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Let's not give up on the American Dream

Testimony before the Economic Policy Subcommittee of the U.S. Senate Committee on Banking, Housing and Urban Affairs

Testimony • By Thea M. Lee • July 17, 2019

Chairman Cotton, Ranking Member Cortez Masto, members of the subcommittee, thank you for the opportunity to speak with you today about the important concept of economic mobility. What we're talking about here, in the simplest of terms, is the American Dream—in particular, how policy choices over recent decades have eroded access to it for many Americans.

Indeed, this is the first generation of Americans whose standard of living, on average, is unlikely to exceed that of their parents, if current trends continue. Instead, too many find themselves either treading water or losing ground financially, crushed by the cumulative weight of growing wealth and income disparities. I know you are aware of the role money and influence play in our politics, but the corrosive effects of growing inequality are pervasive throughout most people's lives,[1] including restricting the economic opportunities of a broad swath of Americans, from infancy through old age.

If there is one crucial message I can deliver to you at this hearing, it is this: **The lack of economic opportunity for low-wage and middle-class American families is not an accident of history**, not a nameless economic force against which we find ourselves powerless. Rather, the highly unequal distribution of resources and opportunities within our society is a **direct result of a series of policy choices that, together, have had the effect of weakening the power of workers to defend their rights in the workplace and in the political arena, thereby tilting the playing field in favor of moneyed and corporate interests.**

Moreover, historic and ongoing discrimination in many forms and in many areas—including education, housing, and the workplace—has created obstacles to economic advancement for working women, workers of color, LGBTQ workers, and their families.

So while the subject of this hearing is economic policy, we're really here to discuss something much more fundamental: the idea of America as a nation, who we are, who we want to be, and whether we continue to strive to build a vibrant dynamic society filled with opportunity for all—or throw in the towel.

It turns out the mythology surrounding the U.S. economy is much rosier than the underlying reality. That is not to say our country does not have unique strengths, power, and resources, but rather that our failure to ensure equal opportunity across race, gender, and class both weakens our national potential and casts us in an unfavorable light compared with other wealthy nations.

Conventional wisdom holds that class barriers in this country are lower than in other advanced economies because of a perceived trade-off, which actually doesn't exist, between economic equality and economic mobility. Rich European nations are in general characterized by higher taxes, more stringent regulation, higher union density, universal health care, and a more comprehensive social contract. Conservative economists and politicians have long denounced this set of policies as "inefficient" and as creating impediments to mobility, with the result that reasonable regulations and fair levels of taxation have become politically controversial in the United States.

But the data show the results quite clearly[2]:

To the surprise of many Americans, who your father was matters a lot more to your earnings in the United States than it does in several European countries with more extensive social safety nets and much higher rates of unionization. The correlation between father–son earnings, for example, is tighter in the United States than in almost every peer OECD economy. In France, Germany, Sweden, and Denmark, for example, the correlation between a father's and a son's earnings is much lower than it is in the United States, suggesting that a low-income child in those countries has a greater chance of making it to the top than a low-income child born in the United States.

Meanwhile, the chances of moving up the income ladder have not improved in the United States in recent years.[3] Incomes at the bottom and middle of the income distribution have been squeezed while the benefits of economic growth and higher productivity have accrued largely to the wealthiest among us.

Choosing our terms carefully: Mobility as opportunity

Before I dig any deeper into the research that my colleagues and I at the Economic Policy Institute have been doing on these issues, I want to establish some basic terminology that will help inform today's discussion. In the prevailing economics literature, "mobility" is often narrowly defined as the probability that a child who is born to parents with incomes in the bottom 20 percent of households can manage to end up with an income among the top 20 percent of households by the time they grow up.

While this is a useful tool for the study of certain shifts in the economy, I want to suggest we understand the concept of mobility more broadly: It's really all about widespread economic opportunity, regardless of one's starting point in life. That, by definition, requires significant government intervention in the form of an adequately resourced education system, a strong social safety net for families during their working lives and especially in retirement, strong labor standards, laws that ensure workers who want to join a union can do so, and the kind of health care access that a universal, single-payer system can provide.

The reason some economists focus on mobility is that if people have a chance to move up the income ladder, then presumably this points to a more equitable society and also, in principle, one that rewards merit. But "mobility" alone is a tricky concept. If people are moving up a few rungs in relative income, others must by definition be going down.

In that sense, there may be a misunderstanding about the differences between mobility and inequality.[4] Mobility is the likelihood of changing one's relative position in the income distribution over time, and inequality is the distance between various positions in the income distribution at a particular point in time. A huge amount of mobility would be required to counteract the unprecedented high and growing levels of outright income and wealth inequality we are now experiencing in the United States. And that mobility just isn't there.

At the same time, surging inequality is not simply the result of poor income growth for families at the bottom and the middle. It has also been the product of runaway pay at the very top of the corporate ladder, often based on cozy relationships rather than merit, hard work, or even financial results. EPI has documented the surge in the CEO-to-worker pay ratio from around 20- or 30-to-1 in the 1960s and 1970s to between 200- and 300-to-1 in recent years.[5]

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But I'm not here solely to be the bearer of bad news, despite all the awful headlines on inequality that show just how concentrated wealth is and how that imbalanced our economy has become. I am also here to give you some good news: There's plenty we as a country, and you in particular as a legislative body, can do about the problem.

EPI has developed a wide-ranging policy agenda,[6] but I will focus on a few key areas today: strengthening workers' rights and bargaining power; using fiscal and monetary policy to the fullest extent possible to achieve and maintain full employment, which ensures that high-pressure labor markets are the norm; making the tax code more just by ensuring the wealthy pay their fair share; and implementing policies aimed at improving race and gender equity.

This hearing poses the question "Is the American Dream in Crisis?" I would answer that the American Dream is in jeopardy, but it is in our power to rescue that dream by reversing the policy choices that essentially took out a contract on the American Dream. When we review the policies needed, we need to focus especially on African Americans, who have experienced backsliding in economic opportunity, as our schools and neighborhoods have become both more segregated and more unequal.

The racial segregation of our economic system has itself been not just a stain on our history, but an active impediment, sometimes a vividly violent one, to the economic progress of people of color, particularly black Americans and many recent immigrants. White families today still possess about 10 times the wealth of black families at the median, and the black unemployment rate remains consistently about double that for whites.[7] My colleague Valerie Wilson has done important work showing the racial wage gap actually rises with an individual's educational level, countering the idea that greater educational attainment on its own can serve as an antidote to discrimination.

Race must be central to any debate on mobility

Valerie Wilson leads EPI's Program on Race, Ethnicity, and the Economy (PREE), formed in 2008 for the specific goal of creating a more focused and integrated approach to exploring and explaining how race, ethnicity, gender, and class intersect to affect economic outcomes in the United States.

Her work finds that not only is racial inequality reflected in class inequality, but racial inequality also exists within class. This is true even within the middle class, and, I would argue, is as much of a problem as the gaping inequalities between the super wealthy and everyone else.

Most Americans accept the fact that very few of us will become millionaires or billionaires, but we'd like to believe that we all have a shot at being middle class. That seems more attainable—we believe that if we finish school, get a good job, and continue to work hard, then we can attain a certain standard of living. This means more than just providing for our basic necessities like food and shelter, but also having some options in terms of the quality of those necessities (neighborhood; owning versus renting; fresh, healthy food versus processed food; providing our children with a good education). It means being able to acquire other things we enjoy that might be less essential (entertainment, a safe car, family vacations). And it means being in a position to prepare for the future (sending children to college, planning for retirement, providing assistance for an aged parent).

A solid, well-paying job is central to this vision. Household economic well-being in the United States is closely tied to the labor market because most of us get our income by working. Among the bottom 80 percent of nonelderly households, about 73 percent of household income is labor income.

So the most important pathway to the middle class is a healthy labor market that provides sufficient employment opportunities with good pay and benefits that are equally accessible to all people. Government, individuals, and institutions each play a role in creating and facilitating pathways to the middle class through the labor market.

The basic foundation of a healthy labor market is low unemployment. Until recently, the Federal Reserve often appeared resistant to keeping the monetary pedal to the metal in order to keep the job market running hot, but we welcome a recent change of tone by Chairman Jerome Powell and his colleagues. They seem to be reacting to years of disappointment in an economic recovery that is now the longest in history but was also one of the slowest, due in large part to the consistently timid commitment to full employment by policymakers starting very early in the recovery and continuing to the present. Notably, wage growth has been tepid for low- and middle-wage workers, indicating to us and many others that the job market is not quite as hot as the headline unemployment rate of 3.7 percent would indicate.

Full employment and the role of unions

Individuals can increase their productivity and access to higher-paying jobs by acquiring more formal education or developing skills through various types of training. Institutions, like labor unions, help to create pathways to the middle class for those with and without a four-year college degree—the latter still making up a majority of the U.S. labor force—by giving workers a stronger voice with which to advocate for higher pay, better benefits, training and promotional opportunities, and protections against harassment and discrimination.

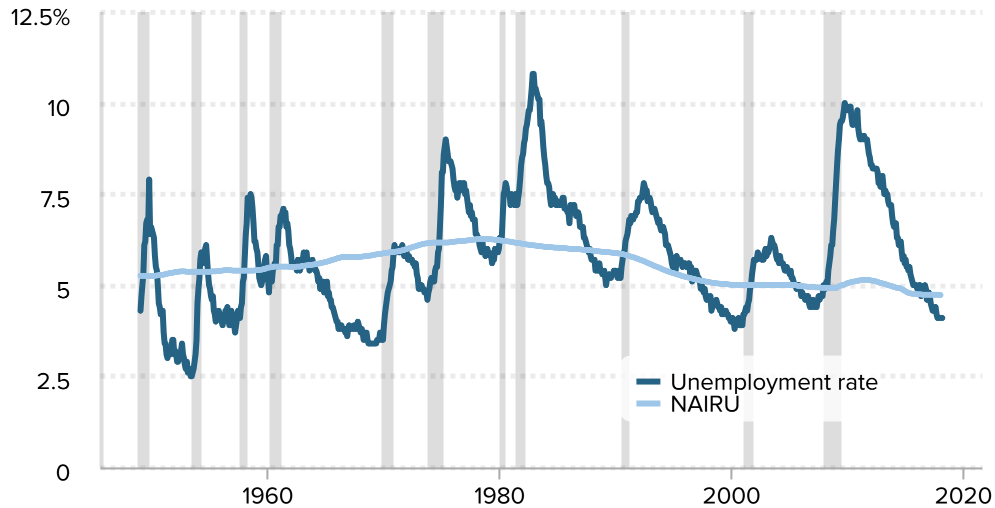
Even when these things function relatively well as pathways, we still have to contend with how the broader social structures confer advantages or disadvantages based on race/ethnicity, gender, or class that affect access to these pathways and affect how much they actually deliver to different groups.

I'm going to discuss some trends related to these three pathways, highlighting racial

Figure A

There has been insufficient vigilance in fighting unemployment since the late 1970s

Estimate of the natural rate of unemployment and actual unemployment, 1949–2018



Note: NAIRU refers to the nonaccelerating inflation rate of unemployment (another term for the natural rate of unemployment).

Source: Data on the natural rate of unemployment come from the Congressional Budget Office, "Online Data on Potential Output and Its Underlying Inputs," 2018; data on actual unemployment rate come from the Bureau of Labor Statistics, "Series ID: LNS14000000. (Seas) Unemployment Rate," accessed August 2018. Shaded areas represent recessions.

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disparities within educational categories, which I will use as a rough proxy for class. The first trend I want to draw your attention to is the fact that there has been insufficient vigilance in fighting unemployment since the late 1970s, as seen in **Figure A**.[8]

The most obvious reason a tighter labor market is important is that more people have jobs. A tighter labor market also means a better chance for faster wage growth because there is more competition among employers to attract and retain workers. More jobs and higher wages translate into improved living standards.

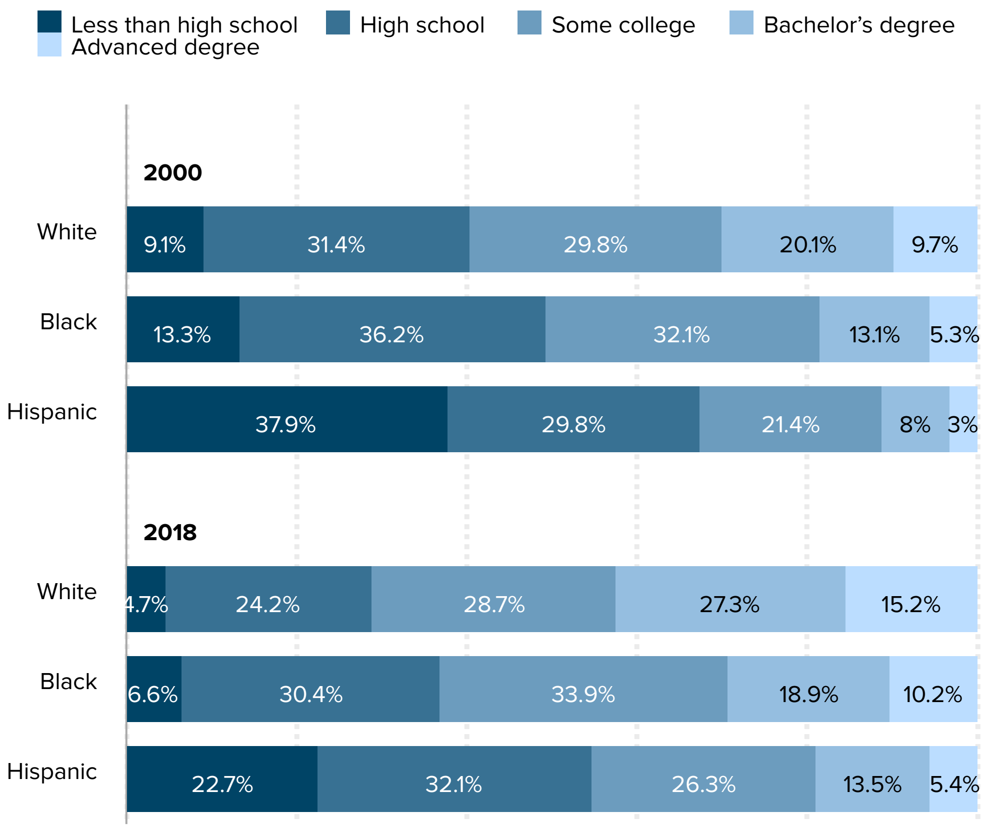
EPI and others have published research showing that full employment is particularly important for employment, wage, and income growth among African Americans.[9] The years 2000 and 2018 are the two most recent years with the lowest annual unemployment rates—4.0 percent and 3.9 percent, respectively. Since this is the closest we've been to full employment in recent years, I'm going to focus on comparisons between 2000 and 2018 as an indication of how the pathway of education has functioned in the "best of times."

Figure B shows education shares of the workforce by race and ethnicity.[10] This chart demonstrates a few things.

First, the 2018 workforce is more highly educated than the 2000 workforce. This is true for

Figure B

Educational attainment of U.S. workers by race and ethnicity, 2000 and 2018



Source: Economic Policy Institute, *State of Working America Data Library,* "Wages by Education," 2019

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all racial and ethnic groups, but large racial and ethnic disparities in educational attainment persist.

Focusing specifically on college graduates, in 2018, 19 percent of Hispanic workers had a bachelor's degree or higher, up from 11 percent in 2000. The share of black workers with a college degree rose from 18 percent to 29 percent over the same period, while for white workers the share rose from 30 percent to 43 percent.

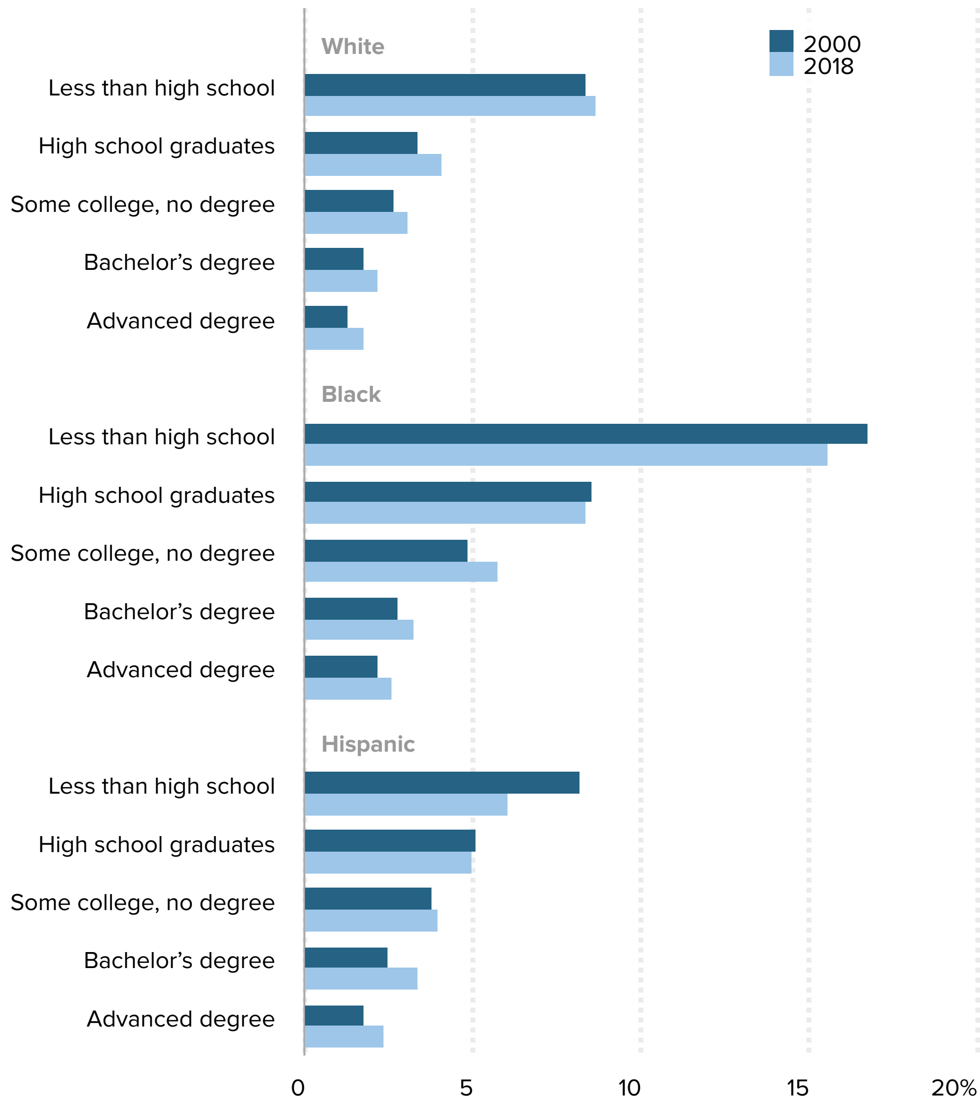
It is worth noting that although educational attainment has increased, the majority of American workers still do not have a four-year college degree.

Given these racial differences in educational attainment and the many factors that affect patterns of college attendance, completion, and affordability, clearly a college degree is not the most widely accessible pathway to the middle class and should not be the primary pathway to the middle class.

Even more challenging than the issue of unequal access to higher education is the fact

Figure C

Unemployment rate by race/ethnicity and education, 2000 and 2018



Source: EPI analysis of Bureau of Labor Statistics Current Population Survey microdata

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that a college degree does not necessarily deliver the same returns across racial and ethnic groups.

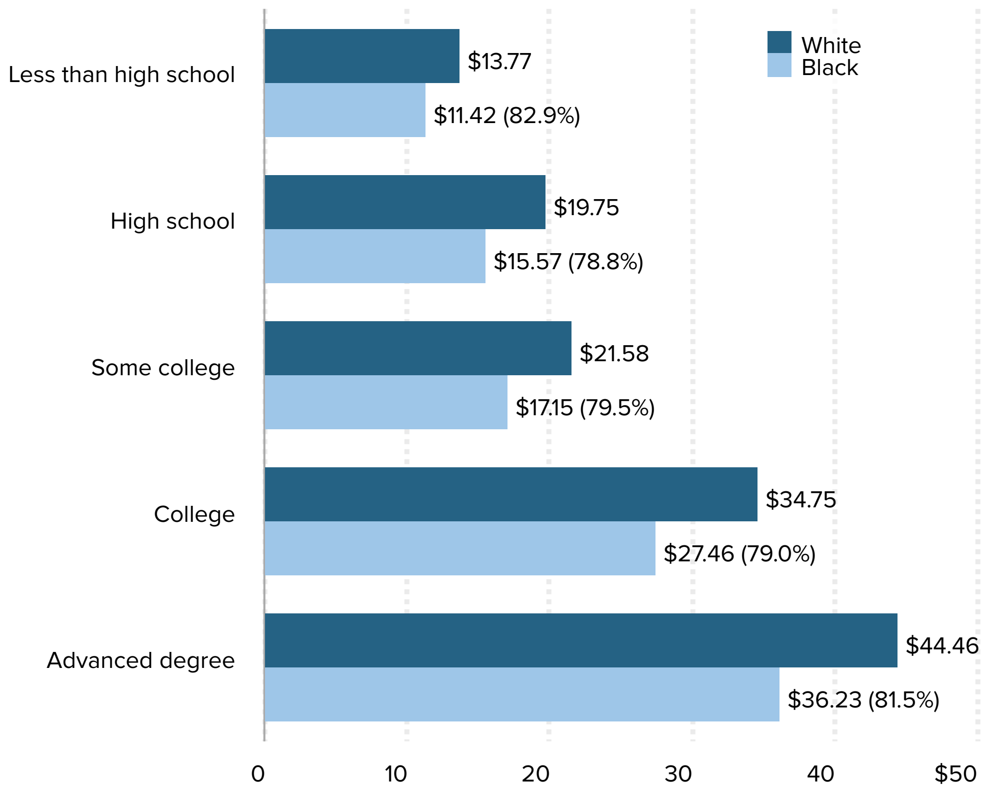
Figure C shows unemployment rates by race, ethnicity, and education.[11] On average, college graduates fare better than those without a college degree, but outcomes are not necessarily equitable across racial and ethnic groups.

In 2018, African American and Hispanic workers with a bachelor's degree faced unemployment rates that were more similar to those of white workers who have attended

Figure D

On average, white workers are paid more than black workers at every education level

Average hourly wages, by race/ethnicity and education, 2018



Note: Sample based on all workers ages 16 and above.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

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some college but have not received a four-year degree.

This chart also shows that college graduates in the 2018 labor market had higher rates of unemployment than college graduates in 2000, even at essentially the same overall unemployment rate (3.9 percent and 4.0 percent). This is true for all racial and ethnic groups.

Figure D shows average hourly wages by race, ethnicity, and education in 2018.[12] On average, white workers are paid more than black and Hispanic workers at nearly every level of education (except for those with less than a high school diploma). This is particularly pronounced among college graduates.

This statistic should really challenge us to consider what it takes to reach middle class status, and how that experience varies by race and ethnicity.

The final trend I want to highlight as it relates to pathways to the middle class is the decline in union membership. Unions have played a critical role in opening pathways to the middle class because they improve wages and benefits for all workers, not just union members. On average, a worker covered by a union contract earns 13.2 percent more in hourly wages than someone with similar education, occupation, and experience in a nonunionized workplace in the same sector. This premium is even higher for African Americans (14.7 percent) and Latinos (21.8 percent).

Union membership has declined significantly since 1989, and especially among African Americans, who have had the highest rates of union membership throughout this period.[13]

What should we do? Some policy recommendations

I'd like to outline some key federal and state policies that would promote more widespread prosperity.

First and foremost, Congress must take the long-overdue step of raising the minimum wage to $15 an hour. The Raise the Wage Act is key to ensuring a floor for the pay of low-wage American workers, who have seen the value of their earnings erode dramatically over time.

Extensive research from EPI and others has shown that a higher minimum wage would boost pay for some 27 million Americans and be unequivocal good news for working families. It would stimulate local economies by putting more money in the pockets of those who will spend it.

Second, legislators should pass the Protecting the Right to Organize (PRO) Act, since this would considerably boost workers' ability to form unions and bargain collectively for wages and benefits.[14] The erosion of union membership and organizing in this country compared with other rich nations can be directly tied to the much higher inequality and worse health and social outcomes the United States experience versus its rich peers.

Third, Congress should continue to hold the Federal Reserve accountable for the maximum employment side of its mandate. We are encouraged to see that years of research and activism from the Center for Popular Democracy's Fed Up Coalition, which relied heavily on EPI research and assistance, appear to have strongly affected Fed officials' views. Fed Chairman Jerome Powell recently stated, in agreement with EPI's view, that the labor market should not be described as hot despite a historically low jobless rate of 3.7 percent—particularly given a lack of consistent and robust wage growth. This stands in sharp contrast to the many voices inside and outside of the Fed who, at an earlier time, believed there was no way the jobless rate could fall below 5 or even 6 percent without generating undue inflation.

Fourth, Congress must rediscover fiscal policy as a tool to not only address economic downturns but also to target government spending toward addressing structural needs, like infrastructure investment and employment programs targeted at poorer communities.

Fifth, the U.S. government must renew its commitment to a public education system, from early childhood through college, that is child-focused and that empowers teachers as professionals who are free to tailor their teaching rather than rely on pure standardization.

Last, but certainly not least, Congress must make a serious effort to address long-standing and ongoing racial inequities in housing, employment, and wealth. Employers must be compelled to implement intentional strategies to extend employment opportunities to a more diverse pool of applicants. The Federal Reserve must use all its powers under the Community Reinvestment Act to ensure redlining and lending discrimination does not persist or worsen.

Sadly, the American Dream is in serious danger of slipping away. But we have an opportunity and a path forward to ensure that it stays alive for all Americans and for future generations.

Thank you for the opportunity to speak to you today, and I look forward to your questions.

1. Paul Krugman, "Notes on Excessive Wealth Disorder," *New York Times*, June 22, 2019.

2. Elise Gould, *U.S. Lags Behind Peer Countries in Mobility* (economic snapshot), Economic Policy Institute, October 10, 2012.

3. Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, "Economic Mobility," in *Pathways' State of the States: The Poverty and Inequality Report 2015*, eds. David Grusky, Charles Varner, Marybeth Mattingly, Stanford Center on Poverty and Inequality, 2015, 55–60.

4. Elise Gould, "Mobility Needs to Do More Than Stagnate to Indicate U.S. Economy Is Performing for Low- and Moderate-Income Families," *Working Economics Blog* (Economic Policy Institute), February 12, 2014.

5. Dean Baker, Josh Bivens, and Jessica Schieder, *Reining in CEO Compensation and Curbing the Rise of Inequality*, Economic Policy Institute, June 4, 2019.

Lawrence Mishel and Jessica Schieder, *CEO compensation surged in 2017*, Economic Policy Institute, August 16, 2018.

6. Economic Policy Institute, *Policy Agenda*, last updated December 5, 2018.

7. Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," *FEDS Notes* (Washington: Board of Governors of the Federal Reserve System), September 27, 2017.

8. Chart appears in Josh Bivens and Ben Zipperer, *The Importance of Locking in Full Employment for the Long Haul*, Economic Policy Institute, August 2018.

10. Data for this chart are from Economic Policy Institute, *State of Working America Data*

Library, “Wages by Education,” 2019.

12. This chart appears in Elise Gould, *State of Working America Wages 2018*, Economic Policy Institute, February 2019.

13. EPI analysis of Current Population Survey microdata, 1989–2017.

14. Celine McNicholas and Lynn Rhinehart, “The PRO Act: Giving Workers More Bargaining Power on the Job,” *Working Economics Blog* (Economic Policy Institute), May 2, 2019.