Institute for Research on Poverty
University of Wisconsin–Madison

Morgridge Center for Public Service
University of Wisconsin–Madison

Poverty Fact Sheet:
Is the American Dream Still Attainable?

The Language of Inequality

American Dream: the social ideal that the opportunity to prosper and succeed is open to anyone who is willing to work hard

Intergenerational Mobility: movement of children above the education, occupation, income, and assets of their parents

Capital Income: income from dividends, interest payments, and other profit generated by assets, plus realized capital gains

Human Capital: an individual's skills, knowledge, and experience

Market Income: income before taxes and transfers

Disposable Income: income remaining after taxes and transfers, available to spend or save

Wealth or Net Worth: value of all assets less the value of all outstanding debt

Consumption: expenditures for goods and services such as food, housing, transportation, and medical care

Gini Index: the most commonly used measure of inequality, which ranges from 0 (total equality) to 1 (total inequality)

Income Inequality

Many economists say a trend in capital income and market income inequality that began in 1975 and is depicted in Figure 1 differs a lot from that of the previous four decades in America.

Then

From 1947–1975, people of all income levels experienced economic growth. Income of the bottom 20% grew by 90% and income of the top 5% grew by 86%.

But from 1975–2010, the bottom 20% of earners saw only 3.7% growth, while income of the top 5% grew by 57%.

And Now

The lowest earners, who suffered disproportionately during the Great Recession (2007–2009), still haven't recovered in 2014.

Post-recession income growth has been slow to nonexistent for middle and lower class families.

But, the top one percent of the income distribution claimed 95% of income growth from 2009–2012. The Gini index also rose significantly, for both income and consumption, from 2007–2012.

Long-Term Trend

Figure 1 uses Census Bureau data to illustrate the distribution of income among quintiles from 1967–2010. Economists call the trend a "tale of divergence"—the highest earners rose and the rest declined.

Wealth Inequality

In addition to capital and market income inequality, wealth or net worth inequality has also risen since the 1970s.

Then

From 1962–2007, many Americans saw their wealth grow significantly (see Figure 2). Among the 50th percentile, wealth increased by 171%. But wealth rose even more among the top 10%, by 242%, and among the top one percent, by 452%.

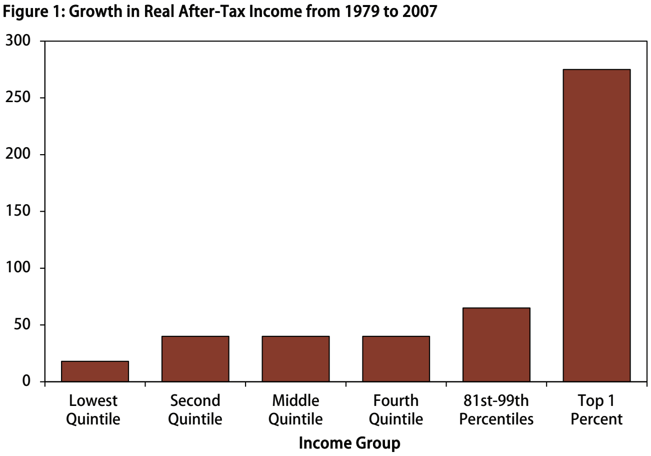
From 2007–2009 (Great Recession), the top one percent of Americans lost the greatest amount of wealth in absolute terms, but the 50th percentile lost the highest percentage of their wealth.

And Now

The wealthiest largely have recovered wealth lost in the recession. But middle class losses, due mostly to housing market declines, have been substantial and persistent, especially among black and Latino middle class families who bought homes in the mid-2000s.

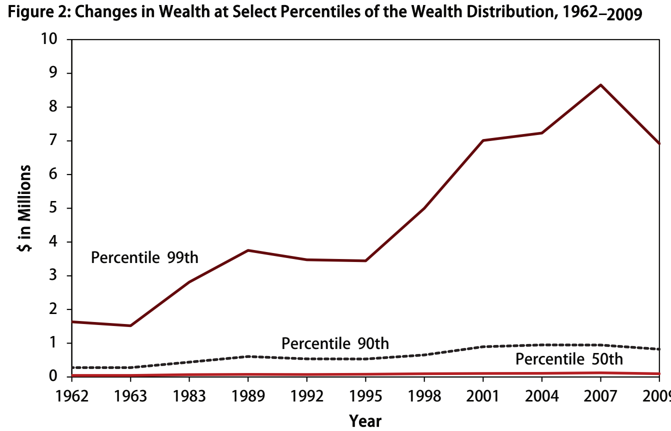
> "In contrast to earlier periods in our nation's history, the economic growth experienced since 1975 has not translated into shared prosperity."
>
> —Melissa Kearney

Figure 1: Growth in Real After-Tax Income from 1979 to 2007



Source: Congressional Budget Office.
Note: *Real* income is inflation-adjusted; *after-tax income* is household income after transfers and federal taxes.

Figure 2: Changes in Wealth at Select Percentiles of the Wealth Distribution, 1962–2009



Notes: Wealth is depicted in 2009 dollars. It shows average wealth in the middle, top 10%, and top 1% of the wealth distribution from 1962 to 2009.
Source: Kennickell 2011.

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America's Struggling Lower-Middle Class

Lower-middle class families are those with incomes between 100 and 250 percent of the federal poverty level (FPL was $23,492 for a four-person family in 2012). They are not officially "poor," but their economic situations are precarious.

About half of all U.S. families are in the lower-middle class—incomes between roughly $15,000 and $60,000, depending on family composition—and many of their primary breadwinners have gone to college, but fewer are married than in previous generations (see 1–4 below). Two key challenges these families face are food insecurity (see 5– 8) and low return to work.

Facts about the Lower-Middle Class

Fact #1: More than half of U.S. working-age families with children under age 18 (about 20 million families) have annual incomes of $60,000 or less.

Fact #2: Almost half of U.S. families with children live below 250% of the federal poverty level ($58,730 for a family of four in 2012).

Fact #3: Lower-middle class families are almost equally headed by single parents and married couples.

Fact #4: Nearly one out of two families in the lower-middle class is headed by an adult who has attended college, but many have not graduated.

Fact #5: About one-third of lower-middle class families rely on some income support from a government program.

Fact #6: About 40% of children in lower-middle class families experience food insecurity or obesity, or both.

Fact #7: Twenty-one percent of lower-middle class families (approximately 2.4 million families) depend on SNAP food assistance at some point during the year.

Fact #8: America's tax and transfer system (including SNAP, the Earned Income Tax Credit, and the Child Tax Credit) protects low earners, especially families with children, from poverty (see Figures 3 and 4).

Restoring the American Dream

Research evidence points to the effectiveness of a variety of policies, especially those described below, in reducing overall inequality and increasing opportunity.

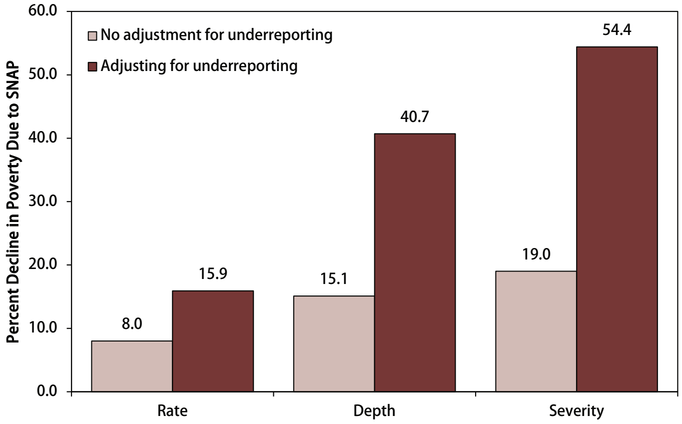
Enhance *Human Capital*

- Increase high-quality preschool education, which has been shown to reduce the negative effects poverty has on early childhood development.
- Improve schools in disadvantaged communities through increased investment, class-size reductions, and boosting the instructional capacity of staff to help low-income students compete with their more-affluent peers.
- Provide more aid for college to increase access to higher education, which can raise earning capacity.
- Build "soft skills," which are part of human capital and include traits, such as conscientiousness and punctuality, is important for success in the workplace and social life. Interventions have been shown to improve soft skills.

Increase Income and Resources

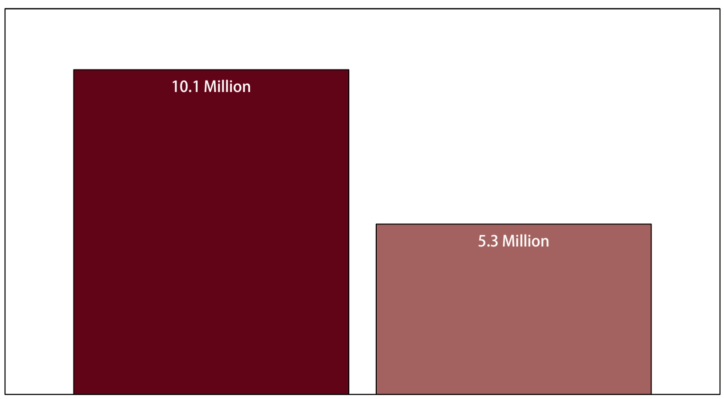
- Earned Income Tax Credit (EITC): This federal tax credit (some states also offer it) that subsidizes low earnings has become the nation's largest antipoverty program. Since eligibility for this program is dependent on work, the EITC encourages people to enter the labor market. In 2012, the EITC combined with the Child Tax Credit lifted 10.1 million people, including 5.3 million children, out of poverty (see Figure 4).
- Supplemental Nutrition Assistance Program (SNAP): Formerly known as the Food Stamp Program, SNAP is the nation's most important anti-hunger program. To qualify, a person must have monthly income at or below 130% of the poverty line, income after deductions less than or equal to the poverty line, and assets below certain limits. The benefits individuals receive are modest ($1.30 per meal on average) and are based on current income and expenses. A recent study found SNAP reduced poverty in 2012 by 14–16%, or 8 million fewer people, and it reduced extreme poverty by over 50%.

Figure 3: Percent Decline in Poverty Due to SNAP, 2011



Source: Tiehen, Jolliffe, and Smeeding 2013.
Note: Data reflect correction for underreporting.

Figure 4: People Kept out of Poverty by the Earned Income Tax Credit and Child Tax Credit, 2012



Source: Census Bureau Supplemental Poverty Measure data, 2012.

This fact sheet was prepared by Dan Simon.
For a list of the sources used for this brief and further reading, visit www.irp.wisc.edu/publications/factsheets.htm.

IRP-Morgridge Fact Sheet #6 Is the American Dream Still Attainable? - Sources

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