The American Dream Is Not Dead
(But Populism Could Kill It)

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What do we mean by “the American Dream?”

• The freedom to choose how to live your own life.
• To have a “good life,” including a good family, meaningful work, a strong community, and a comfortable retirement.
• To own a home.
What do we mean by “the American Dream?”

• A key part of the dream is based on economic success and upward mobility (loosely defined).

1. Are my kids going to be better off than I am?
2. Am I doing better this year than last year?
3. Can a poor kid grow up to become a billionaire or president?
The national conversation assumes that American Dream is dead

“Sadly, the American dream is dead.”
— Donald Trump, June 2015

“There was once a path to a stable and prosperous life in America that has since closed off. It was a well-traveled path for many Americans: Graduate from high school and get a job, typically with a local manufacturer or one of the service industries associated with it, and earn enough to support a family. The idea was not only that it was possible to achieve this kind of success, but that anyone could achieve it—the American dream. That dream defines my family’s history, and its disappearance calls me to action today.”
— Marco Rubio, December 2018
The national conversation assumes that American Dream is dead

“Across generations, Americans shared the belief that hard work would bring opportunity and a better life. America wasn’t perfect, but we invested in our kids and put in place policies to build a strong middle class. We don’t do that anymore, and the result is clear: The rich get richer, while everyone else falls behind. The game is rigged, and the people who rigged it want it to stay that way.”
— Elizabeth Warren and Bill de Blasio, May 2015

“American workers are some of the most overworked yet our standard of living has fallen. For many, the American dream has become a nightmare.”
— Bernie Sanders, May 2016
The national conversation assumes that American Dream is dead

“If you don’t have family wealth, and if you don’t have a four year degree — and that’s 70 percent of Americans. Seventy percent — the future is far less glowing. These Americans haven’t seen a real wage increase in thirty years.”
— Josh Hawley, 2019

“The American economy is failing its citizens.”
— Joseph Stiglitz, 2019

“I think the American Dream is lost.”
— Ray Dalio, 2019

“The American Dream is dying.” “The dark age we are living through.”
— Tucker Carlson, 2019
My goal is not to be Panglossian or contrarian

• Americans have high expectations. That is good!
• And the United States faces serious economic challenges.
• The U.S. also faces serious social challenges.

• My goal is not to be Panglossian or contrarian. It is to be accurate.
• My goal is to zoom out from pockets of real struggle and instead to characterize the broader picture. The broader picture is the more accurate reflection of the state of the country, and of the American Dream.
The American Dream is not dead

Some simple assertions that should not be controversial:

1. Today’s economy is delivering for American workers.
2. Wages and incomes have not been stagnant for typical workers over the past three decades.
3. Broader quality of life has improved significantly for typical households over the past several decades.
4. Middle-income jobs have been “hollowed out,” but a new middle seems to be forming. And, in the aggregate, hollowing out is a story of middle-skill employment being replaced by high-skill employment.
5. America is still broadly characterized by upward economic mobility.
The American Dream is not dead

Two additional assertions:

6. The narrative about the American Dream matters.
7. We need to do more to advance and secure the American Dream.
Today’s economy is delivering for workers

• Weekly earnings for workers in the bottom 10% have grown over one-third faster than growth at the median over the past four years.

• The unemployment rate for workers without a high school diploma is further below its long-term average than the rate for college graduates.

• Wages for nonsupervisory workers have been growing faster than average wages since last February.
Wages have not stagnated for decades
Real Average Hourly Earnings for Production and Nonsupervisory Workers: 1964-2019

Source: BLS, BEA; Author's calculations. Inflation adjusted to 2019 dollars using the PCE-PI series.
Real Average Hourly Earnings for Production and Nonsupervisory Workers: 1964-2019

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Starting year: What do we mean by “for decades?”

• When politicians and opinion leaders argue that wages have been stagnant for decades, people hear that message as referring to their wages – that is, to the wages of working people today.

• These comparisons often start in the 1973. But that was 47 years ago. For the purposes of the policy debate, picking a more recent year as the starting year seems better.
1. July 1990 was a business cycle peak.
2. The summer of 1990 is close to a “structural break” that seems to have occurred in the mid-1990s.
3. 1990 is roughly 30 years ago.
4. It is harder to correctly adjust for inflation the further back in time you go. (Quality improvements are harder to measure, and there are more new products to account for.)
5. If you want to argue that “wages have been stagnant for decades,” you are presenting an incomplete analysis. Instead, wages stagnated from the mid-1970s to the mid-1990s, and have been growing since then.
Is 33% growth over 30 years properly described as “stagnant?”

• It’s slower growth than the top 1 percent.
• But it is also a significant increase in purchasing power.
• Society, and public policy, should not be content with this pace of growth. It is not “fast enough” growth.
• But it is more wrong than right to describe this growth as stagnant. A one-third increase in purchasing power is significant.
Percentiles
Average Hourly Real Wages at Percentiles of the Earnings Distribution: 1990-2018

What about income?
Cumulative Growth in Median Annual Real Income Adjusted for Family Size: 1990-2016

Source: CBO Distribution of Household Income 2016. Author’s calculations. Inflation-adjusted to 2016 dollars using PCE-PI series from BEA.
Cumulative Growth in Average Annual Real Income for First Income Quintile: 1990-2016

Source: CBO Distribution of Household Income 2016. Author’s calculations. Inflation-adjusted to 2016 dollars using PCE-PI series from BEA.
Income inequality is stagnant or declining
Income Inequality as Measured by the Gini Coefficient, 1979 to 2016
Do people care about income inequality?
Clearly, life is better than it was decades ago
Middle-class jobs
“Hollowing out”

• In 1970, total employment was evenly split across low-, middle-, and high-wage occupations, with 31 percent, 38 percent, and 30 percent of employment in each category, respectively (Autor 2019).

• Employment in middle-wage, middle-skill occupations has since fallen significantly, to 23 percent of total employment (Autor 2019).

• What caused this?
What happened to those workers?
Share of Households by Total Money Income
1967-2018

Adjusted for inflation to 2018 dollars using CPI-U-RS
“Old middle” vs. “new middle”

• Old middle: Production occupations, construction and extraction occupations, and clerical occupations. (Assemblers, metal fabricators, meat packers, poultry and fish cutters, machine setters, metal pourers, furnace operators, welders, carpenters, payroll and timekeeping clerks.)

• New middle: Healthcare support occupations, transportation, education and training, and personal care and service
Share of Employment in Middle Class Occupations: 2000-2018

Source: BLS Occupational Employment Statistics. Author’s calculations.

Middle class occupations have median hourly wages in the middle third of the wage distribution across all occupations. Old middle occupations include all middle class occupations in the construction, production, or clerical major occupation categories. New middle occupations include all other middle class occupations not in the old middle categories.
Fastest-growing “new middle” occupations

• Sales representatives, truck drivers, managers of personal service workers, heating and air conditioning mechanics and installers, computer support specialists, self-enrichment education teachers, event planners, health technologists and technicians, massage therapists, social workers, marriage and family counselors, AV technicians, paralegals, healthcare social workers, chefs and head cooks, and food service managers.

• These jobs probably require a little more education, skills, and experience than jobs in the old middle. They require more situational adaptability, social intelligence, customer service and interpersonal interaction, and technical and administrative skills.
America is still upwardly mobile
Rags to riches?
Rags to comfort?

Family Income Rags to Comfort for All Adult Children

- Raised in Bottom Quintile: 36.1%
- Raised in Second Quintile: 25.6%
- Raised in Middle Quintile: 22.0%
- Raised in Fourth Quintile: 19.2%
- Raised in Top Quintile: 11.4%

Parents’ Total Family Income Quintile
Share of Adult Children with Higher Total Family Incomes than their Parents

- Raised in Bottom Quintile: 86.0%
- Raised in Second Quintile: 76.1%
- All Adult Children: 77.1%
How much more?

• Median family income is up 54 percent.
• For those raised in the bottom 20 percent, it is up 153 percent (or 2.5 times).
How much more?

• Median earnings are up 11 percent.
• For those raised in the bottom 20 percent, they are up 64 percent.
• For those raised in the working class, they are up 30 percent.
Advancing the Dream: The populist threat

• Sanders agenda: Medicare for All, a multi-trillion-dollar plan to address climate change, a proposal to guarantee every American a job with the federal government, forgiveness of all student loans, elimination of tuition at public colleges, expansion of Social Security, enactment of paid family leave and increased spending on infrastructure and education.

• Would cost as much as $97.5 trillion over a decade, would more than double the size of the federal government, and would turn approximately half of U.S. workers into federal employees, and would push total government spending (federal, state and local) to 70% of annual economic output, well above social democracies like Sweden (50%), Norway (49%) and Finland (57%), and would still leave budget deficits of 30% of GDP (Riedl, 2019).
Advancing the Dream: The populist threat

• Trump agenda: Big deficits from individual-side tax cuts, paralyzing uncertainty from ill-conceived and badly executed trade war that has frozen business investment, refusal to take budget realities seriously.

• If anything, his policies have reduced manufacturing employment.
Advancing the Dream: The populist threat over the longer-term

- Mr. Trump has repeatedly stoked racial, ethnic, and religious animosity.
- His support for protectionism and attacks on the post-World War II liberal international order directly threaten prosperity.
- By weakening the rule of law and the culture and norms reinforcing it, Trump has eroded the foundations of a strong economy.
- By attacking institutions — for example, labeling the Federal Reserve chairman as an “enemy” — Trump weakens public confidence in them.
- The president’s hostility toward immigrants threatens the U.S.’s place as the global destination for many of the world’s best, brightest, and most ambitious people.
Advancing the Dream: The populist threat over the longer-term

• Mr. Sanders would normalize democratic socialism. A Sanders presidency, even if legislatively ineffective, would change the boundaries of which policy ideas are considered extreme. It would move the policy debate — and, over the longer term, the shape of actual policy — considerably to the left.

• Sanders would bring a class warrior into the Oval Office, sending a corrosive message that the government aims to punish success and is willing to use legislation and executive action to do so.

• The senator’s position is clear: “Billionaires should not exist.” This is exactly the wrong message. A president should be rooting for more billionaires to exist.
Advancing the Dream: The populist threat over the longer-term

- Mr. Sanders’s default view is that the government is the solution to any problem, and by being so eager to redistribute income today, he endangers the future generations that would pay for his programs through slower economic growth.

- This change in the relationship between the individual and the state would reduce economic dynamism, dampen risk-taking and sap the energy of workers and businesses.
Advancing the Dream

• Threats: Economic, social, and political challenges.
• Messages matter.
• Strengthening the Dream: Economic growth, good public policy, high-road employment, and a revival of personal responsibility.