributing GDP across income groups as it is distributed today (much more unequally) would increase the likelihood of children earning more than their parents to only 62 percent, reversing less than one-third of the reduction in mobility relative to what in was for children born in 1940 (92 percent).

Maintaining GDP growth at its current level but

distributing it as it was distributed for children born in the 1940s would increase the likelihood that children earn more than their parents to 80 percent, thereby reversing more than two-thirds of the decline in absolute mobility.

State	Percentage point decline
Alabama	40.1
Alaska	49.4
Arizona	42.3
Arkansas	36.1
California	40.3
Colorado	42.1
Connecticut	40.5
Delaware	40.2
District of Columbia	20.1
Florida	44.7
Georgia	43.9
Hawaii	44.4
Idaho	45.4
Illinois	45.4
Indiana	45.9
Iowa	40.8
Kansas	43.9
Kentucky	38.5
Louisiana	35.5
Maine	43.1
Maryland	39.6
Massachusetts	36.0
Michigan	47.6
Minnesota	41.4
Mississippi	37.6
Missouri	41.4
Montana	32.9
Nebraska	39.6
Nevada	49.6
New Hampshire	42.0
New Jersey	37.4
New Mexico	38.6
New York	35.3
North Carolina	43.0
North Dakota	34.3
Ohio	45.1
Oklahoma	42.6
Oregon	44.3
Pennsylvania	38.7
Rhode Island	36.4
South Carolina	41.7
South Dakota	30.6
Tennessee	42.7
Texas	40.8
Utah	40.6
Vermont	44.4
Virginia	42.7
Washington	46.1
West Virginia	43.1
Wisconsin	43.8
Wyoming	42.4

1 Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940," 2016, Cambridge, MA: National Bureau of Economic Research working paper no. 22910.