Everyone should have a shot at the American Dream

- Issue not just poverty and inequality but also opportunity to get ahead
- More public support for equal opportunity than for equal results
- People’s fortunes change over the life course
- But poverty and inequality are also concerns
Growing Levels of Income Inequality

Household Income Growth, by Income Percentiles, 1979-2007

Source: Authors’ calculations based on the U.S. Census Bureau, Annual Social and Economic Supplement to the Current Population Survey.

a. Income is adjusted for household size using the square root equivalence scale (household income divided by the square root of the number of people in the household).
Little Progress in Reducing Poverty

Poverty Rate, by Age Group, 1959-2008

Source: U.S. Census Bureau, Historical Poverty Tables, various years, tables 2 and 3.
Family Background Matters

On the other hand, only 6 percent of those born into a family in the bottom quintile climb to the top quintile as adults.

42 percent of those born into a family in the bottom quintile remain in this quintile as adults.


a. Family incomes are five-year averages from the Panel Study of Income Dynamics for 1967-1971, when parents were 41-years-old on average, and again in 1995-2002 when their adult children were 39-years-old on average.
Of those born into a family in the top quintile, 39 percent remain in the top quintile as adults.

Only 9 percent of those born into a family in the top quintile fall to the bottom quintile as adults.


a. Family incomes are five-year averages from the Panel Study of Income Dynamics for 1967-1971, when parents were 41-years-old on average, and again in 1995-2002 when their adult children were 39-years-old on average.
There is considerable intergenerational economic mobility for those who start in the middle.


a. Family incomes are five-year averages from the Panel Study of Income Dynamics for 1967-1971, when parents were 41-years-old on average, and again in 1995-2002 when their adult children were 39-years-old on average.
Substantial Individual Mobility over the Life Course

Quintile-to-Quintile Transitions

<table>
<thead>
<tr>
<th>Years</th>
<th>Overall Mobility Rate</th>
<th>Mobility Rate out of Bottom Quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-1976</td>
<td>61%</td>
<td>44%</td>
</tr>
<tr>
<td>1977-1986</td>
<td>61%</td>
<td>47%</td>
</tr>
<tr>
<td>1984-1994</td>
<td>60%</td>
<td>47%</td>
</tr>
<tr>
<td>1994-2004</td>
<td>61%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Less Opportunity in the U.S. Relative to Other Countries

Percentage of Men with Fathers in the Bottom Fifth of the Earning Distribution that Remained in the Bottom Fifth, by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>42%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>30%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
</tr>
<tr>
<td>Finland</td>
<td>28%</td>
</tr>
<tr>
<td>Norway</td>
<td>28%</td>
</tr>
<tr>
<td>Sweden</td>
<td>26%</td>
</tr>
</tbody>
</table>

The prospects of upward mobility for those at the bottom is worse in the United States compared to some other advanced industrialized countries.


a. Sons were born around 1958, and earnings of both fathers and sons were observed near age forty. Sons’ earnings are generally measured between 1992 and 2002.
Summary of the Findings

Do we live in an opportunity society?

- Inequality
  - Growing levels of income inequality, especially at the very top

- Mobility
  - Low levels of mobility at the tails of the distribution, especially relative to other advanced countries

- Poverty
  - Considerable income mobility both over the life course and between generations for those who start out in the middle
  - Minimal success in reducing poverty for other groups
  - A substantial decline in poverty for the elderly

A middle class that is treading water and only because they have two earners

Low levels of mobility at the tails of the distribution, especially relative to other advanced countries
In 2007, 69 percent of people agreed that the government needs to “take care of people who can’t take care of themselves.”

In 1994, only 57 percent agreed with this statement.

What the Public Thinks

In 2007, 69 percent of people agreed that “poor people have become too dependent on government assistance programs.”

Based on a 2001 poll, people are about evenly divided in ranking lack of personal effort or outside circumstances as the bigger cause of poverty.


What the Public Thinks

Mobility and Inequality in Twenty-Seven Countries, 1999

- It is the responsibility of the government to reduce differences in income: 33% (United States) vs. 69% (All countries)
- Income differences in [country] are too large: 19% (United States) vs. 28% (All countries)
- Coming from a wealthy family is essential or very important to getting ahead: 19% (United States) vs. 28% (All countries)
- People get rewarded for their effort: 36% (United States) vs. 61% (All countries)
- People get rewarded for intelligence and skill: 39% (United States) vs. 69% (All countries)

What Accounts for Success?

- Expert as well as public opinion diverges sharply on whether poverty is structural or behavioral; it’s some of both
- Low wages and periods of temporarily high unemployment can constrain opportunity
- The immediate prerequisites to success are:
  - Receive a good education
  - Work full time
  - Marry (before having children)
What Accounts for Success?

Income Class, by Adherence to Social Norms, 2007

The Three Norms
- Complete high school
- Work full time
- Wait until age 21 and marry before children

<table>
<thead>
<tr>
<th>Norms</th>
<th>Poor (&lt; 100% poverty level)</th>
<th>Middle class and above (&gt; 300% poverty level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Norms</td>
<td>76%</td>
<td>7%</td>
</tr>
<tr>
<td>1-2 Norms</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>3 Norms</td>
<td>2%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on the U.S. Census Bureau, Annual Social and Economic Supplement to the Current Population Survey.
Launch a Three-Front War

- Improve education
- Expand work
- Strengthen families
What guides our policy choices

- Simplicity
- Paternalism
- Targeting the young and disadvantaged
- Evidence of impact (cost-benefit)
- Personal responsibility
- Consistency with public values
The Education Agenda: Preschool

- High-quality preschool programs
- Better coordination of existing programs
- Follow up in the early grades
The Education Agenda: K-12

- Impose national standards
- Funds for better teachers
- Fund and evaluate paternalistic schools
- Increase high quality research
Chances of Getting Ahead

The Education Agenda: Postsecondary

- Better college academic preparation
- Improved financial aid system
- Improved campus support
Supporting and Encouraging Work

- Expand work support system
- Encourage more work
Strengthening Families

- Reduce unplanned pregnancies for teens and twenty-somethings
- Continue marriage grant programs
- Create federal social marketing campaign
Paying for Our Proposals

- Reframe the budget debate
- Net cost: $20.5 billion
- Finance Proposals
  - Fully tax social security
  - Change indexing of social security
Creating an Opportunity Society

By Ron Haskins and Isabel Sawhill

Visit www.opportunitysociety.org for more information