



# Defending the Dream: Why Income Inequality Doesn't Threaten Opportunity

*David Azerrad and Rea S. Hederman Jr.*

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TABLE 1

<b>The American Dream</b>	<b>Two Conflicting Dreams</b>	<b>The Liberal Dream</b>
Ladder of opportunity	SYMBOL	Escalator of results
Ensure all have the opportunity to rise	AIM	Ensure all actually rise
Individual effort	PRIMARY FOCUS	Government assistance
Supporting role	ROLE OF GOVERNMENT	Primary role
Free markets	SOURCE OF OPPORTUNITY	Government spending
Remove artificial barriers to ensure equal opportunity	TYPE OF OPPORTUNITY	Social engineering to achieve sameness of opportunity
Government dependence	PRIMARY THREAT	Income inequality

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## **Executive Summary**

Today, on the Left and on the Right, everyone talks about rebuilding, saving, restoring, defending, or rescuing an American Dream that is slipping, fading, eroding, or vanishing.

The loudest voices, all coming from the Left, fulminate against the top 1 percent of earners and blame an unfair system that allows the rich to line their pockets, leaves the poor in the lurch, and generates spectacular income disparities. To protect the American Dream, these critics call for greater government involvement to make things more equal and ensure that everyone gets their “fair share.”

This gets both the problem and its solution all wrong. Free-market economics is not about dividing up a dwindling pie, but expanding the pie to serve everyone. Those who succeed do not do so at the expense of others.

Those who focus on income inequality have embraced a very different American Dream from the one that is familiar to most Americans. They still use the traditional language of opportunity, but

their new dream has very little in common with the *real* American Dream.

### **Conflicting Dreams**

Part I of this report contrasts these two dreams. While the American Dream we all know is about climbing the ladder of opportunity, the new liberal American Dream can best be likened to an escalator of results—everyone hops on and moves up without effort.

The real American Dream is first and foremost about hard work and the opportunities created by a free economy. Stemming from our founding principles, it can be summed up by a simple equation:

**Economic Freedom + Culture of Work = Prosperity and Opportunity**

Government has a supporting role to play for this dream to come true. It must, for example, uphold the rule of law, secure property rights, ensure access to education, and provide a safety net for those who cannot care for themselves, but

the focus remains on the individual and his efforts to rise and help those around him do the same. Given the diversity of individual efforts, not all will succeed. Unequal results are a natural outcome of equal opportunity.

Liberals have redefined the American Dream along egalitarian and statist lines. The exhortation to work hard and persevere if you fail has given way to calls for greater government involvement to ensure that everyone rises in the first place. The Left's new American Dream is first and foremost about all that the federal government must do to create opportunity and ensure that incomes are distributed more equitably. Individual effort takes a backseat to government spending and cradle-to-grave entitlements.

### **The Misguided Focus on Income Inequality**

Part II examines the income inequality argument and shows how the recent rise in income disparities has not caused a decline in upward mobility. Standards of living have increased for everyone—as have

incomes—and mobility, however one measures it, remains robust. Simply put, how much the top 1 percent of the population earns has no bearing on whether the bottom 20 percent can move up.

Moreover, the standard measures of income are flawed and inadequate. They compare households made up of different numbers of people and do not factor in taxes or non-cash government transfer payments such as food stamps, Medicare, or Medicaid. A more precise measure reveals that income inequalities are not as pronounced as the standard measures suggest.

In addition, snapshots of income distribution are problematic because they compare people who are in different stages of their lives with one another. For adults in their fifties to earn more than college students or retirees is perfectly normal.

More fundamentally, consumption is a much better measure of well-being than income, and when levels of consumption rather than income are compared, inequalities are much less pronounced.

Examining the inequality argument also reveals its psychological underpinnings: Contrary to their professions of solidarity with the poor and the “99 percent,” many critics of inequality seem to be motivated more by envy of the rich than by compassion for the poor.

### **The *Real* Threats to the American Dream**

Part III provides an overview of the six factors that most seriously threaten the American Dream:

1. The suffocating web of regulation and laws that flow from the limitless state and restrict opportunity;
2. The collapse of the family and the devastating, long-lasting consequences that it has on children;
3. The dependence fostered by the welfare state;
4. The erosion of our culture of work and the rise of a slacker culture that disparages hard work and celebrates indolence;

5. The failures of the public education system that deny countless children the rudimentary skills they need to move ahead in life; and
6. The looming fiscal crisis that has already saddled the next generation with an unconscionable level of debt.

For the Left’s new American Dream to deliver on its promise, America would have to be completely overhauled and the character of its citizens altered. The spirited, entrepreneurial and determinedly self-reliant citizens envisioned by the Founders of our constitutional republic would give way to timid and envious clients who increasingly turn to an omnipotent state for their well-being. It is therefore imperative that the American Dream be rescued from those who would so radically redefine it. 🗡️

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The Left and the Right do not see eye-to-eye on much of anything these days. How intriguing, then, that across the ideological spectrum, everyone agrees that the American Dream—an idea central to our country's self-understanding—is under threat.

Leading Republicans and Democrats frequently appeal to the vanishing American Dream in their speeches. Progressive journalists, union leaders, and conservative pundits all worry that the American Dream is slipping away.<sup>1</sup> The Heritage Foundation calls its entitlement reform plan *Saving the American Dream*,<sup>2</sup> while activists Van Jones and MoveOn.org named their organization Rebuild the Dream. In June, liberals hosted a "Take Back the American Dream" conference at the Hilton in Washington, D.C.; two months later, conservatives hosted a "Defending the American Dream" summit at the same hotel.

In short, all the talk these days is about rebuilding, saving, defending, or rescuing an American Dream

that is slipping, fading, eroding, or vanishing.

Given the profound ideological divide between liberals and conservatives, it should come as no surprise that they do not mean the same thing when they speak of the American Dream. While conservatives still consider the traditional promise of opportunity and upward mobility to be at the heart of the American Dream, liberals have subtly redefined it along egalitarian and statist lines. The exhortation to work hard and persevere if you fail has given way to calls for greater government involvement in ensuring that all rise in the first place. The acceptance of unequal results as an inevitable part of the pursuit of happiness has been supplanted by demands that income be redistributed more fairly.

Since liberals and conservatives disagree about what the American Dream entails, it follows that they also disagree about what threatens it. For the Left, it largely boils down to income inequality—or, to be more precise, the rise in income inequality

in recent decades. For the Right, the problem encompasses a host of factors that restrict upward mobility by creating artificial barriers to advancement and eroding social capital.

For the Left's new American Dream to deliver on its promise, America will have to be completely overhauled, and the character of its citizens will need to be altered. The spirited, entrepreneurial, and determinedly self-reliant citizens envisioned by the Founders of our constitutional republic will give way to a herd of timid and envious clients who increasingly turn to an omnipotent state for their well-being.

Given what is at stake in this debate, it is imperative that the American Dream be rescued from those who would so radically redefine it. The aim of this report is therefore to recover the true promise of the American Dream (Part I), expose the red herring that is income inequality (Part II), and refocus our attention on what really threatens the dream (Part III).



## Part I The Promise of America

“Such, in some sort, is a true picture of the restless activity and ever-changing relations of American society. Like the sea, we are constantly rising above, and returning to, the common level. A small son follows a great father, and a poor son, a rich father. To my mind we have no reason to fear that either wealth, knowledge or power will be here monopolized by the few as against the many.”

—Frederick Douglass<sup>3</sup>

The ladder of opportunity is an apt metaphor for the American Dream. Ladders offer a way up, but only for those who are willing to climb them. The metaphor reminds us that the American Dream demands a lot from those who pursue it. Only those who put in the effort to climb—and pull themselves back up when they fall—will make it to the top.

In their efforts to redefine the American Dream, many on the Left have seized on this metaphor but have shifted the focus to all that the federal government must do to give each and every one of us the sturdy ladders to which we are supposedly entitled. This, coupled with a fixation on income disparities, suggests that

the “escalator of results” might be a more fitting metaphor for this new liberal dream: Everyone just hops on, and we all move up to the same place without effort on our behalf.

But that is not the American Dream. The American Dream is about hard work and self-reliance, not handouts and dependence; equal opportunity, not equal results; emulating those who make it, not being envious of their success; pulling yourself up, not dragging others down.

In a certain sense, the first threat to the American Dream comes from those who would redefine it as a government-backed promise that we will all succeed equally. The first part of this report is therefore devoted to recovering the true understanding of the American Dream, the essence of which can be summed up by a simple equation:

**Economic Freedom + Culture  
of Work = Prosperity and  
Opportunity**

In the following sections, we look at this equation more closely. We first flesh out the twin pillars of the American Dream by explaining what we mean by economic freedom and a culture of work. We then contrast

the true promise of the American Dream—opportunity and prosperity—with the egalitarian pipe dreams that some liberals have tried to substitute for it.

### **The American Dream**

America is the land of the free. That all men and women possess an equal right to liberty is one of the great self-evident truths proclaimed by the Declaration of Independence, and the Constitution promises to “secure the blessings of Liberty to ourselves and our posterity.”

Freedom is, of course, a broad concept. It encompasses several distinct yet interconnected liberties, from religious liberty to the freedom of the press, and a host of other rights subsumed under “the pursuit of happiness.”

In their struggle to gain independence from Great Britain, the Founders spoke much of political freedom, but they also knew that true liberty requires economic freedom—the liberty to make full use of one’s property rights and personal talents in open and free markets. Though the term “economic freedom” does not appear in the Founders’ writings, it underpins their vision of a “commercial republic” and perfectly captures their overarching

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1. Robert Borosage and Katrina vanden Heuvel, “Can a Movement Save the American Dream?” *The Nation*, October 10, 2011, <http://www.thenation.com/article/163549/can-movement-save-american-dream#>; Gerald W. McEntee and Lee Saunders, *The Main Street Moment: Fighting Back to Save the American Dream* (New York: Nation Books, 2012); Dinesh D’Souza, *Obama’s America: Unmaking the American Dream* (Washington: Regnery, 2012); Ross Douthat and Reihan Salam, *Grand New Party: How Republicans Can Win the Working Class and Save the American Dream* (New York: Doubleday & Co., 2008).

2. See Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity* (Washington: The Heritage Foundation, 2011).

3. Frederick Douglass, “Self-Made Men,” 1872, <http://www.teachingamericanhistory.org/library/index.asp?document=2582>.

commitment to property rights, the rule of law, and free markets.<sup>4</sup>

Whereas nearly all societies throughout history had hampered the free flow of goods and services and denied men and women the full fruits of their labor, America embraced the revolutionary idea that all are entitled to acquire and possess property. By holding out the promise of just rewards for one's efforts, America opened up a world of opportunity for all. One's station in life would no longer be fixed at birth. Fortunes would be made and lost. The American Dream was born.<sup>5</sup>

For many people, the story ends here. America is the land of opportunity, and economic freedom is what makes mobility possible. To leave it at that, however, would fail to do full justice to the promise of America. First, this simplified account leaves out the other great benefit that the Founders anticipated their commercial republic would bring: general prosperity and an increase in the standard of living of all. Second, it fails to mention the other all-important factor required for the dream to materialize:

a culture of work in which labor is encouraged and celebrated.

In other words, economic freedom is not enough. All that economic freedom can do is set "commerce at perfect liberty"<sup>6</sup> and create the conditions for prosperity. Citizens must still be capable and willing to put in the hard work. Opportunities must be converted into accomplishments. As the great apostle of upward mobility Frederick Douglass explained in his praise of self-made men, "Opportunity is important but exertion is indispensable."<sup>7</sup> The American Dream requires certain virtues like hard work, perseverance, fortitude, and prudence, as well as a real desire to make it.

This, in short, is what sets the stage for the American Dream—however one may define it. For some, it will be the goal of ensuring a better future for their children. For others, it translates into a comfortable middle-class life with a big house and a good job. And for a few, it adds up to a great success story that takes them from rags to riches. Whatever one's American Dream may be, economic

freedom and hard work are what make it possible.

## The First Pillar: Economic Freedom

The first pillar of the American Dream is economic freedom. Without the liberty to acquire and possess property and to dispose of it in free markets, our station in life would essentially be fixed at birth. By giving us the ability to profit from our own ideas and labor—to work, produce, consume, own, trade, and invest according to our own choices—economic freedom creates a world in which all may aspire to improve their lot. Since no one can be unjustly deprived of the fruits of his labor and ideas, there is a strong incentive to work hard, excel, innovate, and devise clever ways to do things better.

From a policy point of view, economic freedom has several components. Heritage's global *Index of Economic Freedom*, for example, identifies four broad components of economic freedom: rule of law, limited government, regulatory efficiency, and open markets. These in turn

4. For a description of the "commercial character of America," see *Federalist* No. 11 in Alexander Hamilton, James Madison, and John Jay, *The Federalist Papers*, ed. Clinton Rossiter, intro. and notes Charles Kesler (New York: Signet Classics, 2003), pp. 79–86. Subsequent references to *The Federalist* cite essay number and page(s) in this edition. For an elaboration, see Matthew Spalding, *We Still Hold These Truths: Rediscovering Our Principles, Reclaiming Our Future* (Wilmington, Del.: ISI Books, 2009), Ch. 4, "The Fire of Opportunity," pp. 67–80, and Thomas G. West, "The Economic Principles of America's Founders: Property Rights, Free Markets, and Sound Money," Heritage Foundation *First Principles Series Report* No. 32, August 30, 2010, <http://www.heritage.org/research/reports/2010/08/the-economic-principles-of-america-s-founders-property-rights-free-markets-and-sound-money>.

5. The term itself would first appear much later in James Truslow Adams's Progressive history *The Epic of America*, published in 1931. Adams employed the term in support of a Progressive argument decrying America's "pecuniary" culture and emphasizing spiritual development. He writes of "that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement. It is a difficult dream for the European upper classes to interpret adequately, and too many of us ourselves have grown weary and mistrustful of it. It is not a dream of motor cars and high wages merely, but a dream of social order in which each man and each woman shall be able to attain to the fullest stature of which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position." James Truslow Adams, *The Epic of America* (New York: Taylor & Francis, 1938), p. 415.

6. Thomas Jefferson to John Adams, July 31, 1785, in *The Works of Thomas Jefferson*, Federal Edition, 12 vols., ed. Paul Leicester Ford (New York and London: G. P. Putnam's Sons, 1904–1905), Vol. 4, [http://oll.libertyfund.org/?option=com\\_staticxt&staticfile=show.php%3Ftitle=756&chapter=86375&layout=html#a\\_1989330](http://oll.libertyfund.org/?option=com_staticxt&staticfile=show.php%3Ftitle=756&chapter=86375&layout=html#a_1989330).

7. Douglass, "Self-Made Men." For more on Douglass, see Peter C. Myers, "Frederick Douglass's America: Race, Justice, and the Promise of the Founding," Heritage Foundation *First Principles Series Report* No. 35, January 11, 2011, <http://www.heritage.org/research/reports/2011/01/frederick-douglass-s-america-race-justice-and-the-promise-of-the-founding>.

encompass 10 discrete factors ranging from the ease of doing business to the stability of currencies.<sup>8</sup>

For our simpler purposes, economic freedom simply boils down to each person's right to freely engage in economic activity: in short, the security of property rights combined with the dynamism of free markets.

**Property Rights and Free Markets.** By property rights, we do not mean the static and uneven distribution of “stuff” in society. Critics of capitalism are fond of depicting free markets in such straw-man terms. But the right to hold on to your existing property is only one component of property rights. Equally important is the right—possessed by all, rich and poor alike—to *acquire* new property (and by implication, to lose what they now possess).

Unlike the feudal societies in which the poor could never earn more than mere subsistence wages and the rich could never lose their estates, America's commitment to property rights decoupled property rights from birth.<sup>9</sup> There are no real “have nots” in America, since all have the right to acquire property. America is “The Best Poor Man's Country” since it provides even the poorest with a way out of poverty.<sup>10</sup>

More fundamentally, property rights extend well beyond our possessions. The idea of property is inextricably bound up with liberty and the pursuit of happiness.<sup>11</sup> For what does it mean to be free? Free to do what? To pursue happiness, the Declaration of Independence tells us. But what does that mean? The pursuit of happiness is a broad—some would even say nebulous—concept.

In short, to pursue happiness is to go out into the world and “do your thing”—to apply your skills whichever way you see fit and cultivate whatever talents you choose to cultivate: to become a poet, an accountant, a cellist, or a businessman—perhaps even all in one lifetime. In so doing, you will necessarily acquire property: royalties from your first collection of poems, a salary from the accounting firm you work for, an honorarium for a concert you gave, or profits from your small business. What property rights ensure is that whatever your calling, you will be entitled to the fruits of your labor.

To the tired complaint, originating in Marx, that in a capitalist economy only the wealthy own the means of production, the Founders would respond that each person in fact owns the most important means of production: himself and his labor,

whether physical or mental. As Abraham Lincoln's own retelling of the “American Dream” makes clear:

A young man finds himself of an age to be dismissed from parental control; he has for his capital nothing, *save two strong hands that God has given him*, a heart willing to labor, and a freedom to choose the mode of his work and the manner of his employer; he has got no soil nor shop, and he avails himself of the opportunity of hiring himself to some man who has capital to pay him a fair day's wages for a fair day's work. He is benefited by availing himself of that privilege. He works industriously, he behaves soberly, and the result of a year or two's labor is a surplus of capital. Now he buys land on his own hook; he settles, marries, begets sons and daughters, and in course of time he too has enough capital to hire some new beginner.<sup>12</sup>

Property rights are therefore fundamentally just, and they are inseparable from liberty. Where property rights are not protected, liberty is always in jeopardy.<sup>13</sup>

By contrast, liberalism is premised on the idea that property

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8. Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2012), pp. 15–19.

9. Some will, of course, inherit their parents' wealth, but the practice of primogeniture was abolished early on in America.

10. *The Best Poor Man's Country* is the title of a history of southeastern Pennsylvania by James T. Lemon (Baltimore: Johns Hopkins University Press, 1972).

11. See, for example, Article I of the 1780 Massachusetts Bill of Rights: “All men are born free and equal, and have certain natural, essential and unalienable rights; among which may be reckoned the right of enjoying and defending their lives and liberties; that of acquiring, possessing, and protecting property; *in fine*, that of seeking and obtaining their safety and happiness.” Massachusetts Constitution, 1780, Heritage Foundation *Primary Sources*, <http://www.heritage.org/initiatives/first-principles/primary-sources/massachusetts-constitution>.

12. Abraham Lincoln, “Speech at Cincinnati, Ohio,” September 17, 1859, in *Speeches and Writings*, 2 vols. (New York: Library of America, 1989), Vol. 2, p. 84 (emphasis added).

13. See also Spalding, *We Still Hold These Truths*, p. 71: “In addition to protecting property in and of itself, the actual securing of private property serves other freedoms as a practical matter: private church property serves religious liberty; private printing presses facilitate freedom of the press; private homes promote freedom of the family and of association; private property in goods encourages freedom of contract; and on and on. In this sense, property is a practical metaphor reminding us of our rights just as it protects them in reality—a tangible reminder of our unalienable rights and the resulting limits on government.”

rights are less important than other rights and may therefore be curtailed to further other ends, such as “social justice.” In his famous Commonwealth Club Address in 1932, President Franklin Roosevelt emphasized this fictitious distinction between “two sets of rights, those of ‘personal competency’ and those involved in acquiring and possessing property.”<sup>14</sup> To ensure the former, the latter would have to be restricted. Under the liberal conception of the state, government exists not to secure our rights—that is, to protect our existing property and create the conditions that allow us to profit from our work—but rather to redistribute property more equitably.

Yet property rights are not threatened only by heavy-handed redistributionist schemes and excessive taxation. Governments can also arbitrarily constrain the way people do business and deny some the privileges that are readily conferred on others.

The right to property also entails the liberty to dispose of one’s belongings as one sees fit. Free markets are therefore an absolutely necessary component of economic freedom. The essential feature of free markets is that they are open to all and are governed by rules that do not discriminate. All markets need

rules—pure laissez-faire economics is a myth. The rules, however, cannot be excessive and provide preferential treatment to some. They must also be transparent so that all who engage in economic transactions understand the rules of the game.

Straightforward as this may sound, however, it is worth remembering that free markets have been and sadly remain the exception across the world. The norm remains a plenipotentiary state that claims jurisdiction over every aspect of life. From this state flows a torrent of laws and regulations that impose heavy compliance costs (that are, of course, passed on to consumers) and often create barriers to the market by artificially protecting the entrenched players and denying entry to newcomers.

From costly licensing requirements to unfair subsidies and drawn-out regulatory compliance processes, governments are all too happy to favor some at the expense of others. For example:

- In Egypt, the regulatory maze is so cumbersome that it takes more than 500 days to open up a simple bakery;<sup>15</sup>
- Here in America, roughly 30 percent of occupations now require

licensing—up from a mere 5 percent in 1950;<sup>16</sup> and

- In California, it takes 1,500 hours of study before one is allowed to cut hair or trim beards.<sup>17</sup>

To feel that such arrangements are unfair is to recognize that property rights and free markets are fundamentally just. Similarly, to deny some the fruits of their honest labor while rewarding the failures of others is a gross injustice. So long as each and every citizen’s property rights are secured and the laws and regulations equally apply to all, one cannot legitimately speak of injustice in the marketplace.<sup>18</sup> Some will not succeed, as Lincoln said, “because of either a dependent nature which prefers it, or improvidence, folly or singular misfortune.”<sup>19</sup> In such cases, the free-market system is not to be faulted. There is nothing *inherently* unfair about not succeeding.

Those in dire need are to be cared for, of course. In America, we help each other. For the overwhelming majority of Americans, charity and justice go hand in hand. But in the economic realm, justice is about the processes, not the outcomes. Even critics of the free market seem to acknowledge this much when they turn away from justice to “fairness”

14. Franklin D. Roosevelt, “Commonwealth Club Address,” September 23, 1932, Heritage Foundation *Primary Sources*, <http://www.heritage.org/initiatives/first-principles/primary-sources/fdrs-commonwealth-club-address>. Cf. *United States v. Carolene Products Co.*, 304 U.S. 144 at footnote 4 (1938).

15. Hernando de Soto, “Egypt’s Economic Apartheid,” *The Wall Street Journal*, February 23, 2011, <http://online.wsj.com/article/SB10001424052748704358704576118683913032882.html>.

16. Jacob Goldstein, “So You Think You Can Be a Hair Braider?” *The New York Times*, June 12, 2012, [http://www.nytimes.com/2012/06/17/magazine/so-you-think-you-can-be-a-hair-braider.html?\\_r=3&pagewanted=all](http://www.nytimes.com/2012/06/17/magazine/so-you-think-you-can-be-a-hair-braider.html?_r=3&pagewanted=all).

17. Stephanie Simon, “A License to Shampoo: Jobs Needing State Approval to Rise,” *The Wall Street Journal*, February 7, 2011, <http://online.wsj.com/article/SB10001424052748703445904576118030935929752.html>.

18. There is, of course, more to life than the marketplace, and we must be concerned about the obstacles to advancement in other areas of life. Hence the broad focus of Part III of this report.

19. Abraham Lincoln, “Address to the Wisconsin State Agricultural Society, Milwaukee, Wisconsin,” September 30, 1859, *Speeches and Writings*, Vol. 2, p. 98.

or coin terms like “social justice” to justify their ambitious redistributionist schemes.

### **Government’s “Supporting”**

**Role.** As should be obvious from this summary presentation of the principles of economic freedom, the government plays an important role in securing property rights and overseeing markets. Although not the lead actor, government creates, through the rule of law, the protection of property and contracts and a limited regulatory structure—the framework that allows all to pursue their aspirations.

Thus, one of the federal government’s two principal powers under our Constitution pertains to the national economy. (The other is national security, without which there can be no economy.) Congress has the power to regulate commerce between the states, tax, and set the national currency. In his First Inaugural Address, President Thomas Jefferson eloquently summed up the government’s limited “supporting” role:

Still one thing more, fellow-citizens—a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the

bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities.<sup>20</sup>

Government’s modest but important role leaves much room for citizens to exert their talents in the pursuit of happiness, but such a government, as Calvin Coolidge once remarked, “cannot relieve from toil”: “The people cannot look to legislation generally for success. Industry, thrift, character, are not conferred by act or resolve.”<sup>21</sup>

### **The Second Pillar: A Culture of Work**

Ultimately, the principles of economic freedom will take you only so far. The opportunities created by free-market economics are just that: opportunities. To take advantage of them and translate them into tangible achievements requires work.

A culture that sustains, encourages, and honors hard work constitutes the second great pillar of the American Dream. Just as property rights and free markets provide us with ladders of opportunity, a culture of work shapes citizens who are eager to climb them and strong enough to get back on their feet when they fall off.<sup>22</sup>

The capital importance of work cannot be overstated. America is not the land of the get-rich-quick schemer or of the lifelong

dependent ward of the state (though both may well exist). “America is the Land of Labour,” explained Benjamin Franklin in a famous letter addressed to prospective immigrants.<sup>23</sup> The honor accorded to work caught the eye of Alexis de Tocqueville during his visit to America:

The idea of work as a necessary, natural, and honest condition of humanity is therefore offered to the human mind on every side. Not only is work not held in dishonor among these peoples, but it is held in honor; the prejudice is not against it, but for it. In the United States, a rich man believes that he owes it to public opinion to devote his leisure to some operation of industry or commerce or to some public duty. He would deem himself disreputable if he used his life only for living.<sup>24</sup>

Tocqueville, of course, came from the *ancien régime*, where work—in particular work for profit—was despised. Peasants toiled, tradesmen labored, but gentlemen did neither: They were at leisure. America offered a different vision: All here would work.

To a large extent, this is still true, but the culture of work has eroded. While the aristocratic regime of Old Europe is not about to make

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20. Thomas Jefferson, “First Inaugural Address,” March 4, 1801, Heritage Foundation *Primary Sources*, <http://www.heritage.org/initiatives/first-principles/primary-sources/jeffersons-first-inaugural-address>.

21. Calvin Coolidge, “Have Faith in Massachusetts,” in *Have Faith in Massachusetts: A Collection of Speeches and Messages* (Boston and New York: Houghton Mifflin Company, 1919), p. 5.

22. Frederick Douglass’s self-made men stretch the metaphor even further: “If they have ascended high, they have built their own ladder. From the depths of poverty such as these have often come.” Douglass, “Self-Made Men.”

23. Benjamin Franklin, “Information to Those Who Would Remove to America,” February 1784, in *Writings*, ed. J. A. Leo Lemay (New York: Library of America, 1987), p. 978.

24. Alexis de Tocqueville, *Democracy in America*, trans. Harvey C. Mansfield and Delba Winthrop (Chicago: University of Chicago Press, 2000), Vol. 2, Book 2, Ch. 18, p. 525.



a comeback in the U.S., work is increasingly disparaged. The “work is for suckers” mentality is no longer confined to a few marginal Huck Finns. From gangsta rap to blockbuster slacker movies, much of mainstream culture undermines the work ethos that undergirds the American Dream. The small-time crook and the bumbling pothead are now cultural icons.<sup>25</sup>

In a commercial republic, by contrast, industriousness, labor, work, and enterprise are elevated to the rank of virtues. Mere exertion will not cut it. Frederick Douglass summed up his message to those who sought to get ahead in life in the following way:

WORK! WORK!! WORK!!!  
WORK!!!! Not transient and fitful effort, but patient, enduring, honest, unremitting and indefatigable work into which the whole heart is put, and which, in both temporal and spiritual affairs, is the true miracle worker.<sup>26</sup>

Americans must be willing not only to work, but also to persevere in their work, particularly in the face of adversity. Fortitude goes hand in hand with labor.

**The Self-Reliant Mindset.** In celebrating work, citizens of the Founders’ commercial republic will also cultivate a spirit of self-reliance

and develop a corollary sense of shame associated with dependency. The self-reliant citizen does not expect, much less demand, help from others, and he scorns any unearned rewards. While acknowledging the role of fortune and the benefits conferred by society, he expects to rise—and to fall—by his own merits alone. He feels responsible for his success, not entitled to it.

Self-reliance should not, however, be confused with radical autonomy or taken as an excuse to remain callously unconcerned about the well-being of others.<sup>27</sup> The self-reliant citizen is not so foolishly proud as to refuse a helping hand in trying times,<sup>28</sup> but he is somewhat ashamed to turn to others for help and accepts their assistance with a view to getting back on his feet as quickly as possible—and perhaps even paying back those who helped him. He does not demand anything from others but is rather grateful for the help he does receive. Nor does he remain indifferent to the suffering of others who are down on their luck. He sympathizes with their plight and will help them to help themselves.

The self-reliant man may or may not actually be self-reliant. Strictly speaking, in fact, no one truly is.<sup>29</sup> But the self-reliant man will always aspire to stand on his own two feet. Self-reliance is not about what you receive from others or what you in

turn give: It is about what you expect from the world and how you view your role in shaping your life.

What essentially characterizes the self-reliant man is a moral outlook that links rewards to individual effort and values what Arthur Brooks calls “earned success”—with an emphasis on *earned*.<sup>30</sup> The self-reliant man values his accomplishments only insofar as he sees them as the just rewards of his efforts. This worldview is the polar opposite of the entitlement mentality and the liberal cult of victimhood.

At issue here is not whether to help those who are in need. Contrary to the common accusation from the Left, no right-thinking person will deny that we owe our fellow citizens help in their time of need.

Hard work and self-reliance are not code words for selfishness. The safety net is a moral imperative. As Ronald Reagan once said at the Conservative Political Action Conference, “Now, there are those who will always require help from the rest of us on a permanent basis, and we’ll provide that help. To those with temporary need, we should have programs that are aimed at making them self-sufficient as soon as possible.”<sup>31</sup> This cannot be overemphasized, given how successful the Left has been in framing the debate as one that pits compassionate liberals against heartless conservatives.

25. We will return to this erosion of the culture of work in Part III.

26. Douglass, “Self-Made Men.”

27. The self-reliance fostered by the American Dream—the self-reliance of Frederick Douglass’s self-made men—is most emphatically not the self-reliance of Ralph Waldo Emerson. See Ralph Waldo Emerson, “Self-Reliance,” in *Selected Essays* (Chicago: Peoples Book Club, 1944), pp. 29–60.

28. For an example of how Americans used to come together to help each other without the assistance of the state, see David Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890–1967* (Chapel Hill: University of North Carolina Press, 2000).

29. See Douglass, “Self-Made Men”: “I believe in individuality, but individuals are, to the mass, like waves to the ocean. The highest order of genius is as dependent as is the lowest. It, like the loftiest waves of the sea, derives its power and greatness from the grandeur and vastness of the ocean of which it forms a part. We differ as the waves, but are one as the sea.”

30. Arthur C. Brooks, *The Road to Freedom: How to Win the Fight for Free Enterprise* (New York: Basic Books, 2012), esp. pp. 19–42.

31. Ronald Reagan, “The Agenda is Victory,” February 26, 1982, [http://reagan2020.us/speeches/The\\_Agenda\\_is\\_Victory.asp](http://reagan2020.us/speeches/The_Agenda_is_Victory.asp).

At issue, rather, is how we as a culture speak about life and work: Will we speak of opportunity and exhort people to pull themselves up by their bootstraps, work hard, and give it all they have, or will we sap their spirits by emphasizing all that is unfair in life and channel their energies toward demanding more from others? Will we ask “what can I do for myself and my fellow citizens?” or “what must my country do for me?” Will we draw inspiration from those who have succeeded or foster resentment by recasting their success as inequality?

These are the real questions that ultimately divide the Left and Right when it comes to framing economic questions. The divide is not over whether to help the poor, but over how to approach life. The profound disagreement is over how to *speak*, not whether to *act*. By falsely claiming that the Right is somehow opposed to helping those in need, the Left has managed to deflect attention from the fact that the way it speaks about poverty and life saps the vigor of those in need, fosters unreasonable expectations, and leads to bitter disappointment and resentment.

To borrow again from Douglass, the divide is over whether we think people are born with legs or whether we believe all men and women are in need of crutches.<sup>32</sup> Because some cannot stand on their own two feet, let us not mistakenly conclude, as many do, that none can. And let us never mistake Americans for a nation of helpless dependents,

waiting for a federal program to solve all of life’s problems. As Paul Ryan emphasized in a speech at The Heritage Foundation:

Telling Americans they are stuck in their current station in life, that they are victims of circumstances beyond their control, and that government’s role is to help them cope with it—well, that’s not who we are. That’s not what we do.<sup>33</sup>

To the virtues of work, fortitude, and self-reliance we add prudence and foresight. Some will work hard, persevere in the face of adversity, play by the rules, and yet still not succeed.<sup>34</sup> In certain cases, they will simply have been unlucky like the hapless doctoral students who finished dissertations on the Soviet Union in December 1991. But in many cases, those who work hard and play by the rules simply do not think their plans through carefully. They fail to plan ahead and are surprised by unforeseen exigencies. Like all of us, they make bad decisions. Seeing how prone the human mind is to error, we ought not to be too quick to assume that the failures of some amount to an indictment of the system.

All of this “virtue talk” may seem out of place to those who are used to thinking about markets and the American Dream in strict economic terms. They are mistaken. All nations—including the commercial republic of the Founding—shape the

character of citizens and require that certain virtues be sustained. In our nation, prudent and self-reliant industriousness occupies the place that haughty pride and honor did in the aristocratic regimes of yore. Americans believe, as Locke did, that God gave the world to “the use of the industrious and rational (and labour was to be [their] title to it) not to the fancy or covetousness of the quarrelsome and contentious.”<sup>35</sup>

### **The Promises of the American Dream**

Now that we understand the twin pillars on which the American Dream rests (the left-hand side of the equation), we can turn to its promise (the right-hand side of the equation). America, as already noted, promises endless opportunity and general prosperity. Embedded in the American Dream is a vision of an extraordinarily vibrant society where standards of living continually rise, science and technology deliver wonder after wonder, and citizens are imbued with a “sky’s the limit” mentality and are motivated to work hard and pursue opportunities, knowing that their efforts will be rewarded.

**Opportunity and Economic Mobility.** The American Dream is first and foremost about the very real opportunities afforded to all. These opportunities, in turn, inevitably translate into some real movement up and down the economic ladder: fortunes made and lost and inspiring tales of people moving

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32. See Frederick Douglass, “What Shall be Done with the Slaves if Emancipated?” *Douglass’ Monthly*, January 1862, <http://teachingamericanhistory.org/library/index.asp?document=1134>. Contrast with Lyndon B. Johnson, “Commencement Address at Howard University,” June 4, 1965, Heritage Foundation *Primary Sources*, <http://www.heritage.org/initiatives/first-principles/primary-sources/from-opportunity-to-outcomes-lbj-expands-the-meaning-of-equality>.

33. Paul Ryan, “Saving the American Idea: Rejecting Fear, Envy, and the Politics of Division,” Heritage Foundation *Lecture* No. 1196, October 26, 2011, <http://www.heritage.org/research/lecture/2011/11/saving-the-american-idea-rejecting-fear-envy-and-the-politics-of-division>.

34. It goes without saying that in the cases where they were wronged, a legal remedy is to be sought.

35. John Locke, *Two Treatises on Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 1960), p. 291 (*Second Treatise*, section 34).

ahead in life coupled with cautionary tales of inherited wealth foolishly squandered. In a commercial republic, poverty is not a permanent condition from which there is no hope of escape. As Abraham Lincoln explained in contrasting the free-market system to the slave economy in the lead-up to the Civil War:

When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition; he knows that there is no fixed condition of labor, for his whole life. I am not ashamed to confess that twenty five years ago I was a hired laborer, mauling rails, at work on a flat-boat—just what might happen to any poor man’s son! I want every man to have the chance—and I believe a black man is entitled to it—in which he can better his condition—when he may look forward and hope to be a hired laborer this year and the next, work for himself afterward, and finally to hire men to work for him! That is the true system.<sup>36</sup>

Thus, while all can *dream* the American Dream, many can actually *achieve* it. Indeed, for the countless Americans who have succeeded or ensured a better life for their children, the American Dream is not an imaginary vision but a concrete reality. The same holds true for the millions of immigrants who continue to flock to this new promised land not

in search of food stamps and housing vouchers, but armed with a good work ethic and a desire to make a better life for themselves and their families.

In Part II of this report, we will see how the data on economic mobility confirm that America for the most part continues to deliver on its promise of opportunity. In Part III, however, we will survey the growing obstacles to advancement—mostly resulting from ill-conceived public policy—that are threatening the American Dream for many, especially those near the bottom.

**General Prosperity.** Even those who fail to take advantage of the opportunities afforded by this country or who do not succeed in their ventures will still benefit from the general prosperity generated by the American commercial republic. We who live in such a society, where standards of living and life expectancies dwarf anything else that the world has ever seen, are prone to take them for granted. We easily forget that a minimum-wage worker in America has a level of material comfort that even Louis XIV could not have imagined.

Free-market capitalism generates formidable levels of wealth, and it does so by tapping into that most stable and enduring of human passions: self-interest. Capitalism links rewards to efforts and as a result creates a strong incentive for all to exert themselves and work hard.

Alexander Hamilton, the pre-eminent Founder of our commercial

republic, called the spirit of enterprise fostered by free markets “an inexhaustible mine of national wealth.”<sup>37</sup> As he wrote in *Federalist* No. 12, “The assiduous merchant, the laborious husbandman, the active mechanic, and the industrious manufacturer, all orders of men look forward with eager expectation and growing alacrity to this pleasing reward of their toils.”<sup>38</sup>

As a result, society as a whole benefits. Heritage’s global *Index of Economic Freedom* makes this abundantly clear. The correlation between economic freedom and prosperity is stunningly high, with more freedom translating into greater per capita income:

The broad consensus, supported by volumes of research, is that vibrant and lasting economic growth is achievable only when governments adopt economic policies that increase individual choice and opportunity, empowering and encouraging entrepreneurship.<sup>39</sup>

This finding also holds true here at home. The free-market system has brought widespread prosperity and riches to American families from all backgrounds, at all income levels, and across the entire country. Americans are richer, are healthier, and live longer lives than ever before. Per capita income increased more than eightfold during the 20th century, from \$4,200 in 1900 to \$33,700

36. Abraham Lincoln, “Speech at New Haven, Connecticut,” March 6, 1860, *Speeches and Writings*, Vol. 2, p. 144.

37. *Federalist* No. 11, p. 83.

38. *Federalist* No. 12, p. 86. Cf. Alexander Hamilton, *Report on the Subject of Manufactures*, December 5, 1791, <http://teachingamericanhistory.org/library/index.asp?documentprint=2488>: “To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. Even things in themselves not positively advantageous, sometimes become so, by their tendency to provoke exertion. Every new scene, which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.”

39. Miller, Holmes, and Feulner, *2012 Index of Economic Freedom*, p. 3.



in 1999 (in constant dollars),<sup>40</sup> and life expectancy now stands at nearly 80 years, up from less than 50 at the turn of the century.<sup>41</sup>

Such, then, is the promise of the American Dream: a prosperous society in which all may aspire to improve their lot. In a certain sense, this is a rather modest promise. After all, there is more to life than material well-being and economic success. Then again, given the wretched poverty in which most men and women have lived throughout the ages and the endless obstacles to advancement that continue to exist in countries around the world, the American Dream is bold and revolutionary.

### **Egalitarian Pipe Dreams**

By thinking through the premises and promises of the American Dream, it should be clear that it aspires neither to *radical* equality of opportunity (i.e., sameness of opportunity) nor to anything resembling equality of outcomes. Seeing that the Left has been subtly redefining the American Dream along these lines, both these misconceptions must be dispelled.

**Equality of Opportunity vs. Sameness of Opportunity.** Equality of opportunity has become an ambiguous term. Traditionally, it has meant the absence of legal impediments to getting ahead in life. Returning to Lincoln's "race of life" analogy, it means that the same rules apply to all of the runners and that all lanes have the same

obstacles. It is about government getting out of the way and stepping in only if one of the other runners tries to overtake you by cheating.

In this sense, equality of opportunity is a necessary extension of the principle of equality at the heart of the Declaration of Independence. Because we are all born equal and possess the same rights, the same rules ought to apply equally to all. We therefore ought to break down any artificial legal barriers to advancement. Thus, Lincoln praised "the just and generous and prosperous system" because it "opens the way for all."<sup>42</sup>

Today, equality of opportunity has effectively been redefined as *sameness of opportunity*: the argument that all should have the *exact same* opportunities in life. Sameness of opportunity demands that the disadvantaged be given more opportunities and that the privileged or naturally gifted be denied certain opportunities. After all, opportunities are not bestowed equally upon all. Some are born to wealthy and well-connected parents. Others are born into working-class families of modest means. Yet there is nothing unjust about the former taking advantage of their parents' connections to land a first job.

The same could be said of the extra opportunities afforded to the very good-looking, those with high IQs, the athletically gifted, or those who just happen to come of age during an economic boom. In fact, the more you think about all the ways in

which we are different and how many opportunities grow out of the vagaries of life, the idea that all should have the same opportunities sounds ludicrous.

It is, of course, perfectly reasonable in a prosperous society such as ours to try to give the destitute and underprivileged certain extra opportunities. Well-designed after-school programs may allow children to develop talents that otherwise would have lain dormant. Scholarships and loans may give bright students the opportunity to study at universities that they otherwise could not have afforded. Local job training programs can help the unemployed to develop new skills and re-enter the workforce.

But where do we draw the line? The Left justifies its wildly ambitious and immensely costly government programs as expanding "equality of opportunity." LBJ sold the "nationwide war on the sources of poverty" by promising that it would open the "gates of opportunity" for all Americans.<sup>43</sup> Once we accept the most reasonable premise that we ought to create more opportunities for the underprivileged how do we avoid becoming ensnared in the tentacles of limitless liberalism? How do we prevent equality of opportunity from morphing into sameness of opportunity?

We must gain some clarity on equality of opportunity as both the Left and the Right claim the term and make it the rhetorical linchpin

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40. U.S. Council of Economic Advisers, *Economic Report of the President*, Transmitted to Congress February 2000 (Washington: U.S. Government Printing Office, 2000), p. 279.

41. U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, Bicentennial Edition (Washington: U.S. Government Printing Office, 1975), and U.S. National Center for Health Statistics, *Deaths: Preliminary Data for 2008*, National Vital Statistics Reports, Vol. 59, No. 2, December 2010, <http://www.census.gov/compendia/statab/2012/tables/12s0104.pdf>.

42. Lincoln, "Address to the Wisconsin State Agricultural Society," *Speeches and Writings*, Vol. 2, p. 98.

43. Lyndon B. Johnson, "Special Message to Congress Proposing a Nationwide War on the Sources of Poverty," March 16, 1964, <http://teachingamericanhistory.org/library/index.asp?documentprint=2565>.

of their respective American dreams. Here, then, are some guidelines on how to think about the matter:

1. It is imperative that we keep in mind the distinction between the two conceptions of equality of opportunity—or, to be more precise, that we not confuse equality of opportunity with sameness of opportunity. The former is a moral imperative and a requirement of just government. The latter is a charitable pursuit to which some may aspire and which government is not bound to deliver. Justice demands that we uphold the rule of law and oppose any legal barriers to advancement. It does not demand that we ensure that everyone be given all they need to fulfill all their dreams. As a society, we are obliged to tear down artificial barriers to opportunity and are morally bound to provide a minimum safety net, but we are under no categorical imperative to ensure that everyone reaches their maximum potential. We should not confuse the Army’s recruiting slogan with our national motto.<sup>44</sup>

2. When we decide to help and expand opportunities for some, we should remember that not every social ailment is a responsibility of the government, much less the federal government. The myriad organizations and institutions that make up our vibrant civil society will always be better placed than faraway bureaucrats to design programs that expand opportunity for the needy, better attuned as they are to their real needs. A self-reliant citizenry does not instinctively turn for help and guidance from the government whenever it believes something ought to be done. Rather, citizens set their mind to the task and address the matter themselves.

3. Once we deem it right for the government to intervene, the next step is not to yell “Let’s do it!” but to ask “which level of government?” Our Constitution creates a federated republic in which Congress is tasked only with certain specific and enumerated powers (Article I, Section 8). Most areas of life are therefore off-limits to Congress and are to be dealt with by the state or

local governments (again, assuming that government ought to be involved at all). And when it comes to expanding opportunity, local governments are often much better placed than state officials to address them.

4. In cases when the government does create programs that aim to give more opportunities to the disadvantaged, these programs ought to be rigorously evaluated to see whether they actually deliver on their promises. Government programs have failed more often than not. “Though almost any reasonable-sounding program will probably work under some conditions,” one expert writes, “most fail most of the time. The burden of proof should always be on those who claim that some new program is worth the investment.”<sup>45</sup>

We should always be very cautious of being seduced by the promise of sameness of opportunity. To do so would not only obliterate any limits upon the role of government, but also lead inevitably to calls that the opportunities of others be curtailed. Indeed, it is easy to see how equality

44. For a telling example of the early Progressive redefinition of equality of opportunity, see Theodore Roosevelt’s “New Nationalism” speech in which he argues for “a more substantial equality of opportunity”: “Practical equality of opportunity for all citizens, when we achieve it, will have two great results. First, every man will have a fair chance to make of himself all that in him lies; to reach the highest point to which his capacities, unassisted by special privilege of his own and unhampered by the special privilege of others, can carry him, and to get for himself and his family substantially what he has earned. Second, equality of opportunity means that the commonwealth will get from every citizen the highest service of which he is capable. No man who carries the burden of the special privileges of another can give to the commonwealth that service to which it is fairly entitled.” Theodore Roosevelt, “The New Nationalism,” August 31, 1910, Heritage Foundation *Primary Sources*, <http://www.heritage.org/initiatives/first-principles/primary-sources/teddy-roosevelts-new-nationalism>.

45. Jim Manzi, *Uncontrolled: The Surprising Payoff of Trial-and-Error for Business, Politics, and Society* (New York: Basic Books, 2012), p. 202. Manzi goes on to note that “within this universe of programs that are far more likely to fail than succeed, programs that attempt to improve human behavior by raising skills or consciousness are even more likely to fail than those that change incentives and environment.” Consider Head Start, a preschool program aimed at helping disadvantaged children before they enter elementary school. It sounds wonderful on paper: What could be better than providing education, nutrition, and health services to ensure that children are better placed to learn once they enter school? The problem is that the program just doesn’t work (and probably never could). The 2010 Head Start Impact Study, a scientifically rigorous comparison of children enrolled in the program with their peers, concluded that the program had little to no positive effects for children granted access to Head Start. The program, however, remains on the books and is funded to the tune of \$9 billion a year. U.S. Department of Health and Human Services, Administration for Children and Families, *Head Start Impact Study: Final Report*, January 2010, [http://www.acf.hhs.gov/programs/opre/hs/impact\\_study/reports/impact\\_study/hs\\_impact\\_study\\_final.pdf](http://www.acf.hhs.gov/programs/opre/hs/impact_study/reports/impact_study/hs_impact_study_final.pdf). For a review of the study, see David B. Muhlhausen and Dan Lips, “Head Start Earns an F: No Lasting Impact for Children by First Grade,” Heritage Foundation *Background* No. 2363, January 21, 2010, <http://www.heritage.org/research/reports/2010/01/head-start-earns-an-f-no-lasting-impact-for-children-by-first-grade>.

of opportunity, when taken to this extreme, can become “a thoroughly nasty and totalitarian concept.”<sup>46</sup>

In the short story *Harrison Bergeron*, Kurt Vonnegut vividly describes a dystopian future in which those of above-average strength, intelligence, and beauty are artificially handicapped to prevent them from “taking unfair advantage” of their natural endowments. Thus, the lead character is hampered by heavy weights. “In the race of life, Harrison carried three hundred pounds,” Vonnegut wryly writes.<sup>47</sup>

This reveals the limits of the race-of-life analogy. Not only are we not racing against everyone else—happiness is not a limited and exhaustible national resource—but we are not all going toward the same end (unless, like Woody Allen, you count death). It therefore does not matter that we don’t all begin at the same starting line and that we are not equally fast runners. What does matter is that the laws governing the journey apply equally to all. In that sense, and in that sense *only*, equality of opportunity is a basic requirement of justice and an integral component of the American Dream.

**On the Inevitability of Unequal Results.** By nature, under God and before the law, all are equal. All human beings—regardless of race, sex, religion, or you name it—possess the same inherent and inalienable rights. Therefore, all citizens ought to be equal before the law and ought to possess the same civil rights.

Beyond this fundamental equality, human diversity and the vagaries of life are such that men and women are unequal in every other conceivable way. By nature, humans span the entire range of the IQ scale, their physical differences are obvious for all to see, and one need only observe children at play to see that we are born with quite different temperaments and inclinations. To further accentuate our natural differences, we are born into different families at different times and in different places. And there is something called luck. By the time we reach adulthood, we have been shaped, for better or worse, by myriad tangible and intangible factors.

In surveying a dynamic society such as ours, we can only marvel at the extraordinarily rich and diverse tapestry of people who comprise it. Who, then, but a fool or a utopian ideologue will expect anything approximating equal results when it comes to income if such people are left free to define happiness and pursue it as they see fit?

Because we are free, some inevitably will earn more and others less. As there are great natural differences in aptitude, talent, and strength, which are in turn attenuated or accentuated by happenstance, so too are there different vocations, occupations, and professions in which some excel while others just muddle along. Translating all of this into dollars and cents, great income disparities are a natural part of a free economy. As Thomas Jefferson remarked,

equality of rights and “that state of property, *equal or unequal*, which results to every man from his own industry, or that of his father’s” go together.<sup>48</sup>

Embedded within the liberal rhetoric on income inequality is the unstated premise that fairness demands something approaching income equality. The exact opposite is in fact the case. Only a ruthlessly efficient totalitarian government could ensure that all incomes were equal. Income equality, or a state approaching it, could be achieved only through draconian redistribution, thereby denying many the just fruits of their labors and unjustly giving others unearned rewards. It is one thing to shoulder a higher tax burden to support those in need and quite another to do so in order for self-anointed experts to redistribute income in accordance with their hazy and unjust notions of social justice.

That said, not all inequalities are equal. We should not glance at income distribution charts in America and dogmatically repeat the Jeffersonian mantra that unequal property levels are normal. For example, they could also result from regulations that unjustly restrict opportunity.

In *The Wealth of Nations*, Adam Smith distinguishes the “Inequalities arising from the Nature of the Employments themselves” from the “Inequalities occasioned by the Policy of Europe.”<sup>49</sup> The former, which include the agreeableness or

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46. Theodore Dalrymple, “Why Equality of Opportunity Is Impossible to Achieve—But Intellectual Elitism Can Offer Opportunity to All,” The Social Affairs Unit, July 28, 2005, <http://www.socialaffairsunit.org.uk/blog/archives/000524.php>.

47. Kurt Vonnegut, “Harrison Bergeron,” in *What So Proudly We Hail: The American Soul in Story, Speech, and Song*, ed. Amy A. Kass, Leon R. Kass, and Diana Schaub (Wilmington, Del.: ISI Books, 2011), pp. 91 and 93.

48. Thomas Jefferson, “Second Inaugural Address,” March 4, 1805, <http://teachingamericanhistory.org/library/index.asp?document=665> (emphasis added).

49. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 2 vols. (Indianapolis: Liberty Fund, 1981), Vol. 1, Book 1, Ch. 10, pp. 116 and 135.

disagreeableness of the profession and the difficulty and expense of learning it, are inevitable and meant to offset certain other costs. The latter result from laws that artificially decrease competition and hamper the free flow of goods and labor. Costly licensing requirements prevent newcomers from offering a better product at a lower price. Complicated regulatory compliance schemes benefit the biggest players, who can afford to navigate the regulatory maze.<sup>50</sup>

Our focus should therefore always be on equality of opportunity (properly understood). If we take notice of income inequality, it is only as a symptom of a deeper cause.

We should also remember that not everyone aspires to succeed financially. People choose certain professions knowing that they will not make a lot of money. Does anybody really think that priests choose the cloth for the “big bucks” it promises and not the other-worldly “retirement plan”? Not everyone wants to be an investment banker, a surgeon, or a corporate lawyer. Many forgo more lucrative careers to pursue interests that they find more gratifying.

To aspire to achieve something approaching income equality would be to force all into the same mold and elevate monetary matters above all

other considerations. An excessive focus on equality of income would unfairly constrain the full range of options that America offers its citizens. Income equality forces everyone into the same mold.

The fact that people weigh other nonmonetary considerations in choosing a career should also remind us that there is more to human flourishing and the pursuit of happiness than dollars and cents. Economic well-being is a crucial component of most people’s conception of the good life, but it is not exhaustive. To focus obsessively on income levels is to look at life through a rather narrow prism. As Irving Kristol once remarked, “Poverty does not always dehumanize, and relative affluence can have its costs in human terms—costs that are actually, if often dimly, felt.”<sup>51</sup>

Finally, we must remind ourselves that some inevitably will fail—some because they never really tried, others because they just did not try hard enough, and some because they tried but exerted themselves in poorly thought-out pursuits. Many will destroy their lives by succumbing to drugs, alcohol, or gambling, and some will be just plain unlucky.

However much we as a culture exalt the underdog and those who persevere, not everybody can succeed. The American Dream, as

already noted, does not *guarantee* that all who work hard and play by the rules will make it. Too many things in life are beyond our control. Many plans, however well-crafted and well-executed, will inevitably go awry. One should not confuse the dream of opportunity with the utopian vision of a world in which chance has been conquered and no unforeseen circumstances can derail our plans.

We must help those who fail and find themselves in dire straits, but if their failure is not catastrophic, why not encourage them to get back on their feet and give it a second go instead of coddling them by blaming an unfair system? Lincoln’s wise words, although spoken before an agricultural fair, apply just as well to life in general:

Some of you will be successful, and such will need but little philosophy to take them home in cheerful spirits; others will be disappointed, and will be in a less happy mood. To such, let it be said, “Lay it not too much to heart.” Let them adopt the maxim, “Better luck next time;” and then, by renewed exertion, make that better luck for themselves.<sup>52</sup>

50. See the first section of Part III of this report.

51. Irving Kristol, “Why Inequality Doesn’t Matter,” *Foreign Affairs*, October 24, 2011, <http://www.foreignaffairs.com/print/133729>.

52. Lincoln, “Address to the Wisconsin State Agricultural Society,” *Speeches and Writings*, Vol. 2, p. 100.

## Part II

### The Misguided Focus on Income Inequality

“Since when do we in America believe that our society is made up of two diametrically opposed classes—one rich, one poor—both in a permanent state of conflict and neither able to get ahead except at the expense of the other? Since when do we in America accept this alien and discredited theory of social and class warfare? Since when do we in America endorse the politics of envy and division?”

—Ronald Reagan<sup>53</sup>

The politics of income inequality is all the rage with the Left these days. The claim that we now live in a “New Gilded Age” has become a staple of liberal discourse.<sup>54</sup> “Economically speaking,” *The New Republic’s* Timothy Noah writes, “the richest nation on earth is starting to resemble a banana republic.”<sup>55</sup> Economist Robert Reich blames “casino capitalism” for “the greatest concentration of the nation’s income and wealth at the very top since the Gilded Age of the nineteenth century, with the richest 400 Americans owning as much as the bottom 150 million put together.”<sup>56</sup>

So spectacular are the increases in inequality that they have “no

counterpart anywhere else in the advanced world,” laments *The New York Times’s* Paul Krugman. This perceived gulf between the 1 percent and the remaining 99 percent in turn fueled the wrath of the Occupy Wall Street movement last year.

The astute observer will notice that, by and large, those who rail against inequality either do not bother to explain why inequality is bad or do so as a mere afterthought. The main focus is almost always the fact that disparities in income are more pronounced today than they were in the 1970s. Krugman, for example, wrote an entire book about the “New Gilded Age” in which he never explains why Americans ought to be concerned about inequality.<sup>57</sup> What stokes his outrage is the mere fact that some have become richer than others.

There is one glaring problem with this approach: In and of itself, income inequality is meaningless. It is a brute fact that may or may not be indicative of a deeper problem. A claim about inequality without a sustained discussion of its effects and causes tells us very little. If anything, we as Americans ought to be less suspicious than others of income inequalities. The greatest work of

American political thought defined the “first object of Government” as “the protection of different and unequal faculties of acquiring property,” from which result “different degrees and kinds of property.”<sup>58</sup> As noted in the first part of this report, enforced income parity is neither desirable nor just.

It may well be that unjust economic regulations arbitrarily deny certain segments of the population the full liberty to exercise their rights and in turn lead to disparities in income.<sup>59</sup> It may also be that the refusal to prosecute crimes committed against certain minorities artificially depresses their income, thereby leading to disparities between these minorities and the majority. But the problem in such cases, and in any other similar ones, lies with the unjust regulation or the denial of equal protection, not with the unequal incomes.

The income inequality numbers look at how the different income segments in society relate to each other, but they tell us nothing about what really matters: the number of Americans who are living in poverty, their quality of life, and the opportunities available to all Americans. What matters is not how much more

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53. Reagan, “The Agenda is Victory.”

54. Paul Krugman popularized the notion that we live in a “New Gilded Age” in an essay for the *New York Times Magazine* in 2002. See Paul Krugman, “For Richer: How the Permissive Capitalism of the Boom Destroyed American Equality,” *New York Times Magazine*, October 20, 2002, pp. 62–142. It seems that the term itself first appeared two years earlier in a collection of *New Yorker* essays. See *The New Gilded Age: The New Yorker Looks at the Culture of Affluence*, ed. David Remnick (New York: Random House, 2000).

55. Timothy Noah, *The Great Divergence: America’s Growing Inequality Crisis and What We Can Do About It* (New York: Bloomsbury Press, 2012), p. 27.

56. Robert B. Reich, “Mitt Romney and the New Gilded Age,” *The Nation*, July 16–23, 2012, <http://www.thenation.com/article/168623/mitt-romney-and-new-gilded-age>.

57. Paul Krugman, *The Conscience of a Liberal* (New York: W. W. Norton, 2007).

58. *Federalist* No. 10, p. 73 (emphasis added).



those at the top earn in relation to those at the bottom—they are, after all, not in competition with one another—but rather the real needs of those at the bottom and their opportunities for advancement.

The needs of the poor have nothing to do with the earnings of the rich. There are broadly agreed upon standards of what a decent life looks like, and while these standards will change over time and vary by country—indoor plumbing is no longer considered a luxury item in the U.S.; it still is in Somalia—they are not defined in relation to how much the richest 1 percent of the country earn. People like Bill Gates and Warren Buffett can make as much money as they want, but what do their earnings have to do with the quality of life for the rest of us?

If it were the case that the rich had grown richer at the expense of the poor, thereby making them poorer, then we would have reason to be concerned. Something would have to be done not to equalize outcomes, but to address the unjust means that the rich had used to defraud the poor.

Contrary to what Marxist economists argue, however, that is not the way our economy works.<sup>60</sup> A free-market economy creates wealth. For one person to make a dollar does not mean that another needs to lose one. There is not just one dwindling pie to be divided up among the population, but rather a proven recipe to grow the pie to serve everyone. All the talk about the rich “grabbing” too large a

share of the national income therefore rests on a flawed understanding of this basic truth of free-market economics.

In recent decades, income has risen for *all* segments of the population. A recent study by the nonpartisan Congressional Budget Office analyzed the changes in after-tax income for different segments of the population from 1979 to 2007.<sup>61</sup> Across the board, albeit by very different margins, after-tax income rose by:

- 18 percent for the bottom 20 percent of households,
- Just under 40 percent for the next 60 percent,
- 65 percent for the next 19 percent, and
- 275 percent for the top 1 percent.

Only if you were to assume mistakenly that free-market economics promises to raise standards of living equally for all rather than to raise them in general would you be worried about the unequal growth rates. And only if you were driven primarily by resentment of the rich rather than by a genuine concern for the well-being of all Americans would you zero in on the gains of the 1 percent.

The excessive focus on the 1 percent of income earners is particularly reflective of a certain mindset. Envy, not compassion, seems to be

the animating passion of many of those who worry about inequality. They begin with the rich—the Sort of Rich, the Basically Rich, the Undeniably Rich, the Really Rich, and the Stinking Rich in Timothy Noah’s classification<sup>62</sup>—not with the poor or the middle class. They focus on the top 1 percent, not the bottom 1 percent, and when the wealth of the 1 percent no longer sufficiently stokes their outrage, they hone in on ever smaller subsets of the rich. Thomas Piketty and Emmanuel Saez, the great economists of income inequality, tabulate incomes of the top 1 percent, the top 0.5 percent, the top 0.1 percent, and even the top 0.01 percent.<sup>63</sup>

To be fair to the Left, the more thoughtful liberals who worry about income inequality do actually put forward an argument as to why it matters. It is not all seething resentment against the rich and alarmist claims about our slow descent into plutocracy. Some actually try to make the case for the damaging consequences of inequality. President Barack Obama, for example, has linked the rise in inequality to a decline in opportunity:

This kind of gaping inequality gives [the] lie to the promise that’s at the very heart of America: that this is a place where you can make it if you try.... [O]ver the last few decades, the rungs on the ladder of opportunity have grown farther and farther

59. Recall Adam Smith’s distinction between two types of inequality in Part I of this report.

60. In theory, at least. In practice, as we will see in the first section of Part III of this report, there are abuses that demand to be remedied. These abuses, however, are not endemic to a free-market economy, but rather grow out of the government’s excessive meddling in the economy.

61. Congressional Budget Office, “Trends in the Distribution of Household Income Between 1979 and 2007,” October 2011, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/10-25-HouseholdIncome.pdf>.

62. Noah, *The Great Divergence*, p. 146.

63. Thomas Piketty and Emmanuel Saez, “Income Inequality in the United States, 1913–1998,” *The Quarterly Journal of Economics*, Vol. 118, Issue 1 (February 2003), pp. 1–39.

apart, and the middle class has shrunk.<sup>64</sup>

Alan Krueger, chairman of the President's Council of Economic Advisers, worries that our current levels of inequality restrict mobility and have turned the United States into a Great Gatsby society in which it will soon be almost impossible to make it to the top.<sup>65</sup> Beyond the threat to opportunity and economic mobility, the increase in inequality also harms economic growth, according to economist Joseph Stiglitz.<sup>66</sup>

Their arguments demand a response. If the rise in inequality does indeed threaten opportunity and prosperity, then it threatens the very promise at the heart of the American Dream. It is therefore essential that we unravel the income inequality argument by closely analyzing its constitutive parts. While the details vary from author to author, the broad contours of the argument are always the same and can be reduced to three core elements:

1. A claim that income inequality is on the rise,
2. The attempt to find a culprit for this increase, and

3. An explanation of the bad effects of income inequality.<sup>67</sup>

In reality, the evidence demonstrates that:

1. Income inequality has indeed risen in recent decades, but
  - a) The standard measure of income based on Census Bureau data is flawed. A more precise measure reveals that income inequalities are not as pronounced as the standard measures suggest.
  - b) Income is not a good measure of well-being.
2. The rise in income inequality has not been orchestrated but is the result of changes in the economy and in the structure of the family.
3. A rise in income inequality does not lead to a decline in economic mobility or to an economic slowdown and therefore does not threaten the American Dream.

### **Income Inequality**

Every year, the Census Bureau releases the government's official measure of income inequality, a statistical distribution of incomes

by household. In 1967, the first year of the Census data, the bottom 20 percent of households earned 4 percent of income, the middle 20 percent earned 17 percent, and the top 20 percent earned 44 percent.<sup>68</sup> The most recent data available are for 2010, and the numbers are, respectively, 3 percent, 15 percent, and 50 percent.<sup>69</sup>

By this measure, income inequality has indeed risen (although its growth has slowed recently). There are, however, two serious flaws with the Census Bureau's official measure of income.

1. The Census Bureau's numbers are based on households, not individuals, and not all households have the same number of individuals. A much greater proportion of poor households, for example, are headed by single parents. As a result, the top 20 percent of households account for almost a quarter of the population, or almost twice the number of people as the bottom 20 percent of households.<sup>70</sup>
2. The Census Bureau's official measure does not also capture taxes or non-cash government transfer payments such as food stamps, Medicare, Medicaid, and the earned income tax credit (EITC).

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64. Barack Obama, "Remarks by the President on the Economy in Osawatomie, Kansas," December 6, 2011, <http://www.whitehouse.gov/the-press-office/2011/12/06/remarks-president-economy-osawatomie-kansas>.

65. Alan B. Krueger, "The Rise and Consequences of Inequality in the United States," January 12, 2012, <http://www.americanprogress.org/wp-content/uploads/events/2012/01/pdf/krueger.pdf>.

66. Joseph E. Stiglitz, "The Price of Inequality," Project Syndicate, June 5, 2012, <http://www.project-syndicate.org/commentary/the-price-of-inequality>.

67. There is also a fourth part to the inequality argument: the various redistributionist policies put forward to address the widening gaps in income. Since income inequality does not threaten the American Dream, we will ignore these policies.

68. U.S. Census Bureau, Current Population Survey, 1968 to 2011, Annual Social and Economic Supplements, <http://www.census.gov/hhes/www/income/data/historical/inequality/IE-1.pdf>.

69. Ibid.

70. Robert Rector and Rea S. Hederman Jr., "Two Americas: One Rich, One Poor? Understanding Income Inequality in the United States," Heritage Foundation *Backgrounder* No. 1791, August 24, 2004, <http://www.heritage.org/research/reports/2004/08/two-americas-one-rich-one-poor-understanding-income-inequality-in-the-united-states>.

The result of income taxes and government transfers is to lower the poverty rate and make the distribution of income more equal because the largest anti-poverty programs consist of non-cash benefits. For example, if the value of the EITC were included, the poverty rate in 2009 would be over 10 percent lower than the official rate.<sup>71</sup>

Equalizing the number of people and counting different forms of income has a substantial effect on the distribution of income. The amount of income in the bottom fifth of the population would more than double, while the share of income in the top fifth would fall to below 40 percent of all income.<sup>72</sup> Even without equalizing the population, the distribution of income is flattened, with those at the bottom richer and those at the top poorer, by including taxes and government transfer payments.<sup>73</sup>

More fundamentally, income itself, however measured, is an inadequate measure by which to compare the quality of life of Americans. First, it provides but a snapshot in time that says nothing of a person's lifetime earnings. Second, it is consumption—not income—that tells us how a person is living.

**Inadequacies of Income as a Measure of Well-Being: Lifetime Earnings.** One problem with inequality measurements is that they provide only a snapshot at one

point in time. In real life, a person's income will vary depending on whether he is studying, working, or retired. Likewise, the same person will earn less at the beginning of his career than he will 20 years later when he has accumulated experience. As a result, the longer the time period, the more income and well-being measurements improve. The Census Bureau reports that using a longer time frame to measure poverty lowers the poverty rate, while using a shorter time frame even for only a few months increases the poverty rate.<sup>74</sup>

When historical measurements are used, it is important to note that people who were at the top in the 1960s are not at the top today. Three-fourths of tax filers at the very top in 1995 were not at the very top a decade later.<sup>75</sup> When some inequality measures show the top pulling away from the middle, the people who make up the top change over time. People who were in the middle at the start of the historical period may have entered their peak earnings and are now in the top instead of the middle.

Snapshots are also problematic because they compare people who are in different stages of their lives with one another. What worth is there in knowing that adults in their 50s earn more than college students or retirees? For those who care about income inequality, a more honest measure would compare people of

similar ages and not lump together students, workers, and retirees.

**Inadequacies of Income as a Measure of Well-Being: Consumption.** The fear that the United States has become a society of haves and have-nots is disproven by data on consumption. Consumption is a better measure of well-being than income because it measures goods acquired and used, such as food, clothing, housing, and health care. Consumption is also less volatile than income. Households even out their yearly consumption through savings or borrowing, knowing that their incomes will rise when they are older and probably fall as they retire. For example, students consume far more than their incomes allow because their consumption is more aligned with their lifetime earnings instead of their earnings when they are full-time students.

Part of the income inequality argument is that the middle and lower classes cannot acquire the same goods and services as those at the top can acquire. Some left-leaning economists argue that since members of the middle class have seen their earnings power and income stagnate, they are consuming more only by falling further into debt. This could adversely affect mobility because it costs more to achieve a middle-class standard of living.<sup>76</sup> Alan Krueger, has argued that economic growth has been lower

71. Data from U.S. Census Bureau, "Table 2: Percent of Persons in Poverty, by Definition of Income and Selected Characteristics: 2009," at [http://www.census.gov/hhes/www/cpstables/032010/rdcall/2\\_001.htm](http://www.census.gov/hhes/www/cpstables/032010/rdcall/2_001.htm).

72. Rector and Hederman, "Two Americas."

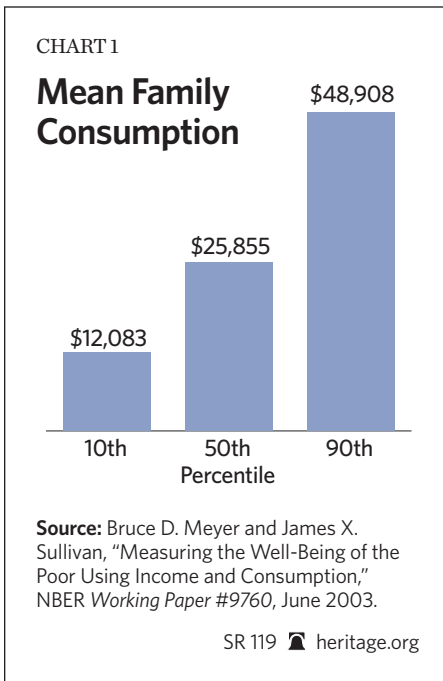
73. Data from U.S. Census Bureau, "Table 1: Income Distribution Measures, by Definition of Income: 2009," [http://www.census.gov/hhes/www/cpstables/032010/rdcall/1\\_001.htm](http://www.census.gov/hhes/www/cpstables/032010/rdcall/1_001.htm).

74. Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2010," U.S. Census Bureau, Current Population Reports P60-239, September 2011, <http://www.census.gov/prod/2011pubs/p60-239.pdf>.

75. U.S. Department of the Treasury, "Income Mobility in the U.S. from 1996 to 2005," November 2007.

76. Robert H. Frank, *Falling Behind: How Rising Inequality Harms the Middle Class* (Berkeley and Los Angeles: University of California Press, 2007).





because the middle class lost income to the top and as a consequence, did not spend as much.<sup>77</sup>

This line of reasoning, while seemingly persuasive, is not supported by the facts. By most measures, consumption inequality has not mirrored the increase in income inequality. Instead, consumption appears to be distributed much more equally, with goods formerly held to be luxuries widely available to everyone.

There is plenty of evidence to show that low-income families have access to more and better goods than ever before. When new products first appear on the market, they tend to be available only to more well-off families, but within a few years, everyone has the ability to purchase these goods. Virtually every household below the poverty line has a television, while over three-fourths have microwaves and air-conditioning.<sup>78</sup> Moreover, the goods are of better quality than those that were purchased mostly by the upper class.<sup>79</sup> For example, computers and cell phones have become more powerful, with more features and power.

The growth in per capita consumption since World War II through the 1990s was 2.3 percent annually, which exceeded the growth in median family income.<sup>80</sup> Consumption data did not experience any of the slowdown exhibited by median family income. The reason for this seeming discrepancy is that family size has declined, and this decline has affected measures of family income but not per capita consumption.<sup>81</sup>

Consumption is also a better indicator of the well-being of low-income

families because consumption data are more accurate than income data.<sup>82</sup> Many families at the bottom continually report that their consumption is outpacing their income level with no associated increase in debt. This has led some economists to believe that measures of poverty should be based on consumption instead of just income.<sup>83</sup>

Inequalities in consumption are also much less pronounced than inequalities in income. A recent report found that the average level of consumption for a family at the bottom is almost one-fourth of that of a family close to the top.<sup>84</sup>

### Why Have Some Measures of Inequality Increased?

Having misrepresented what is actually going on in economic distribution over the past few decades, the income equalizers are looking for a culprit. Two factors in particular have been singled out by the Left to account for the rise in inequality: the decline in unionization and the real value of the minimum wage. Critics complain that wages have stagnated since the 1970s and that the middle class has lost ground. To make matters worse, unions and workers have lost the power to negotiate fairly with

77. Krueger, "The Rise and Consequences of Inequality in the United States."

78. Robert Rector and Rachel Sheffield, "Air Conditioning, Cable TV, and an Xbox: What Is Poverty in the U.S. Today?" Heritage Foundation *Backgrounder* No. 2575, July 18, 2011, <http://www.heritage.org/research/reports/2011/07/what-is-poverty>.

79. W. Michael Cox and Richard Alm, *Myth of Rich & Poor: Why We're Better Off Than We Think* (New York: Basic Books, 1999).

80. Daniel T. Slesnick, *Consumption and Social Welfare: Living Standards and Their Distribution in the United States* (Cambridge: Cambridge University Press, 2001).

81. Most studies have found that consumption inequality is much less than income inequality, but there are some exceptions. Orazio Attanasio, Erik Hurst, and Luigi Pistaferri, for example, argue that consumption inequality increases as fast as income. See Orazio Attanasio, Erik Hurst, and Luigi Pistaferri, "The Evolution of Income, Consumption and Leisure Inequality in the US, 1980-2010," National Bureau of Economic Research *Working Paper* No. 17982, April 2012. This study looks especially at non-durable goods, which are goods that are going to be quickly consumed such as food or gasoline. Many other studies that use a variety of consumption and income data have not found this corresponding increase in consumption inequality.

82. Bruce D. Meyer and James X. Sullivan, "Measuring the Well-Being of the Poor Using Income and Consumption," National Bureau of Economic Research *Working Paper* No. 9760, June 2003.

83. Bruce D. Meyer and James X. Sullivan, "Five Decades of Consumption and Income Poverty," National Bureau of Economic Research *Working Paper* No. 14827, March 2009.

84. Meyer and Sullivan, "Measuring the Well-Being of the Poor Using Income and Consumption."

their employers and large corporations. Thus, the eroding real value of the minimum wage and the decline in unionization have combined to boost income inequality.

The best evidence, however, reveals that these are not major factors in the changes in income distribution that have actually occurred.

*First*, many of these studies focus only on wages instead of on compensation. Compensation includes not just wages, but non-cash benefits such as health insurance, pensions, and vacation time. While wages for some workers have not grown as fast, total compensation has continued to increase. Benefits now account for a third of all compensation as some benefits, especially health care, have rapidly increased.<sup>85</sup>

*Second*, the minimum wage does more harm than good. By raising the cost of hiring an employee, it reduces employment among low-skilled workers, thereby increasing overall inequality.<sup>86</sup> There is also evidence that workers who are subject to the minimum wage may have lower earnings and prospects in the future and be permanently worse-off.<sup>87</sup> Thus, gains from the minimum wage are temporary and come at the

expense of workers locked out of the labor market.

The academic evidence on the immediate impact of the minimum wage on wage inequality is mixed. The minimum wage could explain part of the divide between the middle class and the bottom, particularly for working women, during the 1980s when the real value of the minimum wage fell by a third.<sup>88</sup> But while the minimum wage may have contributed to a growth in inequality between the bottom and the middle in the 1980s, it is not seen as the primary factor.<sup>89</sup>

Additionally, the minimum wage has little explanatory power with respect to the overall growth of wage inequality or even with respect to the fact that the middle has pulled slightly away from the bottom during the 1990s and the past decade. Wage inequality continued to grow regardless of the rise or fall of the value of the minimum wage.<sup>90</sup> The minimum wage also has little impact on the growth of wages in the top 1 percent, which is the main driver in the increase in inequality.

*Third*, while there is some evidence that the decline in unionization might have affected male wages

in the 1980s,<sup>91</sup> workers pay a price for unions. Unions can elevate pay for their members, but they do this by locking out other potential workers. Unions also compress salaries by not allowing performance pay or bonuses for highly productive workers.<sup>92</sup>

The idea that the decline in unionization affects wage inequality also suffers from a severe timing problem. The greatest decline in union membership was during the 1980s, but the growth in wage inequality accelerated in the 1990s when the decline in union membership slowed. This leads one paper to conclude: “This discrepancy in timing also suggests that declining union penetration is unlikely to be central to recent wage structure changes.”<sup>93</sup>

What, then, is really driving income inequality? In reality, there are two main reasons why family income inequality, as traditionally measured, has increased. One is structural, and the other is social.

- The structural reason is that the rewards to education and skill have increased dramatically. The shift to a knowledge-based economy places a premium on education and intellectual ability. People

85. Terry J. Fitzgerald, “Has Middle America Stagnated? A Closer Look at Hourly Wages,” Federal Reserve Bank of Minneapolis *Banking and Policy Issues Magazine*, September 2007, [http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=1140](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=1140).

86. David Neumark and William Wascher, “Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis,” *Industrial and Labor Relations Review*, Vol. 57, No. 2 (January 2004), pp. 223–248.

87. David Neumark and Olena Nizalova, “Minimum Wage Effects in the Longer Run,” *The Journal of Human Resources*, Vol. 42, No. 2 (Spring 2007), pp. 435–452.

88. David S. Lee, “Wage Inequality in the United States During the 1980s: Rising Dispersion or Falling Minimum Wage?” *The Quarterly Journal of Economics*, Vol. 114, No. 3 (August 1999), pp. 977–1023, and David H. Autor, Alan Manning, and Christopher L. Smith, “The Contribution of the Minimum Wage to U.S. Wage Inequality Over Three Decades: A Reassessment,” National Bureau of Economic Research *Working Paper* No. 16533, November 2010.

89. Autor, Manning, and Smith, “The Contribution of the Minimum Wage to U.S. Wage Inequality.”

90. David Autor, “The Polarization of Job Opportunities in the U.S. Labor Market: Implications for Employment and Earnings,” Center for American Progress and The Hamilton Project, April 2010, <http://economics.mit.edu/files/5554>.

91. Robert J. Gordon and Ian Dew-Becker, “Controversies About the Rise of American Inequality,” National Bureau of Economic Research *Working Paper* No. 13982, May 2008.

92. James Sher and Ryan O’Donnell, “RAISE Act Lifts Pay Cap on Millions of American Workers,” Heritage Foundation *Backgrounder* No. 2702, June 19, 2012, <http://www.heritage.org/research/reports/2012/06/raise-act-lifts-pay-cap-on-millions-of-american-workers>.

93. Autor, “The Polarization of Job Opportunities in the U.S. Labor Market.”

with more education and skills are able to obtain higher wages than less educated and less skilled workers are able to obtain.<sup>94</sup>

- The social reason is that family demographics have changed over the past several decades. Married families are more likely to be at the top because they have more potential earners and work more hours, whereas single-parent families work much less. There are more dual-earner couples than ever before, and educated, married families are able to obtain a greater level of income than single-earner families.

**The Knowledge- and Skill-Based Economy.** The economy changed tremendously in the latter half of the 20th century. Part of the change was a transition from a manufacturing economy to a service economy, similar to how the United States transitioned from an agricultural to a manufacturing economy in the 19th century. In the new service economy, skills and knowledge have become two of the most important attributes for any worker.

The demand for skilled labor explains why the inequality trend has been driven by a growth of income at the top rather than by a decline in income at the bottom. The top has pulled away from the middle and the bottom during the past 50 years.

Another factor that has played a

role in higher wages for high-skilled individuals is performance pay. Companies are using performance pay to reward their best employees. Such pay comes in the form not just of higher wages, but also of stock rewards. Evidence suggests that paying people for better performance has contributed to the growth in wage disparity because the most skilled workers are getting the biggest pay increase for successful work, and wages are more different at all levels of skill than ever before.<sup>95</sup>

The growth of multimedia platforms such as cable television, iTunes, and the Internet has also increased wages to those at the top of their profession. The ability of superstars to receive more pay than lesser-known actors has been illustrated throughout history. A-list movie stars and sports all-stars receive much higher compensation than their lesser-known brethren. The growth of multimedia platforms has widened the audience for many superstars, and a wider audience means that more people than ever before will pay the top superstars to perform. If people have the ability to watch the best performer, they will pay to watch the best, and the demand for lesser-known performers will shrink.<sup>96</sup>

This argument has been extended to cover “superstars” in other occupations as well. Companies will want to pay a great deal more money to have the best legal counsel for a complicated merger or an elite

management team to achieve a business turnaround.<sup>97</sup> Criminal defense or divorce attorneys have become more famous and garner more business when they successfully defend their clients. As a result, they are able to attract even more lucrative business and compensation.

**Work and the Family.** The rise of single-parent families means that an increasing number of families are broken and have only a single parent and income-earner. Family income inequality will increase as families separate into married couples with dual earners versus families with one or no earners.

Academic research has found that the decline in marital rates and the rise of single parents have accounted for over half of the rise of inequality among children.<sup>98</sup> One study found that the decline in intact families accounted for more than one-fifth of the increase in family inequality.<sup>99</sup> These changes will become more significant in the future if highly educated people continue to be more likely to marry other highly educated people.

Another explanation of the growth of inequality is simply work. Families at the top work many more hours than people at the bottom. Inequality increases not simply because they earn more per hour, but also because they work more hours both as a family and as individuals. There is a growing leisure inequality gap between the top and bottom as a result in changes in hours worked.

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94. Thomas Lemieux, “Post-Secondary Education and Increasing Wage Inequality,” National Bureau of Economic Research *Working Paper* No. 12077, March 2006.

95. Thomas Lemieux, W. Bentley Macleod, and Daniel Parent, “Performance Pay and Wage Inequality,” *The Quarterly Journal of Economics*, Vol. 124, No. 1 (February 2009), pp. 1–49.

96. Sherwin Rosen, “The Economics of Superstars,” *The American Economic Review*, Vol. 71, No. 5 (December 1981), pp. 845–858.

97. Robert Gordon and Ian Dew-Becker, “Selected Issues in the Rise of Income Inequality,” *Brookings Papers on Economic Activity*, No. 2, 2007.

98. Robert Lerman, “The Impact of Changing US Family Structure on Child Poverty and Income Inequality,” *Economica*, No. 63, 1996.

99. Gary Burtless, “Effects of Growing Wage Disparities and Changing Family Composition on the U.S. Income Distribution,” Center on Social and Economic Dynamics *Working Paper* No. 4, July 1999, <http://www.brookings.edu/~media/research/files/reports/1999/7/useconomics%20burtless/disparities.pdf>.

The size of the leisure gap between both individual workers and family units is sizable. A male worker with more than a high school degree works almost 20 percent more hours than a male worker with less than a high school education.<sup>100</sup> This gap has almost tripled since 1985. Female workers display a slightly smaller gap but a similar trend, with more highly educated females having less leisure today than they did in 1985.

Families at the top are more likely to be married and to have multiple earners. As a result, they work eight times as many hours as families in the bottom fifth. Families in the top 20 percent of earners account for a third of all work in the United States as compared to only 4 percent of hours worked for the bottom fifth.<sup>101</sup> Part of this wide gap is due to the fact that families in the bottom fifth have more retirees, who have less income because they have no earnings, but part of it is likely due simply to the fact that idleness has been destigmatized in America.

The fact that highly educated women earn a similar wage premium over less-educated women compounds the return on education, which increases inequality.<sup>102</sup> Over a quarter of the change in family inequality results from these changes in employment and hours worked.<sup>103</sup>

Individuals at the top now get most of their income from labor

instead of from capital investments. The U.S. economy has shifted so that people who simply earn rent checks, dividends, and interest are no longer at the very top of the income scale as they were in the first part of the 20th century. Instead, the very top is occupied by people who have become wealthy through compensation from work.<sup>104</sup>

### **Income Inequality and Economic Mobility**

President Obama and many other policymakers are concerned that the rise in income inequality has made America a less mobile society than it once was. These fears seem to be unfounded, as mobility measures appear to have remained unchanged in recent years as compared to the past. However, children of single parents have experienced some downward mobility as compared to their parents.

Economists measure economic mobility in different ways. In looking at economic mobility data, there are two broad questions to keep in mind:

1. To whom are you comparing yourself?
2. What unit of comparison are you using?

The element of comparison may be your parents (intergenerational), your peers (intragenerational), or

yourself at a previous point in time. In making the comparison, you can look either at income (absolute comparison) or rank in the income scale distribution (relative comparison). Putting all this together, we can measure, for example, how much more people earn than their parents did, how people compare to their peers at different points in time, or where they rank in the income distribution compared to where their parents ranked.

Intergenerational absolute mobility—a comparison of how much you earn and how much your parents earned when they were your age—is a good measure of a society’s overall improvement. If many people have negative mobility, a society is losing ground. If a society doubles income and wealth for a younger generation as compared to their parents, most observers will believe that it has improved regardless of the ability of people to move up as compared to their peers.

Almost every child does better than his parents in this regard: 93 percent of children born to a family at the bottom of the scale do better than their parents, and 88 percent of children in the middle exceed their parents’ income.<sup>105</sup> Recent evidence suggests that absolute mobility is still strong for the current younger working generation as compared to their parents.<sup>106</sup> The real numbers are even better, since many studies

100. Attanasio, Hurst, and Pistaferri, “The Evolution of Income, Consumption and Leisure Inequality in the US, 1980–2010.”

101. Rector and Hederman, “Two Americas.”

102. Burtless, “Effects of Growing Wage Disparities and Changing Family Composition on the U.S. Income Distribution.”

103. Chulhee Lee, “Rising Family Inequality in the United States, 1968 to 2000: Impacts of Changing Labor Supply, Wages and Family Structure,” National Bureau of Economic Research *Working Paper* No. 11836, December 2005.

104. Piketty and Saez, “Income Inequality in the United States.”

105. Pew Charitable Trusts, Economic Mobility Project, *Pursuing the American Dream: Economic Mobility Across Generations*, July 2012.

106. Scott Winship, “Assessing Income Inequality, Mobility and Opportunity,” testimony before the Committee on the Budget, U.S. Senate, February 9, 2012, <http://www.brookings.edu/research/testimony/2012/02/09-inequality-mobility-winship>.

exclude the children of immigrants. Virtually every child of immigrants will do better than his or her parents. These numbers reinforce the fact that almost everyone is enjoying the fruits of America's increasing prosperity.

As a society, we want to give people not only the opportunity to do better than their parents, but also the chance to move up compared to their peers. Robust intergenerational relative mobility means that many at the bottom are moving up. Some of the most recent studies have found that there has been no downward trend in relative mobility over the past 40 years, while others conclude that there has been no downward trend for only the past 20 years.<sup>107</sup> Either way, the rise in income inequality has not led to a decrease in mobility.

**Intact Families Ensure Greater Mobility.** Two-parent families play a key role in promoting economic mobility, and broken families hinder mobility. Families increase "social capital" by teaching children how to behave and formulate good lifetime habits that can increase education and reduce the odds of school behavioral problems.<sup>108</sup>

Children that grow up in intact families are more mobile than children whose parents divorce or do not

marry.<sup>109</sup> Half of all children born to continuously married parents in the bottom third move to either the middle or the top as compared to only a quarter of children in divorced families.<sup>110</sup> The recent downturn in the divorce rate should therefore be good for mobility measures. Children born out of wedlock similarly struggle to escape and remain in the bottom third of income.

The breakdown of the American family has undermined the prospects of children in these homes. The evidence shows that they face longer odds in trying to be as successful as their peers from intact families face.

This also helps to explain why black families are less mobile than the average American family. Compared to the average middle-class family, children of black middle-class families are more likely to have less income than their parents. Black families are also more likely to lose ground when compared to white families, and black children in the middle class are three times more likely than similar white children to descend into the bottom fifth of the population.<sup>111</sup>

One of the main reasons for this loss of mobility is that the number of black single-parent households has increased dramatically, and the number of black married families has greatly decreased. The increase

in the number of broken black families has reduced their opportunities for relative mobility.<sup>112</sup> All of this is part of a larger trend in the erosion of the family that is discussed in Part III of this report.

## **Income Inequality and Economic Growth**

If inequality has no effect on mobility, then why should we care about inequality? A new argument is that the increase in inequality reduces economic growth. Some liberal economists like Joseph Stiglitz argue that inequality and the race to the top led to bad behavior in the financial industry that helped spark the "great recession." Alan Krueger argues that money that flowed to the top quintile instead of the middle was lost to the economy because middle-class families had less money to spend, and this slowed economic growth.<sup>113</sup>

However, more recent evidence that focuses on growth has found that higher levels of inequality in developed countries are related to faster economic growth because these countries can engage in, or have engaged in, policies that can boost not only growth, but also inequality. One such policy would be lower taxes on capital to encourage investment and growth but at the potential cost of higher inequality.

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107. Chul-In Lee and Gary Solon, "Trends in Intergenerational Mobility," *The Review of Economics and Statistics*, Vol. 91, Issue 4 (November 2009), pp. 766-772; Mary Corcoran, "Mobility, Persistence, and the Consequences of Poverty for Children: Child and Adult Outcomes," in *Understanding Poverty*, eds. Sheldon H. Danziger and Robert H. Haveman (Cambridge, Mass.: Harvard University Press, 2001); Daniel Aaronson and Bhashkar Mazumder, "Intergenerational Mobility in the U. S., 1940 to 2000," Federal Reserve Bank of Chicago *Working Paper* No. 2005-12, Revised February 2007.

108. Stuart M. Butler, William W. Beach, and Paul L. Winfree, *Pathways to Economic Mobility: Key Indicators*, Pew Charitable Trusts, Economic Mobility Project, 2008.

109. Thomas DeLeire and Leonard M. Lopoo, *Family Structure and the Economic Mobility of Children*, Pew Charitable Trusts, Economic Mobility Project, 2010.

110. Ibid.

111. Miles Corak, "Do Poor Children Become Poor Adults? Lessons from a Cross Country Comparison of Generational Earnings Mobility," Institute for the Study of Labor *Discussion Paper* No. 1993, March 2006.

112. DeLeire and Lopoo, *Family Structure and the Economic Mobility of Children*.

113. Krueger, "The Rise and Consequences of Inequality in the United States."



Conversely, countries that seek to redistribute income, often through progressive taxation, have lower economic growth as a result of the higher taxes. Economist Robert Barro concludes: “For richer countries, active income redistribution appears to involve a tradeoff between the benefits of greater equality and a reduction in overall economic growth.”<sup>114</sup>

The argument that income inequality led to the financial crisis and the “great recession” runs counter to the evidence. A recent economic study examining the link between higher inequality and financial panics concluded: “We find very little evidence linking credit booms and financial crises to rising inequality.”<sup>115</sup> The traditional drivers of a credit boom—business expansions and low interest rates—are the primary reasons for the most recent boom and crash of financial markets.

### **The Real Recipe for Success**

The decline in income inequality brought about by the recent

recession illustrates the danger of relying on income equality as an index of the country’s health. Because wealthy families were hit harder by the recession, their income declined more rapidly than the income of poorer families. Income inequality decreased, but so did overall prosperity. If we follow the lead of the income equalizers, we ought to be cheering.

This is absurd. In reality, we ought not to preoccupy ourselves with the rise in income inequality over the past several decades because it has affected neither economic mobility nor economic growth. Standards of living have increased for everyone—as have incomes, for that matter—and mobility, whichever way you measure it, remains robust. Countless Americans are still making it every year through hard work, perseverance, and dedication.

The recipe for success has not changed over the years. To ensure the best opportunity for mobility, you should at least graduate high school, wait to be married before

having children, obey the law, and avoid self-destructive behavior such as drug and alcohol abuse. Involvement in religious and other community organizations that form character also increases the likelihood that someone will move up the ladder.<sup>116</sup>

Getting more education is one of the best ways to ensure that you can surpass your parents and your peers. A recent study found that having a college education makes children significantly more likely to surpass their parents in income and wealth and less likely to experience downward mobility.<sup>117</sup>

For those who are concerned with avoiding poverty, the rules are even simpler. As former Clinton adviser William Galston summed it up, “you need only do three things in this country to avoid poverty—finish high school, marry before having a child, and marry after the age of 20.” Only 8 percent of these families are poor, whereas 79 percent of those who fail to do this are poor.<sup>118</sup>

114. Robert J. Barro, “Inequality, Growth, and Investment,” National Bureau of Economic Research *Working Paper* No. 7038, March 1999.

115. Michael D. Bordo and Christopher M. Meissner, “Does Inequality Lead to a Financial Crisis?” National Bureau of Economic Research *Working Paper* No. 17896, March 2012.

116. Butler, Beach, and Winfree, *Pathways to Economic Mobility*.

117. Pew Charitable Trusts, Economic Mobility Project, *Pursuing the American Dream: Economic Mobility Across Generations*.

118. Quoted in James Q. Wilson, “Why We Don’t Marry,” *City Journal*, Winter 2002, [http://www.city-journal.org/html/12\\_1\\_why\\_we.html/](http://www.city-journal.org/html/12_1_why_we.html/).

## Part III

### The *Real* Threats to the American Dream

As the preceding section has made clear, income inequality is not an obstacle to advancement in the United States, but obstacles do exist. Specifically, six factors undermine and threaten the long-term prospects of the American Dream most seriously by attacking the twin pillars—economic freedom and a culture of work—upon which it rests. Growing statism and the country's catastrophic fiscal situation threaten the former, while the welfare state, the erosion of a work culture, the collapse of the family, and the failures of the public education system undermine the latter.

The reader should be aware, however, that reality does not lend itself to such simple compartmentalization. Many of these factors are clearly interrelated: The welfare state not only fosters dependence and saps the vigor of its citizens, but also undermines the family and eats away at the culture of work. The collapse of the family not only dampens the prospects of children in broken homes, but also limits their academic potential.

The reader also ought not to assume that all of these threats are of equal importance. The collapse of the family has had much more far-reaching consequences for the civic health of America than have the country's current fiscal woes. Keeping these caveats in mind, let us survey the *real* obstacles to upward mobility.

#### **Statism: Overregulation, Overlegislation, and Crony Capitalism**

A century or so ago, there arose in America a new theory of government called Progressivism. Armed with a faith in the benevolence of bureaucracy, the Progressives enthusiastically embraced the idea of a plenipotentiary state with unlimited jurisdiction over all areas of life.<sup>119</sup>

And so the floodgates of regulation and legislation were opened, with all of the attendant consequences, both foreseen and unforeseen, for those who were forced to comply with the plethora of red tape. Over the course of the 20th century, as the liberal heirs to Progressivism implemented

and expanded the omnipotent and omnipresent state, the red tape kept rising, entangling all Americans in a web of costly, cumbersome, and often ill-designed laws and regulations.<sup>120</sup>

Advocates of the modern regulatory state are quick to point to the benefits of these laws and regulations, and to a certain extent, they are right. No one will deny the need to regulate certain activities for the common good.<sup>121</sup> As already noted, pure laissez-faire is a myth. In recognizing the need for regulation, however, we cannot ignore the costs of these rules, regulations, and laws. More often than not, they create obstacles to upward mobility, especially for the poor, and perverse incentives for businesses to rig the rules.<sup>122</sup>

To begin with the obvious, all of this red tape takes a toll on the economy, which in turn leads to fewer jobs being created.<sup>123</sup> And fewer jobs means fewer opportunities for those who most need jobs.

Beyond the lost jobs, there is the cost of complying with all of the red tape. One study pegged the total annual cost of federal regulatory

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119. For a concise account of the nature of Progressivism, see Thomas G. West and William A. Schambra, "The Progressive Movement and the Transformation of American Politics," Heritage Foundation *First Principles Series Report* No. 12, July 18, 2007, <http://www.heritage.org/research/reports/2007/07/the-progressive-movement-and-the-transformation-of-american-politics>.

120. James L. Gattuso and Diane Katz, "Red Tape Rising: Obama-Era Regulation at the Three-Year Mark," Heritage Foundation *Backgrounders* No. 2663, March 13, 2012, <http://www.heritage.org/research/reports/2012/03/red-tape-rising-obama-era-regulation-at-the-three-year-mark>.

121. Though they will disagree on *how* such laws and regulations are crafted. For an excellent defense of the alternative to the modern administrative state when it comes to crafting and implementing social and economic regulations, see Joseph Postell, "Regulation, Administration, and the Rule of Law in the Early Republic," in *Freedom and the Rule of Law*, ed. Anthony A. Peacock (Lanham, Md.: Lexington Books, 2010), pp. 41-70.

122. Luigi Zingales, *A Capitalism for the People* (New York: Basic Books, 2012), pp. 71-78.

123. See, for example, Deroy Murdock, "Over-Regulation Is Pricey: Federal Red Tape Has Cost the U.S. Nearly a Million Jobs," *National Review Online*, June 5, 2012, <http://www.nationalreview.com/articles/301802/over-regulation-pricey-deroy-murdock>.

compliance alone at \$1.75 trillion.<sup>124</sup> (No one has conducted a similar study of the burden of state regulations.) These costs are, of course, passed on to consumers in the form of higher prices for goods and services.

Regulatory and legislative compliance also raises the cost of labor, thereby discouraging employers from hiring and decreasing wages for those who do get hired. Consider the employer mandate in the Patient Protection and Affordable Care Act (Obamacare). To encourage employers to offer health insurance, the law will impose, beginning in 2014, a penalty on companies with more than 50 workers that fail to provide “adequate” coverage for their employees. In response, employers will likely try to find ways not to hire that 51st worker or pass on the cost of the insurance policy to their employees in the form of lower wages, with those who are working at entry-level jobs hit particularly hard:

Many individuals earning close to the minimum wage will not be worth hiring if the employer is required to offer them health insurance coverage.... [A] third of uninsured workers earn within \$3 of the minimum wage and therefore have a higher risk of losing their jobs because of an employer mandate. Furthermore,

these workers are disproportionately likely to be high school dropouts, minority, or female.<sup>125</sup>

For those who would instead pursue the American Dream the entrepreneurial way, all the red tape makes it harder to start and grow a business. As Home Depot co-founder Bernie Marcus, who famously said that his business would never have succeeded in today’s suffocating regulatory climate, explains:

Every regulation, every city, every state...and the federal government, all piled on, regulations, one on top of the other, that are promoted by the bureaucracies, and they all think that they’re doing good things. But the truth of the matter is they’re stymieing the businesses.<sup>126</sup>

In particular, small businesses—and all businesses are small when they start—are under siege. When recently surveyed about their biggest problems, one in five cited “regulations and red tape,” second only to “poor sales.”<sup>127</sup>

Given the size of the country, the effects and costs of all of these laws and regulations are diffuse, and the average citizen is unlikely to notice them. At the state and local levels, however, it is much easier to see how excessive regulation limits

opportunity. Licensing requirements, for example, restrict opportunity by closing off to newcomers otherwise lucrative professions that require little training or education. Almost all cities needlessly restrict the number of taxicabs in operation, thereby denying any poor person with a car a simple way to earn a living. Or consider the fact that New York City, with a population of 8 million, permits only 853 non-food street vendors in the entire city, thereby restricting employment for countless low-income immigrants who have fewer job opportunities.<sup>128</sup>

The flood of red tape and the resulting decline in opportunity become inevitable once we accept the Progressive-Liberal conceit that no area of life should be off-limits to regulators and administrators. Just as inevitable is the fact that businesses will try to get in bed with the regulators and legislators to squeeze out the competition, a phenomenon known as crony capitalism. This pernicious collusion of big business and big government, which benefits both at the expense of honest, hard-working taxpayers, is our new economic reality. Today, in America and throughout the world, free markets are receding and entrenched business interests are on the rise.<sup>129</sup>

While many on the Left—particularly the Occupy Wall Street movement—confuse the two, free-market

124. Nicole V. Crain and W. Mark Crain, *The Impact of Regulatory Costs on Small Firms*, U.S. Small Business Administration, Office of Advocacy, September 2010, <http://archive.sba.gov/advo/research/rs371tot.pdf>.

125. Brian Blase, “Obamacare and the Employer Mandate: Cutting Jobs and Wages,” Heritage Foundation *WebMemo* No. 3108, January 19, 2011, <http://www.heritage.org/research/reports/2011/01/obamacare-and-the-employer-mandate-cutting-jobs-and-wages>.

126. Bernie Marcus, interview on Hugh Hewitt show, June 15, 2011, <http://www.hughhewitt.com/transcripts.aspx?id=394004ab-3eae-4e1b-bd0c-bb9d68be9f77>.

127. William C. Dunkelberg and Holly Wade, National Federation of Independent Business *Small Business Economic Trends*, December 2011, <http://www.nfib.com/Portals/0/PDF/sbet/sbet201112.pdf>.

128. Nate Berg, “How to Stop the Over-Regulation of Street Vendors,” *The Atlantic Cities*, June 12, 2012, <http://www.theatlanticcities.com/jobs-and-economy/2012/06/enabling-street-vendors-become-small-businesses/2254/>.

129. See James M. Roberts, “Cronyism: Undermining Economic Freedom and Prosperity Around the World,” Heritage Foundation *Background* No. 2447, August 9, 2010, <http://www.heritage.org/research/reports/2010/08/cronyism-undermining-economic-freedom-and-prosperity-around-the-world>.



economics could not be more different from crony capitalism. Whereas the free-market system treats all players equally, from the largest conglomerate to the smallest mom-and-pop shop, crony capitalism rigs the rules of the game in favor of the entrenched big players. Whereas the free-market system celebrates and encourages competition, crony capitalism is about shielding the powerful and well-connected from competition. Subsidies, which have no place in a free-market system, form a basic staple of crony capitalism, as do waivers and bailouts.

In the long run, Americans pay a heavy price for this marriage of business and government. Crony capitalism forces taxpayers to subsidize well-connected players and restricts opportunities for the rest of us. As Paul Ryan has explained:

Pitting one group against another only distracts us from the true sources of inequity in this country—corporate welfare that enriches the powerful and empty promises that betray the powerless.... That's the real class warfare that threatens us: a class of bureaucrats and connected crony capitalists trying to rise above the rest of us, call the shots,

rig the rules, and preserve their place atop society. And their gains will come at the expense of working Americans, entrepreneurs, and that small businesswoman who has the gall to take on the corporate chieftain.<sup>130</sup>

Taken together, overregulation, overlegislation, and crony capitalism are three of the most egregious threats to the principles of economic freedom that undergird the American Dream. The Heritage Foundation's annual *Index of Economic Freedom* details others, from tariffs that hamper trade to excessive personal and corporate tax rates.<sup>131</sup> The centrality of economic freedom to the American Dream cannot be overstated. The greater the inroads that government makes in overseeing markets, the fewer the opportunities for all of us to get ahead.

### **The Collapse of the Family**

Marriage, in the words of Heritage's Robert Rector, a national authority on the subject, is "America's strongest anti-poverty weapon."<sup>132</sup> It is also strongly correlated with countless other benefits for both married adults and children, from higher earnings for the former to higher high school

graduation rates for the latter. As one of the foundational building blocks of society, its importance to the well-being of the country in general and to the health of the American Dream in particular cannot be overstated.

Yet when it comes to talking about the importance of the family, the Left is by and large either strangely silent or outright hostile. Ultimately, it seems that liberals' commitment to the sexual revolution—and, in some circles, hostility to what feminists and Marxists call a repressive patriarchal institution—trumps their professed devotion to the poor and determination to tackle the root causes of poverty.

The traditional family is not in good shape, especially in the lower class and now, increasingly, in the middle class.<sup>133</sup> For a vast number of Americans, childbearing and marriage no longer go hand in hand. The number of out-of-wedlock births has skyrocketed from 10 percent as recently as 1970 to more than 40 percent today. Among black Americans, seven out of 10 children are born to unmarried mothers—more than two and half times the rate for white children.<sup>134</sup> Additionally, researchers estimate that the average couple marrying for the first time has a 40

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130. Ryan, "Saving the American Idea."

131. See Miller, Holmes, and Feulner, *2012 Index of Economic Freedom*, and Terry Miller and Kim R. Holmes, "'Mostly Free': The Startling Decline in America's Economic Freedom and What to Do About It," Heritage Foundation *Special Report* No. 82, July 14, 2010, <http://www.heritage.org/research/reports/2010/07/mostly-free-the-startling-decline-of-americas-economic-freedom-and-what-to-do-about-it>.

132. Robert Rector, "Marriage: America's Greatest Weapon Against Child Poverty," Heritage Foundation *Backgrounder* No. 2465, September 16, 2010, <http://www.heritage.org/research/reports/2010/09/marriage-america-s-greatest-weapon-against-child-poverty>.

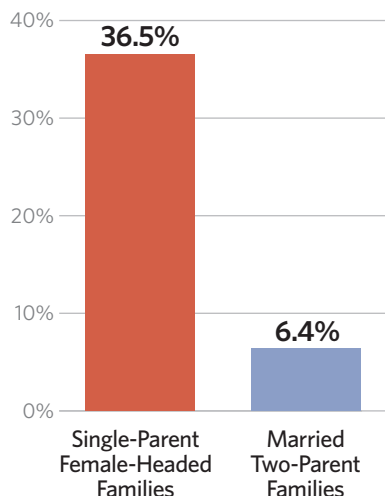
133."The U.S. is steadily separating into a two-caste system with marriage and education as the dividing line. In the high-income third of the population, children are raised by married parents with a college education; in the bottom-income third, children are raised by single parents with a high school degree or less." Rector, "Marriage: America's Greatest Weapon Against Child Poverty." See also Charles Murray, *Coming Apart: The State of White America, 1960–2010* (New York: Crown Forum, 2012), pp. 149–167.

134. Rector, "Marriage: America's Greatest Weapon Against Child Poverty."

CHART 2

## Marriage Drops the Probability of Child Poverty by 82 Percent

PERCENTAGE OF FAMILIES WITH CHILDREN THAT ARE POOR



**Source:** Heritage Foundation calculations based on data from the U.S. Bureau of the Census, American Community Survey, 2006–2008 data, [http://factfinder.census.gov/servlet/DatasetMainPageServlet?\\_program=ACS&\\_submenuid=datasets\\_2&\\_lang=en](http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=ACS&_submenuid=datasets_2&_lang=en) (accessed September 13, 2010).

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percent to 50 percent probability of divorcing.<sup>135</sup>

Taken together, the spectacular increase in the number of out-of-wedlock births and the pervasiveness of divorce spell trouble for the children who grow up without both of their parents. Of the plethora of

statistics linking the collapse of the family to a host of social ills, one in particular stands out: Being raised in a married family reduces a child's probability of living in poverty by about 80 percent. Even after controlling for the different education levels of single mothers and married couples, the married poverty rate is still more than 75 percent lower.<sup>136</sup>

The deleterious effects of the collapse of the family ultimately reach far beyond material poverty. As Rector explains:

When compared to children in intact married homes, children raised by single parents are more likely to have emotional and behavioral problems; be physically abused; smoke, drink, and use drugs; be aggressive; engage in violent, delinquent, and criminal behavior; have poor school performance; be expelled from school; and drop out of high school. While many of these negative outcomes are associated with the higher poverty rates of single mothers, in many cases, the improvements in child well-being that are associated with marriage persist even after adjusting for differences in family income. This indicates that fathers bring home more than just a paycheck.<sup>137</sup>

Studies also show that the negative effects of being raised in a

single-parent home are not confined to childhood: They continue into adulthood and thus have far-reaching implications for economic mobility.<sup>138</sup> “Children living in single-parent homes are 50 percent more likely to experience poverty as adults when compared to children from intact married homes,” writes Rector. “This intergenerational poverty effect persists even after adjusting for the original differences in family income and poverty during childhood.”<sup>139</sup>

The collapse of the family is a deep-seated cultural problem. As such, it admits of no simple policy solutions. For those on the Left and the Right who are concerned about the vitality of the American Dream in the 21st century, strengthening the family ought to be an absolute priority. When it comes to the American Dream, the family is not a tangential social or religious issue; it is a crucial economic one that is deeply intertwined with mobility.

## Dependence and the Welfare State

In his 1964 State of the Union Address, President Lyndon Johnson declared all-out war on poverty, “the most ancient of mankind's enemies.” His goal: nothing less than “total victory.” His method: Go after “the causes, not the just the consequences of poverty.”<sup>140</sup>

To convince Congress and his fellow Americans to join him, President Johnson offered the promise of a

135. Institute for American Values and University of Virginia, National Marriage Project, *State of Our Unions: Marriage in America 2011*, [http://www.stateofourunions.org/2011/social\\_indicators.php#divorce](http://www.stateofourunions.org/2011/social_indicators.php#divorce). See also Paul R. Armato, “Interpreting Divorce Rates, Marriage Rates, and Data on the Percentage of Children with Single Parents,” National Healthy Marriage Resource Center, January 1, 2010, <http://www.healthymarriageinfo.org/resource-detail/index.aspx?rid=3284>: “the commonly cited statistic that about half of all marriages end in disruption (divorce or permanent separation) appears to be reasonably accurate.”

136. Rector, “Marriage: America's Greatest Weapon Against Child Poverty.”

137. Ibid.

138. Butler, Beach, and Winfree, *Pathways to Economic Mobility*, p. 9.

139. Rector, “Marriage: America's Greatest Weapon Against Child Poverty.”

140. Johnson, “Special Message to Congress Proposing a Nationwide War on the Sources of Poverty.”

society in which all could realize their full potential in the pursuit of the American Dream:

The war on poverty is not a struggle simply to support people, to make them dependent on the generosity of others. It is a struggle to give people a chance. It is an effort to allow them to develop and use their capacities, as we have been allowed to develop and use ours, so that they can share, as others share, in the promise of this nation.<sup>141</sup>

Since then, the U.S has spent \$20 trillion on means-tested welfare programs. In 2011 alone, government spent more than \$900 billion on 79 such programs—nearly \$9,000 per year for each poor and low-income American.<sup>142</sup> Two generations after Johnson's speech, having spent such extraordinary sums of money, it is reasonable to ask how close we are to fulfilling LBJ's goal of an America in which poverty has been eradicated.

By many measures, poor Americans are better off than ever before. Poverty takes many forms in America, but Dickensian squalor and destitution is not one of them: 80 percent of poor households have air conditioning; nearly 75 percent have a vehicle (31 percent have two or more); and 42 percent of poor households actually own their own

homes.<sup>143</sup> This is due in no small part to the overall rise in standards of living that benefits all citizens in free-market societies. The rising tide of capitalism does indeed lift all boats, although cash transfers through welfare programs admittedly also play a role. As The Heritage Foundation's Robert Rector and Rachel Sheffield point out, "Not even the government can spend \$9,000 per person without significantly affecting living conditions."<sup>144</sup>

The promise of the War on Poverty was not, however, merely to prop up living standards through an ever-expanding welfare state. LBJ did not propose an overbearing system of lifetime government handouts, but rather pledged to reduce welfare dependence, increase self-sufficiency, and set the stage for all to eagerly pursue the American Dream. He sold the War on Poverty to the American people by talking about opportunity—not dependence.<sup>145</sup>

By this standard, the War on Poverty must be judged an abject failure. By ensnaring an ever-larger share of the population in the tentacles of the welfare state, it has left a significant portion of the population less capable of prosperous self-sufficiency than they were before LBJ declared his War on Poverty.

Far from eradicating poverty, the welfare state in fact traps people in poverty. It does so in two major ways:

by undermining the family and discouraging work.

As noted, a major element in the declining capacity for self-support is the collapse of marriage in low-income communities:

As the War on Poverty expanded benefits, welfare began to serve as a substitute for a husband in the home, and low-income marriage began to disappear. When Johnson launched the War on Poverty, 7 percent of American children were born out of wedlock. Today, the number is over 40 percent. As married fathers disappeared from the home, the need for more welfare to support single mothers increased. The War on Poverty created a destructive feedback loop: Welfare undermined marriage, and this generated a need for more welfare. Today, out-of-wedlock childbearing—with the resulting growth of single-parent homes—is the most important cause of child poverty.<sup>146</sup>

The current welfare system also erodes the culture of work that makes the American Dream possible. Welfare may well "give" the poor many things, from cash to subsidized housing, but it also takes away a crucial ingredient of happiness: the incentive to work, to save, to improve

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141. Ibid.

142. Robert Rector and Katherine Bradley, "Reforming the Food Stamp Program," Heritage Foundation *Backgrounder* No. 2708, July 25, 2012, <http://www.heritage.org/research/reports/2012/07/reforming-the-food-stamp-program>.

143. See Robert Rector and Rachel Sheffield, "Understanding Poverty in the United States: Surprising Facts About America's Poor," Heritage Foundation *Backgrounder* No. 2607, September 13, 2011, <http://www.heritage.org/research/reports/2011/09/understanding-poverty-in-the-united-states-surprising-facts-about-americas-poor>.

144. Ibid.

145. The word "opportunity" appears 24 times in his short speech.

146. Rector and Sheffield, "Understanding Poverty in the United States."

oneself. Its no-strings-attached benefits constitute what Benjamin Franklin denounced as “a premium for the encouragement of idleness.”<sup>147</sup>

Given its approach to poverty relief, the current welfare state thwarts the aspirations of those whom it tries to help. It fosters dependence in welfare recipients, which in turn often carries over to children. Studies have shown—not surprisingly but nonetheless quite tragically—that welfare is increasingly intergenerational.<sup>148</sup>

Welfare programs must therefore be transformed to promote prosperous self-sufficiency. Able-bodied parents should be required to work or prepare for work as a condition of receiving aid. Currently, only two of the 79 means-tested federal welfare programs include a work requirement.<sup>149</sup> In addition, the welfare system should support and encourage, rather than penalize, marriage.<sup>150</sup> The point is not to abolish all welfare; as Yuval Levin argues, we can have welfare programs without a welfare state.<sup>151</sup>

More than 25 years ago, President Reagan offered the following assessment of LBJ’s War on Poverty:

In 1964 the famous War on Poverty was declared and a funny thing happened. Poverty, as measured by dependency, stopped shrinking and then actually began to grow worse. I guess you could say, poverty won the war.... Obviously something is desperately wrong with our welfare system. With only about half of what is now spent on welfare, we could give enough money to every impoverished man, woman, and child to lift them above the poverty line. Instead, we spend vast amounts on a system that perpetuates poverty. But the waste of money pales before the sinful waste of human potential—the squandering of so many millions of hopes and dreams.<sup>152</sup>

President Reagan’s words, alas, still ring true.

### The Failures of Public Education

For the low-income children trapped in America’s failing public schools, “the world is a cold, heartless place because they’ve been given the short end of the stick and they don’t

why.” That is how Harlem Children’s Zone founder Geoffrey Canada describes the failures of our public education system in the much-touted documentary *Waiting for “Superman.”*

A quick look at student performance across the country amply justifies Canada’s dispiriting words. Today in America, only 40 percent of fourth graders are proficient in mathematics, and less than a third are reading at the age-appropriate level. By the time they reach the eighth grade, reading proficiency has not budged, and math proficiency has gone down to 34 percent.<sup>153</sup>

The numbers for black students are downright tragic. Less than 20 percent of black children are proficient in math and reading. Depending on the grade, anywhere between a third and half rank *below* “Basic.” When so many children, both white and black, are being left behind, we do not have an “achievement gap” (to use a term that education analysts are fond of using); we have a systemic, across-the-board failure to teach students the very basic skills they need to become productive citizens.

With such abysmal scores, is it any surprise that a quarter of all students

147. Franklin, *Writings*, p. 588. Consider the Supplemental Nutrition Assistance Program, commonly known as food stamps. The second most expensive means-tested aid program, it doles out billions of dollars a year in unconditional aid, thereby promoting indolence and sapping the energies of those it should be helping. Many food stamp households contain adults who are capable of working but work little or not at all. The program also fosters long-term dependence. Contrary to the common perception that people receiving food stamps have simply fallen temporarily on hard times, the majority of recipients are or will become long-term dependents. Historically, half of food stamp aid to families with children has gone to families that have received aid for 8.5 years or more. See Rector and Bradley, “Reforming the Food Stamp Program.”

148. Marianne Page, “New Evidence on Intergenerational Correlations in Welfare Participation,” in *Generational Income Mobility in North America and Europe*, ed. Miles Corak (Cambridge: Cambridge University Press, 2004), pp. 226–244.

149. The work requirement for the Temporary Assistance for Needy Families program was recently gutted. See Robert Rector and Rachel Sheffield, “Obama Administration Ends Welfare Reform as We Know It,” Heritage Foundation *Issue Brief* No. 3712, August 29, 2012, <http://www.heritage.org/research/reports/2012/08/obama-administration-ends-welfare-reform-as-we-know-it>.

150. *Ibid.*

151. Yuval Levin, “Beyond the Welfare State,” *National Affairs*, Issue 7 (Spring 2011), <http://www.nationalaffairs.com/publications/detail/beyond-the-welfare-state>.

152. Ronald Reagan, “Radio Address to the Nation on Welfare Reform,” February 15, 1986, <http://www.presidency.ucsb.edu/ws/index.php?pid=36875#axzz1z16xftju>.

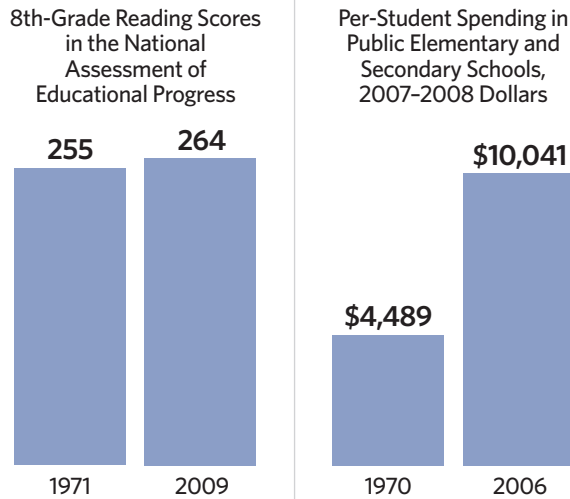
153. U.S. Department of Education, National Center for Education Statistics, “National Assessment of Educational Progress” for mathematics and reading, <http://nces.ed.gov/nationsreportcard/mathematics/> and <http://nces.ed.gov/nationsreportcard/reading/>.



CHART 3

### Reading Scores Have Gained Little While Education Costs Have More than Doubled

Source: U.S. Department of Education, National Center for Education Statistics.



SR 119 heritage.org

never complete high school? Or that American students rank 25th out of 30 in math literacy among students from developed countries?<sup>154</sup>

These failures of our education system have far-reaching consequences for the students who are left behind. By failing to impart basic literacy and numeracy, our schools are effectively putting the American Dream beyond the reach of countless children. It is hard to think about moving ahead in life if you have a hard time reading and trouble counting.

Those on the Left will, of course, readily acknowledge these problems, but their proposed solution—more funding—completely misses the mark. Our schools are already awash

in money. According to the U.S. Department of Education, the average annual per-pupil expenditure in public schools is more than \$10,000—double the amount it was in 1970 (in constant dollars). This means that the taxpayers will spend no less than \$120,000 on the education of the typical child who finishes high school. Regrettably, however, the correlation between spending and achievement is basically nil.<sup>155</sup>

To begin to address the crisis in education, we must recognize that throwing more money at our schools will not fix the problem. Rather, we need to empower parents to choose the best schools for their children and release schools from federal bureaucratic strictures that stifle

reform and innovation.<sup>156</sup> To do that, we do not need to wait for Superman to come to the rescue.

### The Erosion of a Culture of Work

The immensely popular sitcom *Seinfeld* broke new ground, perhaps more than any other show. It was, most famously, a show about nothing. Its catchphrases penetrated our lexicon, and its characters left a profound imprint on popular culture.

The show also did something no major television program had ever done before: It featured not one, but two adult males who didn't work. Not only was Kramer unemployed, but he never even looked for a job (although he did pretend to work in the "bizarro" episode). George is unemployed for the first half of the series and eventually lands a rather pointless job with the New York Yankees.

Both Kramer and George are, of course, losers who are meant to make us laugh. Yet all previous sitcoms, from *I love Lucy* onward, somehow managed to make us laugh without depicting unemployed grown men.<sup>157</sup>

The rise of Kramer and George are in fact part of a much larger phenomenon: the erosion of our culture of work. In America, we no longer extol hard work the way we used to. As a result, we no longer castigate laziness as we once did. Nor do we view with shame those who live off of handouts. We have not (yet) become a nation of slackers, mooches,

154. Quoted in Dan Lips, "A School Wake-up Call," *The Tampa Tribune*, September 8, 2009, <http://duke1.tbo.com/content/2009/sep/08/na-a-school-wake-up-call/>.

155. Dan Lips, Shanea Watkins, and John Fleming, "Does Spending More on Education Improve Academic Achievement?" Heritage Foundation *Background* No. 2179, September 8, 2008, <http://www.heritage.org/research/reports/2008/09/does-spending-more-on-education-improve-academic-achievement>.

156. For more on what can be done, see Jennifer A. Marshall, "Freeing Schools from Washington's Education Overreach," Heritage Foundation *WebMemo* No. 3214, April 6, 2011, <http://www.heritage.org/research/reports/2011/04/freeing-schools-from-washingtons-education-overreach>.

157. The one exception that comes to mind—Michael Stivic, a.k.a. "Meathead," in *All in the Family*—was studying.

and loafers, but America is no longer “the Land of Labour”<sup>158</sup> where “everyone works and work leads to everything.”<sup>159</sup>

For every movie that celebrates hard work and dedication, Hollywood churns out dozens featuring irresponsible, dim-witted, unshaven bumblers. Meanwhile, hip-hop and gangsta rap have overtaken the blues as the premier form of black American music (to say nothing of how deeply they have penetrated the mainstream). Working has never been easy, but it is one thing to wail about having to “work for the man” and putting in your “nine to five” and quite another to dismiss workers as chumps and celebrate the lifestyle of the hustler and the thug.

Public opinion has also become much more tolerant of idleness. When Tocqueville travelled through America in the 1830s, he was struck by the very strong prejudice in favor of work: “In America I sometimes met rich young people, enemies by temperament of every painful effort, who had been forced to take up a profession. Their nature and their fortune permitted them to remain idle; public opinion imperiously forbade it to them, and they had to obey.”<sup>160</sup>

Public opinion imperiously forbids many things today, including smoking and not recycling, but not working is most definitely not one of them. Nor is living off of handouts. Any stigma against dependence is long gone. In 1837, Francis Grund, a German immigrant to the U.S.,

described the self-reliant spirit in his adopted land:

I have never known a native American to ask for charity. No country in the world has such a small number of persons supported at the public expense.... An American, embarrassed by his pecuniary circumstances, can hardly be prevailed upon to ask or accept the assistance of his own relations; and will, in many instances, scorn to have recourse to his own parents.<sup>161</sup>

Today, by contrast, one in seven Americans is on food stamps, and the U.S. Department of Agriculture runs aggressive ad campaigns, in both English and Spanish, encouraging more people to sign up for the program.

All of this takes a toll on our once-robust culture of work. As a result, fewer people work, regardless of how the economy is doing. In his recent book chronicling the erosion of our founding virtues, Charles Murray cites the eightfold increase since 1960 in the percentage of people who qualify for federal disability benefits. These people are supposedly unable to work, but this huge increase has occurred despite great advances in medical care and in spite of technological innovations that have made work easier and the workplace safer. What the numbers reveal, in other words, is “an increase in the number of people seeking to get benefits who aren’t really unable to work.”<sup>162</sup>

Of those who do work, many do not put in that many hours. Lack of parental work, for example, is one of the major causes of child poverty. As Rector and Sheffield explain:

Even in good economic times, the average poor family with children has only 800 hours of total parental work per year—the equivalent of one adult working 16 hours per week. The math is fairly simple: Little work equals little income, which equals poverty. If the amount of work performed by poor families with children was increased to the equivalent of one adult working full time throughout the year, the poverty rate among these families would drop by two-thirds.<sup>163</sup>

All in all, this erosion of our culture of work may make for funnier television and movies, but it effectively saps the vigor of countless Americans. By legitimizing indolence and devaluing industry, it decreases the likelihood that the poor—those who are in greatest need of sound cultural indicators—will take advantage of the wonderful opportunities that America continues to offer.

### **The Fiscal Cliff**

Nothing better captures the federal government’s current and long-term fiscal situation than the expression “drowning in a sea of debt.” Not only are the current deficits, the debt, and the entitlements on track to bankrupt the country within two

158. Franklin, “Information to Those Who Would Remove to America,” p. 978.

159. Tocqueville, *Democracy in America*, Vol. II, Book 3, p. 595.

160. *Ibid.*

161. Francis J. Grund, *The Americans in Their Moral, Social, and Political Relations* (Boston: Marsh, Capen, and Lyon, 1837), pp. 173–174.

162. Murray, *Coming Apart*, p. 171.

163. Rector and Sheffield, “Understanding Poverty in the United States.”

generations, but the numbers themselves are so large—so far beyond what we are capable of processing as human beings—that the comparison with the infinite droplets of a sea is particularly fitting.

The deficit this fiscal year is projected to hit \$1.33 trillion.<sup>164</sup> The gross national debt has cracked the \$16 trillion mark, and Medicare and Social Security face nearly \$40 trillion in long-term unfunded obligations. The headline of a front-page story in *USA Today* last summer concisely summed up the enormity of the fiscal crisis America faces: “U.S. owes \$62 trillion.”<sup>165</sup>

Unless we change course, continued massive government spending and the surging public debt will destroy the foundations of our economy and put the American Dream beyond the reach of our children and grandchildren. Just as we would cry injustice if children were compelled to assume all of their parents’ debts when they turned 18, we cannot in good conscience burden succeeding

generations of Americans with such a crushing debt load.

The unfunded liabilities for Medicare and Social Security constitute the most serious long-term threat to our country’s finances. Over the next 75 years, Social Security, which started running out of money in 2010, has promised to pay \$7.8 trillion more in benefits than it will receive in payroll taxes. Medicare faces a 75-year unfunded liability in excess of \$30 trillion—even as it is plagued by serious gaps in coverage, an increasing number of demoralized doctors refusing to accept new Medicare patients, a sluggish and outdated system of inflexible governance, and tens of billions of dollars in annual losses to waste, fraud, and abuse.

Taken together, the unfunded liabilities for both programs amount to \$200,000 for every American alive today. Left unchanged, these entitlements (along with Medicaid) will consume the entire federal budget by 2049, leaving nothing for any other

federal program or service. If we ever reach that point, to speak of the American Dream of opportunity and prosperity will no longer make sense.

America, however, need not go down the route of fiscal collapse. We can get spending under control, balance the budget, reform our entitlement programs, and shrink our debt. Heritage’s *Saving the American Dream* program lays out how that can be done.<sup>166</sup>

Before we can tackle that monumental task and change the country’s course, however, we must drive home the point to the American people that we have a spending problem and that our unsustainable entitlement promises threaten to drive the country’s finances into the ground. We just cannot keep running trillion-dollar deficits. We cannot keep piling on more and more debt. And we cannot remain indifferent to the fact that we are effectively robbing our children of a shot at the American Dream.

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164. U.S. Office of Management and Budget, “Budget Overview,” <http://www.whitehouse.gov/omb/overview>.

165. Dennis Cauchon, “U.S. Funding for Future Promises Lags by Trillions,” *USA Today*, June 13, 2011, [http://www.usatoday.com/news/washington/2011-06-06-us-owes-62-trillion-in-debt\\_n.htm](http://www.usatoday.com/news/washington/2011-06-06-us-owes-62-trillion-in-debt_n.htm).

166. For the full plan, see Butler, Fraser, and Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*.

## Conclusion

Even a survey of the threats to the American Dream as cursory as this one should impress upon the reader the enormity of the challenge we face. No one, for example, should expect any simple fixes when it comes to shoring up the family or reducing dependence on government. Even when the prescriptions are clear—and in the case of the family, they are not—implementing them is never an easy task, and even successful reforms can easily be undone.<sup>167</sup>

To recognize this, however, is not to encourage concerned citizens to look the other way as their cherished American Dream fades into the sunset. Rather, it is to awaken them to the magnitude of the task before us. The Progressive-Liberal assault on the principles of the Founding that sustain the American Dream has been underway for well over a century. We should not expect to undo it overnight.

What, then, are we who want to shore up our battered American Dream to do?

*First*, we must regain clarity as to what the American Dream is. It is imperative that we understand what it promises to deliver, as well as the economic principles and the cultural framework that sustain it. Hence, our equation:

**Economic Freedom + Culture  
 of Work = Prosperity and  
 Opportunity**

Progressive Liberalism has always been adept at concealing the radical nature of its ideas by cloaking its agenda in the traditional American rhetoric of equality, liberty, and opportunity. Much as the arch-Progressive Franklin D. Roosevelt insisted that the 1936 Democratic Party platform echo the language of the Declaration of Independence, so do today's liberal egalitarians speak of equal opportunity and the American Dream. Many who do not know any better can easily be taken in by these siren songs. Hence our efforts to recover the true promise of America and expose the egalitarian and statist underpinnings of the Left's new "American Dream."

*Second*, we cannot afford to lose sight of the cultural underpinnings of the American Dream: a culture that celebrates industriousness, exhorts all to work hard, scorns dependence on government, and disparages indolence. In emphasizing the importance of a culture of work, we are not downplaying the equal importance of the principles of economic freedom; given the contemporary prejudice against things that cannot be measured, we simply aim to remind readers that getting the economic principles right is only half the battle. To quote Frederick Douglass once more, "Opportunity is important but exertion is indispensable."<sup>168</sup>

*Third*, we must be relentless in exposing the fallacies of the income inequality argument. If we are, as we should be, concerned with mobility and prosperity, then income inequality is a red herring. Furthermore, behind the charts and graphs detailing the rise in income inequality often lies an ugly animosity against the rich. Even worse, this envy and hatred of the "one percent" masquerades as compassion for the down-trodden. Every time someone lashes out at the top 1 percent, we ought to talk instead of the bottom 1 percent.

*Fourth*, we must continue to pursue rigorous research into the ways that upward mobility can be strengthened. This report stops short of articulating particular policy recommendations, but some excellent work is already being done, most notably by our colleagues at The Heritage Foundation whose work we cited in Part III. More is required.

The American Dream is an expression of the American mind. It grows out of our principles and defines us as a nation. People the world over know that America is the land of opportunity. The stakes are too high—the cause is too dear to us—for us to let the American Dream slip away. 🇺🇸

167. Witness President Obama's recent efforts to unilaterally weaken the work requirements of the 1996 welfare reform act. Rector and Sheffield, "Obama Administration Ends Welfare Reform as We Know It."

168. Douglass, "Self-Made Men."





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