



Statement before the Senate Committee on Banking, Housing, and Urban Affairs
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Hearing on Economic Mobility

Economic Mobility:

Is the American Dream in Crisis?

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Chairman Cotton, Ranking Member Cortez Masto, and members of the committee: Thank you for the opportunity to testify today.

It is very encouraging to see this subcommittee take up the crucial question of economic mobility, and seek to understand it from a variety of angles and perspectives.

We Americans have always prided ourselves on the extraordinary degree of mobility this country has made possible for its citizens—the idea that, with hard work and a little luck, an immigrant or a child of poor parents can start out with nothing and end up successful and rich. We still believe this about ourselves. International comparisons of public opinion find that Americans express far greater confidence than citizens of other developed nations that hard work is rewarded and that everyone has a real chance to rise out of poverty. But by many measures, the United States actually does not stand out among advanced economies in terms of economic mobility, and has not for decades.

At some level, we surely sense this even if we do not know all the facts and figures. There is a divergence between what many Americans want to believe about our country and its promise and what we know to be true about the circumstances and pressures too many Americans now face. Americans at the bottom of the income scale do not have enough opportunities to move up, many in the middle feel stuck, younger workers are having trouble getting started, and Americans in general seem less inclined to follow after opportunities. These various challenges are all distinct, but they all describe forms of immobility.

In what follows I will offer a brief overview of the state of mobility in our economy and a few thoughts about potential policy responses.

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Economic mobility is ultimately about improved living standards over time. It is therefore a measure of material progress, and of whether our economy is allowing people to better their conditions, which must after all be its primary purpose.

Mobility is notoriously difficult to measure, in no small part because even agreeing on its basic meaning is a challenge. But to keep things relatively simple for our purposes, we can begin to understand the state of economic mobility in America by breaking it down into two key

components: relative mobility and absolute mobility.

Relative mobility refers to a person's economic status in relation to the nation as a whole. Economists often describe it in terms of moving up the income quintiles, and the rest of us tend to think of it in the form of rags-to-riches stories. Can someone born in poverty today rise into the middle class and beyond it? Does the child of a middle class family stand a reasonable chance of ending up wealthy? Or are people destined to end up roughly where they start?

The available evidence suggests that in terms of relative mobility we are now lagging behind Canada and much of northern Europe. Economist Markus Jäntti and his team have found that over the past generation about 25 percent of Danish men who were born in the bottom 20 percent remained in that lowest quintile as adults, compared with 42 percent of American men. Some economists have questioned the methodology behind this finding and suggest mobility looks rather similar across the developed world. But no one argues that Americans are at this point uniquely mobile. At best we are on par with Europeans and Canadians.

And this is not because relative mobility has declined in America in the 21st century. Although you would not know it from some of our political debates, the data suggest that our national level of relative mobility has been remarkably stable—and remarkably low—for at least the last five decades. A child born to parents living in poverty at any point since the mid-1960s has had only about a 30 percent chance of ever making it into the middle class, and about a 5 percent chance of ending up in the highest fifth of income earners. Rags to riches stories, even rags to comfort stories, are awfully rare. And this has not changed much in living memory.

It is far too difficult to rise out of poverty in America, and it was so even throughout what we have thought of as America's postwar economic golden age. This problem has not gotten markedly worse (or better) as inequality has grown, and it has not improved or worsened with rising or falling growth, or tax rates, or spending levels. Neither party's economic prescriptions seem likely to change it much. It will require some new thinking.

The story of absolute mobility, meanwhile, is more complex and suggests some significant problems of relatively recent vintage. Absolute mobility involves changes in people's living standards not relative to society as a whole but relative to their own past or to the prior generation. Are *you* better off than you were ten years ago? Are *you* wealthier than your parents were at your age?

By this measure, America looks rather good over the long run but rather bad over a shorter run—and the difference is one major reason why mobility should be a priority for us. Data from the Pew Economic Mobility Project show that the vast majority of Americans, about 84 percent, now have higher incomes than their parents did at their ages—adjusted for both inflation and family size. Such intergenerational absolute mobility is actually highest among the poor: fully 93 percent of Americans in the lowest fifth of earners have higher incomes and greater purchasing power than their parents did at their ages, compared to 70 percent of Americans in the top fifth. Overall American living standards have risen over time, and this has lifted essentially everyone's living standards some, even if it has not done much to change people's relative positions in society.

But the significance of this good news is limited in two ways that will help us to clarify the mobility challenge as policymakers must now confront it. First, strong absolute mobility amid weak relative mobility means that people are more comfortable where they are in life, but that they are not moving ahead in terms of skills or status. The mother working long days behind a restaurant counter in the hope that her children have better opportunities than she did would not be satisfied to hear that her children will be a little better paid for working behind that same counter all their lives.

Second, and perhaps most important, absolute mobility has declined significantly in the last two decades, so that while most Americans are doing better than their parents did at the same age they are often not doing better than similarly situated families (and maybe even their own families) were doing 20 years ago. This is the most pressing way in which many Americans are feeling the sting of immobility these days—as stagnant wages create the sense that they’re running in place.

The simplest way to illustrate this trend is to consider the median family. Adjusted for inflation and expressed in 2017 dollars, the median American household’s income was \$60,062 in 1999 and \$61,372 in 2017, according to most recent available data from the Census Bureau. In other words, the purchasing power of the median family has barely budged over the course of the last two decades.

The average household is a little smaller than it was two decades ago, but even adjusted for family size the median income today is essentially where it was in the late-90s. This is in part the effect of the severe 2008-09 recession, which reduced household incomes sharply for a time, but it is largely a result of the fact that incomes have simply not been growing quickly, even in good times, especially since the beginning of this century. The last two years have seen meaningful improvements, and these should not be underestimated, but neither should they be overstated. Mobility remains a serious concern, and would become all the more of a problem if the economy slows.

That last point suggests, of course, that robust economic growth is an essential precondition for robust economic mobility. This is doubtlessly true. But although growth is necessary for mobility, it is not sufficient. A mobility agenda must begin with growth, but cannot end with it—and growth should not be pursued at the expense of other necessary preconditions for mobility.

What other obstacles to mobility do policymakers need to be aware of, then? I would like to focus here on two sets of obstacles in particular. I emphasize them not because they are the only barriers to much-improved economic mobility but because I think they are barriers we too often tend to overlook, and so would benefit from greater attention and—up to a point—might also benefit from some policy responses.

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The first of these is the rising cost of living for working families. It may seem strange to raise alarms on this front, since inflation has been remarkably low for more than three decades in

America. But while this is true of general inflation, household costs have actually risen dramatically in three areas of particular importance to economic mobility. We might call them “the three H’s”: health care, housing, and higher education.

These three areas are of enormous importance to American families in the working-class and middle-class who are striving to improve their living standards. Health care and housing are often essentially unavoidable expenses, while higher education is among the most effective means of securing a middle-class lifestyle for the rising generation. And yet in all three areas we have seen prices run far ahead of value for decades.

In all three areas, too, public policy has played a major role in that increase in costs by simultaneously restricting supply and subsidizing demand. Subsidizing demand while restricting supply has predictable consequences: It increases prices, and therefore costs.

In health care, the supply restrictions have especially (though by no means exclusively) had to do with the regulation of health insurance in ways that have restricted options and competition and so have closed off potential avenues for lowering costs. The subsidization of demand, meanwhile, has consisted of the exceedingly generous tax subsidy for employer-provided insurance, the enormous growth of Medicaid, and new forms of subsidy in the individual market through Obamacare as well as new subsidies for prescription drugs.

In housing, we have seen local, state, and federal policies interact in ways that in many places have restricted supply through tighter zoning while subsidizing demand through tax benefits, pseudo-governmental home-loan subsidies, and various kinds of first-time-buyer benefits. Obviously there was a huge crash in this market a decade ago, but the basic pattern didn’t change in the wake of that crash.

In higher education, the restriction of supply happens especially through the overly narrow accreditation process (which is a function of public policy combined with politically-enabled incumbent control of the process) and subsidization of demand has happened especially through student loans and assorted tax and other benefits.

Each of these policies is plausibly defensible in itself. And even the combination of restricting supply and subsidizing demand can be defended: If the government is going to provide a subsidy for something, it needs to have some definition of that something so that the money is used for its intended purpose, and that definition is inherently going to constrict and regulate the subsidized good. But the sum of all this has been a lot of inflation in three areas that are crucial to the lives of vast swaths of our society.

A cost-of-living agenda that tried to counteract this tendency should have a lot of appeal if our politics ever gets back to thinking in terms of solving problems people face rather than just revving up outrage. There are steps to be taken on both the supply and the demand sides of each of these sectors of the economy, though political pressures will surely make addressing the supply restrictions more attractive than reducing subsidies for demand. That means opening up more options in health care and higher education through federal policy changes (like broadening the definition of qualified health insurance and allowing greater experimentation in the

accreditation of higher education and the uses of student aid). In housing, the politics of any changes on both the supply and demand sides would be exceedingly painful, particularly because the subsidization of demand generally happens at the federal level while the restriction of supply is largely local. But that doesn't make such reforms any less important.

Rising living costs—paying more and more without getting more and more—naturally obstruct economic mobility. And they are among the obstacles to mobility for which public policy is most at fault, and could do the most to overcome.

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If cost-of-living pressures are among the barriers to mobility that might prove most amenable to public-policy responses, the second set of barriers I'd like to emphasize may well be the least amenable: Simply put, among the most significant obstacles to economic mobility in contemporary America is the breakdown of the capacity of many Americans to amass social capital.

Social capital describes the resources at our disposal to enable effective cooperation—the skills, habits, networks, arrangements, grooves, and channels that make it possible for our society to hold together and for its members to benefit from it. It is absolutely vital to economic mobility, and to the health of our society more broadly. Such capital is amassed within institutions, as the result of the kind of connections we make and formation we receive in the family, the community, the church, the school, the union, the workplace, the market economy, politics, and other arenas of mutual action.

The concept of social capital offers a particularly helpful lens through which to better understand obstacles to mobility and opportunity in America because it offers us the promise of overcoming the familiar partisan division between focusing on money and focusing on culture.

The fact is that our country has become deeply divided and fragmented in ways that create some particularly pernicious and complicated obstacles for Americans trying to rise out of poverty. And our political system has sought to pin the blame for this phenomenon somewhere without fully acknowledging its character. The left tends to see economic inequality as the root of all other forms of social fracturing, and argues therefore that a policy of more aggressive redistribution would not only help ease income inequality but also mitigate the political power of the wealthy, strengthen poor communities and families, and create more opportunities for all. An emphasis on cultural problems like family breakdown, many progressives now suggest, is a distraction from these real causes—if not an attempt to blame the victims and opportunistically advance an oppressive cultural agenda that can only further burden the most disadvantaged.

The right sees cultural disintegration—marked especially by the breakdown of family and community—as the source of the persistence of entrenched poverty in America. Conservatives therefore argue that social policy must focus on family and community, and worry that the Left's misguided efforts to address entrenched poverty through greater economic redistribution can only make things worse by hampering the economy, distorting the personal choices of the disadvantaged with perverse incentives, and exacerbating dependency.

In an effort to avoid the rather obvious conclusion that cultural and economic factors are inseparable, progressives and conservatives thus tend to exaggerate the implications of their favored explanations. They predict that either growing inequality or increasing family and cultural breakdown, respectively, will turn out to be unsustainable, and so will lead to a cataclysm, or a rip in the social fabric that will force a great reckoning.

But things are likely both better and worse than that: Both growing inequality and increasing social breakdown may well be sustainable, but may not be compatible with human flourishing. We are not headed for a cataclysm, but we are stuck in a rut, and getting out of it will require understanding it. No moment of change will be forced upon us, so if we are to revive the fortunes of the least among us, we will need to act.

It is precisely mobility that is imperiled when people are denied the means to amass greater social capital. Without robust social capital, the material benefits provided by the welfare state could never be enough to enable disadvantaged Americans to rise. Without robust social capital, no amount of moralizing about discipline and responsibility could make a difference in the lives of broken families and communities. Social capital is what makes it possible for help to help.

And the liberalization of our society—both moral and economic—has undermined our capacity to sustain and replenish social capital. That liberalization has advanced under a banner of individualism, seeking to liberate each of us from constricting moral constraints and from oppressive regulation but in the process often also unmooring us from relationships of mutual obligation. And as it has advanced, it has also robbed us of mutual trust, which is an essential ingredient in the development and retention of social capital.

Social capital is built up slowly and exhausted slowly. It is built by long, arduous work constructing relationships, establishing institutions, cultivating norms, shaping expectations, and developing mutual trust. Decline is often slow as well. We can burn this capital for a long time while taking it for granted. But we have lived through a very long decline in social capital in recent decades, and its effects are being visited upon us now—and especially upon the most vulnerable among us.

The steps we incline instinctively to take in response can make the problem worse. The expansion of welfare programs that substitute for thick social networks with a check and the acceleration of efforts to liberate the economy from socially-imposed restraints for the sake of greater growth that might help everyone both tend to exacerbate the pattern by which the mediating layers of our national life are emptied out. Those layers, between the individual and the national state, are where social capital is built up and put to use. And a replenishment of social capital, a recovery of the capacity to make use of opportunities and to endure setbacks, will require a revitalization of those middle spaces.

This is a cause toward which our national politics is not now naturally disposed. Instead, we incline to a politics that answers the problems created by an excessive individualism by further empowering the national government. It is important to see that this inclination is likely a symptom of the problem we are in need of solving.

Radical individualism involves the corrosion of people's sense of themselves as defined by a variety of strong affiliations and unchosen bonds and its replacement by a sense that all connections are matters of individual choice and preference. It breaks up clusters of people into isolated units. Politically, such individualism tends to weaken mediating power centers that stand between the individual and the nation as a whole—from families to local communities (including local governments), schools, religious institutions, fraternal bodies, civil-society organizations, labor groups, and the small and medium-sized businesses that comprise much of the private economy. In their place, it strengthens individuals on the one hand and a central government on the other, since such a government is most able to treat individuals equally by treating them all impersonally. For this reason, a hyper-individualist culture is likely to be governed by a hyper-centralized government, and each is likely to exacerbate the worst inclinations of the other.

Some of the most distinctive problems of our era—the detachment from family, work, faith, and community, and the persistent patterns of bifurcated concentration throughout the American experience—are in important respects functions of a view of society as consisting only of individuals and a state, and are particularly difficult for a nation that often understands itself that way to address.

The problems we confront therefore call for solutions that somehow reinvigorate the middle layers of society, and resuscitate our mediating institutions. Those institutions may be the ones most capable of addressing the characteristic problems of our diffusing society—and the isolation and alienation that are such prominent symptoms of so many of those problems—without requiring the kind of wholesale national reconsolidation and re-centralization that simply aren't plausible now. They might better allow us to pursue diversity without atomism, profusion without isolation, and a great variety of ways of life without estrangement from the sources of human flourishing.

This would seem to make *subsidiarity*—the entrusting of power and authority to the lowest and least centralized institutions capable of using them well—a key to addressing some of the most stubborn obstacles to mobility in American life. Beyond the familiar policy applications of this kind of approach—in school choice, say, or in some conservative approaches to health care reform—there are ways that forms of decentralization could be of some use in taking on some of the distinct problems of this particular time. It could help, at least at the margins but maybe also near the core, to combat wage stagnation and the loss of working class jobs for instance by enabling experimentation not only with welfare and wage supports but with different forms of labor law and worker organizing and by encouraging competition in higher education and skills training that can create new opportunities.

It could help us meet the challenge of better enabling economic mobility, as well, by allowing for experimentation with various approaches to assisting Americans in need. Experimentation, after all, is what you do when you do not know the answer. And it is hard to deny that when it comes to our most profound socioeconomic problems in America, we do not have a reliable formula for effective help. The challenge facing welfare reformers is daunting: They have to find ways to help people who lack not only money but often also stable families, functional communities, and decent schools. They have to encourage work and responsibility while offering aid, and they

often have to help people break bad habits or confront addiction or abuse while also respecting their dignity and independence. This can't be done by a government check. Welfare often works best when it is accompanied by advice, by obligations, and by evident compassion at a personal level. Using public resources to let different institutions—from state social agencies to local civic groups to churches and nonprofits—try different ways of meeting this challenge in different circumstances is what we need to do when solutions are not clear, and when it isn't clear that any one solution will suffice in different circumstances. That kind of policy logic, the logic of subsidiarity, would serve us well in many arenas.

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Needless to say, neither an emphasis on restraining increases in the cost of living nor an emphasis on empowering mediating institutions offers a simple recipe for greater economic mobility in America. But these are both areas that require greater attention. Seeing them more clearly would help us better understand the broader challenge of mobility. And it is right that this broader challenge should be front and center in our economic thinking.

There is more to political life than economics. But prosperity matters, and mobility is the right way to think about what prosperity means. Americans have often understood our national government in particular to be rightly devoted to that cause.

In a message to Congress on the Fourth of July, 1861, amid the painful early setbacks of the Civil War, Abraham Lincoln sought to articulate what made the struggle worthwhile. When it came to describing what we valued in our government, Lincoln said this:

On the side of the Union it is a struggle for maintaining in the world that form and substance of government whose leading object is to elevate the condition of men—to lift artificial weights from all shoulders, to clear the paths of laudable pursuit for all, to afford all an unfettered start and a fair chance, in the race of life. Yielding to partial and temporary departures from necessity, this is the leading object of the government for whose existence we contend.

America has often been gloriously successful in advancing that cause, but it has been notably less so in recent decades. We have ignored that fact for too long. I commend this subcommittee for turning its attention to this challenge, and I thank you for the opportunity to testify.