Center on
Children and Families
at BROOKINGS

March 2012 CCF Brief # 48

Are We Headed Toward A Permanently Divided Society?

Isabel Sawhill

Abstract

The question addressed in this brief is whether rising inequality affects mobility. My answer is that, at current levels of inequality in the U.S., it likely does. However, this answer is qualified in several ways. First, there is not yet sufficient data to definitively prove the point. Second, rising income inequality has been partly caused by changes in education and in family structures that are, along with income disparities, important drivers of the mobility process. Any response to rising inequality that did no more than redistribute income would not by itself do much to promote mobility. Instead, a combination of government policies and changes in behavior that will improve education, reward work, and strengthen families while also maintaining a basic safety net for those at the bottom is needed. Without such changes the U.S. may well become a permanently divided society.

U.S. Attitudes on Inequality

The concentration of income and wealth in the U.S. has reached levels we have not seen since the late 1920s. The Congressional Budget office reports that incomes after taxes and transfers, adjusted for inflation, almost quadrupled (275 percent) for the top 1 percent between 1979 and 2007. By contrast, incomes for the next 19 percent rose by 65 percent; income for the middle 60 percent rose by 37 percent; and incomes for the bottom 20 percent rose by only 18 percent.

Despite this evidence of growing disparities there has been little public outcry. Why have Americans been so complacent about high levels of inequality? There are undoubtedly a variety of reasons. Until the Great Recession, incomes were growing, albeit modestly, credit was widely available to shore up living standards, and the great majority of the population enjoyed a standard of living that would be the envy of the rest of the world. Moreover, individuals increasingly live in communities that are geographically isolated from each other and growing economic segregation, best captured by the spread of gated communities, affords little opportunity to witness how others are doing.

True, the Occupy Wall Street movement and growing media attention to the facts may be changing this. A Pew Research Center Survey in early 2012 showed that two-thirds of the public believes that there are very strong or strong conflicts between the rich and the poor—an increase of 19 percentage points just since 2009. But the survey also showed that attitudes about why people are rich or poor have not changed and that these attitudes are distinctively American.

Americans believe that where individuals end up in the economic game—who wins and who loses—is the result of hard work and ingenuity. In Europe, by contrast, people believe that luck, family connections, circumstances of birth, and corruption are more important determinants of success. The proportion of people in the U.S. that believes that people get rewarded for their effort (61 percent), for example, is dramatically higher than the median proportion (36 percent) that believes this in other advanced countries.

Because differences in income in the U.S. are believed to be related to skill and effort and because social mobility is assumed to be high, inequality seems to be more acceptable than in Europe while safety nets and regulatory protections are less robust. The U.S. Census Bureau finds that in the U.S., the Gini index for households (a measure of inequality that is equal to zero when incomes are equally distributed and equal to one when a single household has all of the income) was 0.47 in 2008. Eurostat found that the same index was 0.31 for Europe.

The bottom line is that Americans believe they live in a meritocracy. Economists Alberto Alesina and Rafael Di Tella (both of Harvard University), and Robert MacCulloch of Imperial College London find that in Europe, the reported happiness of the less affluent is more negatively affected by inequality than in the U.S. The authors argue that the perception of higher levels of mobility in the U.S. might explain such differences.

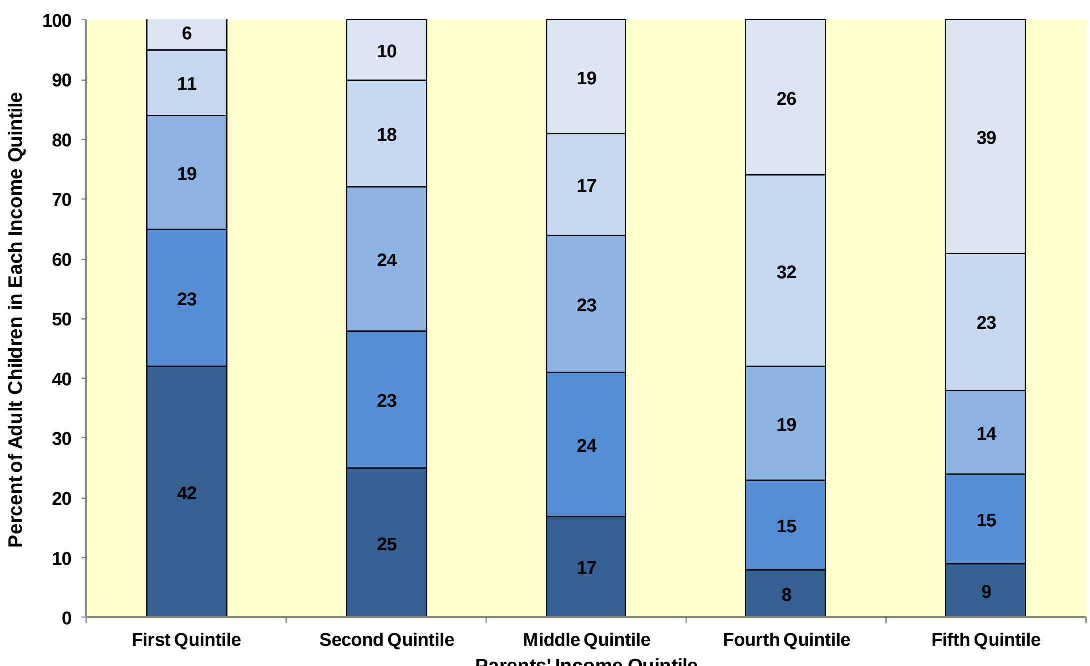
But this set of American beliefs could begin to erode. A 2011 Gallup poll found that only 44 percent of Americans believe that the next generation will have a better life than their parents, which is the lowest proportion since the question was first asked in 1983. The Occupy Wall Street movement, and the attention it has received, could be interpreted as a growing unease not just about inequality but about the fairness of the system that produced it. If more and more people feel that the deck is stacked against them, that just a small group gets all the good cards, and that our political system has been corrupted by the concentration of money in the hands of a few, they are likely to become increasingly dissatisfied with the status quo.

For now, however, American beliefs in the fairness of the system appear to be reasonably intact. This sense of opportunity has been the glue that has helped to make the American experiment work. Studies have noted that altruism depends, to some extent, on the ability of the donor to identify with the recipient. Put differently, a sense of community is selective. It depends not only on the perceived causes of someone else's good or bad fortune but on group ties or solidarity, which are harder to create in a large ethnically and racially diverse country such as the U.S. in comparison to the smaller and somewhat more homogeneous societies of Europe. America has been helped in this task by a shared commitment to the idea of opportunity and upward mobility. But are such beliefs warranted?

Still the Land of Opportunity?

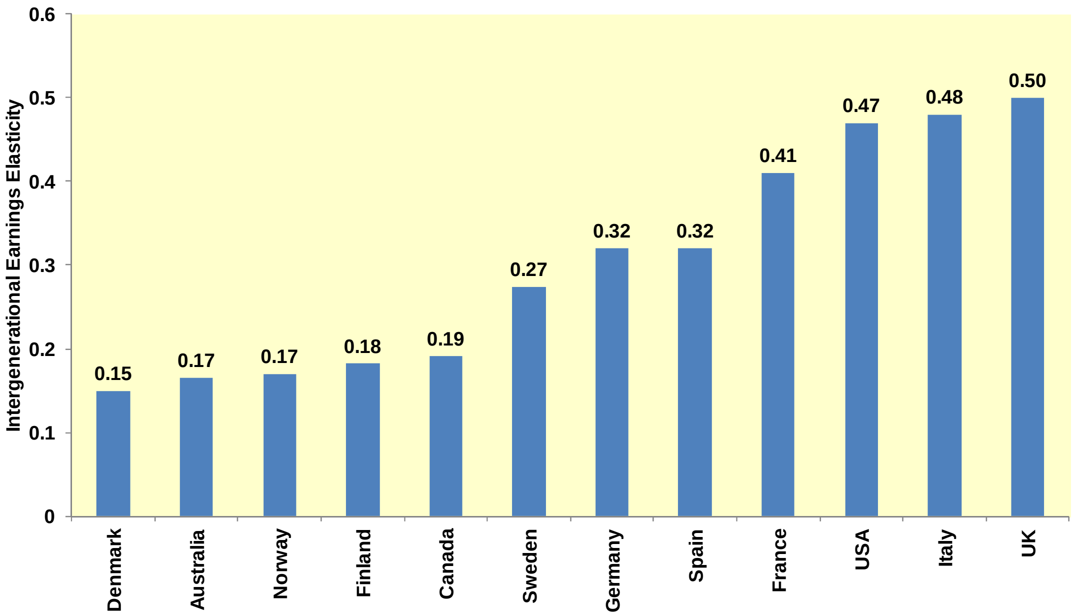
There is now good data suggesting that people do move up and down the ladder, both over their careers and between generations, but that it helps if you have the right parents. Although children born into middle income families have a roughly equal chance of moving up or down the ladder once they become adults, those born into rich or poor families have a much higher probability of remaining rich or poor as adults. Roughly 40 percent of those born into the bottom or the top quintile of the income distribution will remain in that same quintile when they become adults (Figure 1). Moreover, the U.S. has less intergenerational mobility than some other advanced nations, especially the Nordic countries where inequality is also much lower than in the U.S. (Figure 2).

Figure 1
Family Income of Adult Children, by Parents' Family Income



Source: Julia B. Isaacs, Isabel V. Sawhill, and Ron Haskins, *Getting Ahead or Losing Ground: Economic Mobility in America* (The Brookings Institution and The Pew Economic Mobility Project, 2008), Figure 4, p. 19.

Figure 2
Dependence of Son's Earnings on Father's Earnings



Source: Anna Cristina D'Addio, "Intergenerational Transmission of Disadvantage: Mobility or Immobility across Generations? A Review of the Evidence for OECD Countries" (Working Paper No. 52, OECD, Paris, March 2007).
Note: A lower level of earnings dependence between fathers and sons equates with a higher level of intergenerational mobility.

Studies of whether intergenerational mobility has increased or decreased in the U.S. in recent decades along with rising inequality have come to quite different conclusions, with some suggesting it has decreased and some suggesting it has remained roughly constant (no study has found an increase in mobility that might have compensated for the increase in inequality). Our ability to measure these trends is constrained by the fact that there is not yet data on the adult incomes of the youngest generations who were born during the 1980s and 1990s when inequality was growing rapidly, especially at the top of the distribution. It's also worth noting that we do not have data on the experiences of first-generation immigrants for whom upward mobility is undoubtedly high if they came from a poor country.

Although there is limited evidence that mobility has declined in recent decades, some studies suggest that it has, especially among men. One very interesting study by economist Bhashkar Mazumder of the Federal Reserve Bank of Chicago finds that the correlation between the adult earnings of brothers has grown over time. Since brothers share the same family environments as well as genetic endowments, but since genetic endowments cannot have changed much over a short period, these rising correlations suggest that family environments are becoming more powerful predictors of where children end up as adults.

The hard truth is that the U.S. has less opportunity than the public believes and less than in some other advanced countries. It may also have less opportunity now than in some earlier periods of our history, although without better and more recent data it is difficult to be sure about the trend. However, as I argue below, there are good reasons to suspect that very high levels of inequality will reduce mobility over time and produce a still more stratified society. It is these more dynamic considerations that can lead to a cumulative process of increasing stratification that should especially concern us.

More Inequality, Less Mobility?

With the rungs of the ladder now further apart in the U.S. than in decades, it is important to understand how inequality may affect mobility over time. I believe this relationship may be U-shaped. Up to a certain point, more inequality produces more mobility because it encourages people to try harder to climb the ladder. However, after some point it can have a negative effect if the rungs of the ladder move too far apart. We then enter a vicious cycle in which inequality breeds less mobility, and less mobility produces greater stratification—a hardening of class lines. Moreover, the new face of inequality—one that is increasingly characterized by disparities in education and family structure as well as income—has implications for children's future prospects and thus for the chances that inequality will persist into the future. That the rungs of the economic ladder are further apart than in the past is beyond dispute. But that they may also be harder to climb than in the past is even more worrisome.

Up to a point unequal rewards for performance may provide a greater incentive for people to get a good education, work hard, and be successful on the job. This thesis about the positive effects of inequality, and the magnitude of such effects, are much debated. Reviewing all of the empirical evidence relating to this debate is beyond the scope of this brief but three points are worth making. First, the effects of progressive taxation are almost certainly nonlinear. That is, a top tax rate of 90 percent (a rate that actually existed in the U.S. for a period of time) has a very different effect than a top tax rate of 35 or even 50 percent. Second, the effects of any marginal tax rate may be largest when incomes are low rather than high, and some of the highest implicit marginal tax rates are imposed on low-income families when they lose government benefits as their earned income rises. Raising taxes on high-income families but lowering them on those with lower incomes could be a good mobility-enhancing strategy. Finally, if we want to encourage mobility, we should adopt policies that condition assistance on mobility-enhancing behaviors. Examples are the Earned Income Tax Credit, which encourages work, and excise taxes (for example, on tobacco) that encourage healthier life styles. These kinds of policies are often viewed as paternalistic. But if much human behavior is the result of self-defeating or mobility-retarding behaviors, paternalistic policies may be called for. In *Creating an Opportunity Society*, Ron Haskins and I show that if people do just three things—graduate from high school (at a minimum), work full-time, and delay having children until after marriage—the proportion of people who could achieve a middle class income would increase from 56 to 74 percent.

Although the incentives inherent in an unequal society can work up to a point, too much inequality can also retard mobility, especially if it involves not just income but all of the things that are correlated with income. Imagine two groups of children. One group is poor. They live in homes with one parent, few educational resources, harsher discipline, and more stress. They live in troubled neighborhoods and go to inferior schools. They lack the contacts and knowledge of the world that would enable them to compete for good jobs with career paths that lead to higher earnings over time. In contrast, their more affluent peers have many advantages. Their parents emphasize learning and self control at an early age, and can afford expensive universities and lucrative career contacts later in life. Education, family structure, parenting styles, peer groups, and subgroup culture all contribute to inequality of opportunity. What's clear is that these factors tend to go together—more than was true in the past. What we are seeing is a concentration of low income, little education, and fractured families at the bottom and high income, lots of education, and two-parent families at the top.

In the case of education, returns have risen sharply as the demand for skilled workers has outpaced the supply in recent decades. Thus, if we ranked today's parents by their income or earnings ability we would also be ranking them, as a first approximation, by their education level. Yes, there are PhDs driving taxi cabs or operating ski lifts and there are high school dropouts who have gone on to become highly paid executives, but the general tendency of earnings to rise sharply with education—and more sharply than in the past—is well-documented.

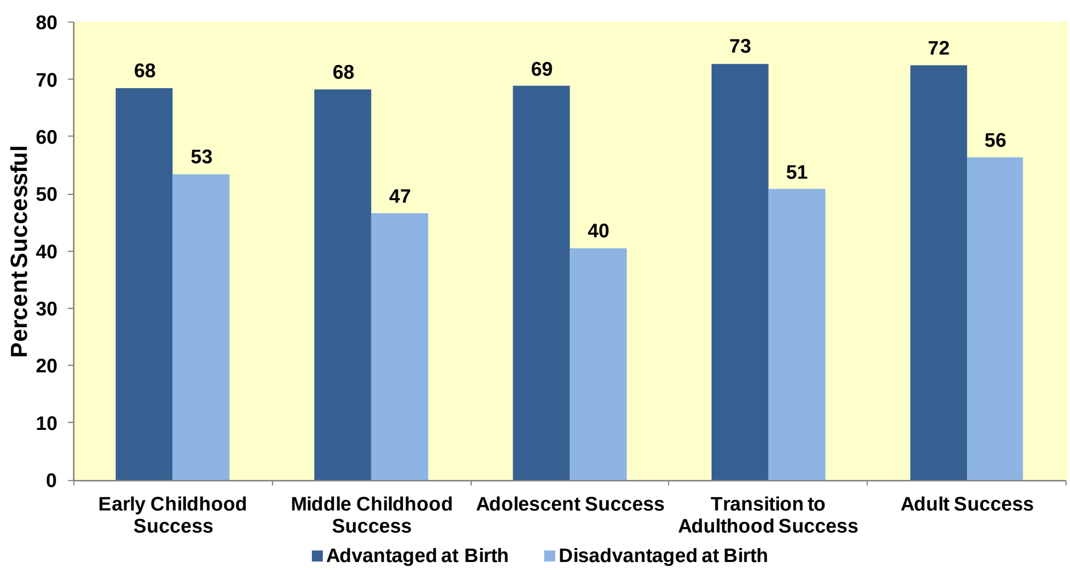
If we were looking for another variable to rival education in explaining rising income disparities, it would be family structure. Those at one tail of the distribution are disproportionately single parents and those at the other tail are mostly married parents. My research with Adam Thomas of Georgetown University (formerly of Brookings) shows that the decline in marriage rates since the 1970s has had a very large effect on the proportion of children living in poverty. Gary Burtless of Brookings has shown that changes in the family, including the tendency of educated adults to marry one another, as well as changes in family composition, can explain more than a third of the increase in income inequality since 1979. Indeed, what is striking is the extent to which family structure and education are the new dividing lines between the haves and have-nots in American society. Research by myself, Adam Thomas, and Emily Monea shows that educated women continue to have children within marriage and at older ages. Less educated women have children much earlier, usually outside of marriage, and often before they have completed their schooling. In addition, there are big differences between the two tails of the distribution in the extent to which children are planned, the maturity of their parents at the time of their birth, and the number of siblings with whom they must compete for parental time or other resources. Combine this with the fact that the literature on child development shows that two parents are better than one for a variety of later behavioral and cognitive outcomes, and one can see why bigger income gaps, associated with diverging patterns of family formation, are handicapping the upward mobility of children in lower-income families.

By focusing so heavily on income inequality in isolation, we have missed what it is about higher income parents that is so beneficial to their children. It is not just their income and the material resources they can provide to their offspring, although these surely matter. It is also their education and their family formation and parenting behaviors that make a difference.

What the Data Show

There is evidence that children growing up in poorer families do less well in school and have less labor market success (although whether poverty alone causes these problems is less certain). In new work done by the Social Genome Project (SGP) at Brookings, disadvantaged children are defined as those born underweight or to a mother who is poor, unwed, or lacking a high school degree. Strikingly, almost half of all American children born in the 1980s and now entering their adult years faced one of these challenges at birth. As shown in Figure 3, compared to their more advantaged peers, their chances of later success in elementary school and in high school were adversely affected. From this we project that they will also do poorly in their postsecondary years, which will lower their chances of being middle class by middle age.

Figure 3
Success at Various Life Stages, by Advantagedness at Birth



Source: Tabulations by the Brookings Institution's Social Genome Project.
Notes: "Advantaged at birth" means having family income above the poverty line, married parents, a mother with at least a high school degree, and being born normal birth weight. "Disadvantaged at birth" means failing on at least one of these criteria. Early and middle childhood success are defined as displaying appropriate math and reading skills and having appropriate behavior. Adolescent success is defined as graduating from high school with at least a 2.5 GPA, not being convicted of a crime, and not becoming a parent. Transition to adulthood success is defined as living independently by age 29 and either obtaining a college degree or having an income at least 250% of the poverty line. Adult success is defined as having a family income of at least 300% of the poverty line at age 40, or becoming "middle class by middle age."

Brookings is exploring not only the ways in which children from disadvantaged families succeed at each stage of life compared to their more advantaged peers, but also what might be done to improve their chances. For example, we find that putting all low-income children who are not already enrolled in preschool into a high-quality program would raise their average income at age forty by between $2,500 and $7,000 and their lifetime earnings by as much as $100,000. This and other results from our ongoing research are shown in Table 1.

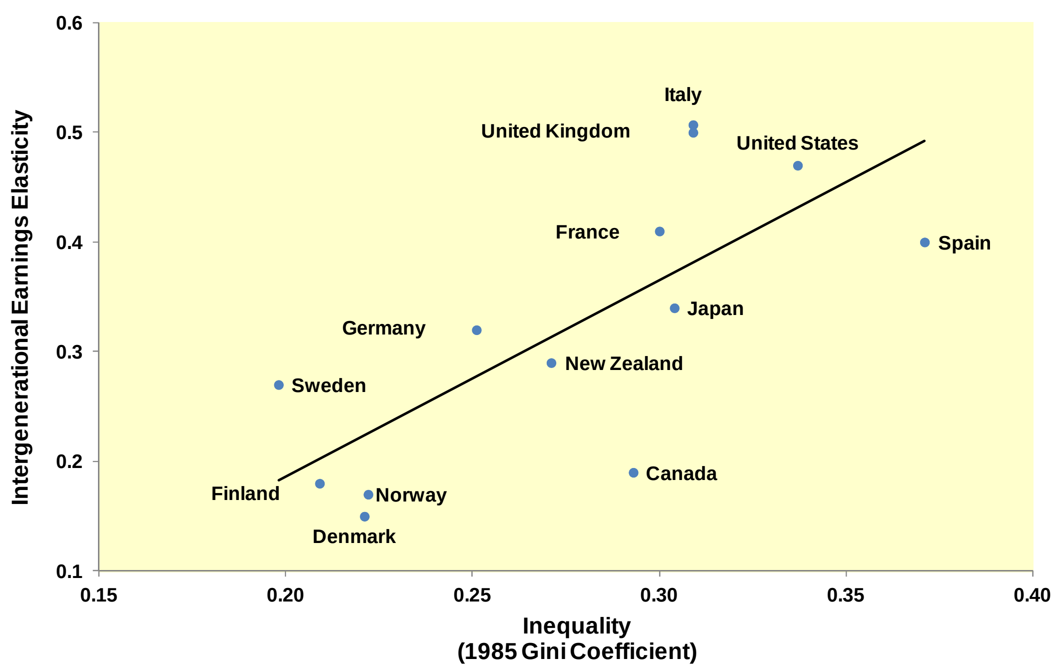
Table 1
Effects of Policy Interventions Targeting Poor

Intervention	Increase in Income at Age 40[1] (Upper Bound)	Increase in Lifetime Earnings[2]
Nurse Family Partnership (nurse home visiting)	$2,761	$21,742
Preschool	$6,906	$97,472
Success for All (whole school reform program)	$9,404	$132,733
Social Emotional Learning Program	$3,804	$43,527
Small Schools of Choice	$4,988	$70,395

Source: Jeff Diebold, Alex Gold, Kerry Searle Grannis, Stephanie Owen, and Scott Winship, "Policy Interventions to Promote Upward Mobility: Preliminary Results from the Social Genome Model" (working paper, Brookings, Washington, D.C., 2012).
Notes: [1]Using FPL for a family of 4 for 48 contiguous states/DC in 2012, $23,050. [2]Using family income at age 40, real income growth of 2%, and discount rate of 5%. Calculated from age 23 to 62.

Cross-national evidence reinforces the general view that inequality and social mobility are linked. Figure 4 shows that nations with the least inequality (for example, the Nordic countries) also have the most intergenerational mobility. At least one academic study, by Dan Andrews of Harvard University and economist Andrew Leigh of Australian National University, used cross-national data and showed that an increase in inequality is associated with lower mobility. After looking at these or similar data, Alan Krueger, chairman of the Council of Economic Advisers, noted in a speech in January 2012 that, “It is hard to look at these figures and not be concerned that rising inequality is jeopardizing our tradition of equality of opportunity.”

Figure 4
Income Inequality and Intergenerational Mobility



Source: *Economic Report of the President Together With the Annual Report of the Council of Economic Advisers* (Washington, D.C.: United States Government Printing Office, February 2012), Figure 6-7.

Conclusion

To summarize, income, education, and family structure are all less equally distributed than they were a few decades ago. These inequalities have set the stage for the greater persistence of class in the future. To be sure, it is a class structure partly based on meritocratic principles (for example, educational achievement) and on stable family ties rather than on the inheritance of wealth and connections. But it may also create a self-generating and thus persistent class structure in the absence of government or nongovernmental interventions that change the distribution of educational opportunities and patterns of family formation along with the distribution of income.

A focus on opportunity and mobility instead of poverty and inequality may make sense for at least two reasons. First, Americans believe that they live in a meritocratic society. Although the facts are only partially consistent with this belief, it is a deeply entrenched view, and public opinion polls and attitudinal surveys show that the public is more willing to support investments in home visiting, education, health, and other opportunity-enhancing programs than they are to redistribute income via taxes and transfers after the fact. Second, government policies and personal behaviors that affect education and family structure are likely to have larger intergenerational effects than those that only affect income. At the same time, we should not ignore the need to shore up the economic position of the poor and near-poor as this is both easier to do and likely to have some modest effects, especially if whatever assistance is provided is designed to encourage two-parent families, education, and work.

Author

Isabel Sawhill is a senior fellow at the Brookings Institution and co-director of the Center on Children and Families and the Budgeting for National Priorities project.

Additional Reading

Alberto Alesina, Rafael Di Tella, and Robert MacCulloch, “Inequality and Happiness: Are Europeans and Americans Different?” *Journal of Public Economics* 88, no.9–10 (2004): 2009–2042.

Dan Andrews and Andrew Leigh, “More Inequality, Less Social Mobility,” *Applied Economics Letters* 16, no. 15 (2009): 1489–1492.

Samuel Bowles, Herbert Gintis, and Melissa Osborne Groves, eds., *Unequal Chances: Family Background and Economic Success* (Princeton University Press, 2005).

Gary Burtless, “Globalization and Income Polarization in Rich Countries,” *Issues in Economic Policy* No. 5 (Washington, D.C: The Brookings Institution, April 2007).

Economic Report of the President Together With the Annual Report of the Council of Economic Advisers (Washington, D.C.: United States Government Printing Office, February 2012).

Ron Haskins and Isabel Sawhill, *Creating an Opportunity Society* (Washington, D.C.: Brookings Institution Press, 2009).

Julia B. Isaacs, Isabel V. Sawhill, and Ron Haskins, eds., *Getting Ahead or Losing Ground: Economic Mobility in America* (Washington, D.C.: The Brookings Institution and The Pew Economic Mobility Project, 2008).

Bhashkar Mazumder, “Fortunate Sons: New Estimates of Intergenerational Mobility in the United States Using Social Security Earnings Data,” *The Review of Economics and Statistics* 87, no. 2 (2005), 235–255.

Isabel Sawhill, “Do We Face a Permanently Divided Society?” in *The Economics of Inequality, Poverty, and Discrimination in the 21st Century,* ed. Robert S. Rycroft (ABC-CLIO, forthcoming).

Isabel Sawhill, Adam Thomas, and Emily Monea, “An Ounce of Prevention: Policy Prescriptions to Reduce the Prevalence of Fragile Families,” *The Future of Children* 20, no.2 (2010), 133–155.

Adam Thomas and Isabel Sawhill, “For Richer or for Poorer: Marriage as an Antipoverty Strategy,” *Journal of Policy Analysis and Management* 21, no. 4 (2002), 587–599.

For more information on the Center on Children and Families, including briefs, publications, and upcoming events, visit www.brookings.edu/ccf.