

SUMMARY OF KEY FINDINGS: **ECONOMIC MOBILITY: IS THE AMERICAN DREAM ALIVE AND WELL?**

Economic mobility can occur across generations in two ways: (1) **absolute mobility**, through which overall economic growth ensures that each generation is better off, or has a higher standard of living, on average, than the one before; and (2) **relative mobility**, which reflects changes in the relative economic distribution of individuals or families, regardless of whether the economy is growing. Historically, a person's ability to achieve the American Dream has depended upon a combination of both types of mobility.

RELATIVE MOBILITY: In the report we use one measure of relative mobility – intergenerational income elasticities (or IGEs). This measure describes the strength (persistence) of the relationship between parents' and children's income in percentage terms. Using this measure, data suggest that people in the United States have experienced less relative mobility than citizens in many other developed countries. To be sure, this relationship is but one way of defining relative mobility from generation to generation. The full story may be more complicated, and we intend to further investigate relative mobility using additional measurement and analysis.

ABSOLUTE MOBILITY: Analyzing data from the Current Population Survey of the U.S. Census Bureau, the current report looks at men who were in their thirties in 1994 and compares them to their fathers' generation who were in their thirties in 1964. During this period, male median annual increased from about \$31,000 to almost \$33,000 – a modest 5 percent increase from one generation to the next (see the left bars in Figure 1). Personal income includes cash income and does not include other compensation such as health benefits or other non-cash government benefits, such as food stamps.

A very different picture emerges with a second set of fathers and sons: on average men in their thirties in 2004 made 12% less than men at the same age in their fathers' generation in 1974 (\$35,000 in 2004 compared to \$40,000 in 1974).

Figure 1: Income for Men in Their Thirties has Decreased Compared to Fathers' Generation...

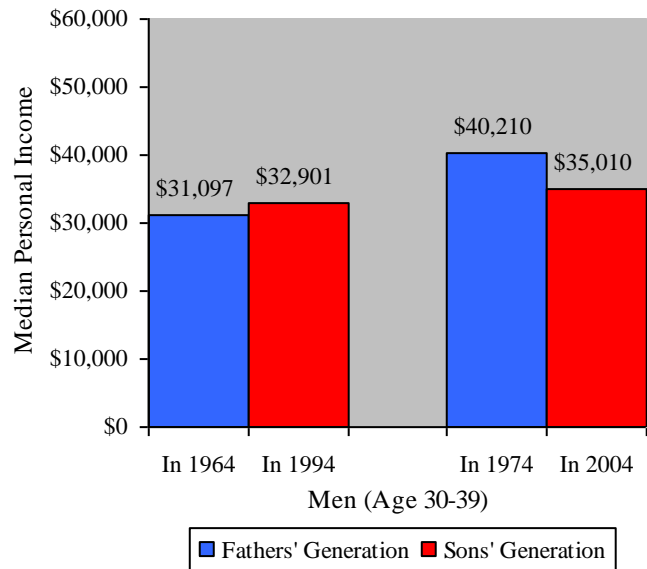
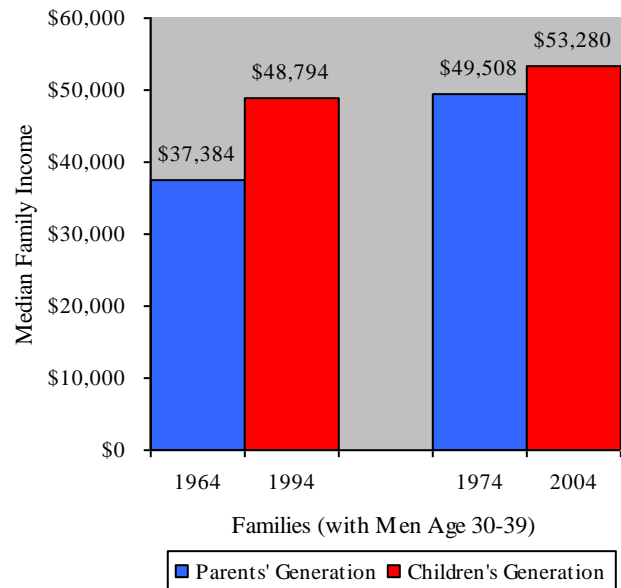


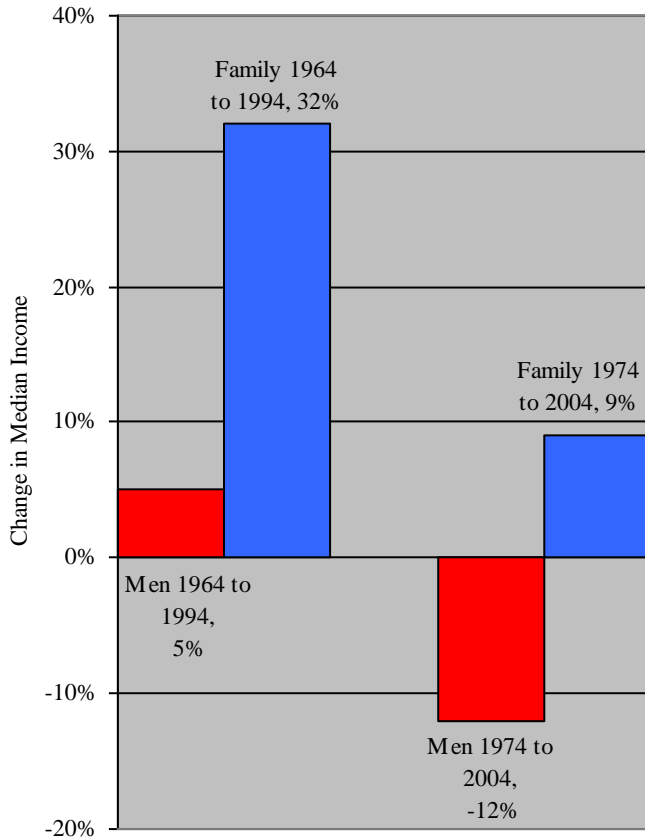
Figure 2: ... While Family Income Has Increased Compared to Parents' Generation ...



Source: Brookings Institution tabulations from the Current Population Survey of the U.S. Census Bureau, various years. ¹

¹ Income is adjusted using Consumer Price Index Research Series Using Current Methods (CPI-U-RS). Personal income and family income include before tax earnings, interest and dividends from capital, cash benefits from government programs (such as Social Security, welfare, or unemployment compensation), pension or retirement income, child support and other cash income. It does not include the value of non-cash compensation such as employer-contributions to health insurance and retirement benefits, nor do they include the effect of taxes or non-cash benefits such as food stamps.

Figure 3: Male Income Growth Has Fallen While Family Income Growth Increased Dramatically and then Moderated



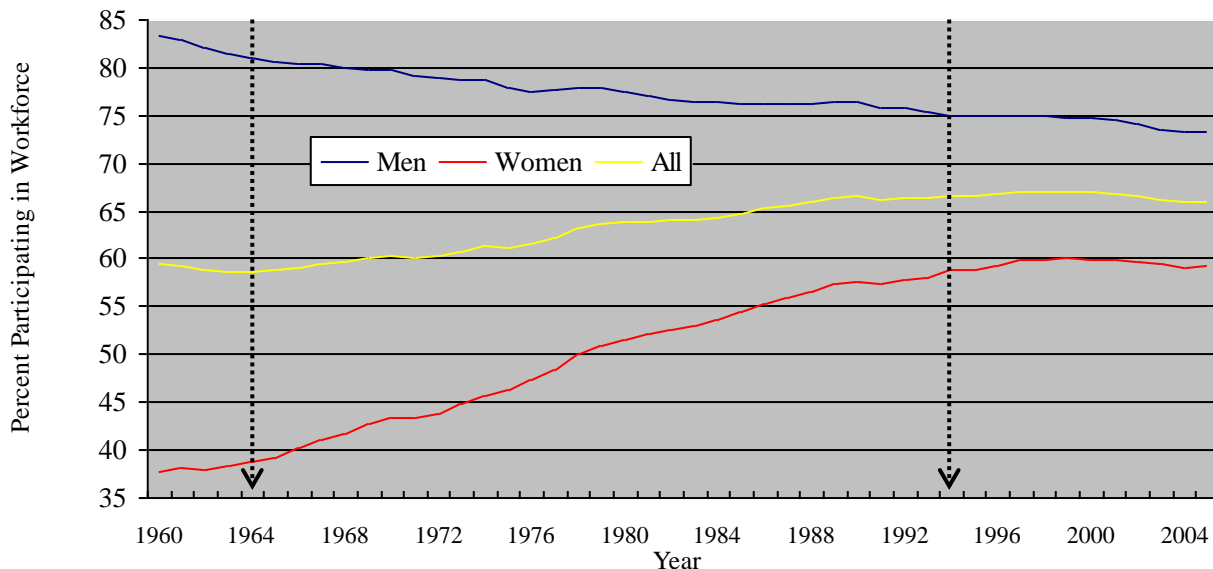
Source: Brookings Institution tabulations from the Current Population Survey of the U.S. Census Bureau, various years.

Does this mean that *family* incomes have been stagnant over this entire period? Figure 2 shows a comparison of median family income for households with men in their thirties, over the same generations. Although the income of men in their thirties either grew moderately or fell, family incomes rose over both sets of generations. But the growth rate of family income has slowed considerably in the most recent generation. Between 1964 and 1994 median family income increased dramatically by 32 percent but rose by a more moderate 9 percent between 1974 and 2004 (see Figure 3).

WOMEN'S WORKFORCE PARTICIPATION

One of the main reasons that family incomes have continued to rise is that more women have gone to work, buttressing the incomes of men by adding a second earner to the family. Examining workforce participation of women over the same period, we see that rates have risen steadily from 39 percent in 1964 to 59 percent in 1994. Since the mid-1990s, however, these rates have remained relatively stable at around 60 percent (see Figure 4). This may partially explain the falling growth rate in median family incomes, and suggests that a main driver of median family income growth for past generations may have reached a plateau.

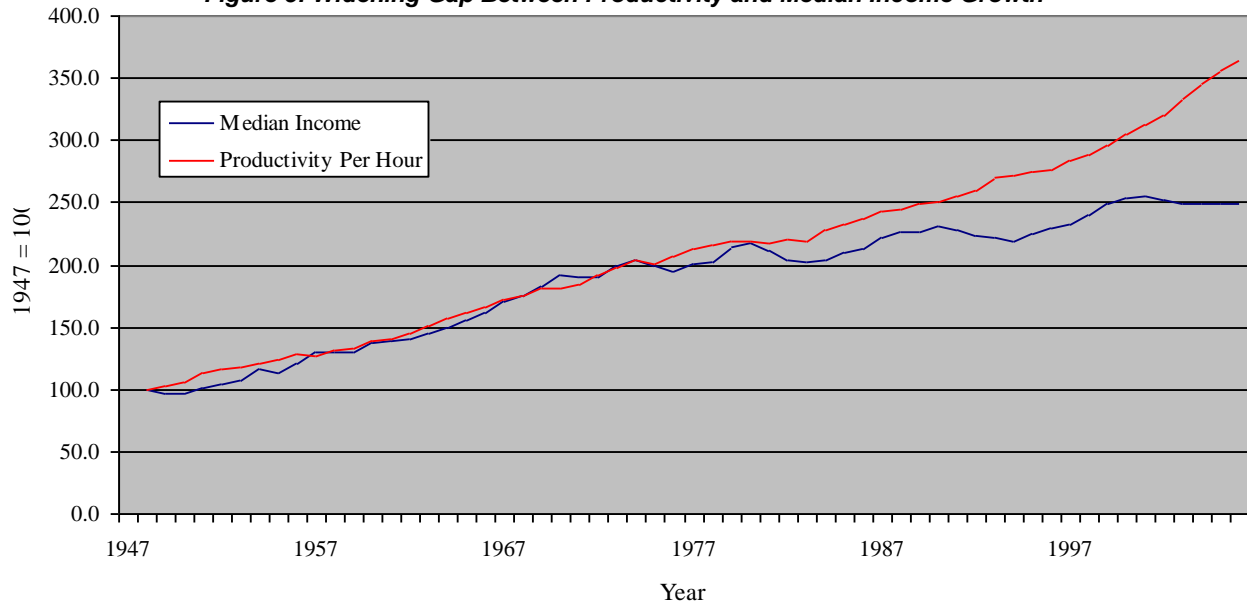
Figure 4: Women's Workforce Participation Soared Between 1960 and 1999 But Have Levelled Off Since



Source: Author's calculations using Bureau of Labor Statistics and Current Population Survey Data Table A-1²

² Data is presented as an average of monthly participation rates for each year.

Figure 5: Widening Gap Between Productivity and Median Income Growth



Source: Author's Calculations Using Data from the US Census Bureau and Bureau of Labor Statistics.

ECONOMIC GROWTH, PRODUCTIVITY & MEDIAN INCOME

Going back to 1820, per capita gross domestic product in the United States has grown an average of 52 percent for each generation (defined here as twenty-five years), propelling strong increases in incomes throughout society. For the most recent generation, however, data suggest a more complicated story. Since 1973, and during a period of economic expansion, overall median family income has grown only 0.6 percent per year – or a 17 percent increase in family income for each generation. Thus, unless the rate of economic growth increases, we might expect the next generation to experience income gains that are only one-third as large as the historical average for earlier generations. (For further information see Sawhill and McLanahan, “Opportunity in America,” *Future of Children* vol. 16 no. 2, Fall 2006, p. 21.)

When income growth is compared to important historical measures of overall economic activity, there is a growing gap between U.S. productivity and median household income that challenges the notion that a rising tide will lift all boats. For nearly

thirty years after the end of World War II, productivity growth and median household income rose together in lockstep. Then, in the mid-1970s, a gulf grows between the two, which widens further at the turn of the century. As the data in Figure 5 indicates, the benefits of productivity growth have not been broadly shared in recent years.

CONCLUSION

There remain a number of critical questions that inform understanding of economic mobility in America today. In subsequent reports, the Economic Mobility Project will research, analyze, and present further data to answer fundamental questions such as how have absolute and relative mobility changed over time in America, and how issues such as race, gender, immigration and family structure influence mobility. The project will also introduce a new hybrid measure of economic mobility – one that combines the effects of absolute mobility to see how they are affecting the fortunes of individual Americans.

By forging a broad and nonpartisan agreement on the facts, figures and trends related to mobility, the Economic Mobility Project hopes to focus public attention on this critically important issue and generate an active policy debate about how best to ensure that the American Dream is kept alive for generations that follow.