SUNSET FOR THE AMERICAN DREAM?

UPWARD MOBILITY, AN UPHILL CLimb
BY JIM TANKERSLEY

INCOME INEQUALITY: ITS ECONOMIC RISKS
BY JONATHAN RAUCH

PLUS:
ARTICLES BY RONALD BROWNSTEIN AND KIRSTIN DOWNEY

Q&A WITH CHARLES MURRAY AND ROBERT REICH
Between Main Street and Pennsylvania Avenue

A SURVEY of MIDDLE-CLASS AMERICANS

ALLSTATE BELIEVES that there are no challenges we cannot meet if all Americans work together, if we listen to each other, and if we compromise for the common good. But no one can stay on the sidelines. Everyone must take ownership and provide leadership in these challenging times. Major corporations are no exception.

That’s why Allstate commissioned a survey aimed at bridging the gap between Main Street and Pennsylvania Avenue. Our goal is to show how ordinary Americans are navigating this very demanding economy and to demonstrate the great pragmatism and optimism that lie at the heart of the American people.

As a company that is in the business of helping American families better manage their risks and create more secure economic futures, Allstate wants to shape the kind of change and innovation that will help people survive and thrive in today’s unpredictable world.

THE VOICE OF OUR NATION COMES FROM THE HEART OF OUR PEOPLE

MOVING UP

More than three-in-four Americans (76%) say that they have been able to get ahead over the course of their lifetime, either consistently or with some ups and downs. This is despite the perception that 3 out of 4 americans acknowledge that getting ahead is harder than in previous generations.

REDEFINING SUCCESS

Just over half of Americans think that the bar for “getting ahead” has been lowered due to the economic downturn. Most think that getting ahead now means holding onto a job, continuing to pay bills, and not going deeper into debt.

HARD WORK PAYS OFF

Americans believe that their own skills and hard work play a bigger role in their ability to get ahead than the state of the economy or government policies.

<table>
<thead>
<tr>
<th>WHAT DETERMINES IF YOU WILL GET AHEAD?</th>
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<tbody>
<tr>
<td>SKILLS AND HARD WORK:</td>
<td>41%</td>
</tr>
<tr>
<td>EDUCATION</td>
<td>23%</td>
</tr>
<tr>
<td>STATE OF THE ECONOMY</td>
<td>18%</td>
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<tr>
<td>INCOME LEVEL</td>
<td>6%</td>
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<tr>
<td>GOVERNMENT POLICIES</td>
<td>5%</td>
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<tr>
<td>RACIAL/ETHNIC BACKGROUND</td>
<td>4%</td>
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</tbody>
</table>
STILL OPTIMISTIC
Most believe that today’s economy still provides a fair chance to succeed and live a comfortable life for anyone who works hard. 53% say that hard workers still have a fair chance, while 43% believe that today’s economy mostly rewards the rich.

GENERATIONAL DOWNSHIFT
Americans are uneasy about potential opportunities for the next generation. Only one-in-three believe today’s children will have more opportunity, and an equal percentage believe they will have less.

DREAM COME TRUE?
Despite the current economic downturn, 61% of Americans believe they’re currently living the American Dream. This number has inched upwards over the past three Heartland Monitor Polls.

BELIEVE THEY ARE LIVING THE AMERICAN DREAM
59%  60%  61%
MAY 2011  DECEMBER 2011  SEPTEMBER 2012

EDUCATION: SMART INVESTMENT?
41% of Americans believe that an education at a four-year college or university provides a better opportunity to get ahead than a technical or vocational school (27%). But more than half (54%) believe that a college education today is an economic burden that is often too expensive and requires taking on debt.

SEEKING SECURITY
Given the choice between two jobs, 56% of Americans would choose a job with modest pay and high security while 40% would choose a job with higher possible pay but little job security.

WEALTH GAP WIDENING
Americans are more likely to believe the gap between the wealthiest Americans and everyone else will get bigger over the next four years.

GETTING AHEAD
Americans are divided on whether “getting ahead” has more to do with financial wellbeing (44%), including attributes like income and standard of living, or quality of life (49%) including personal wellbeing.

For more survey findings, visit www.allstate.com/heartland-monitor.
The voice of our nation comes from the heart of our people.

Listen closely and you’ll hear it. The hopes, dreams and concerns of America’s middle class. It’s one of the most telling and accurate vital signs of our nation’s future. Keeping our finger on the pulse of this country can help guide us all in addressing key issues leading to a stronger, more successful America.

Too often, it’s what we don’t know that hurts this country the most. That’s why, since 2009, Allstate has sponsored the Heartland Monitor Poll. This quarterly survey is aimed at bridging the gap between Main Street and Pennsylvania Avenue by shedding light on how Americans are navigating these trying times.

The results from the 14th installment have inspired us again. What we’ve learned has helped spark new conversations between the government and private sector about important issues, such as job creation, home ownership, higher education and retirement savings. The more we learn, the more we can do to help Americans and this great country succeed. This nation’s best is yet to come, if we listen to what’s in its heart.

Hear how America is feeling, visit allstate.com/heartland-monitor.
It’s the essence of the American Dream, Horatio Alger’s rags-to-riches tales in which anyone, with pluck and hard work, can start life at the bottom and rise to the top. The popular, formulaic author left this earth in 1899, but the image he drew of a nation that counts upward mobility as a birthright has long outlived him.

Too long, the weight of evidence suggests.

This edition of The Next Economy, a quarterly supplement published jointly by The Atlantic and National Journal, explores whether it’s time at last to bury Alger’s Ragged Dick. This isn’t to be done lightly, for an end to such ambitions menaces our sense of living in a land of opportunity, one that promises a better life for our children, if not for ourselves.

In the cover story, Jim Tankersley travels to Colorado to visit a father and his 29-year-old son. Neither has a college degree, but while the father has thrived, the son barely scrapes by. Blame globalization and the collapse of U.S. manufacturing for this ugly fact: To assure yourself a place in the middle class, hard work is no longer enough; a college degree is a must. Yet the difficulties that the not-already-advantaged face in earning that degree—check out Alina Tugend’s advice on how to surmount them—could make meritocracy yet another barrier to success.

But wait, the news gets worse. The growing gap between poor and rich in the United States has made it that much harder to leap higher. Jonathan Rauch finds emerging evidence that income inequality isn’t only a moral hazard but also a danger to the U.S. economy, by threatening instability and dampening growth. And if the public comes to believe that its faith in the future is a thing of the past, watch out. Ronald Brownstein warns that a more stratified nation could bring a polarization beyond what we already know.

Egad, are we turning into Europe, with its feudal-cum-aristocratic soul? Prominent conservative Charles Murray and liberal icon Robert Reich both say yes. So, what can we do about it? On this, these two public intellectuals are as polarized as everyone else.

OK, here’s the place to end on a note of optimism. Um, sorry, no can do.

Burt Solomon

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Cover Story

The American Dream of upward mobility has been losing ground as the economy shifts. Without a college diploma, working hard is no longer enough.

Horatio Alger, RIP

By JIM TANKERSLEY

One day when John Sherry was 10 years old, his parents picked him up from school and drove to a Ford dealership. They walked into a large showroom with Mustangs parked out front. He watched his parents, neither of them college graduates, ink the paperwork to buy a new, dark-green Taurus. Greg and Beth Sherry let their son sign his name at the bottom of one of the pages, just for fun.

John, who's now 29, says it was the first time he realized that purchasing a car was a bigger deal than buying groceries or a shirt. "I thought, 'Someday, I'm going to be doing that.' " But now, he says, his lips tight and flat, "I don't see myself buying a new car"—ever. "That seems out of my grasp."

Unlike his parents, John Sherry enrolled in college after graduating from high school in Grand Junction, a boom-bust, agriculture-and-energy outpost of 100,000 inhabitants on Colorado's western edge. John lasted two years at Metropolitan State University in Denver before he dropped out, first to bag groceries at Safeway, later to teach preschool children, a job he still holds. He knew it was time to quit college when he failed statistics two semesters in a row. Years passed before John realized just how much the economic statistics were stacked against him, in a way they never were against his father.

Greg Sherry, who works for a railroad, is 58 and is chugging toward retirement with an $80,000-a-year salary, a full pension, and a promise of health coverage for life. John scraps by on $11 an hour, with few health benefits. "I feel like I'm working really hard," he says, "but I'm not getting ahead."

This isn't the lifestyle that John's parents wished upon their younger child. But it reflects the state of upward—or downward—mobility in the American economy today.

Americans love to believe that anyone can get ahead, that they can build a better life than their parents had, simply by working hard enough. The evidence suggests, however, that this is less and less the case. Just working hard will no longer suffice, especially for Americans who haven't been born with wealth or particular talents. More and more, education has become the key to moving up—from poverty...
Struggling: John Sherry works hard but, without a college degree, he is barely scraping by.
into the middle class, from the middle class into affluence—or to holding onto the middle-class lifestyle in which one was raised.

There is also growing—though still nascent—evidence that from one American generation to the next, mobility is declining. It’s getting harder, that is, to work your way into a higher income level than the one into which you were born. A son’s adult income in the United States is about half dictated by how much his father made, a percentage that is nearly as high as in any country in wealth-by-birthright Europe, according to the Organization of Economic Cooperation and Development. In Europe, family connections and the circumstances of one’s birth are considered crucial determinants of success, a consequence of the entrenched aristocracies in the United Kingdom and, to a lesser extent, Italy and France.

This is far from the up-by-the-bootstraps, Horatio Algeresque self-image that most Americans hold dear. In the United States, immobility is a way of life, especially for the very rich and the very poor. (See graphics, pp. 12-13.) Brookings Institution economist Isabel Sawhill estimates that 40 percent of children born into the topmost or bottom income quintile won’t budge as adults from where they began. Katharine Bradbury, a senior economist at the Federal Reserve Bank of Boston, agrees. “Most of the long-term poor are stuck at the bottom; most of the long-term rich have a strong grip on the top; and each of these two groups is somewhat more entrenched than the corresponding groups 20 years earlier,” she concluded in a research paper last spring.

But this declining mobility also applies to Americans born into the vast middle class. Even they were less likely to bounce up or down in income during the past 10 years than in earlier decades, Bradbury found. By her calculations, Americans in the highest and lowest quintiles of income are far more likely to stay at the same level over a decade than are people in the three middle quintiles. But lately, members of the middle class have also been getting stuck: Between 1996 and 2006, they were 25 percent likelier to stay where they were, compared with the middle class in the 1976 to ’86 period. Americans feel the change.

The Pew Research Center reported in August that 71 percent of middle-class adults say it’s harder to get ahead now than 10 years ago. That’s a jump of 9 percentage points since the Great Recession struck in 2008.

Still, middle-class mobility in the United States is hardly a thing of the past. Americans born into middle-income brackets remain, as adults, equally likely to climb up or to slide down the income ladder, Sawhill writes. What’s the surest way to climb? On that, there’s a clear prescription, reflecting a quiet transformation in our notion of how upward mobility works. Nowadays, hard work will get you only so far. If you want to move from poverty into the middle class—or to avoid falling from the middle class into poverty—there’s only one route, if you’re not Beyoncé or Bill Gates: graduate from college.

According to fresh research from the Pew Economic Mobility Project, middle-quintile children without college diplomas are more than half again as likely as adults to slide into the lowest 40 percent of income earners than are middle-class children who earned a college degree. They’re also twice as likely to fall backward in wealth. College graduates are four times as likely to rocket from poverty into the highest quintile of wealth. “Having a post-secondary education is incredibly important for mobility,” said Diana Elliott, research manager at Pew’s mobility project, and it has “become increasingly important” from one generation to the next.

For American children who aspire to the middle class, this reality highlights the road they need to take. But it can also be cruel, because poor children find it much harder today to finish college than wealthier ones do. (See Survival Guide, p. 18.) “Children from rich families have much greater access to higher education than children from low-income families, even when controlling for innate skills,” Economic Policy Institute researchers concluded in a recent report. “This educational barrier places profound limits on income mobility.” And in the tattered recovery from the Great Recession, wages even for college graduates have stagnated. Meritocracy is not only a solution to restoring upward mobility but also a way to fortify the bastions of privilege.
Equality and Inequality, Worldwide

The United States, where "all men are created equal," has less upward mobility and a greater gap between rich and poor than many other nations do. When incomes are more equal, upward mobility tends to improve; as inequality rises, mobility tends to decline.

<table>
<thead>
<tr>
<th>Country</th>
<th>Social mobility (intergenerational earnings elasticity)</th>
<th>Income inequality (Gini coefficient; higher numbers indicate greater inequality)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More mobility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>0.15</td>
<td>0.248</td>
</tr>
<tr>
<td>Norway</td>
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<td>0.250</td>
</tr>
<tr>
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</tr>
<tr>
<td>Chile</td>
<td>0.52</td>
<td>0.494</td>
</tr>
</tbody>
</table>

Less mobility

Sources: OECD; Miles Corak, University of Ottawa

THE WAY THINGS WERE

Only twice in U.S. history—in the heyday of the Western frontier and in the post-World War II prosperity—have Americans found it easy to rise. (See sidebar, p. 10.) This isn’t one of those times. Middle-skill jobs (read: no college required) are disappearing from America’s sputtering economic engine—in factories, in back offices, even lately in state and local governments. For generations, these jobs were the ticket to a comfortable life for Americans who went directly from high school to work. But increasingly in recent decades, economic research shows, lower-wage workers in foreign lands have taken these jobs or automation has rendered them unnecessary. Today, job growth occurs mainly at the poles of the skills spectrum—in sweeping floors or flipping burgers, which can’t be outsourced, or in sophisticated engineering jobs that drive new industries.

Since 1980, the very lowest- and highest-skill jobs in the United States have each grown sharply as a share of the overall workforce, according to research published last spring by economists David Autor of the Massachusetts Institute of Technology and David Dorn of Spain’s Centro de Estudios Monetarios y Financieros. Meanwhile, the share of lower-middle-skill jobs has shrunk: For example, machine operators and assemblers, a classic storehouse of middle-skill jobs, fell from 13 percent of the workforce in 1950 to 4 percent in 2005. Real hourly wages have stagnated, simply as a matter of supply and demand. When too many workers compete for too few jobs, employers can hire qualified people at lower pay.

“The real question of the [displaced] middle class is: Where do they go?” asked Mark Doms, the chief economist at the Commerce Department’s Economics and Statistics Administration. “Only a few of them are going to go to the tippy-top”—the highest-skilled jobs. “The rest will go to the bottom.”

The Sherry family has learned this lesson all too well. Greg Sherry grew up in East Denver, moved to suburban Wheat Ridge in high school, and graduated without much thought of college. His parents never pushed it. His ambition never demanded it. “I liked working with my hands, and I wanted to do something like that,” he says. “I saw college as a white-collar-type job, and I wasn’t interested.”

The world Greg graduated into didn’t require an advanced degree. He could earn nearly $20 an hour in today’s dollars—a wage that could support a family—by working construction or in a warehouse. Across the country, high school graduates could claim their diplomas and walk straight into secure, well-paying, benefit-laden, pension-bearing jobs on assembly lines or, in Colorado, harvesting trees or rare earth metals. Foreign competition was a speck on the horizon; outsourcing wasn’t yet a dirty word.

Greg worked construction jobs from 1971 to 1973, building houses for a developer near the Cherry Creek Reservoir. Then the economy dipped and mortgage rates spiked; homebuilding slammed to a halt. Greg lost his job. With his new bride, Beth, he hopped around seeking work, first in Dallas, then in Denver, and finally across the Rockies to Grand Junction, where his father-in-law, a Union Pacific worker, had found Greg a railroad job. Beth, now 57, took a hygienist’s position in a dentist’s office, where she still works today.

The railroad paid $5 an hour, the 1974 equivalent of about $23 an hour ($48,000 a year) today. It came with health benefits for 30 years; your children will need education and training to prepare for the tumultuous job market to come. (See sidebar, p. 10.) Since 1980, the very lowest- and highest-skill jobs in the United States have each grown sharply as a share of the overall workforce, according to research published last spring by economists David Autor of the Massachusetts Institute of Technology and David Dorn of Spain’s Centro de Estudios Monetarios y Financieros. Meanwhile, the share of lower-middle-skill jobs has shrunk: For example, machine operators and assemblers, a classic storehouse of middle-skill jobs, fell from 13 percent of the workforce in 1950 to 4 percent in 2005. Real hourly wages have stagnated, simply as a matter of supply and demand. When too many workers compete for too few jobs, employers can hire qualified people at lower pay.

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parents began saving for college. We’ll pay for college, they told Allison and John—and we expect you to go.

**A WEED-STREWN YARD**

The Sherrys’ ranch-style house has a panoramic view of downtown Grand Junction and the mesa beyond. The backyard, a long rectangle of grass of a softness and greenness you sometimes forget exists on the parched Western Slope, drops steeply to reveal the skinny Colorado River snaking through town. This is the yard in which John Sherry romped as a child.

Today, the back door of John’s West Denver house—purchased by his father and rented to John at a discount—opens to a sun-baked lot with litter and weeds, a fading pink shed, a drooping clothesline, and a back fence that looks one summer storm away from collapse. Inside, the hallways are cluttered with bikes, televisions, and secondhand furniture. John lives with two roommates who help make the rent. His mother calls the neighborhood “a barrio.” This is the house John landed in, years after he dropped out of Metro State.

He and his parents tell near-identical stories about his childhood. He, in some ways, enjoyed learning and worked hard outside of school. He would recommend nonfiction tomes to his parents. As a grocery clerk, he’d get thank-you notes from customers for home-delivering the sacks of food they had left at checkout.

But when it came to school, John couldn’t bring himself to care. It was hard growing up in the shadow of his older sister, now 34, who at age 10 started to walk around holding a clipboard and collecting quotes from her parents for miniature news stories. Allison, the first in her father’s family to attend college, graduated from Colorado State University—her parents paid, as promised—and landed a job as a reporter for *The Denver Post*. John’s elementary school teachers asked Beth and Greg why their son couldn’t be more like Allison; whenever his parents conveyed this to John, he’d feel the sting and rebel. In high school, he skipped classes and spent a lot of time grounded. “I just didn’t have the motivation,” John explains. He graduated with a C- average.

He attended Metro State because he wanted to leave Grand Junction; his friends were going to college, and his parents expected him to go. “It wasn’t something I really wanted to do,” John says. “‘Obligation’ would be a better word for it.” He hoped to earn a degree and go into social work. But the dream faded when he struggled with math and science. When he quit school, he was too scared to tell his parents. Only months later, after a relative saw him in a UPS uniform for a holiday temp job, did they learn that he had dropped out.

Thanks to the wrenching changes in the American economy,

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**Sometimes There’s Upward Mobility …**

**By Kirstin Downey**

IN NEARLY EVERY time and place, a person’s fate has been set at birth. “The son of an aristocrat becomes an aristocrat,” as economic historian Claudia Goldin of Harvard University says. “The son of an impoverished laborer becomes an impoverished laborer.”

Except in cases of extraordinary individuals, that is. Even in antiquity and the most rigid caste systems, champion athletes, beautiful women, military geniuses, courageous soldiers, and gifted artists have managed to escape the circumstances of their beginnings if they also possessed luck, pluck, and force of character. A pharaoh released a capable Jewish slave—Joseph—and eventually made him the vizier of Egypt. A witty and buxom, though illiterate, young woman, Nell Gwynn, was the mistress of King Charles II of England, and her son became the Duke of St. Albans at age 14. In the Middle Ages, men gained earthly power by rising through the Roman Catholic hierarchy. Alphonso de Borgia, the son of a small landowner in what is now Spain, helped heal the breach between the French and Italian branches of the church during the Great Schism and rose to become Pope Callixtus III in 1455. Then his nephew became pope in 1492.

But upward mobility for the masses is far more recent—and is rarer. A vision of a greater and more broadly based social mobility really emerged in Europe and North America only in the first half of the 19th century, about 400 years after feudalism faded. A number of historical forces merged. The Enlightenment of the 1700s had prepared the ground with ideas about the fundamental equality of man and the notion of progress. The yearnings for national unity in Germany and Italy led to tribal notions in which everyone belonged to a community. The Romantic movement in culture and art focused attention on the individual and on the legitimacy and importance of his (or, occasionally, her) feelings. That, in turn, led to revolutionary movements against political systems dominated by the old aristocracy. In France, the working class killed the king and queen and turned the society upside down.

Despite the longing for upward mobility, however, economists can cite only a precious few instances where it has actually happened. Usually, it takes a war, social disruption, or an economic metamorphosis. English businessmen who spotted the potential of steam power and mines in the 1800s built gigantic factories and gained great wealth. A new leisure class emerged—while others suffered. Generations of British workers left pastoral farms for dismal urban tenements, an experience celebrated—and excoriated—during the opening ceremony of the recent London Olympics. Or consider the opportunities provided by the Black Death of the 1300s. The demise of about a quarter of Europe’s population created labor shortages that left survivors the leverage to bargain for better pay.

What has happened in the United States, therefore, is truly extraordinary: Since its founding, the nation has seen two long periods of measurably significant upward mobility. Joseph P. Ferrrie, an associate professor of economics and history at Northwestern University, has scoured census and U.S. Bureau of Labor Statistics records to verify these patterns of economic mobility. He concluded that the first such period lasted from 1850 to 1920, when about two-thirds of all men—notably, those of Northern European ancestry—wound up more
Sometimes There’s Upward Mobility … But Usually, in History, There Isn’t

John’s career choices were few and unpromising. The assembly-line and clerical jobs that had sustained high school graduates were pretty much gone. Frank Levy, an economics professor emeritus at MIT, has written extensively on the changing skills the American workforce requires. These lost “rules-based jobs,” as he calls them, are anything simple or routine enough for a computer or offshore worker to perform instead; they paid a lot more than the options that John had available after he left college. By Levy’s calculations, a 40-year-old man with a high school diploma earns 5 percent less today, in real terms, than he did in 1980, while a college graduate who’s 40 earns 25 percent more than before. The jobs available to high school graduates today also offer less prospect for rising pay. Levy’s research suggests that a male high school grad in 1980 could expect his income to grow by about 75 percent before peaking in his mid-40s, versus just 61 percent today.

John Sherry’s work life has proved a long and punishing lesson in these unpleasant truths. He has never earned more than $13 an hour. Now he makes $11 an hour—about $23,000 a year—teaching students in an expensive preschool in downtown Denver. He sometimes relies on a sort of payday loan from his bank to pay his rent. He rides his bike and plays kickball in a league for recreation—they’re both free—and brews his own beer at home. He wants to go back to school to study early-childhood education and become an elementary school teacher, with a salary at least double what he makes now. Meanwhile, he’s thinking of applying for a job at night, waiting tables, or slinging drafts at a bar he frequents once or twice a week.

“It’s almost like a survival thing now,” he says. “I could live the way I’m living now and be OK, but I would like to have a family someday. I would like to take nice vacations, things like that.” His annual wage these days would put him at the federal poverty level for a family of four. Sometimes it angers him that he earns so little for a job he sees as important. (A Brookings study calculates that enrolling a disadvantaged child in a high-quality preschool correlates to a $100,000 increase in lifetime earnings.) “But I also kind of blame myself,” he says, “because without a college degree, that’s what you get paid.”


gaining, but falling behind

Here’s some good news: Today’s households with prime-aged workers are bringing home more income than their parents did. Even after adjusting for rising prices over time, according to Pew, nearly 90 percent of middle-class children earn more, as a household, than their parents did at the same age. They’re

continued on page 14
**Chutes and Ladders**

The American Dream promises equality of opportunity. But decades-long studies of families show unequal prospects for rising above—or falling below—one’s parents’ station in life. Things are especially unchanging for those who grow up in the poorest fifth and the richest fifth of households. Forty percent of the children of parents in those groups remain in those groups as adults.

**KEY**

- Adults whose parents’ income was in the...
  - Top quintile
  - Upper-middle quintile
  - Middle quintile
  - Lower-middle quintile
  - Bottom quintile

**NOTE:** Each figure represents 1 percentage point.

**Inequality Surges**

Why is social mobility low? Rising income inequality is one explanation. The rich and the poor have grown further apart over the past 40 years. As this occurred, other gaps have widened. Among the starkest is educational attainment. High-income children are much more likely to graduate from college than low-income children are—more so now than 30 years ago. The wages of adult Americans with a college degree have risen steeply compared with those without one. Lacking a college degree makes it hard to get ahead.

**Inequality Surges**

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**Share of total household income going to each fifth of households**

- **1967**
  - Top quarter: 43.6%
  - Upper-middle quarter: 24.2%
  - Middle quarter: 17.3%
  - Lower-middle quarter: 10.8%
  - Bottom quarter: 4.0%

- **2011**
  - Top quarter: 51.1%
  - Upper-middle quarter: 23.0%
  - Middle quarter: 14.3%
  - Lower-middle quarter: 8.4%
  - Bottom quarter: 3.2%

**College completion by income bracket and birth year**

- **Top quarter**
  - 1961-64: 36%
  - 1979-82: 54%

- **Upper-middle quarter**
  - 1961-64: 17
  - 1979-82: 32

- **Lower-middle quarter**
  - 1961-64: 14
  - 1979-82: 21

- **Bottom quarter**
  - 1961-64: 5
  - 1979-82: 9

**Sources:** Census Bureau; Pew Economic Mobility Project; University of Michigan professors Martha J. Bailey and Susan M. Dynarski
The College Difference

A college degree dramatically improves have-nots’ chances of reaching the middle- and upper-income brackets as adults. Armed with college degrees, half of children born into the lowest income bracket reach the middle quintile or higher.

Income status of adults, with and without a college degree, whose parents were in the bottom quintile

<table>
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<th>No college</th>
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<td>Top</td>
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Graphic by PETER BELL
“ahead” of the previous generation—but with two painful caveats. The first is that, compared to people at the top, most workers are slipping behind. Income gains for the highest quintile of earners have run about 50 percent higher than for the bottom quintile. Think of it as a marathon: Everyone is farther along the course, but the rich have widened their lead. Looking beyond income to consider a household’s wealth—including savings and assets such as investments and a home—the middle class and poor are actually moving backwards. For households in the top two quintiles of income, inflation-adjusted wealth has grown by a fourth from the past generation to this one. In the middle quintile, it has declined by 5 percent. At the bottom, it’s down by 63 percent. (See “Inequality and Its Perils,” p. 15.)

The second uncomfortable truth is that the reason household incomes are rising from generation to generation is not because children are finding better-paying jobs than their parents held. It’s because more households are bringing in two incomes. Simply getting married and waiting until you’re 21 to have children, Sawhill and coauthor Ron Haskins have written, are two of the most important ingredients for moving from poverty into the middle class. But any additional income may be overstated: In families with children, having both parents work will typically entail higher costs for child care, mounting stress, and lost leisure time.

Add those two truths together and you see a generation working harder outside of the home but failing to get ahead like their parents expected them to.

For black Americans, that reality is even gloomier. African-Americans born in the bottom income quartile are about twice as likely to stay at the bottom in adulthood, compared with whites born in poverty, according to the recent Economic Policy Institute report. Whites are four times as likely than African-Americans to rise from the bottom quartile to the top. Middle-class African-Americans grow up to exceed their parents’ level of wealth less than a quarter of the time, compared with more than half the time for middle-class whites, Pew reports. (Neither survey looked at Latinos.)

College has become the golden ticket off that hamster wheel. But this, too, has widened the demographic gap in upward mobility. Lower-income children typically struggle to keep up in school, falling well behind wealthier children on K-12 test scores, which hurts their chances of getting into college and earning a diploma. A student with high scores on eighth-grade standardized tests but whose family is poor (in the lowest-income quartile) had only a 29 percent chance of finishing college, the EPI study found. That was a lower chance than a student from the top of the income ladder with low test scores. In other words, a dumb, rich kid is more likely to get a college diploma than a smart, poor kid.

“Although we cannot say with any certainty how much mobility today’s children will experience over the coming decades,” Bhaskar Mazumder, a senior economist at the Federal Reserve Bank in Chicago, wrote last spring, “recent research suggests cause for concern. The gap in children’s academic performance between high- and low-income families has widened significantly over the last few decades.” If this trend persists, college will no longer serve as the equalizer for a stratified economy in which the rich get richer and the poor don’t.

ONWARD AND ... UPWARD?

In some ways, the story of middle-class mobility has a silver lining. If you’re born into the middle quintile, like the Sherry children were, you’ve got about a 50 percent chance as an adult of staying there or moving up a quintile, according to Pew. You’re just as likely to rise all the way to the top—about 20 percent—as you are to sink one quintile. Education improves your odds of climbing higher: A child born in the middle quintile who finishes college has a three-in-five chance of rising into the top two quintiles.

John has seen his sister Allison succeed. Now the chief of The Denver Post’s Washington bureau, she earns a salary roughly comparable to her father’s on the railroad and recently backpacked through the Alps with friends. So, too, their cousin, Andrew Elliot, who’s a lawyer living in one of Washington’s trendiest neighborhoods. John wants something like that for himself. He knows he has only one route, really: earning a college degree.

“Economic mobility is not predetermined,” says Erin Currier, project manager of Pew’s Economic Mobility Project, “but our research has shown that a host of drivers and factors can influence a person’s chances of moving up or falling down.” These determinants fall into three categories: social capital (who you know and where you live); financial capital (your savings and access to credit); and human capital (your education).

John’s parents have tried to help him with social capital (John rebuffed his dad’s offers to help him find a job at the railroad) and financial capital (the house with discounted rent, although no help with tuition). What he needs is more human capital. For that, his parents can’t help much, except to offer encouragement. “He’s smart enough to go to college,” Greg says. Beth adds: “We still want better for him, we really do. But we don’t know what to do.”

John is still planning his full-fledged return to college. He figures on taking school slowly this time, one or two classes a quarter, while working full time. He’s taking a course this fall in early-childhood education so he can keep his state license for teaching preschool.

Seated on a bar stool in West Denver, sipping a beer, lines of worry cross his narrow face. On his calves are tattoos he designed himself, crossed swords over a bicycle. Everyone in the place seems to know him and treat him as a friend. As he talks about his latest batch of home brew, his scowl lifts. He offers to pay for the drinks. His dreams are still flowing, like the microbrew. What isn’t clear yet is whether they are pipe dreams, or real.

You see a generation working harder outside of the home but failing to get ahead like their parents expected them to.

The author is an economics correspondent for National Journal.
Inequality and Its Perils

Emerging research suggests that the growing gap between rich and poor harms the U.S. economy by creating instability and suppressing growth.

By JONATHAN RAUCH

At a salon dinner in Washington recently, the subject was inequality. An economist took the floor. Economic inequality, he said, is not a problem. Poverty is a problem, certainly. Unemployment, yes. Slow growth, yes. But he had never yet seen a good reason to believe that inequality, as such—the widening gap between top and bottom, as distinct from poverty or stagnation—is harmful to the economy. Perhaps he spoke too soon.

Once in a while, a new economic narrative gives renewed strength to an old political ideology. A generation ago, supply-side economics transformed conservatism's case against big government from a merely ideological claim to an economic one. After decades in which Keynesians had dismissed conservatism as an economic dead end (“Hooverism”), supply-siders turned the tables. The Right could argue that reducing spending and (especially) tax rates was a matter not merely of political preference but of economic urgency.

Something potentially analogous is stirring among the Left. An emerging view holds that inequality has reached levels that are damaging not only to liberals’ sense of justice but to the economy’s stability and growth. If this narrative catches on, it could give the egalitarian Left new purchase in the national economic debate.

“Widely unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term,” Joseph E. Stiglitz, a Nobel Prize-winning economist, writes in his new book, The Price of Inequality. “Taken to its extreme—and this is where we are now—this trend distorts a country and its economy as much as the quick and easy revenues of the extractive industry distort oil- or mineral-rich countries.”

Stiglitz’s formulation is a good two-sentence summary of the emerging macroeconomic indictment of inequality, and the two key words in his second sentence, “extreme” and “distort,” make good handles for grasping the arguments. Let’s consider them in turn.
INEQUALITY’S BROKEN PROMISE

Equality and Efficiency: The Big Tradeoff was a 1975 book written by the late Arthur Okun, a Harvard University economist and pillar of the economic establishment. Okun’s title encapsulated an economic consensus: Inequality is the price America pays for a dynamic, efficient economy; we may not like it, but the alternatives are worse. As long as the bottom and the middle are moving up, there is no reason to mind if the top is moving up faster, except perhaps for an ideological grudge against the rich—what conservatives call the politics of envy.

For years, the idea that inequality, per se, is economically neutral has been the mainstream view not just among conservatives but among most Americans outside the further reaches of the political Left. There might be ideological or ethical reasons to object to a growing gap between the rich and the rest. But economic reasons? No.

“The debate for many years looked settled,” said Robert Shapiro, an economist with Sonecon, a Washington consulting firm. “Changes in the economy and changes in the data have reopened the debate.”

Economists know more today than they did in Okun’s day about the distribution of income. “There’s been enormous progress in measuring inequality—Nobel Prize-level progress,” said David Moss, an economist at Harvard Business School. As the data came in and the view got clearer, the picture that emerged was unsettling.

“In the 1990s,” Moss said, “it began to appear that income was being concentrated among the very highest earners and that stagnation was occurring not just at the low end but across most income levels.” It wasn’t just that the top was doing better than the rest, but that the very top was absorbing most of the economy’s growth. This was a more extreme and dynamic kind of inequality than the country was accustomed to.

According to a recent Congressional Budget Office report, those in the top 1 percent of households doubled their share of pretax income from 1979 to 2007; the bottom 80 percent saw their share fall. Worse, while the average income for the top 1 percent more than tripled (after inflation), the bottom 80 percent saw only feeble income growth, on the order of just 20 percent over nearly 30 years. (See graphic, this page.) The rising tide was raising a few boats hugely and most other boats not very much.

It thus began to seem that the old bargain, in which inequality bought rising incomes for all, had failed—much as the Keynesian bargain (bigger government, faster growth) had failed two generations earlier. “The majority of Americans have simply not been benefiting from the country’s growth,” Stiglitz wrote, overstating things—but not by a lot.

PATHWAYS TO PERIL

So much for “extreme.” Next came the financial-system meltdown of 2008 and the Great Recession, which bring us to “distort”—how an excess of inequality may have warped the economy.

As the data on inequality came in, economists noticed something else: The last time inequality rose to its current heights was in the late 1920s, just before a financial meltdown. Might there be a connection? In 2010, Moss plotted inequality and bank failures since 1864 on the same graph; he found an eerily close fit. (See graphics, next page.) That is, in both the 1920s and the first decade of this century, inequality and financial crisis went hand in glove. Others noticed the same conjunction. Although Moss recognized that a simple correlation based on only two examples proves nothing, he wasn’t alone in wondering if something might be going on. But what?

Different economists suggest different pathways by which inequality at the microeconomic level might cause macroeconomic problems. What follows is a composite story based on common elements.

As with supply-side, the case starts with the two extreme ends of a curve. Supply-siders pointed out that two tax rates produce no revenue: zero percent and 100 percent. Inequality traces an analogous curve. At both extremes of inequality—either perfect inequality, where a single person receives all the income, or perfect equality, where rewards and incentives cannot exist—an economy won’t function. So, Moss said, “the question is: Where are the break points in between?”

Suppose various changes (globalization, technology, increased demand for skills, deregulation, financial innovation, the rising premium on superstar talent—take your pick) drove most of the economy’s income gains to the few people at the top. The rich save—that is, invest—15 to 25 percent of their income, Stiglitz writes, whereas those on the lower rungs consume most or all of their income and save little or nothing. As the country’s earnings migrate toward the highest reaches of the income distribution, therefore, you would expect to see the economy’s mix of activity tip away from spending (demand) and toward investment.

That is fine up to a point, but beyond that, imbalances may arise. As Christopher Brown, an economist at Arkansas State University, put it in a pioneering 2004 paper, “Income inequality can exert a significant drag on effective demand.” Looking back on the two decades before 1986, Brown found that if the gap between rich and poor hadn’t grown wider, consumption spending would have been almost 12 percent higher than it actually was. That was a big enough number to have produced a noticeable macroeconomic impact. Stiglitz, in his book, argues that an inequality-driven shift away from consumption accounts for “the entire shortfall in aggregate demand—and hence in the U.S. economy—today.”
True, saving and spending should eventually re-equilibrate. But “eventually” can be a long time. Meanwhile, extreme and growing inequality might depress demand enough to deepen and prolong a downturn, perhaps even turning it into a lost decade—or two.

**EASY CREDIT—UH-OH**

So inequality might suppress growth. It might also cause instability. In a democracy, politicians and the public are unlikely to accept depressed spending power if they can help it. They can try to compensate by easing credit standards, effectively encouraging the non-rich to sustain purchasing power by borrowing. They might, for example, create policies allowing banks to write flimsy home mortgages and encouraging consumers to seek them. Call this the “let them eat credit” strategy.

“Cynical as it may seem,” Raghuram Rajan, a finance professor at the University of Chicago’s Booth School of Business, wrote in his 2010 book, *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, “easy credit has been used as a palliative throughout history by governments that are unable to address the deeper anxieties of the middle class directly.” That certainly seems to have happened in the years leading to the mortgage crisis. Marianne Bertrand and Adair Morse, also of Chicago’s business school, have found that legislators who represent constituencies with higher inequality are more likely to support the easing of credit. Several papers by International Monetary Fund economists comparing countries likewise find support for the “let them eat credit” approach. And credit splurges, they find, bring on instability and current-account deficits.

You can see where the logic leads. The economy, propped up on shaky credit, becomes more vulnerable to shocks. When a recession comes, the economy takes a double hit as banks fail and credit-fueled consumer spending collapses. That is not a bad description of what happened in the 1920s and again during these past few years. “When—as appears to have happened in the long run-up to both crises—the rich lend a large part of their added income to the poor and middle class, and when income inequality grows for several decades,” the IMF’s Michael Kumhof and Romain Rancière wrote, “debt-to-income ratios increase sufficiently to raise the risk of a major crisis.”

But wait. Which is it? Does inequality depress demand? Or does it inflate credit bubbles that maintain demand? Unfortunately, the answer can be both. If inequality is severe enough, there could be enough of it to cause the country to inflate a dangerous credit bubble and still not offset the reduction in demand.

And, no, we’re not finished. Inequality may also be destabilizing in another way. “Of every dollar of real income growth that was generated between 1976 and 2007,” Rajan wrote, “58 cents went to the top 1 percent of households.” In other words, for decades, more than half of the increase in the country’s GDP poured into the bank accounts of the richest Americans, who needed liquid investments in which to put their additional wealth. Their appetite for new investment vehicles fueled a surge in what Arkansas State’s Brown calls “financial engineering”—the concoction of exotic financial instruments, which acted on the financial sector like steroids.

Those changes, the French economists Jean-Paul Fitoussi and Francesco Saraceno wrote in a 2010 paper, “help explain why the expansion of the financial sector was so out of touch with the economy. And why, for example, in the U.S., the financial sector represented about 40 percent of the total profit of the economy.” Alas, when the recession struck, the financial sector’s gigantism and complexity helped turn what might have been a brush fire into a meltdown.

**TOO MUCH OF A BAD THING**

In the 1970s, supply-siders argued that tax rates had become high enough to choke off growth and destabilize the economy. Today’s rethink makes the same kind of case against inequality. “Some inequality is a good thing in terms of establishing incentives to pursue arduous career paths,” economist Brown conceded in an interview. “But it’s been taken to such an extreme that it has become a major economic problem and a huge social problem.”

With the arguable exception of Stiglitz, the new macro-egalitarians are modest in their claims. Most acknowledge that much work needs to be done to tease out cause and effect. Most also reject remedies that rely on aggressive redistribution. Instead, they emphasize measures, such as better education and training, that attempt to raise the bottom and middle rather than to bring down the top. In comparison with many of the supply-siders, these guys are recklessly responsible.

At a minimum, however, they have found smoke, and there has certainly been a fire. The era when Washington economists and politicians could dismiss inequality as a second- or third-tier issue may be ending. And progressives, potentially, have a case against inequality that might put accusations of “class warfare” and “politics of envy” behind them.

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The author is a contributing editor of *The Atlantic* and *National Journal.*
That Elusive Diploma

For college students, finishing what you start hasn’t gotten any easier. It takes academic preparation. Oh, and money.

By ALINA TUGEND

Clifford Wadsworth III dropped out of college in 2010 after two semesters. He couldn’t relate to the other students, who mostly came from wealthier families; he suffered some ill health; and he didn’t like the courses in his political-science major. Now gone from the State University of New York (Buffalo), he owes about $6,000 in student loans and is doing sheet-metal construction work. And he isn’t happy about it.

“The more I work, the more I want to go back to school,” said Wadsworth, who’s now 21. “This is not the path I want.”

In the national debate about higher education, so much attention is focused on the cost and competition of getting into college that the reality—that lots of kids never finish—has been pretty much ignored. But now that’s changing, largely because the statistics have become so dire. The United States has dropped to 13th in the percentage of young people with four-year college degrees, according to the latest figures from the Organization for Economic Cooperation and Development.

Just over half (58 percent) of first-time, full-time students who entered a four-year U.S. college or university in 2004 graduated by 2010, according to the government’s National Center for Education Statistics. Among Hispanics, the proportion is only 50 percent; for African-Americans, just 40 percent. And of students who attend two-year public community colleges, only about 20 percent earn a certificate or a degree within three years.

Why is this happening? The problem is complicated, but two major reasons emerge: Students drop out because of a lack of money, a lack of preparation to meet the academic challenges, or both.

The most common explanation, according to a survey of 600 Americans ages 22-30 conducted for the Bill and Melinda Gates Foundation in 2009, is the need to hold a job while going to school. “We know if you work more than 15 hours a week, it reduces the chances of succeeding,” said Anthony Carnevale, director of Georgetown University’s Center on Education and the Workforce. “More than half the students attending post-secondary institutions work more than 15 hours a week—and almost 30 percent of all students work full time. The least-advantaged are the least likely to make it.”

Overcoming this hurdle is hard. As college costs explode and state governments spend less on public institutions of higher learning, the need to shoulder debt has become the norm. In the early 1990s, fewer than half of the students at four-year colleges owed money upon graduation, said Lauren Asher, president of the nonprofit Institute for College Access & Success. Now, at least two-thirds of them do.
The federal government has stepped in—to a degree. Pell Grants, the cornerstone of federal financial aid for low-income students, have an increased maximum limit of $5,500 for the current academic year, about $1,200 higher than five years ago. Washington has also addressed the growing difficulty in repaying student loans. A law enacted in 2010 will cap the amount that students who take out loans after mid-2014 must pay back each year at 10 percent—rather than the current 15 percent—of their discretionary income (defined as anything above 150 percent of the poverty level). The measure will forgive the balance of a borrower’s debt after 20 years of repayments instead of 25 years. The first 1.6 million of the current 36 million borrowers may start to take advantage of these changes sooner, under an order that President Obama issued last year.

Of course, a college’s sticker price, versus the actual cost after counting financial aid, can vary widely. Schools have made it a little easier to clarify the real cost of attending. Asher noted; most of them include net-cost calculators on their websites that are helpful, though not always simple to use. Jennifer Engle, the director of higher-education research and policy at the Education Trust, an advocacy group, argues that universities should base more of their financial aid on need rather than merit.

Borrowing to exceed or relying on high-interest private loans isn’t a good idea, experts say. But trying to avoid taking out any loans at all may not be optimal either, Asher said. That’s because students who need money but don’t want to shoulder loans sometimes compensate by working long hours, attending school part time, or jumping in and out of college—all of which, data show, “reduce the chances of getting a degree,” according to Asher. She regards federally insured loans as “a really important source of financial aid, and, if borrowed wisely, can help you get through college.”

For-profit colleges pose a particular problem. Graduation rates for these four-year institutions amount to just 28 percent within six years, compared with 56 percent for public nonprofit schools and 65 percent for private nonprofits, according to federal figures. Too many students, hoping to start a career, borrow a lot of money to attend for-profit colleges but wind up dropping out, loaded with debt, Asher said. Nationwide, she pointed out, these institutions enroll about 13 percent of all undergraduates, but their students are responsible for half of all student-loan defaults.

“Unconscionable,” said education consultant Barmak Nassirian, until recently an official at the American Association of Collegiate Registrars and Admissions Officers. But advocates of for-profit colleges say the comparison is unfair. These schools tend to serve working adults and poorer, part-time students “with multiple barriers to success,” noted Steve Gunderson, the president of the Association of Private Sector Colleges and Universities. Graduation rates are no higher for such students at nonprofit colleges, he contends.

The United States has dropped to 13th in the percentage of young people with four-year college degrees.

Another crucial variable in predicting who will drop out and who will finish college is a student’s socioeconomic status. Among new full-time students who started a four-year college in fall 2003, only 47 percent of those from families with limited means (less than twice the poverty line) earned a bachelor’s degree within six years, according to federal figures, compared with 61 percent of students from wealthier families.

Education experts cite a lack of academic preparation as another big reason why students drop out. This is a problem colleges can ease by instituting programs and processes that nudge the graduation rate higher. “We see places that have students from similarly diverse backgrounds that can have a spread of 10, 20, 30 percent in graduation rates,” the Education Trust’s Engle said. “What we hear over and over again is the importance of top leadership—the president and provost—making student retention a top priority and backing it up with resources.” This entails collecting and examining data, she said, that show the ways in which “students are struggling—what are the patterns and institutional barriers.”

One strategy that has proven successful is to offer courses, often known as First-Year Experience programs, that teach students the basic skills of academic life. “It’s one of the very few interventions in education that has data behind it,” said Robert S. Feldman, dean of the College of Social and Behavioral Sciences at the University of Massachusetts. These courses teach how to take notes, ask questions in class, navigate a campus, and get along with roommates. “The majority of students don’t have great preparation coming out of high school,” Feldman said. Students who take First Year Experience courses are less likely to drop out, are more socially engaged, and have higher grade-point averages when they graduate than students who don’t. Feldman prefers that these courses be required and offered for credit because, if given a choice, “students always think they don’t need it.”

Tracking students closely is another way to help keep them in school. The University of Maryland, for example, has raised its graduation rate from 64.6 percent in 1992-98 to 81.8 percent in 2005-11, said Lisa Kiely, the school’s assistant dean of undergraduate studies. A pivotal tactic in its anti-dropout strategy is to require freshmen to craft a four-year graduation plan that an adviser will review every year or so. The idea is to ensure that students are taking the right courses to fulfill their academic requirements to graduate on time, rather than just drifting.

Maryland’s flagship public university, Kiely said, also watches students who are struggling academically and makes sure that an adviser in their discipline keeps in contact. A student who has engaged with even a single nonstudent—a faculty member, an adviser, a coach, even “the guy who empties the trash,” said UMass’s Feldman—is less likely to drop out.

That personal connection was completely missing for Wadsworth, the Buffalo student who quit school. When he was struggling, he recalls, “I got e-mail reminders from teachers letting me know that if I didn’t take an exam, I was in danger of failing.”

Period. Nobody from the university contacted him in any other way—except to send him a bill for his tuition.

The writer is a business columnist for The New York Times and the author of Better by Mistake. She’s at twitter.com/atugend.
Becoming Europe

Both liberals and conservatives see danger as U.S. income inequality grows. But they disagree about what to do.

By PAUL STAROBIN

Authors and commentators Charles Murray and Robert Reich generally agree that America is “coming apart”—the title of Murray’s recent book on the widening gap between the country’s sinking working class and its prospering upper-class elite. They agree, too, that if this dire situation is allowed to fester, then America is apt to become more like Europe—divided by class, sclerotic in its economy and society.

But Murray and Reich agree on little else. As public intellectuals who represent the conservative and liberal perspectives, respectively, on issues of economic mobility, they fundamentally disagree on the root causes of the deterioration of the working class. Murray blames a decay in cultural values, stemming in part from permissive social policies, while Reich indicts structural changes in the economy. As they disagree on the diagnosis, they also clash on their prescriptions, a dispute reflected in the nation’s inability so far to address the growing gap between rich and poor and the attendant threat to society’s cohesion.

Murray is a scholar at the American Enterprise Institute in Washington whose books Losing Ground (1984) and The Bell Curve (1994) wreaked havoc in social-policy circles. Reich, secretary of Labor in the Clinton administration, is a professor of public policy at the University of California (Berkeley) and the author of Aftershock: The Next Economy and America’s Future (2010). In separate interviews, each laid out his views and responded to the other’s arguments.

Robert Reich, what’s your take on Charles Murray’s diagnosis of “male fecklessness” as a core problem for the working class?

REICH: I think he has cause and effect backward. The working class is falling apart because structural shifts in the economy have generated lower deal of social mobility if you were born without talent. There has never been a time that has been better to be born with talent than now. The university system has gotten really, really good at identifying academic talent, no matter where it comes from, no matter what race or socioeconomic status.

REICH: He doesn’t know what he’s talking about. I’ve been teaching at one of the best public universities in the country, and during the time I’ve been here—about eight years, all told—I have seen a marked decline in the economic diversity and racial diversity of this university. That’s largely because of budget cuts [in California] affecting accessibility, but also because of budget cuts at the K-12 level, which makes it harder for kids from lower-income families to get an education that qualifies them for college. Unfortunately, it’s becoming the norm across America.

Robert Reich: “What we’re losing is that faith in a meritocracy.”

Your core argument, Charles Murray, is that America’s working and upper classes are separating along the lines of marriage, industriousness, honesty, and religiosity. So we are in the realm of cultural values.

MURRAY: Yes, and behaviors that are determined more by culture than by economics. What’s gone on includes a very large component of what can only be described as male fecklessness. You have more adult men who can’t make themselves get up at the same time every morning and go to work. Who can’t deal with subordinate-supervisor relationships. Who feign injuries when they don’t have them. There’s been a very large increase in that kind of male behavior. And unless we’re willing to confront that, a great deal of the way we think about the inequality problem is going to be misconstrued and be misguided.

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Robert Reich, what’s your take on Charles Murray’s diagnosis of “male fecklessness” as a core problem for the working class?

REICH: I think he has cause and effect backward. The working class is falling apart because structural shifts in the economy have generated lower
and lower wages for male workers, and women without much education are generating even lower wages. Those changes have been well documented. A shorthand way of putting them is: globalization and technological change. Technology itself has supplanted a large number of jobs—the assembly line is gone.

**So what needs to be done?**

**REICH:** Without unions, without an adequate system of education, without sufficient investments in job training and infrastructure and access to community colleges, without a national industrial or economic strategy designed to give the middle class, lower-middle class, and working class—and, I might add, the poor—genuine opportunity, we’re going to see wider and wider inequality.

**MURRAY:** I am trying to think to myself what kind of public policy could conceivably provide a job market, from working class to upper-middle class, that is going to be better than the one we saw in the last half of the ’90s [and until 2008]. I am hard-pressed to see how it is that public policy could do what that economy could not do.

**Your solution, Charles Murray, is for**

folks in the prospering upper class to show others by example how values like marriage, industriousness, and religion can improve lives?

**MURRAY:** I would like the upper-middle class, and especially the elites, to openly celebrate those kinds of families, that kind of behavior. One of the main virtues of stigmatizing some people is that it enables you to praise others. I really would like to have a restoration of this common bond that used to exist, whereby somebody who was in the upper-middle class said to someone in the working class who shares this commitment to these kinds of values, “He’s my kind of guy, he’s one of us. He’s a real American.”

**REICH:** It would be preferable for most families to have two income earners. I don’t particularly care about whether they’re married or not. But the cultural aspects I would focus on much more are the decline of social solidarity, the declining sense that we’re all in the same boat and that, as citizens of the same country, we have responsibilities to one another.

**Does a class-divided, unequal America end up as Europe?**

**REICH:** We certainly could. One of the great strengths of this country is that we have not had an aristocracy. We were not born out of feudalism. We have had a strong middle class, and we have cherished in economic terms our upward mobility, so that anyone in America can make it with enough guts and gumption. But what we’re losing is that faith in a meritocracy, a faith in upward mobility, a faith in the kind of Horatio Alger story, even though much of that was mythological.

**MURRAY:** We’ll be Europe. Essentially, we’ll be indistinguishable from France and Germany and the rest. We will have a much more extensive welfare state. The upper class will feel no more kinship with the working class than the French upper class feel with French peasants, which is very little kinship.

**Does this mean the end of American exceptionalism—the idea, so powerful in our history, of our innate specialness?**

**REICH:** I’m not a declinist at all. I also have great faith, judging from my study of American history, that, at some point, our political process will respond to the problem of widening inequality and diminishing upward mobility. We are very practical as a nation. We are pragmatic. We are not particularly ideological relative to other places around the world. When we understand the nature of a problem, we roll up our sleeves and get on with what has to be done. The question in my mind is how much damage has to be done in the interim before we actually get to those pragmatic solutions.

**MURRAY:** It will be gone.

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*The writer is a contributing editor to National Journal and the author of After America: Narratives for the Next Global Age.*
In Perspective

A Dream Deferred

If Americans’ faith in upward mobility falters, expect class resentments to grow.

By RONALD BROWNSTEIN

WHEN ROBERT AND Helen Merrell Lynd studied Muncie, Ind., during the 1920s for their classic book, Middletown, nothing surprised them more than the lack of working-class resentment toward the business class.

For Middletown’s working-class families, most of them dependent on factory jobs, life was often fragile and insecure. Yet, the Lynds found, workers didn’t conclude from those conditions that the economic deck was stacked against them. The Lynds “came away puzzled by the fact that the city was becoming methodically divided, but despite that growing disparity there wasn’t any overt hostility from the working-class toward that middle [and upper] class,” says James Connolly, director of the Center for Middletown Studies at Ball State University in Muncie. “There was a strong sense in the working class that they had a shot [to get ahead], and this went along with a strong tendency to stress the individual’s responsibility for their own success or failure.”

Throughout the nearly nine decades since, the attitudes the Lynds tracked in Muncie have remained remarkably intact. Pollsters and sociologists have found less antagonism toward the affluent in the U.S. than in most other industrialized nations, precisely because Americans are more likely to believe that anyone with enough skill and determination can reach the top. In that way, faith in the opportunity for upward mobility has defused discontent about income inequality, even as inequality has grown. “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,” Isabel Sawhill, codirector of the Center on Children and Families at the Brookings Institution, wrote recently, “inequality seems to be more acceptable than in Europe.”

And yet the gap between those enduring beliefs and our more ambivalent modern realities is widening. The operative definition of the American Dream has long been: In every generation, children will live better than their parents did. Millions of Americans, no matter where they start on the income ladder, still clear that bar. But to a greater extent than our self-image allows, success in America is now a matter of choosing the right parents. As Sawhill and two colleagues have calculated, nearly two-thirds of children born to parents in the bottom fifth of income remain stuck in the lowest two-fifths as adults; by contrast, more than three-fifths of children born into families in the top fifth wind up in the top two-fifths.

A key reason for this trend is that the increasing need for a college diploma to get ahead, ironically, reinforces privilege as much as dissolves it. Why? College is far easier to start than to finish, and children whose parents earned a degree are now five times as likely to graduate as children whose parents did not. The result: Although we consider mobility the heart of the American Dream, international studies find that, in most European countries, children born near the bottom now have a better chance of reaching the top than in the United States.

So far, these new trends haven’t shattered the public’s belief that success is earned, not inherited. In Allstate/National Journal Heartland Monitor polls over the past four years, a significant majority of Americans said they believe “the American Dream is still possible and achievable for ... people like you.” Most also think that their own efforts, not events beyond their control, will determine their success. Nothing in those findings would surprise the Lynds.

And yet these polls also point to cracks in that conviction. Nearly three-fifths of Hispanics and African-Americans, and about two-fifths of Asian-Americans, said last year that they believe their children will enjoy greater opportunities. Yet only about a fourth of whites agreed; more than two-fifths of whites feared their children would have fewer opportunities. Some of that may reflect anxiety about racial change. But those attitudes undoubtedly also reflect the limits on mobility that Sawhill and her colleagues have mapped.

As Connolly notes, the faith that hard work brings success “has been one of the elements in our culture that’s kept the peace.” If that faith falters, the widening disparity in income evident since the 1970s could generate greater resentment than it has so far. A more stratified America may mean a more polarized America. This should worry people already at the top as well as Americans who hope to join them and are starting to doubt if they can.

The writer is the editorial director of National Journal.
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