Dream a Little American Dream with Me: Income Inequality and Social Mobility in the United States

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With Donald Trump out of the White House, the problems that brought him into office in the first place will not miraculously disappear. Trump is not the main source of the economic, social, and political crises that we can observe in the United States, but rather the result of encompassing economic, political, and social developments which had already started in the 1970s (Vormann and Lammert): massive deregulation of labor and financial markets, retrenchment of a traditionally weak liberal welfare regime, an intense exposure of the labor market to global economic integration leading to growing income and wealth inequalities, and a decline of social mobility in the United States. As a result, trust in political elites and institutions has declined massively, and the flood gates for populist and anti-establishment rhetoric and mobilization have been opened.

Trust is a central source of legitimacy in representative democracies. As data show, trust in political institutions and actors has constantly declined in the United States since the 1960s. According to Pew Research, 70 percent of Americans trusted their government in the 1960s. By 2015, this number declined to just 25 percent (18). And this is true for supporters of both Republicans and Democrats. A deeper look into the Pew data reveals part of what is behind that declining trust: people feel less and less represented by their political elites (Pew Research Center 26). Jacob Hacker and Paul Pierson already stated in their 2010 book, *Winner-Take-All Politics*, that public policy in the United States over the last three decades favors mainly the rich and corporations, whereas the political elites forget the middle class and lower income groups. Pew data supports this argument: 77 percent of people think that political elites have lost touch with their base, that they do not care about the interests of average Americans (74 percent), and that they care mostly about themselves and their prospects for reelection (Pew Research Center 40).

Economic factors are important in order to understand this alarming decline of trust. And one of the main developments we have seen in the United States since the 1970s is massive growth in income inequality. According to all indicators used by economists, the United States is exceptional in this regard within the Organisation for Economic Co-operation and Development (OECD). Especially the super-rich—the top 1 percent in income distribution—have enjoyed fantastic times in the last 40 years. Between 1979 and 2007, just before the financial crisis and the Great Recession hit the United States, average income after taxes and transfers quadrupled for the top 1 percent of the income distribution, whereas the increases for both the middle 60 percent and the bottom 20 percent were much more marginal. It was not the market alone that contributed to the massive rise in income inequality, but redistribution via the tax and transfer system proved unable to mitigate those developments, and in some cases even further aggravated them (Seelkopf and Lierse).

The financial crisis of 2007 did not change these patterns. The top 1 percent rapidly recovered and continues to achieve an even greater share of the national income. Wall Street was winning again, and Main Street was left behind. This picture becomes even more extreme if we just look at the top 0.1 percent in the income distribution. In 2018, their average annual income was $7 million. Americans at the very top of the income distribution generate over 196 times the income of the bottom 90 percent (Saez and Zucman). The U.S. income divide has not always been as vast as it is today. In response to the staggering inequality of the Gilded Age in the early twentieth century, for instance, social movements and progressive policymakers fought successfully up until the 1970s to level down the top through fair taxation and level up the bottom through increased unionization and other reforms (Goldin and Margo). But with globalization and the dominance of neoliberal economic ideas since the Reagan administration, the United States has witnessed rates of income inequality that resonate well with the times of the Gilded Age.

One might argue that income inequality has been a constant feature of the United States, with its focus on individualism, the market, and self-responsibility. And, indeed, the United States is supposedly a place where everyone has the opportunity to make a good life for themselves, regardless of luck and the circumstances of their birth. Inequality in income and wealth is acceptable as long as everyone is able to participate in economic progress and demonstrates a fair chance to join the club of millionaires. "From rags to riches," as goes the common storyline of the American Dream in a nutshell. But at least according to empirical studies, that is not how life functions. Miles Corak has shown in his studies that there is in fact an inverse relationship between income inequality and social mobility, especially with regard to intergenerational mobility

(Corak). Countries like the United States, with high income inequality, tend to have low social mobility.

Zooming into the United States, we even see dramatic regional variation. Social mobility is particularly low in regions like the Southeast, whereas there is higher mobility in cities like Salt Lake City, Utah, and San Jose, California. Yet other cities, such as Milwaukee, Wisconsin, and Atlanta, Georgia, maintain lower rates of social mobility. This regional variation again confirms that high income inequality is correlated with low mobility (Chetty). Applying a longer historical perspective to the relationship between inequality and social mobility, we see that social mobility has declined in the United States since the 1940s. Raj Chetty and his co-authors find that 92 percent of children born in 1940 earned more than their parents, but only 50 percent of children born in 1980 out-earn their parents. Family background thus continues to play a strong role in determining who is upwardly mobile and who is not. Children born into poor families have a hard time making it into the middle class as adults. Furthermore, there appears to be a glass floor at the very top, protecting children from falling down the income ladder. As class gaps along the lines of family formation, education, and neighborhood quality continue to grow, the upward mobility of today's children is increasingly at risk. Both inequality and low and even declining social mobility are threats to the American Dream; or, perhaps are indicators that it is just that, a dream. The tight correlation between the incomes of parents and those of their children looks more like the aristocracies of yore than a modern twenty-first-century economy.

Growing inequality and changing patterns of social mobility also have consequences for the middle class in the United States, the backbone of democracy. The hollowing of the American middle class has proceeded steadily for more than four decades. Since 1971, each decade has ended with a smaller share of adults living in middle-income households. The share of adults living in those middle-income households has fallen from 61 percent in 1971 to 50 percent in 2015 (Pew Research Center). At the same time, the share living in the upper-income tier rose from 14 percent to 21 percent, while the share in the lower-income tiers increased from 25 percent to 29 percent. As a result, the gap in income and wealth between middle- and upper-income households has widened substantially.

But there is also a political dimension to the crisis of trust that brought Donald Trump into office. Economic inequalities more and more often transition into political inequalities. In part due to increasing partisan polarization, the structure of the political system itself has become a problem: built-in blocking mechanisms, which are actually supposed to guarantee democracy, have instead led to political gridlock. The legislative process is no longer working as it was supposed to do and the system of checks and balances that was implemented to safeguard democracy is starting to weaken people's trust in the capacity of the political system to find solutions to economic and social problems. So, what we see is a decline of trust on the output side of the political system.

But there is another problem on the input side of the political system as well, and that is why Martin Gilens and Benjamin Page ask whether the category "oligarchy," rather than "democracy," might be more apt to describe the United States at this point in time. Their concerns center on the opportunities that citizens have to influence politics and to make their voices heard: for example, the extent to which elected officials, in their actions and policies, act in accordance with the interests of the people who elect them. Political scientists call this responsiveness. Gilens finds with his empirical research that in the United States elected representatives are no longer attuned to the interests of the middle class or low-income groups. They instead primarily listen to the interests of the super-rich and organized special interests, who, through campaign contributions and lobbying, succeed in influencing politics (Gilens). Under these circumstances, democracy's prime correction mechanism—elections—is ineffective (Lammert), even without widespread allegations of voter fraud. The influence of money in politics plays a decisive role here. Elections in the United States are becoming more and more expensive, and politicians need money to run their election campaigns. In 2012, for example, according to opensecrets.org, more than 40 percent of all private election contributions came from the richest 0.01 percent. In the 1980s, this share from the super-rich was only 10 percent. It seems obvious to which voices politicians have to listen.

The Trump administration, and especially Trump's behavior upon losing the 2020 presidential election, has pushed the United States to the brink of autocracy. Trump was not able to solve the various crises that made people vote for him in 2016. The Biden administration will face huge obstacles: trust needs to be reestablished, while income and wealth inequality and declining social mobility need to be tackled. And this is only possible if Biden and the Democrats will be able to build broad coalitions across party lines to implement necessary and encompassing political reforms in the United States. These range from economic stimulus packages to reforms in the fields of campaign finance, immigration, and health care. A Herculean job which, because of gridlock and Republican obstruction, might become a Sisyphean one.

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