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American Dream fades away

Workers struggling to earn as much as their parents

By Melissa Etehad and Natalie Kitroeff   December 18, 2016

It has become less likely that children will grow up to earn more than their parents, according to a new study.

LOS ANGELES — Rico Johnson says that when he was growing up, he never had to worry about having clothes or getting three meals a day.

His single mother, a human resources director at a San Diego nursing home, made enough to give him that peace of mind.

But Johnson, 33, now makes $12.50 an hour working at a Taco Bell in Richmond, Calif., and he struggles to make his paycheck cover the basics for his 10-year-old twins.

“Things I am dealing with now, (my mother) didn’t have to deal with. … It’s heartbreaking,” Johnson said. “I feel I am unable to provide my kids with the same opportunity.”

His experience is the norm in America, a new study reveals.

Since the 1940s, it has become less and less likely that children will grow up to earn more than their parents, according to a paper written by researchers from Stanford and Harvard universities and the University of California at Berkeley, which was released online this month.

Children born in 1940 had a 92 percent chance of taking home more income than their parents, the research shows. By contrast, someone born in 1984 — who is 32 years old today — has just a 50 percent likelihood of making more than his or her parents.

Put another way: Only about half of 30-something Americans earn more than their parents.

“Both rich and poor kids are sharing this loss of absolute mobility,” said Nathaniel Hendren, an assistant professor at Harvard who co-wrote the study.

It is the first study to offer hard evidence of a trend that dominated the presidential election and helped fuel the election of Donald Trump: The American Dream is more elusive than ever.

The decline in mobility occurred across all states but was worse in Rust Belt states such as Michigan and Indiana, both of which backed Trump.

Trump has indicated that his administration will focus on accelerating economic growth but has said less about income inequality. His choice for Treasury secretary, Steven Mnuchin, has said the administration's policies will increase the economy's growth to as high as 4 percent annually, from the roughly 2.2 percent pace that's prevailed since the recession ended.

The U.S. economy hasn't posted 3 percent growth for a full year since 2005.

Incomes are stagnating for not just the poor.

Researchers found that upper middle-class Americans saw their chances of earning more than their parents decline the most of any group born from 1940 to 1980.

The report's authors, led by Raj Chetty at Stanford, used a database of tax records and Census data to link the household incomes of children to the household incomes of their parents, adjusting for inflation.

People born in the 1950s might have naturally had a better chance at earning more than their parents, who came of age during the Great Depression.

But the decline in mobility has persisted, unrelenting, through the 1960s, 1970s and 1980s.

"This isn't just a Depression effect; this is something that transcends that," said David Grusky, a sociologist at Stanford who co-wrote the paper.

Part of the reason for the stagnation is that the country's economy isn't expanding as fast as it once was. U.S. gross domestic product often grew at more than 5 percent in the postwar years, and hit 7.3 percent in 1984. Growth hasn't reached 5 percent annually since then; it was 2.6 percent last year.

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Slower national growth, clearly, means there's less new wealth to divide among the people who live and work here.

But the researchers found that even if the nation was growing at the rate that it was in 1940, today's 30-somethings would only be a little bit better off.

If the U.S. today were expanding at the rate it was in the middle of the century, children born in the early 1980s would have a 62 percent shot of taking home more than their parents, compared with the 50 percent chance they have.

What's really driving the problem is income inequality, the study found.

In the past, new income was spread more evenly across the economic ladder than it is today, when a disproportionate share of the country's gains are going to the very richest Americans.

Inflation-adjusted wages have only inched up for most workers since the 1980s. But the country's highest earners have seen their pay balloon by 35 percent, according to a 2015 report by President Obama's Council of Economic Advisers.

On average, about 80 percent of people in their early 30s would earn more than their parents today if income growth were distributed as evenly as it was in 1940. Making growth more equal would help middle-class people the most.

But it would also deeply affect wealthy Americans.

People whose parents are among the top earners in this country would see their likelihood of making that much money increase by more 30 percentage points, if growth were more balanced.

“This is something that everybody shares,” said Hendren, the Harvard assistant professor. “It is perhaps a little less divisive than what one might have thought.

“Broadly shared economic growth affects rich people too.”

Emily Erdbrink has barely started her adult life, and already she feels as if she’s playing catchup. The 23-year-old Hollywood resident graduated from college in 2015 but hasn’t found work in her field of study, audio production. She estimates that over the last five years her parents have spent about $250,000 on her tuition and living expenses.

“It’s a little nerve-wracking,” Erdbrink said.The study follows separate research released this month by Thomas Piketty at the Paris School of Economics and two colleagues that documented worsening income inequality since 1980.

That study found that Americans in the bottom half of the income scale have experienced stagnant income since 1980.