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# BARELY HALF OF 30-YEAR-OLDS EARN MORE THAN THEIR PARENTS

As wages stagnate in the middle class, it becomes hard to reverse this trend

By Bob Davis
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Barely half of 30-year-olds earn more than their parents did at a similar age, a research team found, an enormous decline from the early 1970s when the incomes of nearly all offspring outpaced their parents. Even rapid economic growth won't do much to reverse the trend.

Economists and sociologists from Stanford, Harvard and the University of California set out to measure the strength of what they define as the American Dream, and found the dream was fading. They identified the income of 30-year-olds starting in 1970, using tax and census data, and compared it with the earnings of their parents when they were about the same age.

In 1970, 92% of American 30-year-olds earned more than their parents did at a similar age, they found. In 2014, that number fell to 51%.

"My parents thought that one thing about America is that their kids could do better than they were able to do," said Raj Chetty, a prominent Stanford University economist who emigrated from India at age 9 and is part of the research team. "That was important in my parents' decision to come here."

Although there are many definitions of the American Dream—the freedom to speak your mind, for instance, or the ability to rise from poverty to wealth—the economists chose a measure that they said was possible to define precisely.

The percentage of young adults earning more than their parents dropped precipitously from 1970 to about 1992, to 58%, found Mr. Chetty, Maximilian Hell and David Grusky of Stanford University, Nathaniel Hendren and Robert Manduca of Harvard University, and Jimmy Narang of the University of California at Berkeley.

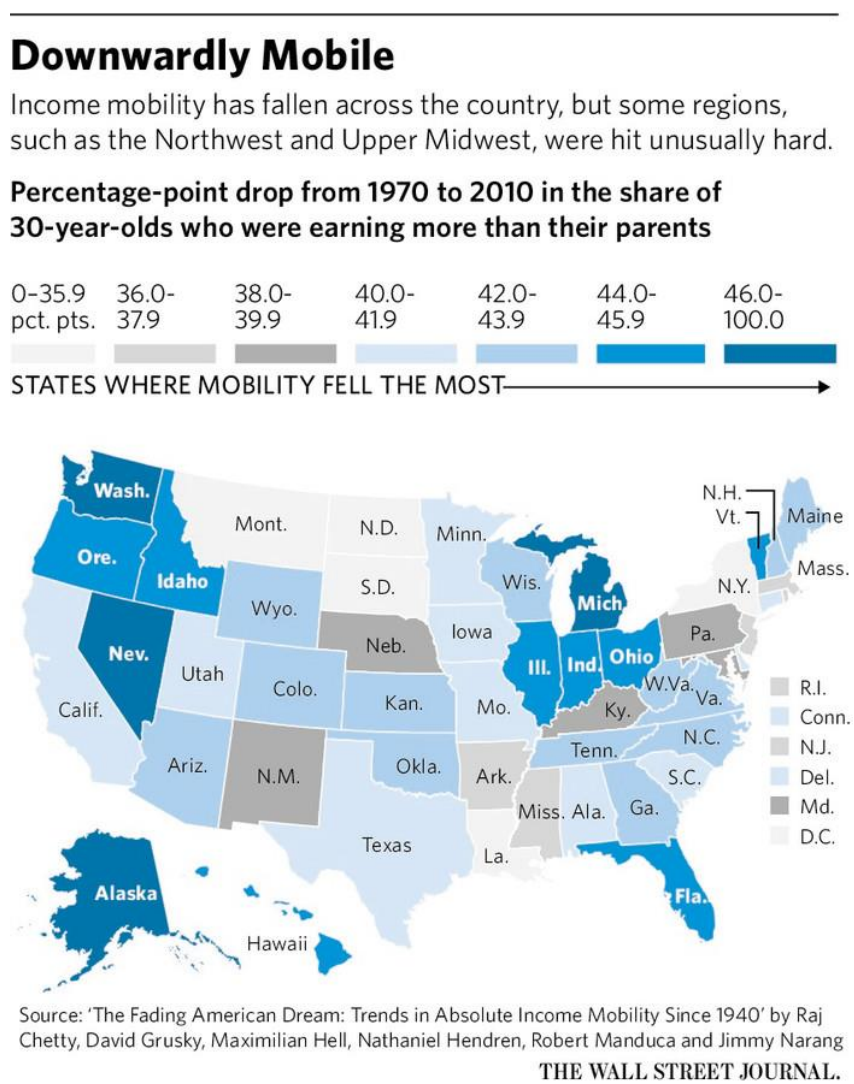

The percentage steadied for around a decade and plunged again starting in 2002, according to the economists.

The paper doesn't provide specific reasons for the declining fortunes of younger Americans, but it generally blames the slowdown in economic growth and, especially, the widening income gap between the wealthy and the rest of society.

"Wages have stagnated in the middle class," said Mr. Chetty in an interview. "When you're in that situation, it becomes very hard for children to do better than their parents."

Mr. Chetty, 37, has explored poverty and income mobility in a series of papers that have gained widespread attention across the political spectrum. His research finds that upward mobility depends heavily on government policies, a position common among Democrats, as well as on neighborhood churches and two-parent families, as Republicans often argue.

In his current work, he and his co-authors found that the declining ability of children to outearn their parents is greatest in the Midwest, an industrial region that has been battered by greater import competition, especially from Japan and China, and by technological changes. When looking only at males nationally, the decline is even starker. As of 2014, only 41% of 30-year-old men earned more than their fathers at a similar age.




Reversing the trend will be very difficult, the economists found. If income distribution remains as tilted toward the wealthy as it is now, they calculate, it would take sustained growth of more than 6% a year, adjusted for inflation, to return to an era where nearly all children outearned their parents. Since World War II, the U.S. hasn't experienced anything near that level of growth for a lengthy period of time.

Even growing at 3.8% annually—about what Donald Trump pledges to produce as president—would only increase the percentage of children able to outearn their parents to 62% from 51%. Many economists are skeptical that the U.S. can grow anywhere near that level and is more likely to grow at around 2% a year.

Mr. Chetty and Mr. Hendren urged the U.S. to take greater measures to reduce income inequality and make sure more of the benefits of economic growth go to the middle class and the poor. Such measures can include increasing payments to the working poor under the earned-income tax credit, improving education, starting with elementary schools, and helping poor families move to higher-mobility areas.

"You need to improve the education and the environmental opportunities for kids while they are growing up," said Mr. Hendren.

Revamping the tax code so that it taxes the wealthy far more heavily and gives bigger breaks to those in the middle class and below could also work, said Mr. Chetty, but he doesn't advocate that strategy.

"It's actually not clear to me that a more progressive tax code is necessarily the solution," Mr. Chetty said. "Many think of the American Dream as 'earning' more than their parents, not getting more transfers from the government than their parents."