Is This a Great Country? Upward Mobility and the Chance for Riches in Contemporary America

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Abstract

Public opinion data suggests that a strikingly large proportion of Americans, and particularly young Americans, believe they have a reasonably good chance of becoming rich in their lifetime. An analysis of these surveys reveals considerable variance in what being "rich" means to the survey respondents. Analysis of PSID data demonstrates the actual level of opportunity for upward income mobility over the life course and shows that Americans overestimate their chances of being rich. The overestimate is considerable even when subjective definitions are used, and is very large if conventional definitions such as top 3%, top 1%, or top 0.1% are used for the threshold.

Is This a Great Country? Upward Mobility and the Chance for Riches in Contemporary America

"Is this a Great Country? Few Americans see a rich person when they look in the mirror, but nearly a third see a rich person when they look into a crystal ball."

Do Americans have an accurate understanding of their chances to achieve riches during a single lifetime? On April 1, 2003, The Wall Street Journal topped its editorial page with the above question and answer, which derives from a recent Gallup poll.[1] Especially during the post 9/11 period of patriotic fervor it would hardly be surprising if Americans think that America is a "great country." But the editorial's suggestion that American opinions are grounded in the reality of our opportunity structure and therefore justify popular support for policies that predominantly benefit upper-income Americans ("Americans vote not on their envy but their aspirations -- something that maybe even our politicians will figure out someday") deserves closer examination. As most Americans realize, an incorrect understanding of the risks and benefits of different medical procedures can interfere with the sensible choice when it comes to major decisions about health care. Misinformation about the American income distribution and one's chances for becoming rich can make it similarly difficult for Americans to take sensible positions on tax policy.

This paper addresses the question of whether the objective probability of becoming "rich" matches the chances that people give themselves of becoming rich. The paper focuses on income mobility. This focus is justified partly because of the centrality

[1] The Gallup poll of 1,006 adults aged 18 or older was conducted Jan 20-22 of 2003. See Moore (2003) for further details.

of income as a stratification variable and partly because recent public opinion surveys have questioned Americans about their perceptions of being rich in terms of income. Consequently, a focus on income allows a comparison of perceptions about mobility and the reality of mobility over the life course. While certainly a powerfully meaningful word to ordinary Americans, the concept of being "rich" is clearly subjective, variable, and ambiguous. Using data from the Panel Study of Income Dynamics along with results from recent public opinion polls, this paper examines the ambiguity of Americans' conceptions of what it means to be rich, and explores the links between this ambiguity and American's self-estimates of their mobility chances. As I show below, income-related variability in the self-identified threshold for being rich explains some but not the entire American tendency to overestimate their mobility chances.

Perceptions of What it Means to be Rich in Contemporary America

It is not news that a considerable proportion of Americans believe that the United States offers great opportunity for upward mobility (at least for those who work hard) (Kluegel and Smith 1981; Kluegel and Smith 1986). However, despite the availability of considerable data about social mobility in the United States, it is not straightforward to determine whether and how Americans are misinformed about the American opportunity structure, because their benchmarks are often not clear and are not uniform. To put it simply, Americans disagree about what it means to be "rich." To some degree, this disagreement may stem from a misperception about the incomes of people at the top of the income distribution. An often cited Time/CNN/Yankelovich poll during the 2000 election (see e.g., Brooks 2003, Genauer 2004) has been interpreted to imply that 19% of Americans actually think they are in the top 1% of the income distribution. While an examination of the actual polling question readily debunks this extreme interpretation of American misperception,[2] a recent Gallup poll does confirm the underlying American optimism about income mobility. Though only 2% of Americans described themselves in the Gallup poll as currently "rich," 31% thought it very likely or somewhat likely that they would "ever be rich." An astonishing 51% of Americans between the age of 18-29 (including 58% of males in this age range) thought that it was very or somewhat likely that they "will ever be rich," as did 51% of those whose income was $75,000 per year or higher. Conservative columnist David Brooks argued on the New York Times Op-Ed page that "people vote their aspirations." Americans admire the rich and see themselves as "pre-rich," he argued. Therefore, Democrats should not be surprised when support for Republican tax cuts is high and when so much of the electorate is inhospitable to what he characterizes as the "combative rather than unifying," "inauthentic," and "not optimistic" message of "class-based" politics.

To be rich would seemingly imply a higher status than "middle class." A rich person can afford a lavish life style. But how lavish is lavish and how much income does it take? According to Gallup, the median definition of rich in the U.S. was $122,000. This is very close to the current threshold income for being in the top 10% of households (DeNavas-Walt, Cleveland, and Webster 2003), and therefore appears to contradict the

[2] In a New York Times op-ed piece (Brooks 2003), columnist David Brooks interpreted this survey to say that "nineteen percent of Americans say they are in the richest 1 percent and a further 20 percent expect to be someday." Genauer's (2003) interpretation was similar. In fact, the question did not ask respondents to place themselves in the American income distribution. Rather, it asked "As you may know, Al Gore has claimed that George W. Bush's proposed tax cut will largely benefit those with high incomes, who he claims are the top 1%. Thinking about your own situation, do you think that you are in the top group that would benefit from Bush's proposed tax cut now, do you think you will be in this group that will benefit in the future, or do you think you will not benefit from Bush's tax cut." The question defines the "top group" as those who would benefit from Bush's tax cut, and incidentally notes that Gore thinks the group that will "largely benefit" is the top 1%. A respondent can know he is not in the top 1% (or even in the top 10%) while still believing that he is or will be in the "top group that would benefit" from Bush's proposed tax cuts, and thus respond affirmatively to the question.

fact that only 2% of those who were surveyed by Gallup identified themselves as currently “rich.” Those who made under $30K per year defined “rich” as a household income of $74,000, while those who made between $30 and $50K defined “rich” as a $100,000 income. Such low thresholds suggest that those with less than the median family income (currently about $50,000 per year[3]) are so far from being rich that they have difficulty generating accurate estimates of what it takes to achieve this status—or maybe for them, “rich” just means having enough income to transcend a hand-to-mouth existence.[4]

Above the median income, however, Americans appear to have a better understanding that being “rich” requires a big yearly inflow of money. The median respondent in the top half of the American income distribution defined rich to be an annual income of $200,000 or more, a figure that happens to be the threshold of the group of “wealthiest Americans” who would lose their Bush tax cuts under John Kerry’s proposal to “restore fiscal discipline to Washington” during the 2004 presidential campaign.[5] It therefore appears that the more money one makes, the higher one sets the income bar to be rich. And many Americans disagree that even $200K per year is enough. 19% of Americans in the Gallup poll thought they would need at least $500,000 per year in order to qualify as “rich,” and 13% defined “rich” as having at least $1,000,000 in income per year. During the 2000 presidential campaign, Al Gore

[3] In 2002, the median household income in the U.S. was $42,409, while the median “family” income was $52,704. A “family” is a group of 2 or more related people living together. See DeNavas-Walt, Cleveland, and Webster (2003).
[4] The Gallup poll also found that young people (between 18 and 29 years old) defined a lower ($100K) threshold to enter the ranks of the rich than did older Americans. Their lower current incomes could explain the low threshold. Another possibility is that they do not anticipate how costly it is to support a family.
[5] See http://johnkerry.com/issues/economy/

frequently seemed to identify the rich as the top 1% of households, which, according to IRS data (Strukler and Petska 2003), made $323,861 in 2001, so nearly one fifth of Gallup respondents thought that Gore's threshold was too low. The $1,000,000 threshold set by 13% of respondents was close to the $1,405,770 of income per year that it took to be in the elite richest one in a thousand families according to IRS data (Strukler and Petska 2003).[6]

The Accuracy of American Perceptions About the Chances of Becoming "Rich"

How accurate are the perceptions of Americans about their chances of joining the rich? Is it actually likely that 33% of Americans will succeed?[7] While the ambiguity of the term precludes a definitive answer, survey data now exists to give these perceptions an informative test. The Panel Study of Income Dynamics (PSID) has been measuring the incomes of several thousand American families since 1968, and these data allow us to examine what actually happens to American incomes over the life course.[8] First I must define some thresholds. To reach the top 10% of the income distribution now requires a household income of about $120,000, and this value is thus similar to the "rich" threshold used by the median American. The PSID data on household heads and their partners for

[6] The IRS concept of income is a complex one designed to achieve comparability of IRS statistics over time, and roughly approximates the IRS concept of "adjusted gross income" as used during the years 1979-1986.

[7] The 33% figure comes from adding the percent of those who state they are already rich, very likely to become rich, and somewhat likely to become rich (an additional 36% thought it "not very likely" and 30% thought it "not at all likely," with 1% having no opinion). One could alternatively score the various answers in terms of subjective probabilities: If one assigns 1.0 to "already rich," 0.9 to "very likely," 0.6 to "somewhat likely," 0.25 to "not very likely," and 0.05 to "not at all likely," one gets an estimate of 34% being eventually rich, which is very close to the simpler computation reported in the text.

[8] With appropriate weights, the PSID is representative of the American population as of 1968. While it cannot provide specific information about the life course of new immigrants to the U.S. since that time, it nonetheless provides a picture of American incomes that is consistent with other major statistical sources such as the Current Population Survey conducted monthly by the U.S. Bureau of the Census (Gouskova and Schoeni 2002).

the late 1990s shows a threshold of about $200,000 to enter the top 3% of American households, which is similar to the "rich" threshold held by the median American in the top half of the income distribution, as well as to the "wealthiest Americans" threshold used by Kerry in his policy proposals. Finally, the top 1% is typically singled out by critics as disproportionately benefiting from the Bush tax cuts.[9] In this paper, therefore, I successively use the top 1%, top 3%, and top 10% thresholds, and address the question of whether Americans have accurate perceptions of the amount of social mobility that exists in America today.[10] For ease of reference, I name these three thresholds as "pretty well off," "well off," and "very well off" to distinguish them from an income of $1,000,000 and up, which I refer to as "blue-ribbon rich."[11]

[9] While 19% of Americans apparently view even the top 1% threshold as too low to qualify as "rich," it is the highest that can be studied with the available survey data.

[10] The PSID thresholds are here operationalized at the individual rather than the household level (i.e., the top 10% means the top 10% of heads and partners rather than top 10% of households). This conveniently produces cutoffs that closely correspond to the median definition of "rich" in the Gallup poll and to the Kerry definition of the "wealthiest Americans." None of the conclusions of this paper are in any way affected if the cutoffs are shifted slightly to correspond to the top 10%, top 3% and top 1% of households.

[11] It is important to note that $1,000,000 in income per year is a much more elite status than $1,000,000 in total wealth. Gouskova and Stafford (2003) found that 5% of PSID households had $1,000,000 or more in wealth if home equity is included, while only a fraction of 1% of PSID households had $1,000,000 or more in income per year.

Blue-ribbon rich: An income of $1,000,000/year and up.

Very well off: $340,000/year (top 1% of PSID heads and partners).

Well off: $200,000/year (top 3% of PSID heads and partners).

Pretty well off: $120,000/year (top 10% of PSID heads and partners).

In real life, household incomes fluctuate --often substantially-- from year to year. The principal earner in a family gets a new job. A family member gives up or loses a job. A one-earner household changes into a two-earner household. A marriage dissolves, or a marriage occurs. Events such as these occur frequently in American life, and as a consequence, incomes often go down over time, even though upward income mobility is still the most common direction over the life course. Given this turbulence, I defined income mobility as passing a certain threshold based on *average* household income over three consecutive years. I make no adjustment for family size (Americans were not asked to think in these terms in the Gallup poll). I also do not differentiate by gender, because when the focus is on household income, the mobility statistics presented in this paper do not differ very much for men and women.

The variables used here were constructed from PSID data for the Cross-National Equivalent File.[12] In addition to limiting the sample to those 18 and older, the sample was further limited to adults who described themselves as either the head of the household or the partner of the head of the household. In other words, adult children and other adult relatives who are not heads or partners were dropped from the analysis. This was done on the grounds that a child over 18 who lives with parents would not experience the family income as belonging to him. Most of these adult children eventually set up their own households, and at that point they become part of the sample being analyzed in this paper.

In order to obtain estimates of life course mobility in recent decades, I began with household "pre-government" income (income before taxes are subtracted and government transfers are added) as defined on the Cross-National Equivalence File, and converted these values to constant dollar amounts using the consumer price index. I next computed rates of fifteen year income mobility for adults aged 18 or older for the years 1980 through 2001. For each sample member, I computed three year average household incomes over this period, converted these incomes to percentiles in the sample distribution of household incomes, and measured the highest percentile achieved by each of the sample members over this period as well as the percentile in the starting three year period. A person was scored as having achieved a particular percentage threshold if he or she was over this threshold in any three year period.

I then used the experience of sample members in their middle-aged years as a forecasting tool in order to estimate life course mobility rates over a thirty-year period,

[12] See http://www.human.cornell.edu/pam/gsoep/equivfil.cfm for more information.

which I take as a reasonable approximation to a work career. Because individual income can both fall and rise over time, the thirty year projection is complicated by the danger of double counting; in other words, one cannot simply add the probability of passing a threshold in the first 15 years to the probability of passing the threshold in the second 15 years, because the same individual might be counted twice. I use estimates of the proportion of individuals who cross the threshold but than fall back within the 15 year observation window in order to take this possibility into account. Using different assumptions about this process produces a "high" and a "low" estimate of mobility rates over the longer 30 year period.

Specifically, I first computed the probability of crossing each threshold for sample members under the age of 30 to obtain estimates of outcomes for the first 15 years of a simulated 30 year career. I then used the experience of individuals who were between the ages of 35 and 49 in the base year as indicative of the experience that younger individuals would have in a second fifteen year observation window (the age overlap is used to provide enough cases for precise estimates). The elementary theorems of probability imply that the probability of achieving any particular threshold over a thirty year period equals the probability of achieving it in the first fifteen-year period plus the probability of achieving it in the second fifteen-year period and not having achieved it in the first fifteen-year period. If all mobility were upward, then the desired quantity could be computed as the probability of achieving the threshold given that one was starting one's career by the end of the first 15 years (P1), plus the joint probability that one achieved the threshold in the next fifteen years and had not achieved it at the end of the first fifteen year period (P2), which equals the probability of achieving the threshold in the second period given that one had not achieved it in the first multiplied by the probability of not achieving the threshold in the first period. The quantity P2 could be estimated from the data by substituting the proportion of middle-aged workers who achieved the threshold in 15 years, given that they started below the threshold for the unknown probability of achieving the threshold in the second period given that one had not achieved the threshold in the first period. However, this substitution would yield a liberal estimate of the thirty year probability because it potentially double counts the people who achieved the threshold in the first period but then fell back. To achieve reasonable bounds on the correct answer, I first made the liberal assumption that <u>none</u> of those who achieved the threshold but fell back would have achieved the threshold in the second period. To achieve the conservative bound, I assume that <u>all</u> of those who achieved the threshold in the first period but fell back would have again achieved the threshold in the second period. The charts show these lower and upper-bound estimates.[13]

Both the Gallup results and the estimates from the PSID are based on survey data, and a technical presentation would include confidence intervals or other measures of statistical significance. Gallup reports that the margin of sampling error for its results is ± 3 percentage points. The estimates of mobility rates reported in this paper are generally

[13] More technically, I first computed the probability of ending the first fifteen years in each of the ten quintiles for those under the age of 30 in the base period. Using logistic regression, I then computed the probability that sample members would achieve top 10%, top 3% or top 1% status during the observation window as a function of their base period age and on their starting income decile, conditional on their being 35-49 in the base period, and on their not having achieved this threshold at the start of the observation window. From the logistic regressions, I computed predicted probabilities for the 35-49 year old sample and obtained mean predictions as a function of starting decile. I then summed these conditional probabilities using as weights the computed proportion of under aged-30 individuals who ended the fifteen year period in each of the 10 deciles. I summed the result, multiplied it by the proportion who had not achieved the threshold at the end of the first period, and added it to the proportion of those in the younger sample who achieved the threshold in the fifteen year window to obtain the liberal estimate. In order to obtain the conservative estimate, I then subtracted the proportion of the younger sample that had achieved the threshold in the 15 year period but had fallen below the threshold by the end of the period.

at least as precise as are the estimates about perceptions reported by Gallup. With this level of precision, the major differences reported in this paper between the perceptions of Americans and the actual rates of mobility are statistically significant at conventional levels.

Results

As Figure 1 shows, the likelihood that an American will become "rich" depends very much on where the threshold is set. Between 32% and 39% of Americans under the age of 30 will spend at least some time as "pretty well off" during their next 30 years. The proportion of who will spend at least 3 years in the "well off" group is a much smaller 15% to 17%. Only 4% to 6% of Americans can expect to be "very well off" during a thirty year period of time. In other words, if one uses the median American's definition of "rich" in the Gallup poll (i.e., the "pretty well off" threshold), then the 32%-39% range that I computed includes the 34% estimate from the Gallup poll for Americans as a whole but is lower than the 51% estimate of the under-30 age group in the Gallup sample. If, in other words, "pretty well off" is used as the yardstick, then Americans are overly optimistic about their chances to be "rich" but not wildly so.

The "pretty well off" yardstick is unsatisfactory, however. It objectifies a threshold of "rich" that is much too low. Experts would universally argue that incomes in the "pretty well off" ($120,000) range are solidly middle-class, and those in the top half of the income distribution, who see $200,000 or more as necessary to be rich, would seem to agree. Because the Gallup data make quite clear that one's definition of rich rises with income, I recomputed mobility chances using different thresholds for people depending upon their starting point, in order to better approximate the thresholds these groups actually used in their definition of "rich." The results are in Figure 2. Those PSID sample members who were under thirty years old and in the lower 50% of the income distribution over a three year starting point had between a 25% and 29% chance of reaching the "pretty well off" level within 30 years. Those who started between the 50th and 75th percentile had between a 15% and 18% chance of reaching the "well off" group during the next 30 years, while those starting in the top 25% of the distribution had between a 12% and a 17% chance of entering the "very well off" group at some point over this period. The findings demonstrate considerable income mobility over the life course in America, but they also suggest that Americans have too rosy a view about their chances of achieving riches by self-defined criteria.

Young Americans and those Americans who are in the bottom half of the income distribution are certainly overly optimistic about their mobility chances, but their biggest confusion concerns not so much their own mobility chances as the income required to be rich in this country. When one uses a more realistic definition of "rich," one finds their self-predictions to be wildly optimistic. Those under age 30 household heads and partners starting in the bottom half of the income distribution have only a 9% to 10% chance of making it to the "well off" group of families, and they have only a 2% to 3% chance of making entering the club of the "very well off" within thirty years. Even those whose starting point is in the 50-75th percentile of the distribution have only a 5% to 6% chance of being rich in their lifetime by the "very well off" criterion.

In contrast to the experience of those who start lower, those under-30 household heads and partners in the top quartile of the income distribution (those with 2001 family incomes above $80,000) have a much rosier 12% to 17% chance of reaching the "very well off" group in 30 years. But this 12% to 17% chance must be compared with the amazingly high 51% of all Americans making $75,000+ who (clearly mistakenly) thought it likely that they would be rich someday. These results suggest that those in the upper part of the American income distribution are also mistaken about the structure of opportunity in the U.S. Their error is not so much a misperception of the income it takes to be wealthy as it is a misperception of the likelihood that they will achieve this income over their lifetimes. It is only when one restricts attention to those who are already in the top 10% of the distribution does the probability of passing yet higher elite milestones become likely. If the current top 10% of the distribution (who make more than $120,000 a year) defined a $200,000 income as the threshold of being rich, and if they were as optimistic about eventually getting to this threshold as the 51% of the $75K+ respondents in the Gallup survey who expect to be rich, and if the current top 10% of the distribution got to this point early enough in their lives to have lots of working years ahead of them to make further income gains, well, they would be justified in their optimism for future riches using the "well off" definition! (56% of the age 45 and under group with $120,000 or more per year in income would at some point in the next 15 years pass the $200,000 threshold). If one raises the bar to the level of "very well off", however, their optimism begins to be misplaced: only 19% of this group would achieve "very well off" status within 15 years. Finally, if these currently top 10% are in fact most of the 13% of Gallup respondents who (perhaps accurately?) think it takes a million dollars in income a year to be rich in contemporary America, then they will almost certainly be disappointed in their effort to enter into the ranks of the "blue-ribbon rich."

The over-optimism of Americans is further compounded by the reality of downward mobility. Recall from Figure 1 that 20% of those under age 30 could expect to reach the "pretty well off" level over at least one three-year period of time during 15 years. However, those who reach this level do not necessarily stay there. Indeed, only 65% of this 20% were still "pretty well off" at the end of the 15 year window. The other 35% of these "achievers" had fallen back below the "pretty well off" threshold. About 40% of those who had achieved "well off" status and 50% who had achieved "very well off" status had also fallen to a lower level by the end of a 15 year time span. These figures underscore an important reality about American mobility: While a large proportion of any elite income groups resides in this group on a more or less permanent basis, their ranks always include another large group that crosses the threshold only on a temporary basis, later to fall back to a lower income category.

Discussion

The Wall Street Journal editorial writers dismissed the possibility that Americans who "see a rich person when they look into a crystal ball" were allowing their "hope" to "triumph… over experience." Instead, the Journal writers concluded, the expectations of Americans were grounded not in "hope" but in "the broad American belief that our society offers opportunity and upward mobility." Is "belief" a sounder basis for forming expectations than "hope?" Only if the belief is true. Americans are certainly correct in their understanding that (in the words of the Wall Street Journal editorial) "people make and lose fortunes here all the time" but this does not mean that they as individuals have a meaningful chance to make a fortune, never mind lose one. Americans understand that people win the state lottery all the time, too, but that does not mean that they themselves expect to win the lottery. On the other hand, millions of Americans play the lottery all the time, even though they typically lose or win only token prizes. The excitement in playing comes from the size of the prizes, not from any realistic chance of winning (who knows what the actual odds are – it is enough to know that they are very small). In contrast to the lottery, the chances of achieving a $200,000 household income in one's lifetime are not terrible.[14] But Americans do not typically use the lottery model when they make major decisions involving schooling, marriage, buying a house, or health care. Is it credible that they find the lottery model to be an appropriate basis for forming their opinions about issues such as tax policy, as the Wall Street Journal editorial writers suggest? Or do they just find it difficult to estimate their future prospects accurately?

When John Kerry recently called for a roll-back of the Bush tax cuts for those families over $200,000 during the 2004 presidential campaign, President George W. Bush responded in his weekly radio address (March 13, 2004) that "some politicians in Washington…want to increase federal taxes – yet punishing families and small businesses is not a job-creation strategy." Aside from the issue of whether a roll-back of a tax cut is "punishment," the Bush response sidestepped the question of how many families would have been affected if Kerry's proposals had become law. Accurate information about the structure of mobility and inequality in the U.S. might help Americans better estimate how they might be affected by tax proposals both immediately and over the life course as their income levels changed. Accurate information can help

[14] The NBC News/Wall Street Journal poll of March 6-8, 2004 found that 55% of Americans would prefer to keep all the Bush tax cuts in place up to the $200,000 income level, but repeal the tax cut above that level. 39% of Americans want the tax cut above $200,000 to remain in place, too. This level of support far exceeds the 15-17% of Americans who can expect to spend even a short portion of their lives at an income level that is high enough to benefit from this tax cut.

Americans formulate informed opinions about tax policies just as it helps them make informed choices about medical care.

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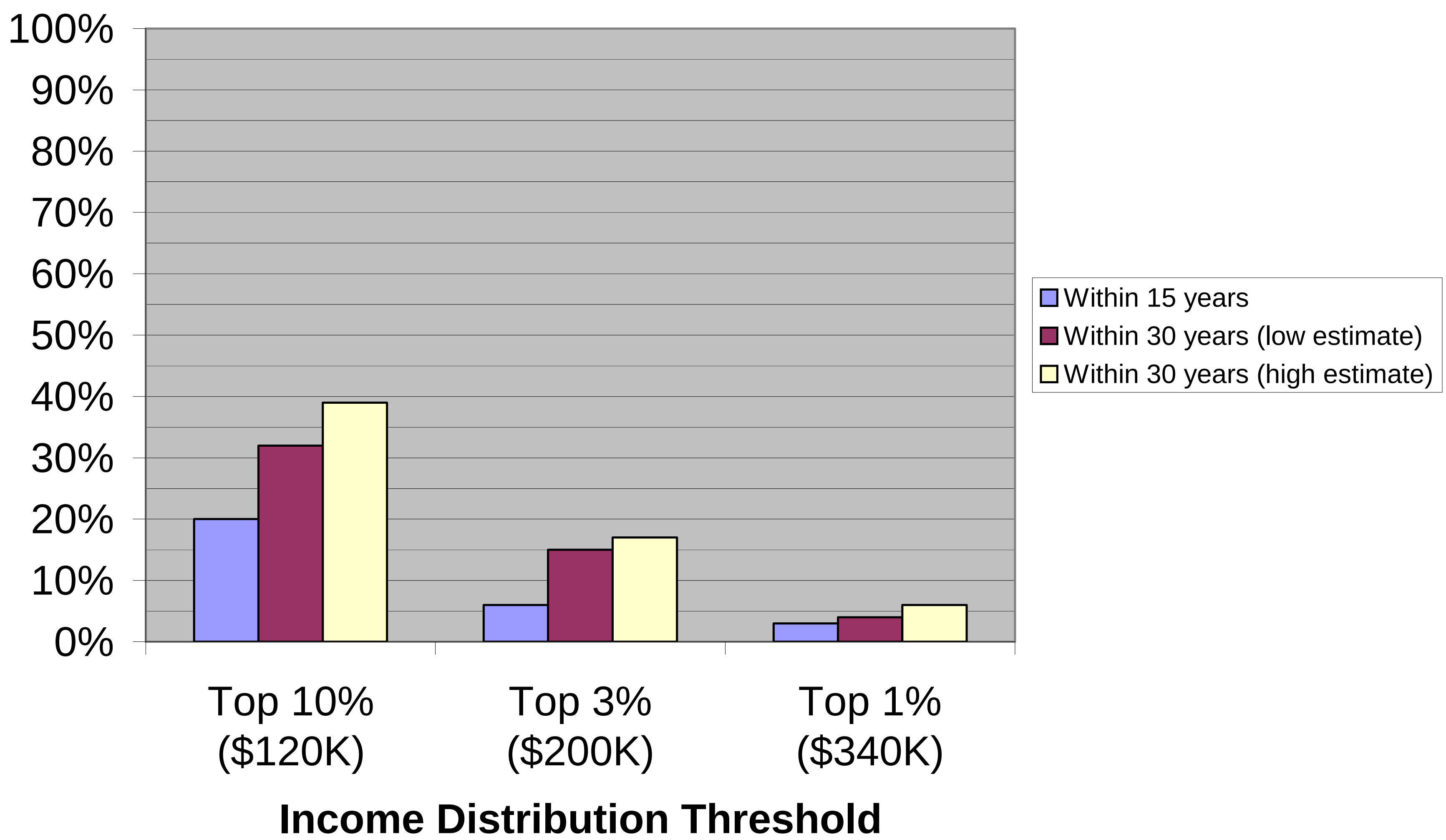
Figure 1. Percent of Americans under age 30 who cross the indicated threshold within 15 and 30 years



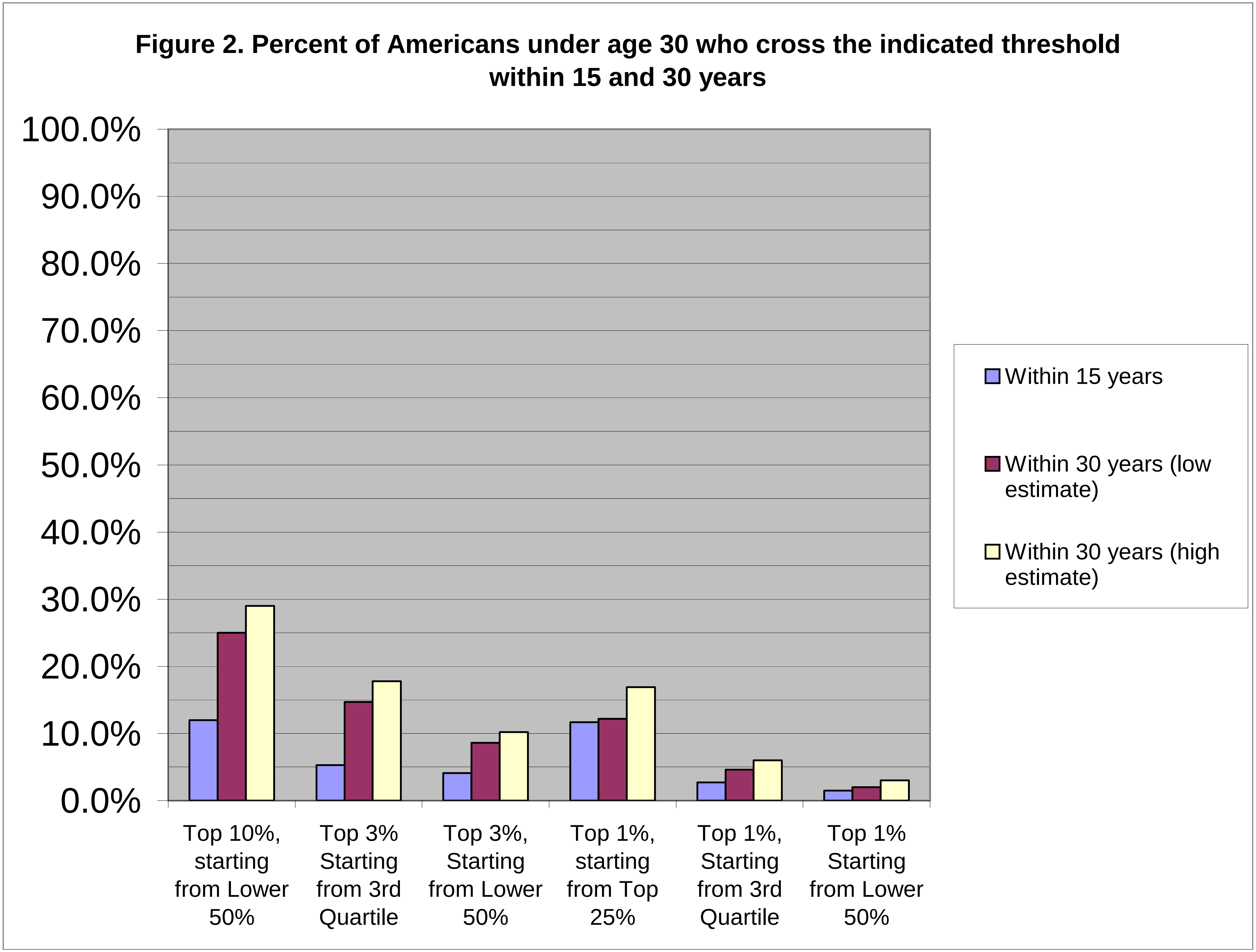


Figure 2. Percent of Americans under age 30 who cross the indicated threshold within 15 and 30 years
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Top 10%, starting from Lower 50%
Top 3% Starting from 3rd Quartile
Top 3%, Starting from Lower 50%
Top 1%, starting from Top 25%
Top 1%, Starting from 3rd Quartile
Top 1% Starting from Lower 50%
Within 15 years
Within 30 years (low estimate)
Within 30 years (high estimate)