NOVEMBER 14, 2011

The hard truth about income inequality
BY RANA FOROOHAR

Either fix our schools or get used to failure
BY FAREED ZAKARIA

Pew poll: iPhones vs. IRAs
BY MICHAEL CROWLEY

TIME

CAN YOU STILL MOVE UP IN AMERICA?

Lesley Perez, 24
A New York City kindergarten teacher, Perez earns just $23,000 a year. To save money, she lives with her parents. She is $35,000 in debt from college loans

WHAT EVER HAPPENED TO UPWARD MOBILITY?

Why the U.S. has become the land of less opportunity—and what we can do to revive the American Dream

By Rana Foroohar

Photographs by Joakim Eskildsen for TIME

Evan, 22, Sophia, 50, and Brent Nagao, 54
Because his Selma, Calif., farm isn't profitable, Brent works for the USDA. Evan quit his job to work the farm, while Sophia cares for Brent's ailing parents

Maria, 39, and Darren Sumner, 40
The New Orleans couple was laid off from design and architecture jobs in 2008. Steady work was scarce for years until Maria landed a job as a design director in September. Darren is still looking

A

AMERICA'S STORY, OUR NATIONAL MYTHOLOGY, is built on the idea of being an opportunity society. From the tales of Horatio Alger to the real lives of Henry Ford and Mark Zuckerberg, we have defined our country as a place where everyone, if he or she works hard enough, can get ahead. As Alexis de Tocqueville argued more than 150 years ago, it's this dream that enables Americans to tolerate much social inequality—this coming from a French aristocrat—in exchange for what we perceive as great dynamism and opportunity in our society. Modern surveys confirm what Tocqueville sensed back then: Americans care much more about being able to move up the socioeconomic ladder than where we stand on it. We may be poor today, but as long as there's a chance that we can be rich tomorrow, things are O.K.

But does America still work like that? The suspicion that the answer is no inspires not only the Occupy Wall Street (OWS) protests that have spread across the nation but also a movement as seemingly divergent as the Tea Party. While OWS may focus its anger on rapacious bankers and the Tea Party on spendthrift politicians, both would probably agree that there's a cabal of entitled elites on Wall Street and in Washington who have somehow loaded the dice and made it impossible for average people to get ahead. The American Dream, like the rest of our economy, has become bifurcated.

Certainly the numbers support the idea that for most people, it's harder to get ahead than it's ever been in the postwar era. Inequality in the U.S., always high compared with that in other developed countries, is rising. The 1% decried by OWS takes home 21% of the country's income and accounts for 35% of its wealth. Wages, which have stagnated in real terms since the 1970s, have been falling for much of the past year, in part because of pervasively high unemployment. For the first time in 20 years, the percentage of the population employed in the U.S. is lower than in the U.K., Germany and the Netherlands. "We like to think of America as the workingest nation on earth. But that's no longer the case," says Ron Haskins, a co-director, along with Isabel Sawhill, of the Brookings Institution's Center on Children and Families.

Nor are we the world's greatest opportunity society. The Pew Charitable Trusts' Economic Mobility Project has found that if you were born in 1970 in the bottom one-fifth of the socioeconomic spectrum in the U.S., you had only about a 17% chance of making it into the upper two-fifths. That's not good by international standards. A spate of new reports from groups such as Brookings, Pew and the Organisation for Economic Co-operation and Development show that it's easier to

Felecia Ogbodo, 37, and her daughter Ermaline, 18

Felecia, from Fresno, Calif., lost her job as a social worker and is filing for bankruptcy. Ermaline, a student at UC Santa Cruz, worries about needing to support her mom

climb the socioeconomic ladder in many parts of Europe than it is in the U.S. It's hard to imagine a bigger hit to the American Dream than that: you'd have an easier time getting a leg up in many parts of sclerotic, debt-ridden, class-riven old Europe than you would in the U.S.A. "The simple truth," says Sawhill, "is that we have a belief system about ourselves that no longer aligns with the facts."

The obvious question is, What happened? The answers, like social mobility itself, are nuanced and complex. You can argue about what kind of mobility really matters. Many conservatives, for example, would be inclined to focus on absolute mobility, which means the extent to which people are better off than their parents were at the same age. That's a measure that focuses mostly on how much economic growth has occurred, and by that measure, the U.S. does fine. Two-thirds of 40-year-old Americans live in households with larger incomes, adjusted for inflation, than their parents had at the same age (though the gains are smaller than they were in the previous generation).

But just as we don't feel grateful to have indoor plumbing or multichannel digital cable television, we don't necessarily feel grateful that we earn more than our parents did. That's because we don't peg ourselves to our parents; we peg ourselves to the Joneses. Behavioral economics tells us that our sense of well-being is tied not to the past but to how we are doing compared with our peers. Relative mobility matters. By that standard, we aren't doing very well at all. Having the right parents increases your chances of ending up middle to upper middle class by a factor of three or four. It's very different in many other countries, including Canada, Australia, the Nordic nations and, to a lesser extent, Germany and France. While 42% of American men with fathers in the bottom fifth of the earning curve remain there, only a quarter of Danes and Swedes and only 30% of Britons do.

Yet it's important to understand that when you compare Europe and America, you are comparing very different societies. High-growth Nordic nations with good social safety nets, which have the greatest leads in social mobility over the U.S., are small and homogeneous. On average, only about 7% of their populations are ethnic minorities (who are often poorer and thus less mobile than the overall population), compared with 28% in the U.S. Even bigger nations like Germany don't have to deal with populations as socially and economically diverse as America's.

Still, Europe does more to encourage equality. That's a key point because high inequality—meaning a large gap between the richest and poorest in society—has a strong correlation to lower mobility. As Sawhill puts it, "When the rungs on the ladder are further apart, it's harder to climb up them." Indeed, in order to understand why social mobility in the U.S. is falling, it's important to understand why inequality is rising, now reaching levels not seen since the Gilded Age.

There are many reasons for the huge and growing wealth divide in our country. The rise of the money culture and bank deregulation in the 1980s and '90s certainly contributed to it. As the financial sector grew in relation to the rest of the economy (it's now at historic highs of about 8%), a winner-take-all economy emerged. Wall Street was less about creating new businesses—entrepreneurship has stalled as finance has become a bigger industry—but it did help set a new pay band for top talent. In the 1970s, corporate chiefs earned about 40 times as much as their lowest-paid worker (still closer to the norm in many parts of Europe). Now they earn more than 400 times as much.

The most recent blows to economic equality, of course, have been the real estate and credit crises, which wiped out housing prices and thus erased the largest chunk of middle-class wealth, while stocks, where the rich hold much of their money, have largely recovered. It is telling that in the state-by-state Opportunity Index recently released by Opportunity Nation, a coalition of private and public institutions dedicated to increasing social mobility, many of the lowest-scoring states—including Nevada, Arizona and Florida—were those hardest hit by the housing crash and are places where credit continues to be most constrained.

But the causes of inequality and any resulting decrease in social mobility are also very much about two megatrends that have been reshaping the global economy since the 1970s: the effects of technology and the rise of the emerging markets. Some 2 billion people have joined the global workforce since the 1970s. According to Goldman Sachs, the majority of them are middle class by global standards and can do many of the jobs that were once done by American workers, at lower labor costs. Goldman estimates that 70 million join that group every year.

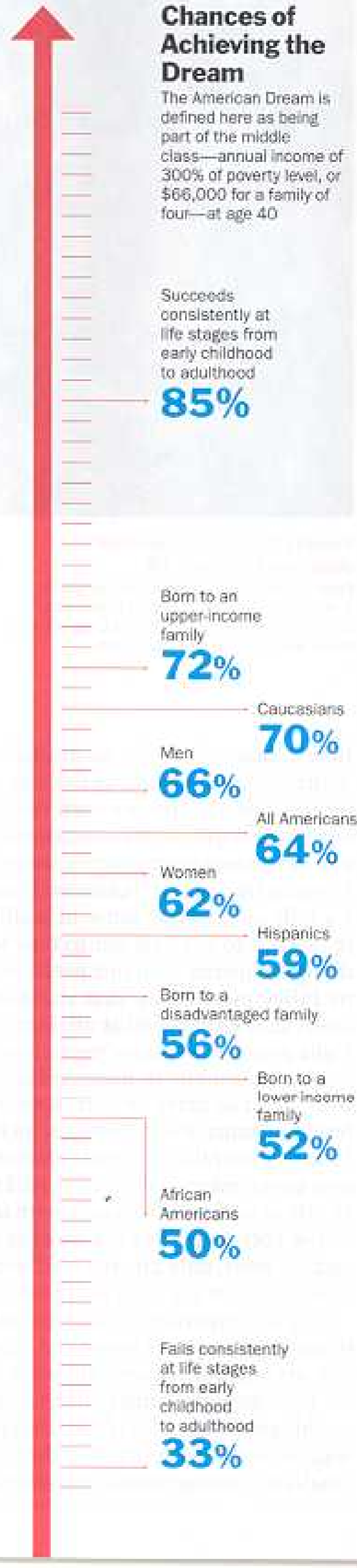
While there's no clear formula for ascribing the rise in inequality (via wage compression) and subsequent loss of mobility to the rise of China and India, one key study stands out. Nobel laureate Michael Spence's recent examination of major U.S. multinationals for the Council on Foreign Relations found that since the 1980s, companies that operated in the tradable sector—meaning they made things or provided services that could be traded between nations—have created virtually no net new jobs. The study is especially illustrative of the hollowing out of the American manufacturing sector in that period as middle-wage jobs moved abroad. The only major job creation was in more geographically protected categories like retail and health care (another reason wages are shrinking, since many of the fastest-growing jobs in the U.S., like home health care aide and sales clerk, are low-paying).

That so many of the jobs we now create are low end underscores a growing debate

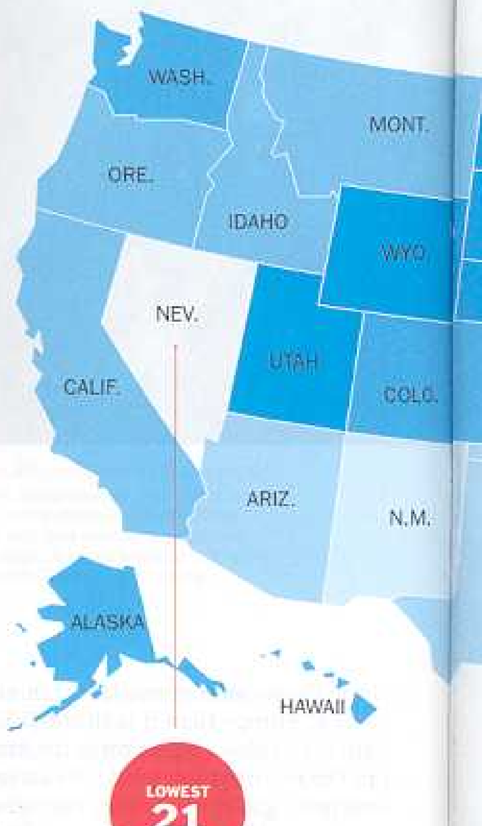
The Mobility Matrix. Your chances of moving up are tied to a complex mix of geography, race, health and education

Chances of Achieving the Dream

The American Dream is defined here as being part of the middle class—annual income of 300% of poverty level, or $66,000 for a family of four—at age 40



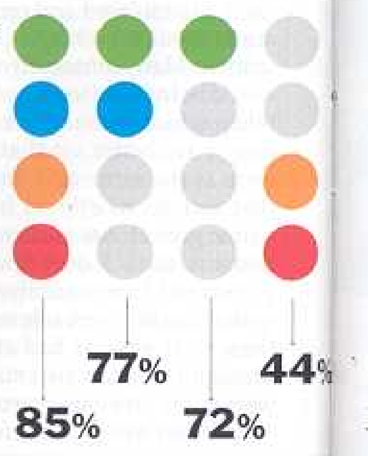
Like the Rest of Our Economy, Opportunity Is Bifurcated



Worst prospects
Many bottom states, like Nevada, were hit hard by the real estate and credit crisis. They also have poor educational levels and low investment

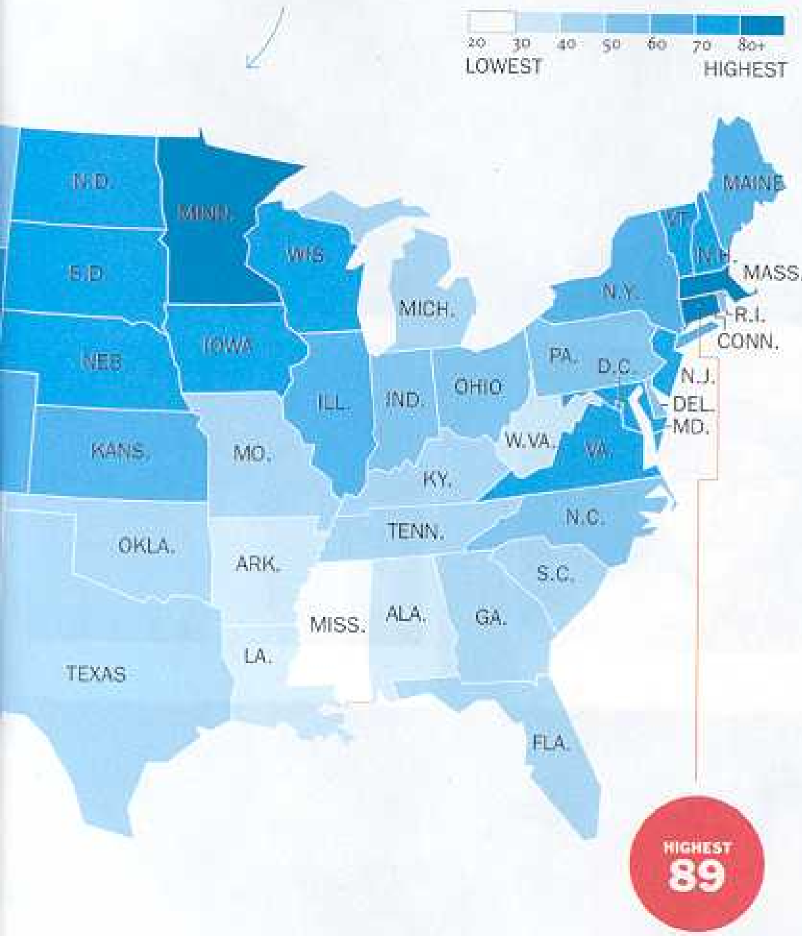
Pathways To the Dream

Chance of reaching the middle class measured in age-group achievement. Color icons represent success, gray ones failure



Opportunity score

The index reflects performance on 16 indicators within three dimensions: jobs and local economy; education; and community health and civic life



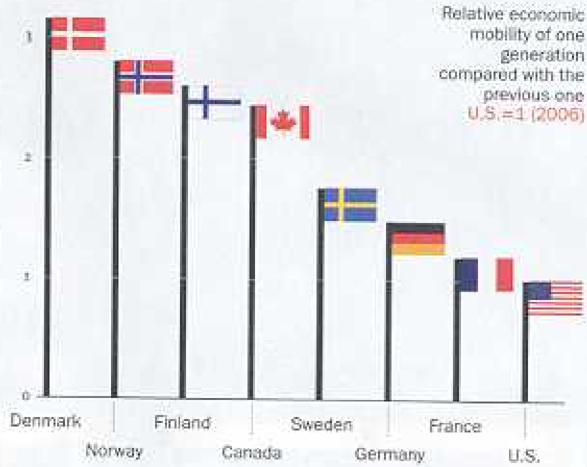
Best prospects

The top states are those with diversified economies, rich civic lives and—like Connecticut—high levels of investment in education

Sources: Brookings Institution; Pew's Economic Mobility Project; Opportunity Nation

Why We're Falling Behind

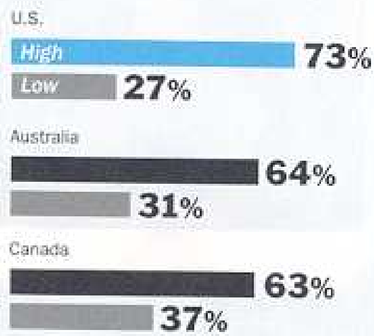
The U.S. trails other Western industrialized nations in many of the key areas that influence a person's prospects for economic mobility



Education

In the U.S., children's educational attainment is closely linked to their parents'

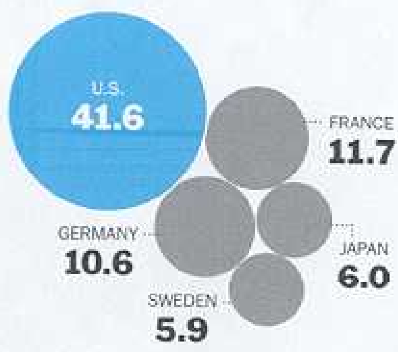
Average child's percentile on vocabulary tests, by parents' education level



Teenage moms

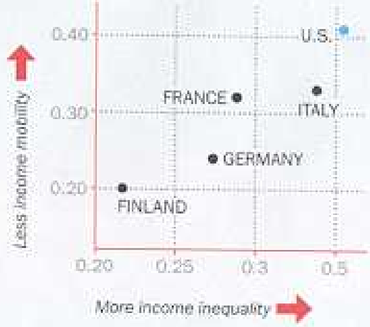
Their children are headed for trouble—they are more likely to engage in delinquent behavior

Adolescent fertility rate (births per 1,000 teenage women)



Longer shot

Equality enables upward mobility; when the rungs are farther apart, the climb up the ladder is still possible but more difficult



over technology and its role in increasing or decreasing opportunity. Many of the jobs that have disappeared from the U.S. economy have done so not only because they were outsourced but also because they are now done by computers or robots. Advocates of technology-driven economic growth, like the McKinsey Global Institute, would argue that the creative destruction wrought by such innovations creates more and better jobs in the future; microchip making employs just 0.6% of the U.S. workforce, but chips make all sorts of businesses more efficient so they can develop new products and services. The problem is that those jobs tend to be skewed toward the very top (software engineer) or the bottom (sales clerk). The jobs in the middle have disappeared. According to the New America Foundation, a public-policy think tank, the share of middle-income jobs in the U.S. fell from 52% in 1980 to 42% in 2010.

While there's no doubt that so far, technology has been a net plus in terms of the number of jobs in our economy, a growing group of experts believe that link is being broken. Two economists at MIT, Erik Brynjolfsson and Andrew McAfee, have just published an influential book titled *Race Against the Machine*, looking at how computers are increasingly able to perform tasks better than humans do, from driving (Google software recently took a self-driving Prius on a 1,000-mile trip) to sophisticated pattern recognition to writing creative essays and composing award-winning music. The result, they say, is that technology may soon be a net job destroyer.

The best hope in fighting the machines is to improve education, the factor that is more closely correlated with upward mobility than any other. Research has shown that as long as educational achievement keeps up with technological gains, more jobs are created. But in the late 1970s, that link was broken in the U.S. as educational gains slowed. That's likely an important reason that Europeans have passed the U.S. in various measures of mobility. They've been exposed to the same Malthusian forces of globalization, but they've been better at using public money to buffer them. By funding postsecondary education and keeping public primary and secondary schools as good as if not better than private ones, Europeans have made sure that the best and brightest can rise.

There are many other lessons to be learned from the most mobile nations.

AS LONG AS EDUCATIONAL ACHIEVEMENT KEEPS UP WITH TECHNOLOGICAL GAINS, MORE JOBS ARE CREATED

Funding universal health care without tying it to jobs can increase labor flexibility and reduce the chance that people will fall into poverty because of medical emergencies—a common occurrence in the U.S., where such medical crises are a big reason a third of the population cycles in and out of poverty every year. Focusing more on less-expensive preventive care (including family planning, since high teen birthrates correlate with lack of mobility) rather than on expensive procedures can increase the general health levels in a society, which is also correlated to mobility.

Europe's higher spending on social safety nets has certainly bolstered the middle and working classes. (Indeed, you could argue that some of America's great social programs, including Social Security and Medicaid, enabled us to become a middle-class nation.) Countries like Germany and Denmark that have invested in youth-employment programs and technical schools where young people can learn a high-paying trade have done well, which is not surprising given that in many studies, including the Opportunity Nation index, there's a high correlation between the number of teenagers who are not in school or not working and lowered mobility.

Of course, the debt crisis in Europe and the protests over austerity cuts in places like Athens and London make it clear that the traditional European welfare systems are undergoing very profound changes that may reduce mobility throughout the continent. But there is still opportunity in efficiency. Germans, for example, made a command decision after the financial downturn in 2008 not to let unemployment rise because it would ultimately be more expensive to put people back to work than to pay to keep them in their jobs. The government subsidized companies to keep workers (as many as 1.4 million in 2009) on the payroll, even part time. Once the economy began to pick up, companies were ready to capitalize on it quickly. Unemployment is now 6%—lower than before the recession—and growth has stayed relatively high.

The Nordic nations, too, have figured out clever ways to combine strong economic growth with a decent amount of security. As in Germany, labor and corporate relations are collaborative rather than contentious. Union reps often sit on company boards, which makes it easier to curb excessive executive pay and negotiate compromises over working hours. Worker retraining is a high priority. Danish adults spend a lot of time in on-the-job training. That's one reason they also enjoy high real wages and relatively low unemployment.

The final lesson that might be learned is in tax policy. The more-mobile European nations have fewer corporate loopholes, more redistribution to the poor and middle class via consumption taxes and far less complication. France's tax code, for example, is 12% as long as the U.S.'s. Tax levels are also higher, something that the enlightened rich in the U.S. are very publicly advocating.

No wonder. A large body of academic research shows that inequality and lack of social mobility hurt not just those at the bottom; they hurt everyone. Unequal societies have lower levels of trust, higher levels of anxiety and more illness. They have arguably less stable economies: International Monetary Fund research shows that countries like the U.S. and the U.K. are more prone to boom-and-bust cycles. And they are ultimately at risk for social instability.

That's the inflection point that we are at right now. The mythology of the American Dream has made it difficult to start a serious conversation about how to create more opportunity in our society, since many of us still believe that our mobility is the result of our elbow grease and nothing more. But there is a growing truth, seen in the numbers and in the protests that are spreading across our nation, that this isn't so. We can no longer blame the individual. We have to acknowledge that climbing the ladder often means getting some support and a boost. ■