

Is 'Progress' Good for Humanity?

Rethinking the narrative of economic development, with sustainability in mind



JEREMY CARADONNA

SEP 9, 2014 | BUSINESS

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The stock narrative of the Industrial Revolution is one of moral and economic progress. Indeed, economic progress is cast as moral progress.

The story tends to go something like this: Inventors, economists, and statesmen in Western Europe dreamed up a new industrialized world. Fueled by the optimism and scientific know-how of the Enlightenment, a series of heroic men—James Watt,

Adam Smith, William Huskisson, and so on—fought back against the stultifying effects of regulated economies, irrational laws and customs, and a traditional guild structure that quashed innovation. By the mid-19th century, they had managed to implement a laissez-faire (“free”) economy that ran on new machines and was centered around modern factories and an urban working class. It was a long and difficult process, but this revolution eventually brought Europeans to a new plateau of civilization. In the end, Europeans lived in a new world based on wage labor, easy mobility, and the consumption of sparkling products.

Europe had rescued itself from the pre-industrial misery that had hampered humankind since the dawn of time. Cheap and abundant fossil fuel powered the trains and other steam engines that drove humankind into this brave new future. Later, around the time that Europeans decided that colonial slavery wasn't such a good idea, they exported this revolution to other parts of the world, so that everyone could participate in freedom and industrialized modernity. They did this, in part, by “opening up markets” in primitive agrarian societies. The net result has been increased human happiness, wealth, and productivity—the attainment of our true potential as a species.

Sadly, this saccharine story still sweetens our societal self-image. Indeed, it is deeply ingrained in the collective identity of the industrialized world. The narrative has gotten more complex but remains à la base a triumphalist story. Consider, for instance, the closing lines of Joel Mokyr's 2009 *The Enlightened Economy: An Economic History of Britain, 1700–1850*: “Material life in Britain and in the industrialized world that followed it is far better today than could have been imagined by the most wild-eyed optimistic 18th-century philosophe—and whereas this outcome may have been an unforeseen consequence, most economists, at least, would regard it as an undivided blessing.”

The idea that the Industrial Revolution has made us not only more technologically advanced and materially furnished but also better for it is a powerful narrative and one that's hard to shake. It makes it difficult to dissent from the idea that new technologies, economic growth, and a consumer society are absolutely necessary.

To criticize industrial modernity is somehow to criticize the moral advancement of humankind, since a central theme in this narrative is the idea that industrialization revolutionized our humanity, too. Those who criticize industrial society are often met with defensive snarkiness: “So you’d like us to go back to living in caves, would ya?” or “you can’t stop progress!”

What if we adopt a more critical and skeptical attitude toward the values we’ve inherited from the past?

Narratives are inevitably moralistic; they are never created spontaneously from “the facts” but are rather stories imposed upon a range of phenomena that always include implicit ideas about what’s right and what’s wrong. The proponents of the Industrial Revolution inherited from the philosophers of the Enlightenment the narrative of human (read: European) progress over time but placed technological advancement and economic liberalization at the center of their conception of progress. This narrative remains today an ingrained operating principle that propels us in a seemingly unstoppable way toward more growth and more technology, because the assumption is that these things are ultimately beneficial for humanity.

Advocates of sustainability are not opposed to industrialization per se, and don’t seek a return to the Stone Age. But what they do oppose is the dubious narrative of progress caricatured above. Along with Jean-Jacques Rousseau, they acknowledge the objective advancement of technology, but they don’t necessarily think that it has made us more virtuous, and they don’t assume that the key values of the Industrial Revolution are beyond reproach: social inequality for the sake of private wealth; economic growth at the expense of everything, including the integrity of the environment; and the assumption that mechanized newness is always a positive thing. Above all, sustainability-minded thinkers question whether the Industrial Revolution has jeopardized humankind’s ability to live happily and sustainably upon the Earth. Have the fossil-fueled good times put future generations at risk of returning to the same misery that industrialists were in such a rush to leave behind?

But what if we rethink the narrative of progress? What if we believe that the inventions in and after the Industrial Revolution have made some things better and some things worse? What if we adopt a more critical and skeptical attitude toward the values we've inherited from the past? Moreover, what if we write environmental factors back in to the story of progress? Suddenly, things begin to seem less rosy. Indeed, in many ways, the ecological crisis of the present day has roots in the Industrial Revolution.

For instance, consider the growth of greenhouse gases (GHGs) in the atmosphere since 1750. Every respectable body that studies climate science, including NASA, the National Atmospheric and Oceanic Administration, and the US Environmental Protection Agency (EPA), has been able to correlate GHG concentrations with the pollutants that machines have been spewing into the atmosphere since the late-18th century. These scientific bodies also correlate GHGs with other human activities, such as the clearing of forests (which releases a lot of carbon dioxide and removes a crucial carbon sink from the planet), and the breeding of methane-farting cows. But fossil fuels are the main culprit (coal, gas, and oil) and account for much of the increase in the parts per million of carbon dioxide in the atmosphere. The main GHGs, to be sure, are carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and a few others, many of which can be charted over time by analyzing the chemistry of long-frozen ice cores. More recent GHG levels are identified from direct atmospheric measurements.

What we learn from these scientific analyses is that the Industrial Revolution ushered in a veritable Age of Pollution, which has resulted in filthy cities, toxic industrial sites (and human bodies), contaminated soils, polluted and acidified oceans, and a "blanket" of air pollution that traps heat in the Earth's atmosphere, which then destabilizes climate systems and ultimately heats the overall surface temperature of the planet. The EPA is quite blunt about it: "Increases in concentrations of these gases since 1750 are due to human activities in the industrial era." It's worth noting, too, that the population of the world only began to take off during the Industrial Revolution. For millennia, the population of homo sapiens was well below the 1 billion mark, until that number was surpassed around

1800. The world now has 7 billion people and counting. That's a lot of people who require food, energy, and housing and who place great strains upon global ecosystems. Consider the following figures:

Carbon dioxide (PPM), methane (PPB), and nitrous oxide (PPM) in the atmosphere since 1750. Before the Industrial Revolution, CO2 levels had long been stable at about 280 PPM. Now they're above 400 PPM. CO2 levels have not been this high for at least 2 million years. (USGCRP 2009)

Carbon dioxide and methane levels in the atmosphere since 1750. (NASA, based on data from the NOAA Paleoclimatology and Earth System Research Laboratory)

World Population

Population levels in developing and industrialized countries over time, with future projections. (Philippe Rekacewicz, UNEP/GRID-Arendal)

When we take these trajectories into consideration, the Industrial Revolution starts to look like something less than an “undivided blessing.” It begins to look like, at best, a mixed blessing—one that resulted in technologies that have allowed many people to live longer, safer lives, but that has, simultaneously, destroyed global ecosystems, caused the extinction of many living species, facilitated rampant population growth, and wreaked havoc on climate systems, the effects of which will be an increase in droughts, floods, storms, and erratic weather patterns that threaten most global societies.

All of this is to say that the simple-minded narrative of progress needs to be rethought. This is not a new idea: In fact, critics of industrialization lived throughout the Industrial Revolution, even if their message was often drowned out by the clanking sounds of primitive engines. In their own particular ways, thinkers and activists as diverse as Thomas Malthus, Friedrich Engels, the Luddites, John Stuart Mill, Henry David Thoreau, William Wordsworth, and John Muir criticized some or all aspects of the Industrial Revolution. The narrative of industrial-growth-as-progress that became the story of the period occurred despite their varied protestations. The Luddites questioned the necessity of machines that put so many people out of work. Engels questioned the horrendous living and working conditions experienced by the working classes and drew links between economic changes, social inequality, and environmental destruction. Thoreau questioned the need for modern luxuries. Mill questioned the logic of an economic system that spurred endless growth. Muir revalorized the natural world, which had been seen as little more than a hindrance to wealth creation and the spread of European settler societies around the globe.

These figures have provided wisdom and intellectual inspiration to the sustainability movement. John Stuart Mill and John Muir, for instance, have each been “rediscovered” in recent decades, respectively, by ecological economists and environmentalists in search of a historical lineage. For the sustainability-minded thinkers of the present day, it was these figures, and others like them, who were the true visionaries of the age.

This post has been adapted from Jeremy Caradonna's new book, Sustainability: A History.

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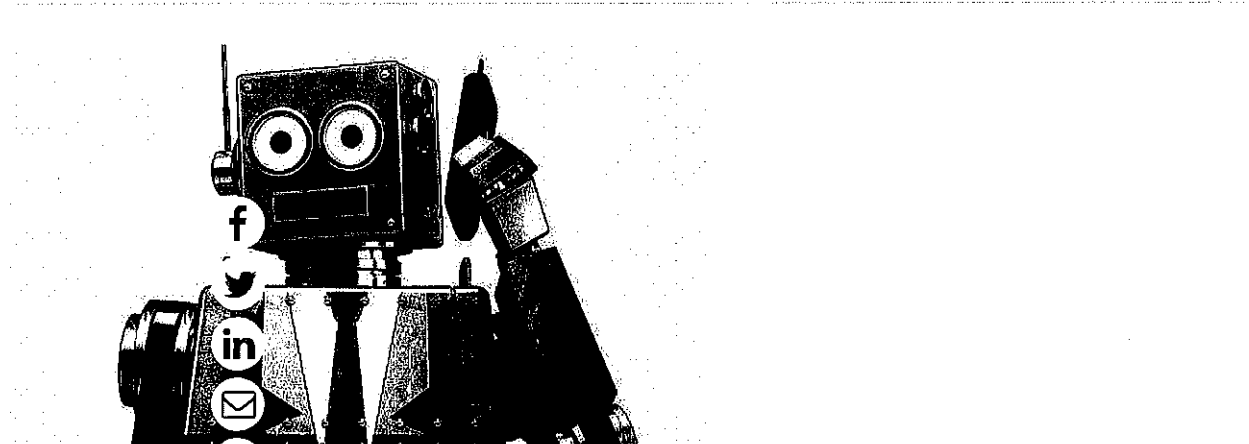
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MENU

Robots may make it harder for some Americans to get ahead



Heesun Wee | @heesunwee
Published 7:03 AM ET Fri, 13 March 2015 | Updated 9:15 AM ET Fri, 13 March 2015



Ryan Etter | Getty Images

More linebacker than running back, Baxter is a tough, reliable worker. His arm span is wide and he takes instruction well, all valuable assets on a manufacturing shop floor.

Baxter is a robot and made by Rethink Robotics, a start-up founded by Rodney Brooks, who produced the Roomba vacuum when he was at iRobot in the 2000s. Robots and more broadly automation have been around for decades, especially in the auto industry. We're talking six-figure robots in cages that are so big they could hurt workers if the machines toppled onto humans.

Robots have since advanced and are smaller, nimble and more affordable. Small- to medium-sized businesses are introducing automation onto shop floors. Some economists see a future where robots will push down labor costs and lift productivity so companies will think twice before offshoring U.S. jobs.

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Automation is forecast to raise productivity by as much as 30 percent in many industries, and cut labor costs by at least 18 percent in the coming decade, according to recent research from The Boston Consulting Group. As an example, "We're thinking about something like a 16 percent drop in the labor costs for manufacturing plants over this time period," Hal Sirkin, a senior partner at The Boston Consulting Group, told CNBC. The researchers did not spell out how labor cost

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This is the embedded "botsourcing" fear. More robots = lost jobs. Or seen another way, higher wage pressures = more automation. And maybe even more worrisome is a suspicion that robots will not only jeopardize jobs but make it even harder for less-skilled workers to remain employed, let alone get ahead.

From 1995 to 2013, technological changes accelerated America's output per worker. But those gains were offset by income inequality and a drop in labor force participation. Those working or looking for work have declined to around 62.8 percent from prerecession levels of around 66 percent, suggesting more Americans are getting discouraged and disappearing permanently from the workforce. President Barack Obama laid out how middle-class stagnation is dragging down the economy in the 2015 Economic Report of the President released by the White House last month.

So if advanced robots knock out more automatable jobs, will lower-skilled workers fall further from the pack and essentially vanish from the American jobs landscape? This is a big debate among economists and experts on robotics.

"Economic growth has been more and more concentrated not just at the top, but at the tippy top of the pay scale."

-Jared Bernstein, economist 

The recovery after the **in**.at Recession has been dominated by job gains in lower-wage industries, according to analysis from the National Employment Law Project. Higher-wage sectors have accounted for 33 percent of new jobs,  mid-wage industries pulled in 26 percent of new positions from July 2013 to July 2014. But lower-wage sectors have ricocheted higher during the same period, raking in 41 percent of new jobs.

"Economic growth has been more and more concentrated not just at the top, but at the tippy top of the pay scale," said economist Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities in Washington, D.C.

As more automation seeps into industry and everyday consumer lives, there's a concern robotic innovation may sideline more Americans—workers already buckling under low employment levels and stagnant wages.

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Bill Gates, founder of the Bill and Melinda Gates Foundation.

It's been eight years since Bill Gates predicted a robot in every home. "I can envision a future in which robotic devices will become a nearly ubiquitous part of our day-to-day lives," wrote Gates in the January 2007 edition of the *Scientific American*.

States are passing laws on driverless cars. Amazon is developing small, unmanned aerial vehicles, known as drones, to deliver packages to customers' homes. The U.S. military is researching robots for search and rescue operations. And there are surgical robots to treat soldiers in remote regions. U.S. venture capital investments in robotic start-ups nearly tripled to \$172 billion in 2013 from 2011 levels. That's according to PwC's MoneyTree survey, which tracks VC investments.

But the promise of new machines—and its presumed preference for higher-skilled workers—also highlights how innovation can weed out some workers. About 47 percent of U.S. employees—nearly half—are in jobs that could be at risk of being displaced by computerized technology, according to a 2013 University of Oxford study.

Measured another way, the portion of automatable tasks done by robots globally is projected to reach nearly 25 percent in 10 years, up from 10 percent at current levels, according to the International Federation of Robotics and The Boston Consulting Group. In China, for example, where wages are rising, the nation ordered more robots in 2013 than any other country, some 37,000, according to research published last year from PwC and the Manufacturing Institute.

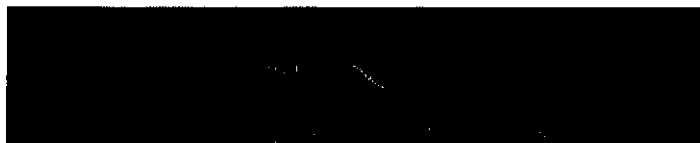
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Other economic data show the emerging gulf between pockets of workers, as U.S. employment levels are historically low and productivity keeps rising.

Bernstein at the Center on Budget and Policy Priorities has tracked how labor productivity and private employment became decoupled in the late 1990s. The U.S. employment-to-population ratio is lower than any time in at least 20 years.

The gap between productivity and employment can partly be explained by weak labor demand. The U.S. job market had been slack but recently has tightened. The unemployment rate dropped to 5.5 percent in February, according to the Labor Department.

"It's not just automation that leads to that gap. It can also be weak labor demand," Bernstein said.



Where the jobs are: Rise of robotics

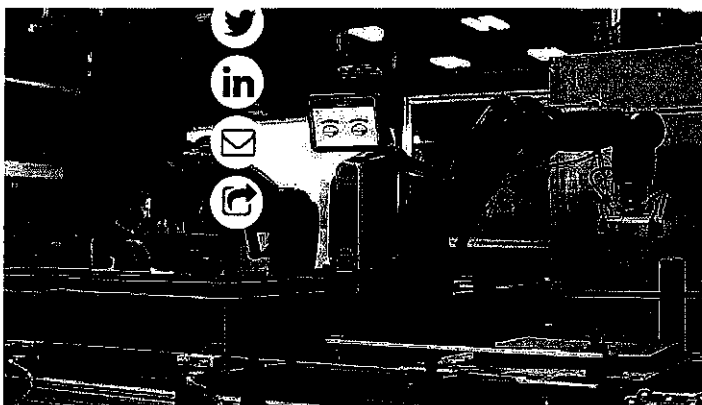
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Of course, companies aren't just deploying robots to slash human-powered jobs. The math behind automation isn't that simple. Next generation robots will require college-educated electrical and mechanical engineers and higher wages.

And despite robotic advances, some tasks still need that nuanced human touch and decision-making that can't be replicated, so far, by machines.

Consider the gestures of a health-care worker helping an aging patient. "There are actually lots of low- and middle-wage occupations that are hard to replace by labor-saving technology," said Bernstein. "I don't think robots have sealed our fate as much as people think they have," he said.

Meet Baxter



Source: Rethink Robotics

The Baxter robot is an adaptive, affordable machine that's being used on more shop floors.

Rethink Robotics, based in Boston, makes Baxter, which sells for about \$25,000 or a fraction of what robots cost a generation ago. And while older robots operated inside cages, Baxter and newer robots operate freely, right on shop floors next to humans. Baxter has arms and a computer screen that renders facial expressions—telegraphing to co-workers their next moves.

Factory workers can also guide Baxter's arms through physical tasks on an assembly line—in essence programming Baxter through demonstrations, and cutting the need for specialized software or technicians. Reprogramming older machines for automated tasks used to be expensive. A lot of shops have graveyards of dusty, boxy robots that simply became too costly to reprogram and repurpose.

Back then, "you had to create the programming to do the jobs," said Jim Lawton of Rethink Robotics. "It was like buying an iPhone with no apps."



computer and electrical fields, according to the Boston consultancy's report, released last month.

"(In some sectors) robotic price/performance is better than or near parity with manual labors costs."

-The Boston Consulting Group

And robots over human labor already makes economic sense. Robotic price and performance are better than—or near parity—with manual labor costs in the U.S. auto and electrical equipment industries, according to the consultancy's research. In other areas like the U.S. furniture industry, robots could surpass manual labor in the next decade.

Beyond labor cost savings, some companies are using automation to expand and improve product quality and increase production. The 'bots are not only here, they're multiplying.

Justin Rose is a manufacturing expert for The Boston Consulting Group. He studies trends like how robotics and other economic shifts are contributing to American re-shoring. Years ago, Rose first encountered Baxter, roaming free on shop floor and without a cage.

"For the price of a car, you can have a robot that can run 24 hours a day with impressive capabilities," Rose said. "This is the beginning of that revolution."



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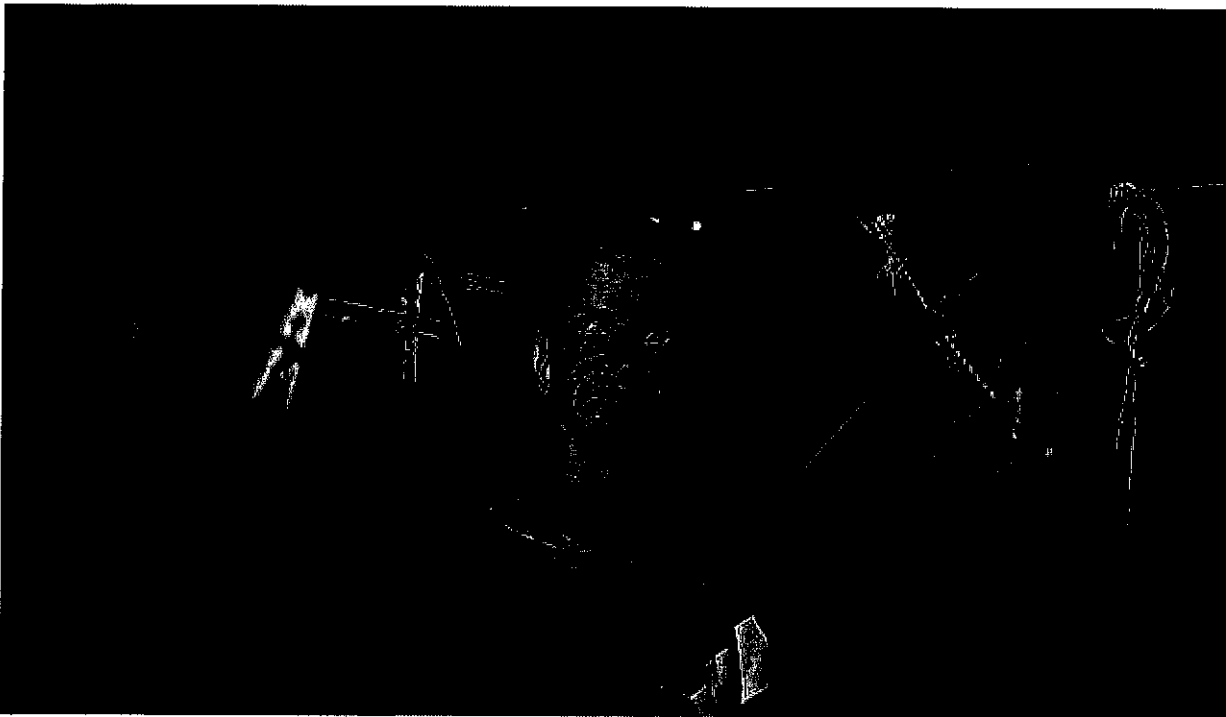
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How "staying put" became the new "moving up" in U.S. economy



Barry Gutierrez for National Journal

GRAND JUNCTION, Colo.--One day when John Sherry was 10 years old, his parents picked him up from school and drove to a Ford dealership. They walked into a large showroom with Mustangs parked out front. He watched his parents, neither of them college graduates, ink the paperwork to buy a new, dark-green

Taurus. Greg and Beth Sherry let their son sign his name at the bottom of one of the pages, just for fun.

John, who's now 29, says it was the first time he realized that purchasing a car was a bigger deal than buying groceries or a shirt. "I thought, 'Someday, I'm going to be doing that.' " But now, he says, his lips tight and flat, "I don't see myself buying a new car"--ever. "That seems out of my grasp."

Unlike his parents, John Sherry enrolled in college after graduating from high school in Grand Junction, a boom-bust, agriculture-and-energy outpost of 100,000 inhabitants on Colorado's western edge. John lasted two years at Metropolitan State University in Denver before he dropped out, first to bag groceries at Safeway, later to teach preschool children, a job he still holds. He knew it was time to quit college when he failed statistics two semesters in a row. Years passed before John realized just how much the economic statistics were stacked against him, in a way they never were against his father.

Greg Sherry, who works for a railroad, is 58 and is chugging toward retirement with an \$80,000-a-year salary, a full pension, and a promise of health coverage for life. John scrapes by on \$11 an hour, with few health benefits. "I feel like I'm working really hard," he says, "but I'm not getting ahead."

This isn't the lifestyle that John's parents wished upon their younger child. But it reflects the state of upward--or downward--mobility in the American economy today.

You see a generation working harder outside of the home but failing to get ahead like their parents expected them to.

Americans love to believe that anyone can get ahead, that they can build a better life than their parents had, simply by working hard enough. The evidence suggests,



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however, that this is less and less the case. Just working hard will no longer suffice, especially for Americans who haven't been born with wealth or particular talents. More and more, education has become the key to moving up--from poverty into the middle class, from the middle class into affluence--or to holding onto the middle-class lifestyle in which one was raised.

There is also growing--though still nascent--evidence that from one American generation to the next, mobility is declining. It's getting harder, that is, to work your way into a higher income level than the one into which you were born. A son's adult income in the United States is about half dictated by how much his father made, a percentage that is nearly as high as in any country in wealth-by-birthright Europe, according to the Organization of Economic Cooperation and Development. In Europe, family connections and the circumstances of one's birth are considered crucial determinants of success, a consequence of the entrenched aristocracies in the United Kingdom and, to a lesser extent, Italy and France.

This is far from the up-by-the-bootstraps, Horatio Algeresque self-image that most Americans hold dear. In the United States, immobility is a way of life, especially for the very rich and the very poor. Brookings Institution economist Isabel Sawhill estimates that 40 percent of children born into the topmost or bottom income quintile won't budge as adults from where they began. Katharine Bradbury, a senior economist at the Federal Reserve Bank of Boston, agrees. "Most of the long-term poor are stuck at the bottom; most of the long-term rich have a strong grip on the top; and each of these two groups is somewhat more entrenched than the corresponding groups 20 years earlier," she concluded in a research paper last spring.

But this declining mobility also applies to Americans born into the vast middle class. Even they were less likely to bounce up or down in income during the past 10 years than in earlier decades, Bradbury found. By her calculations, Americans in the highest and lowest quintiles of income are far more likely to stay at the same level over a decade than are people in the three middle quintiles. But lately, members of the middle class have also been getting stuck: Between 1996 and

2006, they were 25 percent likelier to stay where they were, compared with the middle class in the 1976 to '86 period. Americans feel the change. The Pew Research Center reported in August that 71 percent of middle-class adults say it's harder to get ahead now than 10 years ago. That's a jump of 9 percentage points since the Great Recession struck in 2008.

Still, middle-class mobility in the United States is hardly a thing of the past. Americans born into middle-income brackets remain, as adults, equally likely to climb up or to slide down the income ladder, Sawhill writes. What's the surest way to climb? On that, there's a clear prescription, reflecting a quiet transformation in our notion of how upward mobility works. Nowadays, hard work will get you only so far. If you want to move from poverty into the middle class--or to avoid falling from the middle class into poverty--there's only one route, if you're not Beyoncé or Bill Gates: graduate from college.

According to fresh research from the Pew Economic Mobility Project, middle-quintile children without college diplomas are more than half again as likely as adults to slide into the lowest 40 percent of income earners than are middle-class children who earned a college degree. They're also twice as likely to fall backward in wealth. College graduates are four times as likely to rocket from poverty into the highest quintile of wealth. "Having a postsecondary education is incredibly important for mobility," said Diana Elliot, research manager at Pew's mobility project, and it has "become increasingly important" from one generation to the next.

THE WAY THINGS WERE

For American children who aspire to the middle class, this reality highlights the road they need to take. But it can also be cruel, because poor children find it much harder today to finish college than wealthier ones do. "Children from rich families have much greater access to higher education than children from low-income families, even when controlling for innate skills," Economic Policy Institute researchers concluded in a recent report. "This educational barrier places profound limits on income mobility." And in the tattered recovery from the Great Recession,

wages even for college graduates have stagnated. Meritocracy is not only a solution to restoring upward mobility but also a way to fortify the bastions of privilege.

Only twice in U.S. history--in the heyday of the Western frontier and in the post-World War II prosperity--have Americans found it easy to rise. This isn't one of those times. Middle-skill jobs (read: no college required) are disappearing from America's sputtering economic engine--in factories, in back offices, even lately in state and local governments. For generations, these jobs were the ticket to a comfortable life for Americans who went directly from high school to work. But increasingly in recent decades, economic research shows, lower-wage workers in foreign lands have taken these jobs or automation has rendered them unnecessary. Today, job growth occurs mainly at the poles of the skills spectrum--in sweeping floors or flipping burgers, which can't be outsourced, or in sophisticated engineering jobs that drive new industries.

Since 1980, the very lowest- and highest-skill jobs in the United States have each grown sharply as a share of the overall workforce, according to research published last spring by economists David Autor of the Massachusetts Institute of Technology and David Dorn of Spain's Centro de Estudios Monetarios y Financieros.

Meanwhile, the share of lower-middle-skill jobs has shrunk: For example, machine operators and assemblers, a classic storehouse of middle-skill jobs, fell from 13 percent of the workforce in 1950 to 4 percent in 2005. Real hourly wages have stagnated, simply as a matter of supply and demand. When too many workers compete for too few jobs, employers can hire qualified people at lower pay.

"The real question of the [displaced] middle class is: Where do they go?" asked Mark Doms, the chief economist at the Commerce Department's Economics and Statistics Administration. "Only a few of them are going to go to the tippy-top"--the highest-skilled jobs. "The rest will go to the bottom."

The Sherry family has learned this lesson all too well. Greg Sherry grew up in East Denver, moved to suburban Wheat Ridge in high school, and graduated without much thought of college. His parents never pushed it. His ambition never

demanded it. "I liked working with my hands, and I wanted to do something like that," he says. "I saw college as a white-collar-type job, and I wasn't interested."

The world Greg graduated into didn't require an advanced degree. He could earn nearly \$20 an hour in today's dollars--a wage that could support a family--by working construction or in a warehouse. Across the country, high school graduates could claim their diplomas and walk straight into secure, well-paying, benefit-laden, pension-bearing jobs on assembly lines or, in Colorado, harvesting trees or rare earth metals. Foreign competition was a speck on the horizon; outsourcing wasn't yet a dirty word.

Greg worked construction jobs from 1971 to 1973, building houses for a developer near the Cherry Creek Reservoir. Then the economy dipped and mortgage rates spiked; homebuilding slammed to a halt. Greg lost his job. With his new bride, Beth, he hopped around seeking work, first in Dallas, then in Denver, and finally across the Rockies to Grand Junction, where his father-in-law, a Union Pacific worker, had found Greg a railroad job. Beth, now 57, took a hygienist's position in a dentist's office, where she still works today.

The railroad paid \$5 an hour, the 1974 equivalent of about \$23 an hour (\$48,000 a year) today. It came with health benefits he didn't even think about for years and a pension that will let him retire at age 60 with health insurance for life. After a few years, Greg had worked his way up to an engineer's position, driving trains on round trips of several hundred miles on a brutally unpredictable schedule. The Sherrys' children, firstborn Allison and John, grew up knowing their father could be called onto the rails with two hours' notice, day or night.

Comfort was their reward. Greg and Beth bought a house on the edge of town and a succession of new cars. Today, in the evenings, in the home where they raised their children, the couple can relax on a new living room couch, dine with a microbrew or a local red wine, and cover fresh peaches with ice cream for dessert. In his youth, John recalls summertime trips to a faraway beach--San Diego, South Padre Island, or someplace else--to splash with cousins in the surf.

The parents knew early that their path might not be available to their kids. On a winter afternoon in 1983, Beth and Greg sat at tables in a high school cafeteria and listened to a senator from Colorado test out a presidential-campaign message about the changing global economy. This generation, Gary Hart told the crowd, is the last one in which people will hold a single job for 30 years; your children will need education and training to prepare for the tumultuous job market to come. The message stuck. When the Sherry children reached school age, their parents began saving for college. We'll pay for college, they told Allison and John--and we expect you to go.

A WEEK-STREWN YARD

The Sherrys' ranch-style house has a panoramic view of downtown Grand Junction and the mesa beyond. The backyard, a long rectangle of grass of a softness and greenness you sometimes forget exists on the parched Western Slope, drops steeply to reveal the skinny Colorado River snaking through town. This is the yard in which John Sherry romped as a child.

Today, the back door of John's West Denver house--purchased by his father and rented to John at a discount--opens to a sun-baked lot with litter and weeds, a fading pink shed, a drooping clothesline, and a back fence that looks one summer storm away from collapse. Inside, the hallways are cluttered with bikes, televisions, and secondhand furniture. John lives with two roommates who help make the rent. His mother calls the neighborhood "a barrio." This is the house John landed in, years after he dropped out of Metro State.

He and his parents tell near-identical stories about his childhood. He, in some ways, enjoyed learning and worked hard outside of school. He would recommend nonfiction tomes to his parents. As a grocery clerk, he'd get thank-you notes from customers for home-delivering the sacks of food they had left at checkout.

But when it came to school, John couldn't bring himself to care. It was hard growing up in the shadow of his older sister, now 34, who at age 10 started to walk around holding a clipboard and collecting quotes from her parents for miniature news

stories. Allison, the first in her father's family to attend college, graduated from Colorado State University--her parents paid, as promised--and landed a job as a reporter for The Denver Post. John's elementary school teachers asked Beth and Greg why their son couldn't be more like Allison; whenever his parents conveyed this to John, he'd feel the sting and rebel. In high school, he skipped classes and spent a lot of time grounded. "I just didn't have the motivation," John explains. He graduated with a C- average.

He attended Metro State because he wanted to leave Grand Junction; his friends were going to college, and his parents expected him to go. "It wasn't something I really wanted to do," John says. " 'Obligation' would be a better word for it." He hoped to earn a degree and go into social work. But the dream faded when he struggled with math and science. When he quit school, he was too scared to tell his parents. Only months later, after a relative saw him in a UPS uniform for a holiday temp job, did they learn that he had dropped out.

Thanks to the wrenching changes in the American economy, John's career choices were few and unpromising. The assembly-line and clerical jobs that had sustained high school graduates were pretty much gone. Frank Levy, an economics professor emeritus at MIT, has written extensively on the changing skills the American workforce requires. These lost "rules-based jobs," as he calls them, are anything simple or routine enough for a computer or offshore worker to perform instead; they paid a lot more than the options that John had available after he left college. By Levy's calculations, a 40-year-old man with a high school diploma earns 5 percent less today, in real terms, than he did in 1980, while a college graduate who's 40 earns 25 percent more than before. The jobs available to high school graduates today also offer less prospect for rising pay. Levy's research suggests that a male high school grad in 1980 could expect his income to grow by about 75 percent before peaking in his mid-40s, versus just 61 percent today.

John Sherry's work life has proved a long and punishing lesson in these unpleasant truths. He has never earned more than \$13 an hour. Now he makes \$11 an hour--about \$23,000 a year--teaching students in an expensive preschool in downtown

Denver. He sometimes relies on a sort of payday loan from his bank to pay his rent. He rides his bike and plays kickball in a league for recreation--they're both free--and brews his own beer at home. He wants to go back to school to study early-childhood education and become an elementary school teacher, with a salary at least double what he makes now. Meanwhile, he's thinking of applying for a job at night, waiting tables, or slinging drafts at a bar he frequents once or twice a week.

"It's almost like a survival thing now," he says. "I could live the way I'm living now and be OK, but I would like to have a family someday. I would like to take nice vacations, things like that." His annual wage these days would put him at the federal poverty level for a family of four. Sometimes it angers him that he earns so little for a job he sees as important. (A Brookings study calculates that enrolling a disadvantaged child in a high-quality preschool correlates to a \$100,000 increase in lifetime earnings.) "But I also kind of blame myself," he says, "because without a college degree, that's what you get paid."

GAINING, WHILE FALLING BEHIND

Here's some good news: Today's households with prime-aged workers are bringing home more income than their parents did. Even after adjusting for rising prices over time, according to Pew, nearly 90 percent of middle-class children earn more, as a household, than their parents did at the same age. They're "ahead" of the previous generation--but with two painful caveats.

The first is that, compared to people at the top, most workers are slipping behind. Income gains for the highest quintile of earners have run about 50 percent higher than for the bottom quintile. Think of it as a marathon: Everyone is farther along the course, but the rich have widened their lead. Looking beyond income to consider a household's wealth--including savings and assets such as investments and a home--the middle class and poor are actually moving backwards. For households in the top two quintiles of income, inflation-adjusted wealth has grown by a fourth from the past generation to this one. In the middle quintile, it has declined by 5 percent. At the bottom, it's down by 63 percent.

The second uncomfortable truth is that the reason household incomes are rising from generation to generation is not because children are finding better-paying jobs than their parents held. It's because more households are bringing in two incomes. Today, a young man in the top four income quintiles, Pew found, has roughly a 50-50 chance of earning more than his father did at the same age. The difference between that toss-up proposition and the 90 percent chance that a household's income has risen between generations is that many more women work. Simply getting married and waiting until you're 21 to have children, Sawhill and coauthor Ron Haskins have written, are two of the most important ingredients for moving from poverty into the middle class. But any additional income may be overstated: In families with children, having both parents work will typically entail higher costs for child care, mounting stress, and lost leisure time.

Add those two truths together and you see a generation working harder outside of the home but failing to get ahead like their parents expected them to.

For black Americans, that reality is even gloomier. African-Americans born in the bottom income quartile are about twice as likely to stay at the bottom in adulthood, compared with whites born in poverty, according to the recent Economic Policy Institute report. Whites are four times as likely than African-Americans to rise from the bottom quartile to the top. Middle-class African-Americans grow up to exceed their parents' level of wealth less than a quarter of the time, compared with more than half the time for middle-class whites, Pew reports. (Neither survey looked at Latinos.)

College has become the golden ticket off that hamster wheel. But this, too, has widened the demographic gap in upward mobility. Lower-income children typically struggle to keep up in school, falling well behind wealthier children on K-12 test scores, which hurts their chances of getting into college and earning a diploma. A student with high scores on eighth-grade standardized tests but whose family is poor (in the lowest-income quartile) had only a 29 percent chance of finishing college, the EPI study found. That was a lower chance than a student from the top

of the income ladder with low test scores. In other words, a dumb, rich kid is more likely to get a college diploma than a smart, poor kid.

"Although we cannot say with any certainty how much mobility today's children will experience over the coming decades," Bhashkar Mazumder, a senior economist at the Federal Reserve Bank in Chicago, wrote last spring, "recent research suggests cause for concern. The gap in children's academic performance between high- and low-income families has widened significantly over the last few decades." If this trend persists, college will no longer serve as the equalizer for a stratified economy in which the rich get richer and the poor don't.

ONWARD ... AND UPWARD

In some ways, the story of middle-class mobility has a silver lining. If you're born into the middle quintile, like the Sherry children were, you've got about a 50 percent chance as an adult of staying there or moving up a quintile, according to Pew. You're just as likely to rise all the way to the top--about 20 percent--as you are to sink one quintile. Education improves your odds of climbing higher: A child born in the middle quintile who finishes college has a three-in-five chance of rising into the top two quintiles.

John has seen his sister Allison succeed. Now the chief of *The Denver Post's* Washington bureau, she earns a salary roughly comparable to her father's on the railroad and recently backpacked through the Alps with friends. So, too, their cousin, Andrew Elliot, who's a lawyer living in one of Washington's trendiest neighborhoods. John wants something like that for himself. He knows he has only one route, really: earning a college degree.

"Economic mobility is not predetermined," says Erin Currier, project manager of Pew's Economic Mobility Project, "but our research has shown that a host of drivers and factors can influence a person's chances of moving up or falling down." These determinants fall into three categories: social capital (who you know and where you live); financial capital (your savings and access to credit); and human capital (your education).

John's parents have tried to help him with social capital (John rebuffed his dad's offers to help him find a job at the railroad) and financial capital (the house with discounted rent, although no help with tuition). What he needs is more human capital. For that, his parents can't help much, except to offer encouragement. "He's smart enough to go to college," Greg says. Beth adds: "We still want better for him, we really do. But we don't know what to do."

John is still planning his full-fledged return to college. He figures on taking school slowly this time, one or two classes a quarter, while working full time. He's taking a course this fall in early-childhood education so he can keep his state license for teaching preschool.

Seated on a bar stool in West Denver, sipping a beer, lines of worry cross his narrow face. On his calves are tattoos he designed himself, crossed swords over a bicycle. Everyone in the place seems to know him and treat him as a friend. As he talks about his latest batch of home brew, his scowl lifts. He offers to pay for the drinks. His dreams are still flowing, like the microbrew. What isn't clear yet is whether they are pipe dreams, or real.

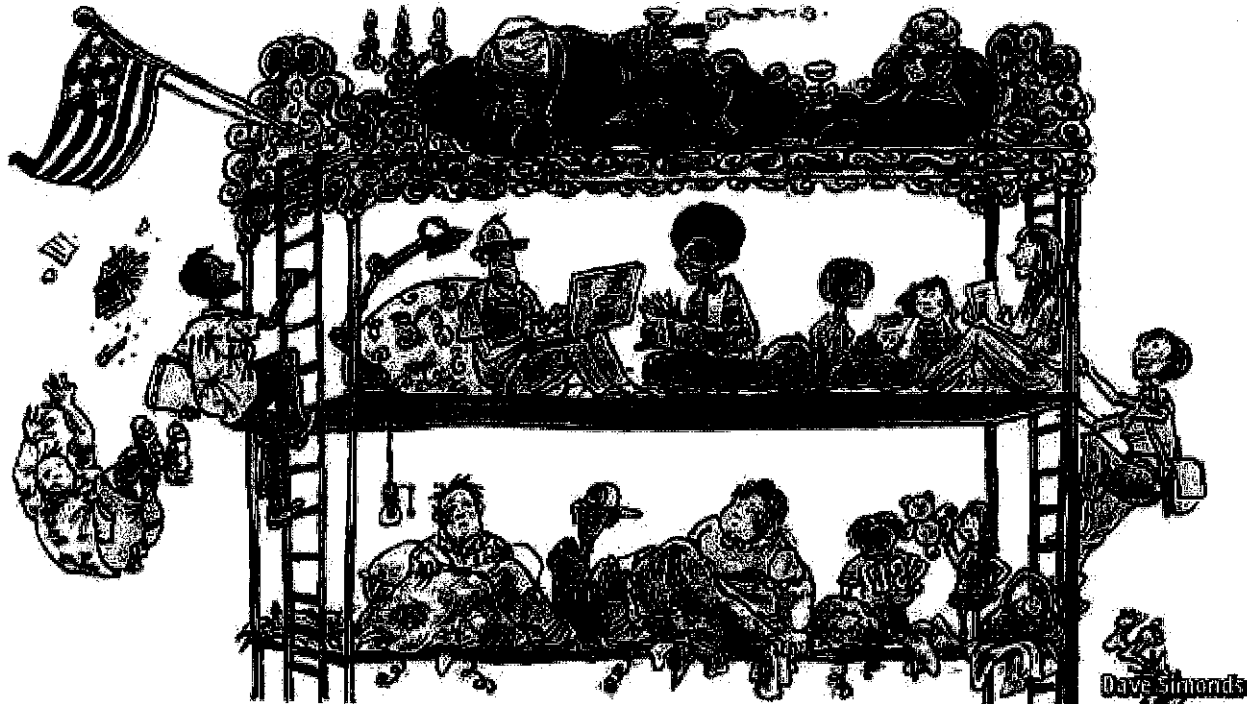
ABOUT THE AUTHOR

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Class in America

Mobility, measured

America is no less socially mobile than it was a generation ago



Print edition | United States

Feb 1st 2014 | WASHINGTON, DC

AMERICANS are deeply divided as to whether widening inequality is a problem, let alone what the government should do about it. Some are appalled that Bill Gates has so much money; others say good luck to him. But nearly everyone agrees that declining social mobility is a bad thing. Barack Obama's state-of-the-union speech on January 28th dwelt on how America's "ladders of opportunity" were failing (see [article \(http://www.economist.com/node/21595436\)](http://www.economist.com/node/21595436)). Paul Ryan and Marco Rubio, two leading Republicans, recently gave speeches decrying social immobility and demanding more effort to ensure poor people who work hard can better their lot.

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Harvard University and the University of

ley, is far bigger than any

PREVIOUS EFFORT TO measure social mobility.

crunch numbers from over

of people born between

1971 and 1993 (with all identifying

information removed). They focus on

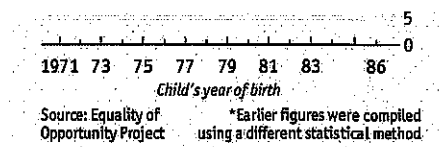
mobility between generations and use

several ways to measure it, including the

correlation of parents' and children's income, and the odds that a child born into the bottom fifth of the income distribution will climb all the way up to the top fifth.

They find that none of these measures has changed much (see chart). In 1971 a child from the poorest fifth had an 8.4% chance of making it to the top quintile. For a child born in 1986 the odds were 9%. The study confirms previous findings that America's social mobility is low compared with many European countries. (In Denmark, a poor child has twice as much chance of making it to the top quintile as

Gallup poll found that only 52% of Americans think there is plenty of opportunity for the average Joe to get ahead, down from 81% in 1998. It also jars with other circumstantial evidence. Several studies point to widening gaps between rich and poor in the kinds of factors you would expect to influence mobility, such as the quality of schools or parents' investment of time and money in their children. Cross-country analyses also suggest there is an inverse relationship between income inequality and social mobility—a phenomenon that has become known as the “Great Gatsby” curve.



What is going on? One possibility is that social stratification takes time to become entrenched. In a new book, Gregory Clark, an economic historian at the University of California, Davis, who tracks mobility over hundreds of years by following surnames, reaches far more pessimistic conclusions (see [article \(http://www.economist.com/news/books-and-arts/21595396-new-study-shows-just-how-slow-it-change-social-class-have-and-have-not\)](http://www.economist.com/news/books-and-arts/21595396-new-study-shows-just-how-slow-it-change-social-class-have-and-have-not)). Another, sunnier, explanation is that even as income gaps have widened over the past 30 years, other barriers to mobility, such as discrimination against women and blacks, have fallen.

Most likely, the answer lies in the nature of America's inequality, whose main characteristic is the soaring share of overall income going to the top 1% (from 10% in 1980 to 22% in 2012). The correlation between vast wealth accruing to a tiny elite and the ability of people to move between the rest of the rungs of the income ladder may be small—at least for now.

Whatever the explanation, it would be unwise to take much comfort from this study. For a start, since the gap between top and bottom has widened, the consequences of an accident of birth have become bigger. Second, if the gains of growth are going mostly to those at the top, that bodes ill for those whose skills are

region. They find that the probability of a child born into the poorest fifth of the population in San Jose, California making it to the top is 12.9%, not much lower than in Denmark. In Charlotte, North Carolina it is 4.4%, far lower than anywhere else in the rich world.

This geographic prism also offers some pointers on what influences mobility. The economists found five factors that were correlated with differences in social mobility in different parts of America: residential segregation (whether by income or race); the quality of schooling; family structure (eg, how many children live with only one parent); "social capital" (such as taking part in community groups); and inequality (particularly income gaps among those outside the top 1%). Social mobility is higher in integrated places with good schools, strong families, lots of community spirit and smaller income gaps within the broad middle class. Not a bad agenda for politicians to push, if only they knew how.

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DECEMBER 9, 2015

The American Middle Class Is Losing Ground

No longer the majority and falling behind financially

(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-01/) After more than four decades of serving as the nation's economic majority, the American middle class is now matched in number by those in the economic tiers above and below it. In early 2015, 120.8 million adults were in middle-income households, compared with 121.3 million in lower- and upper-income households combined, a demographic shift that could signal a tipping point, according to a new Pew Research Center analysis of government data.¹

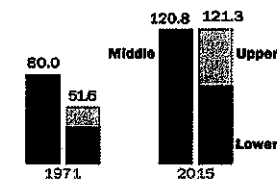
In at least one sense, the shift represents economic progress: While the share of U.S. adults living in both upper- and lower-income households rose alongside the declining share in the middle from 1971 to 2015, the share in the upper-income tier grew more.

Over the same period, however, the nation's aggregate household income has substantially shifted from middle-income to upper-income households, driven by the growing size of the upper-income tier and more rapid gains in income at the top. Fully 49% of U.S. aggregate income went to upper-income households in 2014, up from 29% in 1970. (<https://twitter.com/intent/tweet?>

The middle class is losing ground

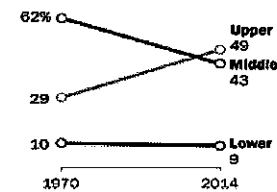
Middle-income Americans are no longer in the majority ...

Adult population by income tier (millions)



... and share of aggregate income held by middle-income households has plunged

% of U.S. aggregate household income



Note: The assignment to income tiers is based on size-adjusted household incomes in the year prior to the survey year. Shares may not add to 100% due to rounding.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements, 1971 and 2015

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[url=http://pewrsr.ch/21MiEeA&text=Fully%2049%25%20of%20U.S.%20aggregate%20income%20went%20to%20upper-income%20households%20in%202014%2C%20up%20from%2029%25%20in%201970](http://pewrsr.ch/21MiEeA&text=Fully%2049%25%20of%20U.S.%20aggregate%20income%20went%20to%20upper-income%20households%20in%202014%2C%20up%20from%2029%25%20in%201970)) The share accruing to middle-income households was 43% in 2014, down substantially from 62% in 1970.²

And middle-income Americans have fallen further behind financially in the new century. In 2014, the median income of these households was 4% less than in 2000. Moreover, because of the housing market crisis and the Great Recession of 2007-09, their median wealth (assets minus debts) fell by 28% from 2001 to 2013.

Meanwhile, the far edges of the income spectrum have shown the most growth. In 2015, 20% of American adults were in the lowest-income tier, up from 16% in 1971. On the opposite side, 9% are in the highest-income tier, more than double the 4% share in 1971. At the same time, the shares of adults in the lower-middle or upper-middle income tiers were nearly unchanged.

These findings emerge from a new Pew Research Center analysis of data from the U.S. Census Bureau and the Federal Reserve Board of Governors. In this study, which examines the changing size, demographic composition and economic fortunes of the American middle class, "middle-income" Americans are defined as adults whose annual household income is two-thirds to double the national median, about \$42,000 to \$126,000 annually in 2014 dollars for a household of three.³

Under this definition, the middle class made up 50% of the U.S. adult population in 2015, down from 61% in 1971.

(<https://twitter.com/intent/tweet?>

[url=http://pewrsr.ch/2iMiEaA&text=In%202015%2C%20the%20middle%20class%20made%20up%2050%25%20of%20the%20U.S.%20adult%20population%2C%20down%](http://pewrsr.ch/2iMiEaA&text=In%202015%2C%20the%20middle%20class%20made%20up%2050%25%20of%20the%20U.S.%20adult%20population%2C%20down%20)



Are you in the American middle class?

Find out with our income calculator. (<http://www.pewresearch.org/fact-tank/2015/12/09/are-you-in-the-american-middle-class/>)

Our new calculator allows you to see which group you fit in, first compared with all American adults, and then compared with other adults similar to you in education, age, race or ethnicity, and marital status.

The state of the American middle class is at the heart of the economic platforms of many presidential candidates ahead of the 2016 election. Policymakers are engaged in debates about the need to raise the floor on wages and on how best to curb rising income inequality. Meanwhile, President Barack Obama uses the term “middle-class economics” to describe his economic agenda.⁴ And a flurry of new research points to the potential of a larger middle class to provide the economic boost sought by many advanced economies.⁵

The news regarding the American middle class is not all bad. Although the middle class has not kept pace with upper-income households, its median income, adjusted for household size, has risen over the long haul, increasing 34% since 1970. That is not as strong as the 47% increase in income for upper-income households, though it is greater than the 28% increase among lower-income households.⁶

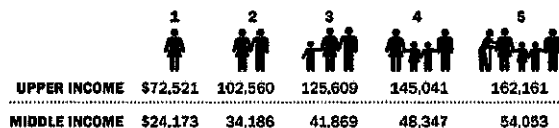
Moreover, some demographic groups have fared better than others in moving up the income tiers, while some groups have slipped down the ladder. The groups making notable progress include older Americans, married couples and blacks. Despite this progress, older Americans and blacks remain more likely to be lower income and less likely to be upper income than adults overall. Those Americans without a college degree stand out as experiencing a substantial loss in economic status.

In addition to changes in the size and economic standing of the American middle class, its demographic profile has changed significantly in recent decades. Some of the changes reflect long-term demographic trends in the U.S., as the middle class is in many ways a mirror of the broader population. For example, the aging of the country, the growing racial and ethnic diversity, the decline in marriage rates and the overall rise in educational attainment are all reflected in the changing composition of the middle class.

Who is middle income?

Who is “middle income” and “upper income”?

Minimum 2014 household income needed to qualify for middle- and upper-income tiers, by household size



Note: Middle-income Americans are adults whose annual size-adjusted household income is two-thirds to double the national median size-adjusted household income. Lower-income households have incomes less than two-thirds of the median and upper-income households have incomes that are more than double the median.

Source: Pew Research Center analysis of the 2015 Current Population Survey, Annual Social and Economic Supplement

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(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-02/) In this report, “middle-income” households are defined as those with an income that is 67% to 200% (two-thirds to double) of the overall median household income, after incomes have been adjusted for household size.⁷ Lower-income households have incomes less than 67% of the median, and upper-income households have incomes that are more than double the median.

The income it takes to be middle income varies by household size, with smaller households requiring less to support the same lifestyle as larger households. For a three-person household, the middle-income range was about \$42,000 to \$126,000 annually in 2014. However, a one-person household needed only about \$24,000 to \$73,000 to be middle income. For a five-person household to be considered middle income, its 2014 income had to range from \$54,000 to \$162,000.⁸

In addition, the lower-income group is divided into lowest-income households (with income less than half of the overall median) and lower-middle income households (with incomes from half to less than two-thirds of the overall median). In 2014, a lowest-income household with three people lived on about \$31,000 or less, and a lower-middle income household lived on about \$31,000 to \$42,000.⁹

Likewise, upper-income households are divided into upper-middle income households (with more than twice the overall median income and up to three times the median) and highest-income households (with more than three times the overall median income). In 2014, an upper-middle income household with three people lived on about \$126,000 to \$188,000, and a highest-income household lived on more than \$188,000.

Middle income or middle class?

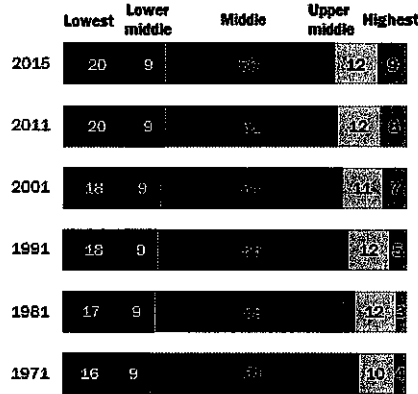
The terms “middle income” and “middle class” are often used interchangeably. This is especially true among economists who typically define the middle class in terms of income or consumption. But being middle class can connote more than income, be it a college education, white-collar work, economic security, owning a home, or having certain social and political values. Class could also be a state of mind, that is, it could be a matter of self-identification (Pew Research Center, 2008 (<http://www.pewsocialtrends.org/2008/04/09/inside-the-middle-class-bad-times-hit-the-good-life/>), 2012 (<http://www.pewsocialtrends.org/2012/08/22/the-lost-decade-of-the-middle-class/>)). The interplay among these many factors is examined in studies by Hout (2007 (http://ucdata.berkeley.edu/publication_record.php?recid=96)) and Savage et al. (2013 (<http://soc.sagepub.com/content/early/2013/03/12/0038038513481128>)), among others.

This report uses household income to group people. For that reason, the term “middle income” is used more often than not. However, “middle class” is also used at times for the sake of exposition.

The middle class shrinks

Share of adults living in middle-income households is falling

% of adults in each income tier



Note: Adults are assigned to income tiers based on their size-adjusted household income in the calendar year prior to the survey year. Figures may not add to 100% due to rounding.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

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(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-03/) The hollowing of the American middle class has proceeded steadily for more than four decades. Since 1971, each decade has ended with a smaller share of adults living in middle-income households than at the beginning of the decade, and no single decade stands out as having triggered or hastened the decline in the middle.

Based on the definition used in this report, the share of American adults living in middle-income households has fallen from 61% in 1971 to 50% in 2015. The share living in the upper-income tier rose from 14% to 21% over the same period. Meanwhile, the share in the lower-income tier increased from 25% to 29%. Notably, the 7 percentage point increase in the share at the top is nearly double the 4 percentage point increase at the bottom.

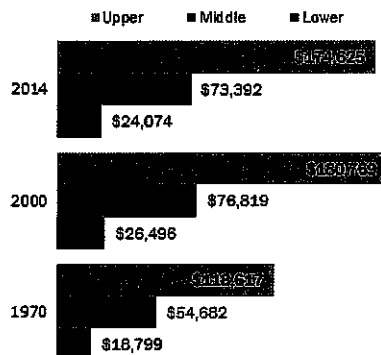
The rising share of adults in the lower- and upper-income tiers is at the farthest points of the income distribution, distant from the vicinity of the middle. The share of American adults in the lowest-income tier rose from 16% in 1971 to 20% in 2015. Over the same period, the share of American adults in lower-middle income households did not change, holding at 9%.

The growth at the top is similarly skewed. The share of adults in highest-income households more than doubled, from 4% in 1971 to 9% in 2015. But the increase in the share in upper-middle income households was modest, rising from 10% to 12%. Thus, the closer look at the shift out of the middle reveals that a deeper polarization is underway in the American economy.

The middle class falls further behind upper-income households financially

Growth in income for middle-income households is less than the growth for upper-income households since 1970

Median income, in 2014 dollars and scaled to reflect a three-person household



Note: Households are assigned to income tiers based on their size-adjusted income in the calendar year prior to the survey year.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements, 1971, 2001 and 2015

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(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-04/) The gaps in income and wealth between middle- and upper-income households widened substantially in the past three to four decades. As noted, one result is that the share of U.S. aggregate household income held by upper-income households climbed sharply, from 29% in 1970 to 49% in 2014.¹⁰ More recently, upper-income families, which had three times as much wealth as middle-income families in 1983, more than doubled the wealth gap; by 2013, they had seven times as much wealth as middle-income families.

Trends in income

Households in all income tiers experienced gains in income from 1970 to 2014. But the gains for middle- and lower-income households lagged behind the gains for upper-income households.

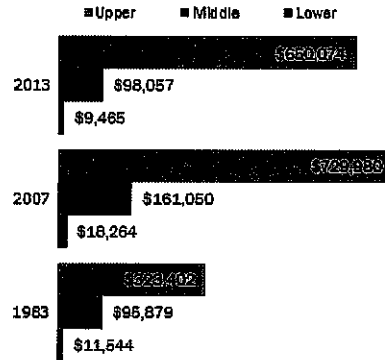
The median income of upper-income households increased from \$118,617 in 1970 to \$174,625 in 2014, or by 47%. That was significantly greater than the 34% gain for middle-income households, whose median income rose from \$54,682 to \$73,392. Lower-income households fell behind even more as their median income increased by only 28% over this period.

Although 2014 incomes are generally higher than in 1970, all households experienced a lengthy period of decline in the 21st century thanks to the 2001 recession and the Great Recession of 2007-09. The greatest loss was felt by lower-income households, whose median income fell 9% from 2000 to 2014, followed by a 4% loss for middle-income households and a 3% loss for upper-income households.

Trends in wealth

The wealth gap between upper- and middle-income families is growing

Median net worth of families, in 2014 dollars



Note: Net worth is the difference between the value of assets owned by a family and the liabilities it holds. Families are assigned to income tiers based on their size-adjusted income. Net worth is not adjusted for family size.

Source: Pew Research Center analysis of Survey of Consumer Finances public-use data

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(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-05/) The Great Recession of 2007-09, which caused the latest downturn in incomes, had an even greater impact on the wealth (assets minus debts) of families. The losses were so large that only upper-income families realized notable gains in wealth over the span of 30 years from 1983 to 2013 (the period for which data on wealth are available).¹¹

Before the onset of the Great Recession, the median wealth of middle-income families increased from \$95,879 in 1983 to \$161,050 in 2007, a gain of 68%. But the economic downturn eliminated that gain almost entirely. By 2010, the median wealth of middle-income families had fallen to about \$98,000, where it still stood in 2013.

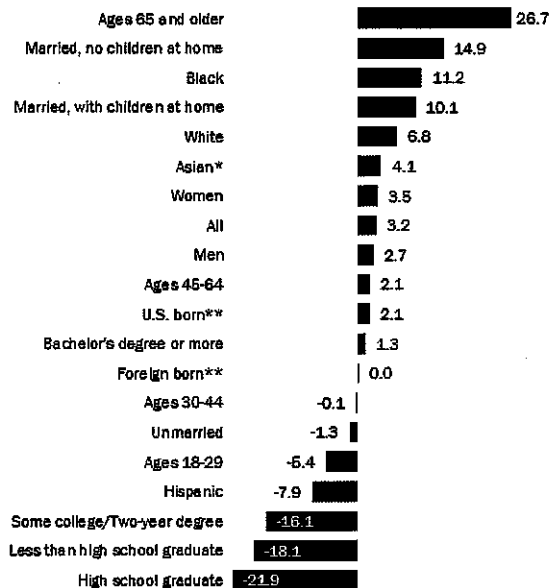
Upper-income families more than doubled their wealth from 1983 to 2007 as it climbed from \$323,402 to \$729,980. Despite losses during the recession, these families recovered somewhat since 2010 and had a median wealth of \$650,074 in 2013, about double their wealth in 1983.

The disparate trends in the wealth of middle-income and upper-income families are due to the fact that housing assumes a greater role in the portfolios of middle-income families. The crash in the housing market that preceded the Great Recession was more severe and of longer duration than the turmoil in the stock market. Thus, the portfolios of upper-income families performed better than the portfolios of middle-income families from 2007 to 2013. When all is said and done, upper-income families, which had three times as much wealth as middle-income families in 1983, had seven times as much in 2013.

Demographic winners and losers

Older people, married couples and black adults improved their income status more than other groups from 1971 to 2015

Change in a group's share that is upper income minus the change in the group's share that is lower-income (% point change)



Note: * Change was calculated from 1991 to 2015 because data were not available in 1971. ** Change was calculated from 2001 to 2015. Whites, blacks and Asians include only single-race non-Hispanics. Hispanics are of any race. Asians include Pacific Islanders.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

PEW RESEARCH CENTER

(http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/st_2015-12-09_middle-class-06/) As the middle has hollowed, some demographic groups have been more likely to advance up the income tiers (winners) while others were more likely to retreat down the economic ladder (losers).

Nationally, the share of adults in the upper-income tier increased from 14% in 1971 to 21% in 2015, a gain of 7 percentage points. Meanwhile, the share of adults in the lower-income tier also rose, from 25% to 29%, an increase of 4 percentage points. The difference – 3 percentage points – is the net gain for American adults. By the same measure, the net gain in economic status varied across demographic groups.¹²

The biggest winners since 1971 are people 65 and older. This age group was the only one that had a smaller share in the lower-income tier in 2015 than in 1971. (<https://twitter.com/intent/tweet?url=http://pewrsr.ch/21MiEa&text=People%2065%20and%20older%20were%20the%20only%20ones%20that%20had%20a%20smaller%20share%20in%20the%20lower-income%20tier%20in%202015%20than%20in%201971>)

Not coincidentally, the poverty rate among people 65 and older fell from 24.6% in 1970 to 10% in 2014.¹³ Evidence shows that rising Social Security benefits have played a key role in improving the economic status of older adults.¹⁴ The youngest adults, ages 18 to 29, are among the notable losers with a significant rise in their share in the lower-income tiers.

The economic status of adults with a bachelor's degree changed little from 1971 to 2015, meaning that similar shares of these adults were lower-, middle- or upper-income in those two years. Those without a bachelor's degree tumbled down the income tiers, however. Among the various demographic groups examined, adults with no more than a high school diploma lost the most ground economically.

Winners also include married adults, especially couples where both work. On the flip side, being unmarried is associated with an economic loss. This coincides with a period in which marriage overall is on the decline but is increasingly linked to higher educational attainment.

Gains for women edged out gains for men, a reflection of their streaming into the labor force in greater numbers in the past four decades, their educational attainment rising faster than among men, and the narrowing of the gender wage gap.¹⁵

Among racial and ethnic groups, blacks and whites came out winners, but Hispanics slipped down the ladder. Although blacks advanced in income status, they are still more likely to be lower income and less likely to be upper income than whites or adults overall. For Hispanics, the overall loss in income status reflects the rising share of lower-earning immigrants in the adult population, from 29% in 1970 to 49% in 2015. Considered separately, both U.S.-born and foreign-born Hispanics edged up the economic tiers.

Road map to the report



This is why the middle class can't get ahead

Nation Dec 1, 2014 12:16 PM EDT

Editor's Note: When's the last time you worked overtime? How about the last time you worked overtime *and* got paid for it? If you're in the middle class, probably not recently.

Only Americans who make less than \$23,660 a year are automatically eligible for time-and-a-half pay after working 40 hours a week. Today, that's only 11 percent of salaried workers. It didn't used to be this way, and it doesn't have to stay this way, argues venture capitalist Nick Hanauer.

Just like President Obama has taken executive action on **immigration**, Hanauer believes the president can and should take executive action to raise the salary threshold for overtime eligibility.

Hanauer's a billionaire who made his fortune as one of the original investors in Amazon. The current rules are written to benefit wealthy capitalists like him, he admits. So, you might ask, why does Hanauer care about overtime pay for people who make less, much less, than he does?

"Ironically," he writes, when "you earn less, and unemployment is high, it even hurts capitalists like me." That won't surprise Making Sen\$e readers who've heard his brand of "**middle-out economics.**" Closing the income gap wouldn't just benefit the middle class; a stronger middle class is the source of economic prosperity for everyone, he thinks. Watch him make that argument to Paul Solman below.

Top-down or middle-out? Debating the key to economic gro...



Making Sen\$e first **caught up with Hanauer** in Seattle last spring, where he was pushing for the city to pass a higher minimum wage. Just as the minimum wage is crucial to improving the economic outlook of low-wage workers, overtime pay is essential to the middle class's prosperity — and everyone else's. Hanauer explains why that matters to him, as a venture capitalist, in the following essay which first appeared in **Politico Magazine**.

— **Simone Pathe**, Making Sen\$e Editor

If you're in the American middle class—or what's left of it—here's how you probably feel. You feel like you're struggling harder than your parents did, working longer hours than ever before, and yet falling further and further behind. The reason you feel this way is because most of you *are*—falling further behind, that is. Adjusted for inflation, average salaries have actually *dropped* since the early 1970s, while hours for full-time workers have steadily climbed.

Meanwhile, a handful of wealthy capitalists like me are growing wealthy beyond our parents' wildest dreams, in large part because we're able to take advantage of your misfortune.

“

“Fair overtime standards are to the middle class what the minimum wage is to low-income workers.”

So what's changed since the 1960s and 1970s? Overtime pay, in part. Your parents got a lot of it, and you don't. And it turns out that fair overtime standards are to the middle class what the minimum wage is to low-income workers: not everything, but an indispensable labor protection that is absolutely essential to creating a broad and thriving middle class.

In 1975, more than 65 percent of salaried American workers earned time-and-a-half pay for every hour worked over 40 hours a week. Not because capitalists back then were more generous, but because it was the law. It still is the law, except that the value of the threshold for overtime pay—the salary level at which employers are required to pay overtime—has been allowed to erode to less than the poverty line for a family of four today. Only workers earning an annual income of under \$23,660 qualify for mandatory overtime. You know many people like that? Probably not. By 2013, just 11 percent of salaried workers qualified for overtime pay, according to a report published by the Economic Policy Institute. And so business owners like me have been able to make the other 89 percent of you work unlimited overtime hours for no additional pay at all.

In my defense, I'm only playing by the rules—rules written by and for wealthy capitalists like me. But the main point is this: These are rules that President Barack Obama has the power to change with the stroke of a pen, and with no prior congressional approval. The president could, on his own, restore federal overtime standards to where they were at their 1975 peak, covering the same 65 percent of salaried workers who were covered 40 years ago. If he did that, about 10.4 million Americans would suddenly be earning a lot more than they are now. Last March, Obama asked the Labor Department to update “outdated” regulations that mean, as the president put it in his memo, “millions of Americans lack the protections of overtime and even the right to the minimum wage.” But Obama was not specific about the changes he wanted to see.

So let me be specific. To get the country back to the same equitable standards we had in 1975, the Department of Labor would simply have to raise the overtime threshold to \$69,000. In other words, if you earn \$69,000 or less, the law would require that you be paid overtime when you worked more than 40 hours a week. That's 10.4 million middle-class Americans with more money in their pockets or more time to spend with friends and family. And if corporate America didn't want to pay you time and a half, it would need to hire hundreds of thousands of additional workers to pick up the slack—slashing the unemployment rate and forcing up wages.

The Obama administration could, on its own, go even further. Many millions of Americans are currently exempt from the overtime rules—teachers, federal employees, doctors, computer professionals, etc.—and corporate leaders are lobbying hard to expand “computer professional” to mean just about anybody who uses a computer. Which is almost everybody. But were the Labor Department instead to narrow these exemptions, millions more Americans would receive the overtime pay they deserve. Why, you might ask, are so many workers exempted from overtime? That’s a fair question. To be truthful, I have no earthly idea why. What I can tell you is that these exemptions work out very well for your employers.

Since the Republican Party's takeover of both houses of Congress in the midterm elections, all the talk in Washington has been about what won't get done because of gridlock between the White House and Capitol Hill. And Obama has talked of moving things forward by making unilateral changes to immigration law and climate protections.

But what about the most basic need of all—jump-starting the real economy by giving more middle-class Americans a fair shake? You would think that for a Democratic administration, raising the threshold back to where it once was would be a no-brainer, but I have grave doubts that administration officials are heading in this direction. In fact they are likely to raise the threshold only partly, and the Obama administration has not yet grappled with the broader question of how moves such as this are critical to helping to restore America's middle class. How do I know? Intuition. OK, I admit it, more than intuition. I've had conversations with administration officials about their forthcoming policy changes. And the scuttlebutt out of the Labor Department looks promising—for corporations. Not the middle class.

It is my sense, based on my conversations with government officials, that the administration is buying the line from corporate lobbyists who are arguing that such rule changes would devastate their bottom lines, forcing them to lay off workers. You know, the old trickle-down gambit—if workers earn more money, it would be bad for business, the economy and workers. The Obama team, in other words, is buying into the same discredited theories that were used to erode the threshold in the first place. Officials will very likely raise the overtime threshold just enough to say they're doing something, without actually doing much of anything for the middle class or our demand-starved economy at all.

“

“We capitalists will tell you that our increasing profits are the result of some complex

economic force with the immutability and righteousness of divine law. But the truth is, it is simply a result of a difference in negotiating power. As in, we have it. And you don't."

But here's a little secret from the corner office: The arguments that the corporate lobbyists are making—about how badly business will be hurt—just don't add up. What is adding up instead are the trillions of dollars in corporate profits and stock gains that corporations have made over the same decades that your hours climbed and your wages fell. From 1950 to 1980, during the good old days of U.S. economic might—the era in which the Great American Middle Class was created—corporate profits averaged a healthy 6 percent of GDP. But since then, corporate profits have doubled to more than 12 percent of GDP.

That's about a trillion dollars more a year in profit. And since then, wages as a percentage of GDP have fallen, you guessed it, by about the same 6 percent or 7 percent of GDP. Coincidence? Probably not. What very few Americans seem to understand is that that extra trillion dollars isn't profit because it had to be, or needs to be or should be. That extra trillion dollars is profit because powerful people like me prefer it to be. It could have been spent on your wages. Or it could have gone into discounts to you, the consumer. We capitalists will tell you that our increasing profits are the result of some complex economic force with the immutability and righteousness of divine law. But the truth is, it is simply a result of a difference in negotiating power. As in, we have it. And you don't.

Still, it's hard to blame the administration for doing so little to defend middle-class workers when most middle-class workers aren't even aware that they're being ripped off. But I know. And a lot of other business owners know. We just don't talk about it. You see, we capitalists will never actually ask you to work overtime. I don't even track your hours. I just make it clear that I trust you to get your job done in the time allotted. And then I hand you twice as much work as you can reasonably do in a 40-hour week. But this downward pressure on wages doesn't end there.

In the absence of a law requiring me to pay you overtime if you earn under a certain amount, you end up working harder—and the harder you work, the fewer employees I need. The fewer employees I need, the higher the unemployment rate. The higher the unemployment rate, the more leverage I have to "encourage" you to "do what it takes" to keep your job. And so you work even more hours, pushing unemployment up and wages down. And that, my friends, is one of the little tricks that keeps you poor and me rich.

This is why, in a recent Gallup-poll, salaried Americans now report working an average of 47 hours a week, not the allegedly standard 40. And 18 percent of you report working more than 60 hours per week. Yet at the same time, you're taking only about 77 percent of your paid time off. According to a survey commissioned by the U.S. Travel Association, U.S. workers now use an average of only 16 vacation days a year out of the nearly 21 days they earn—the lowest in more than four decades. Why? Often because they're terrified of working fewer hours and falling short of their employers' demands for ever more productivity. And many of these unused vacation days are forfeited: an estimated \$52.4 billion worth each year that goes to owners like me.

Now obviously, take away our license to force 10.4 million Americans to work extra hours for nothing, and smart capitalists like me would try to limit overtime as much as possible. I mean, time-and-a-half pay sure adds up fast! So many of you would be unlikely to see much of an immediate bump in take-home pay. Instead, we capitalists would be forced to hire millions more people to do the work you currently do for free. That would drive down unemployment. And a tighter labor market would drive up wages for the first time in 40 years.

“

“And just like raising the minimum wage would nudge up incomes for those workers earning somewhat above it, restoring the overtime threshold would push up incomes for many workers currently earning above \$69,000 too.”

So you see, when I say that the overtime threshold is the minimum wage for the middle class, I'm not just playing with words. In the exact same way that the erosion of the federal minimum wage—from an inflation-adjusted peak of about \$11 an hour in 1968 to only \$7.25 an hour today—has held down wages for low-income Americans, the simultaneous erosion of the overtime threshold has also held down wages for the American middle class. And just like raising the minimum wage would nudge up incomes for those workers earning somewhat above it, restoring the overtime threshold would push up incomes for many workers currently earning above \$69,000 too.

What Do Executives Do With All Their Money?

Of course, capitalists like me will tell you that when we cut into profits, the entire economy is damaged. And think of all the investment that corporate profits make possible. What do executives like me do with all that extra money? Why, invest in creating good-paying jobs for middle-class Americans like you, of course.

Unfortunately, that's not exactly true either. Mostly, we use profits to manipulate our stock price for personal gain.

Here's a little history that will explain how: Back in the 1970s, when the share of total U.S. income that the top 0.1 percent of households got was at a 100-year low, corporate executives received most of their compensation in the form of a salary, just like you. But since the late 1980s, the largest component of income for the top 0.1 percent has been stock-based pay. This shift toward compensation via stock options and grants means that CEOs are directly incentivized to increase the share price of their company's stock.

MORE FROM MAKING SENSE

What contemporary capitalism needs to learn from fairy tales

Building better products that lead to higher sales and fatter margins is the traditional way for a CEO to push up the price of his stock. But that's so old-fashioned. So yesterday. Instead, ever since a former Wall Street CEO in charge of the Securities and Exchange Commission back in 1982 loosened the rules that define stock manipulation (beginning to see a historical pattern here?), U.S. corporations have increasingly resorted to stock buybacks to prop up share prices. According to a report in the Harvard Business Review by professor William Lazonick—“**Profits Without Prosperity**”—over the past 10 years, America's largest companies, those making up the S&P 500, have devoted a staggering 54 percent of their profits to buying back shares, reducing the total number outstanding and thus increasing the value of the remaining shares owned by capitalists like me.

A stock buyback, in case you are wondering, is when a public company buys its own shares. “Why on earth would a company do that?” you ask. To push the stock price higher, of course—which benefits senior managers who are all paid in stock—rather than, say, investing in R&D or in building new factories. Or paying you overtime for all those extra hours you work.

I want to be clear: I've done stock buybacks. We all do it. In order to be a public company today, you practically can't avoid it, despite how obviously corrupt it is. Ever wonder why the stock market is soaring again, while the real economy is just slogging along? Buybacks are a big reason. According to data compiled by Mustafa Erdem Sakinç of The Academic-Industry Research Network, public U.S. corporations of all sizes have spent an astonishing \$6.9 trillion on stock buybacks over the past decade alone. \$6.9 trillion! That's about enough to run the entire federal government—for two years! Let me tell you how it works. Your institutional investors will call you, maybe after some bad news that drives your stock down a bit, and they'll say, "Hey, your stock is undervalued, don't you think? And if you guys won't support your own stock, then why should we?" Hint, hint. Nudge, nudge. But you will not be able to grasp the size of this, relative to your situation, without some examples.

Take low-wage king Wal-Mart. Over the past 10 years, according to data compiled from its public filings, Wal-Mart has spent more than \$65.4 billion on stock buybacks—about 47 percent of its profits. That's an average of more than \$6.5 billion a year in stock buybacks, enough to give each of its 1.4 million U.S. workers a \$4,670-a-year raise. It is also, coincidentally, an amount roughly equivalent to the estimated \$6.2 billion Wal-Mart costs U.S. taxpayers every year in food stamps, Medicaid, subsidized housing and other public assistance to its many impoverished employees.

And further up the wage scale there's IBM. Once an icon of innovation for its proud legacy of investing in basic research, the 21st-century IBM has instead chosen to spend an astounding \$117.5 billion on stock buybacks since 2003—a remarkable 89.4 percent of total profits.

What else might we have done with that \$6.9 trillion other than manipulate stock prices? Well, we could have forgiven the \$1 trillion in student debt currently crippling the purchasing power of young Americans; funded the looming \$3.6 trillion maintenance backlog on our roads, bridges, dams, schools and the rest of our nation's public infrastructure; boosted our nation's annual R&D expenditures by more than 20 percent a year; and still have enough money leftover to buy every man, woman and child in the U.S. a round of drinks. Every Friday night. For the next 15 years.

MORE FROM MAKING SENSE

Are you paid to look busy?

Or, we could spend the approximately \$700 billion in stock buybacks per year putting all 9 million unemployed Americans back to work at more than 2.5 times our nation's pitiful \$28,000 median wage.

If this sounds a little bit like a Ponzi scheme, that's because it is. I buy my shares back from investors and speculators, who then use that money to buy more shares. We get richer riding this merry-go-round, but the money never touches the real economy. Perhaps you've wondered how the stock market hit 17,000 while, at the same time, five years after the end of the Great Recession, the real economy that you live in still kind of sucks? Stock buybacks.

So if you're still thinking that higher wages or fewer hours of overtime for you and your coworkers might bankrupt the public company you work for, I encourage you to do this: Send an email to your CFO and ask him or her how much your company has spent on stock buybacks over the past 10 years in both dollars and in percent of pretax profits? Seriously. Do it right now. And while you're waiting for a reply from your CFO, let's have an honest conversation about the way the economy really works.

But Don't Rich People Create Jobs?

Forget everything you've been told about how the rich are job creators—that the more money we have, the more we invest, the more jobs we create, and the better the economy is for everybody. As our epidemic of stock buybacks clearly illustrates, capitalists like me already have more money than we know what to do with. Indeed, smart investors are struggling to cope with what Bain & Co. has termed “capital superabundance,” marked by a tripling of global capital since 1990 despite the ongoing stagnation of the underlying economy. Meanwhile, even as this glut of financial capital continues to grow, new technologies are dramatically reducing demand for capital.

It once cost billions to finance a new steel mill, the symbol of the old economy. But the new economy just isn't nearly as capital-intensive—in other words, companies don't need anything like this huge amount of reinvestment in stocks. For example, take Amazon. I was an early investor—it's where I made much of my fortune. How much capital did Jeff Bezos initially raise to start up Amazon? One million dollars. Last year, Amazon reported over \$74 billion in sales. It is this “investment supply–demand imbalance,” writes Bain, that is decisively shifting power “from owners of capital to owners of good ideas.”

In the information economy of the 21st century, it is not capital accumulation that creates growth and prosperity, but, rather, the virtuous cycle of innovation and demand. The more innovators and entrepreneurs we have converting ideas into products and services, the higher our standard of living, and the more people who can afford to consume these products and services, the greater the incentive to innovate. Thus, the key to growth and prosperity is to fully include as many Americans as possible in our economy, both as innovators and consumers.

In plain English, the real economy is you: Raise wages, and one increases demand. Increase demand and one increases jobs, wages and innovation. The real economy is simply the interplay between consumers and businesses. On the other hand, as we've learned from the past 40 years of slow growth and record stock buybacks, not even an infinite supply of capital can persuade a CEO to hire more workers absent demand for the products and services they produce.

The twisted irony is, when you work more hours for less pay, you hurt not only yourself, you hurt the real economy by depressing wages, increasing unemployment and reducing demand and innovation. Ironically, when you earn less, and unemployment is high, it even hurts capitalists like me.

Which brings us back to President Obama. He is hearing daily from corporate executives and lobbyists that raising your wages would be bad. For you. So he won't, unless he hears from you—all of you—demanding the same fair overtime protections for today's middle class that were once enjoyed by your parents.

Contact the White House. Do it for yourself. Or, at the very least, have the courtesy to do it for me. Because honestly, I'm beginning to run out of customers. In the meanwhile, I've got to go buy back more shares ahead of the next earnings report.

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Alfred P. Sloan Foundation

By – Nick Hanauer

Nick Hanauer is a Seattle-based entrepreneur, venture capitalist, philanthropist and author.

 **@NickHanauer**



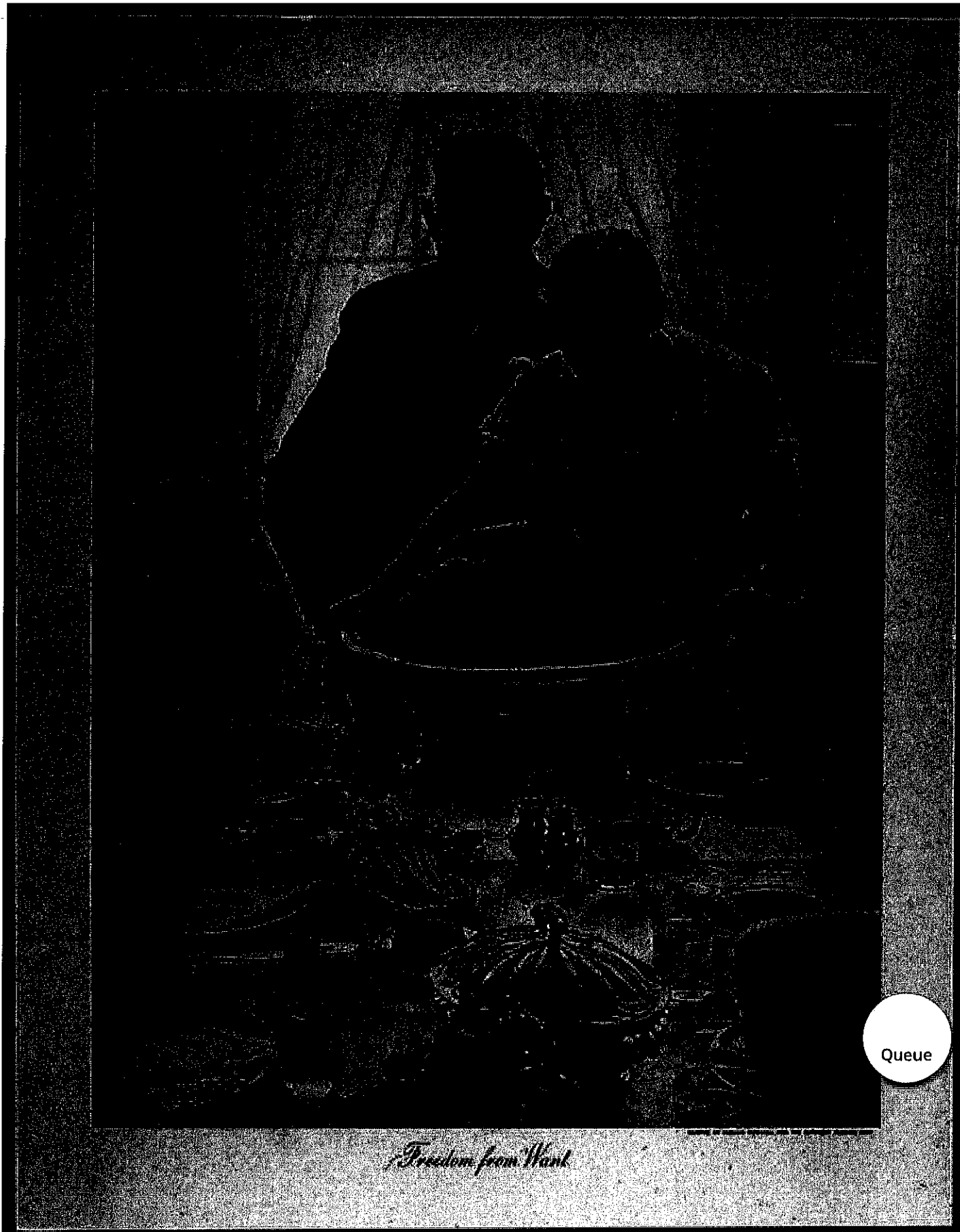
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#3: Rags to Riches

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"Freedom from Want" from Norman Rockwell's "Four Freedoms" Series, 1943.
(U.S. National Archives and Records Administration)

Oct 13, 2016

Summary **Transcript**

Transcript

BOB GARFIELD: This is On the Media. I'm Bob Garfield.

BROOKE GLADSTONE: And I'm Brooke Gladstone -

[MUSIC UP & UNDER]

- with Part 3 of our series, "Busted: America's Poverty Myths." This one is about the biggest myth of all.

[CLIP/TONY BENNETT SINGING "RAGS TO RICHES"]:

Must I forever be a beggar
Whose golden dreams will not come true
Or will I go from rags to riches
My fate is up to you

[MUSIC UP & UNDER]

BROOKE GLADSTONE: The upward mobility myth, the one that paints America as a nation where everyone has an equal chance to surmount any obstacle and advance from rags to riches. It's an idea sown on our shores by a Founding Father, himself born into poverty, Benjamin Franklin.

JILL LEPORE: He's the youngest of ten sons and his sister Jane is the youngest of seven daughters, Benny and Jenny they're called when they're little. Their father's a candle maker and a soap boiler.

BROOKE GLADSTONE: Historian Jill Lepore, author of *Book of Ages: The Life and Opinions of Jane Franklin*, writes that Jenny and Benny are close. He teaches her to read.

JILL LEPORE: They spend their childhood making soap and dipping candles. Benjamin is an apprentice to his brother who's a printer. And when he's 16 or 17 he runs away to Philadelphia and he eventually opens up his own printing shop, and he does so well that Franklin actually manufactures most of the paper in the colonies in the 18th century. He opens up and owns a whole lot of paper mills.

Paper in the 18th century is made from rags, and so Franklin, in his newspaper, *The Pennsylvania Gazette*, prints these little notices, Bring in Your Rags, Cash for Rags.

BROOKE GLADSTONE: Ben sends them to his mill to be pulped.

JILL LEPORE: Franklin though also gets the license in Pennsylvania to print paper currency. [LAUGHS] So Franklin literally turns rags to riches. And that's really where the notion comes from.

BROOKE GLADSTONE: Thus enriched and, of course, esteemed for his service to the new nation, he recounts his rags to riches saga in a groundbreaking memoir.

JILL LEPORE: The only sort of stories of lives, at that point, are the stories of the great, of kings and princes. And Franklin starts out as a pauper, essentially, so he publishes this autobiography to be a model for young men. He wants to tell the story of having made his own rise.

[MUSIC UP & UNDER]

BROOKE GLADSTONE: This is not to slight the man who helps draft the Declaration of Independence, invents the lightning rod, his stove, bifocals, the flexible catheter and the glass harmonica you're hearing now, and who also launched the first lending library and also the first publicly-supported hospital. Clearly, Ben does not want the poor struggling for books and medicine, but as a general principle he's okay with struggle. He famously wrote, "The best way of doing good to the poor is not making them easy *in* poverty but leading or driving them *out* of it" and that the less was done for them, the more they did for themselves.

JILL LEPORE: He's responsible for himself and his great success and his success alone, and people in his life that depend on him or on whom he may have depended

for support, he erases them. And that becomes so much a part of the literary tradition of American autobiography.

BROOKE GLADSTONE: One notable absence from Ben's book, his sister Jane, married off at 15 to a ne'er-do-well with a history of mental illness passed on to two of their sons. And when most of her 12 children die too young, Jane raises their children and their children's children.

JILL LEPORE: Her whole life, she's constantly trying to scabble together some kind of a living by taking in borders, taking in laundry, making the family soap. But the fascinating thing in remembering how important that story is to our sense of the American past is Benjamin Franklin's sister endures the fate that almost everybody else in the 18th century does. She remains in the station to which she's born.

BROOKE GLADSTONE: And she writes with love to Ben that some impediments are just too hard to break through and that far too much potential is squandered through an accident of birth.

JILL LEPORE: And that's the story of Jane Franklin. It's like she's this brilliant woman struggling, you know, to figure out how to get firewood for her many, many, many, many children, taking care of Franklin's parents, whom he abandoned, who are sick and destitute in their old age. He comes to Boston and erects a giant monument to their memory that really just celebrates him and his generosity.

[BROOKE LAUGHS]

The, the historical record is asymmetrical. We know so much more about the people who thrive and so little about the people who don't thrive. And you really have to think hard, what is the story telling me and what is it not telling me? What is Franklin's autobiography telling me and what is it not telling me? Who's missing here?

BROOKE GLADSTONE: But ever since, the self-made man has been the avatar of the American spirit, especially in politics, starting with old Hickory Andrew Jackson right up to Hillary Clinton citing her drape-making dad and Donald Trump claiming he grew his fortune from nothing, but a - small multimillion dollar loan from his father.

Likewise, the 2004 election featured Dick Gephardt, son of a milk truck driver, John Edwards, son of a mill worker and Barack Obama, son of a goat herder, leading Jon Stewart to ask Daily Show Senior Political Analyst Stephen Colbert –

[CLIP]:

JON STEWART: Are they laying this on a little thick? Does it ring hollow, if everyone trumpets this bootstrap story?

STEPHEN COLBERT: Wow!

[AUDIENCE LAUGHTER]

That's pretty cynical, Jon. I mean, I for one connected with what they were saying. But, then again, I myself am from humble origins. My father was a poor Virginia turd miner.

[LAUGHTER]

JON STEWART: I'm, I'm sorry?

STEPHEN COLBERT: He mined turds, Jon!

[LAUGHTER]

And that's why I believe in the promise of America, that I, the son of a turd miner, could one day leave those worthless hicks behind, while still using their story to enhance my own credibility.

[AUDIENCE LAUGHTER/END CLIP]

BROOKE GLADSTONE: But if the ancient and the universal bootstrap story was planted on *our* shores by Ben Franklin, it was codified some 80 years later by an essentially defrocked Unitarian minister named Horatio Alger, known first and best for his serialized novel called, *Ragged Dick*.

[SHINE! SONG]:

CHAPIN: A hardworking boy

A genuine joy

Devoted and loyal

I hate him!

HIGGINS: Not lazy and sly

And won't tell a lie

He's nothing like I am

I hate him!

[END CLIP]

BROOKE GLADSTONE: That's from the musical "Shine!" based on the book. Dick Hunter is a poor shoeshine boy but unlike his fellow bootblacks, he's hardworking and moral.

[CLIP]:

DICK HUNTER, SINGING: I'll climb and when I've clothing that fits, I have a hunch I'll lunch with J.P. Morgan.

[END CLIP]

JILL LEPORE: Frankly, he's kind of a cheap knockoff of Dickens.

BROOKE GLADSTONE: Jill Lepore.

JILL LEPORE: This is how the popular culture understood the economic opportunities that existed in the United States at the time.

[MUSIC UP & UNDER]

There was a board game called The Office Boy, and you start with your little token at Office Boy, and what you're trying to get to at the center of the board, if you follow the serpentine path, is Owner of the Company. And, as you go along, if you land on a, a virtue like Work Extra Hours that day, you get to jump ahead to the next square. And if you land on a vice, which is like you take to drinking or something, you, you move back.

BROOKE GLADSTONE: And *Ragged Dick* and late 19th century games like The Office Boy, The Drummer Boy, The Sailor Boy, The Messenger Boy, and so on, you succeed through the exercise of virtue. But it still depends on landing on the right square. In fact, the success of Alger's heroes always depends on being in the right place, at the right time. Their fates hang on random encounters with generous strangers. But that's a fable. In some places, there never is a right time.

Take Vinton County, Ohio, where nearly a quarter of its dwindling population lives in poverty.

JACK FRECH: There are no major roads that go through. There are only two traffic lights. The main county seat probably has, you know, a couple of thousand people living in it. But, other than that, it's just all very isolated.

BROOKE GLADSTONE: Jack Frech who, for decades, was welfare director in Ohio's Athens County, says that having no people means having no jobs.

JACK FRECH: A couple of years ago, following some food stamp cuts by the Obama administration, the only grocery store in Vinton County closed. So, I mean, those kind of things, it's [LAUGHS] hard for people to imagine.

BROOKE GLADSTONE: No grocery store in the whole county.

JACK FRECH: No, they only had one, and it closed.

BROOKE GLADSTONE: Natasha Boyer is from Hamden, population 800, in Vinton County, a place that barely exists. She's just out of high school, with a diploma, a baby and a burning desire to make good. So, like *Ragged Dick*, she goes to the big city, in this case, a suburb of Columbus, where she secured an assistant manager

job at a Domino's Pizza franchise, opening and closing the store, making pizza, pretty much everything.

NATASHA BOYER: As I was coming to go out to work, I was on the phone with my son. I couldn't afford childcare, so he lived with his grandparents down in Vinton County, in my hometown.

BROOKE GLADSTONE: Mm-hmm.

NATASHA BOYER: So I was talking to him on the phone and I opened my door and I seen there was a letter that fell down and I was like, oh, okay. It was an eviction notice and they said that I had three days to get out, if I didn't pay the rent. This was only my second month being in Columbus. I had just got my feet. I had been sick prior, double pneumonia in both lungs and I had had bronchitis. I had been off work for a week and half.

Domino's does not do sick leave. You can be with them 20 years and you don't get sick leave, unless you are a general manager. So I'd missed a week of work and that's why I didn't think I was gonna have the money until later that month, but I didn't think it was gonna be a problem. I had let them know, they said that it was fine and I still get this notice, on a Sunday morning.

I just was talking to my son and I had him give the phone to my grandparents and I told them, I don't know what to do. They was like, well, you need to move back down, not even a month and a half after I'd moved up there.

BROOKE GLADSTONE: How did you feel when you saw that note?

NATASHA BOYER: An emptiness, a feeling of failure. I was terrified because I didn't want to move home and lose any opportunities that I already had with Domino's because I felt like was gonna go further with them. And then I thought moving back home I'm gonna be starting from rock bottom. My mom had once said that she didn't believe that I would make it even two months. And I was like, okay, this is, this is her being correct about me.

BROOKE GLADSTONE: Then, out of the blue, comes a random act of kindness, straight out of Horatio Alger, except, not really, because virtue has nothing to do

with it. On the day of the crushing eviction notice, Natasha opens up the store, she's soon joined by Paula, the delivery person. Then the owner rings, saying that Paula is to deliver a pizza to a nearby church, large pepperoni, price 5.99.

NATASHA BOYER: That Paula had to take it out there, go onstage and do something, he said he didn't know what. I told her, I says, I don't want to go onstage, I don't want to be in front of a bunch of people I don't know. So I called Tom and he said, well, you can either take it or - you can take it. And I was like, all right.

[BROOKE LAUGHS]

[LAUGHS] It's only a - about a five-minute drive.

BROOKE GLADSTONE: We she arrives, she's instructed to wait and then to follow a man onstage. He asks her name -

[CLIP]:

PASTOR STEVE MARKLE: Your name is?

BROOKE GLADSTONE: - says he's teaching his church about giving, about random acts of kindness. And then he asks -

PASTOR MARKLE: What's the best tip you've ever gotten, like ten dollars? Well, here's fif- this is 15 dollars, so 5.99, oh, so that's like a \$9 tip.

BROOKE GLADSTONE: She says, thanks very much, and figures that's it.

NATASHA BOYER: Then he said, well, hold on, we've, we've got a gift for you, and this lady that was standing behind me pulled out a thick wad of money. And I just kind of looked at him, and he's like, this is yours.

PASTOR MARKLE: From our three services combined, we collected this much money. This is 1,000 -

NATASHA BOYER: Instantly, I started crying.

[SOUND OF CLAPPING]

I had about dropped to my knees. It still makes me want to cry, to this day.

[CLAPPING/CHEERS/END CLIP]

I drove back to the store in tears and when I got there I told Paula, and she's like, you're not gonna have to leave, are you? I said, no, I'm not gonna have to leave. It was one of the best things that has ever happened to me.

BROOKE GLADSTONE: The church video goes viral and Natasha's story is covered on NBC, Fox, *The Washington Post*, and so on.

[CLIPS]:

MALE CORRESPONDENT: An Ohio church surprised a pizza delivery driver with a Random Act of Kindness, a tip of a thousand –

MALE CORRESPONDENT: The delivery woman – you see her there – she lives in an apartment with her young son and she was actually short on money to pay her rent at the time.

FEMALE CORRESPONDENT: The reverend asked her about the biggest tip she ever got, she said 10 bucks. Well, she got a lot more than that [LAUGHS] this time. Look at her.

[END CLIP]

NATASHA BOYER: I made it, nine months up there before I left.

BROOKE GLADSTONE: It was nine months before you left Columbus.

NATASHA BOYER: Yeah.

BROOKE GLADSTONE: So it didn't buy you –

NATASHA BOYER: I had actually let someone move in with me. I really don't want talk too much about it, but they ended up ultimately screwing me over and I did end up losing the place. But I chose to let it happen. They were close to me. I'm not that type of person. I can't kick somebody out. So I moved back home.

BROOKE GLADSTONE: So you feel like if you had made different choices that thousand dollars could have made a difference?

NATASHA BOYER: If I would have just stuck to being me and my boyfriend and not letting friends move in, I'd probably be where I want to be.

BROOKE GLADSTONE: What do you think about the church that did that?

NATASHA BOYER: I, I love every single one of them people. I don't know any one of 'em, but I love them with my whole heart.

BROOKE GLADSTONE: Now, it was a lesson for them. It was also publicity for the church and the pastor. Do you worry that perhaps people might think, well, let private citizens take care of public needs, 'cause, you know, we all have good hearts?

NATASHA BOYER: Right.

BROOKE GLADSTONE: Do you think that you could have gotten some help from the state?

NATASHA BOYER: No. I had already been looking into aid through the state. I had to have three months' worth of electric bills or something. I hadn't even been there three months. That was the first time I'd had anything in my name. I had tried Job and Family Services, I had Care or something.

BROOKE GLADSTONE: Mm-hmm.

NATASHA BOYER: They couldn't help me because I had to have so many months of documentation that I had been living there. I'd only been there a month and a half, so I didn't have enough proof that I could pay them back or work off so many hours of something, and I was already working up to 70 hours a week at work. I couldn't make up hours on top of that. I would never see my son. So I, I was facing that, if I

don't pray hard enough then I might not have my place, if I don't get enough money. And when that happened, it took those problems away. They didn't have to do that. They didn't have to give me that. Even when they seen me, they could have said, no, she has tattoos, don't, don't do it. Whether I needed it or not, they had no idea. And I honestly do not believe that they did it for publicity. It was, I truly believe, a random act of kindness.

BROOKE GLADSTONE: Now, at the wise old age of 21 -

[BOYER LAUGHS]

- what kind of work are you looking for?

NATASHA BOYER: I honestly want to become a general manager. That, that's been my ultimate goal, whether that be with Domino's or it be with another company. I want to go back to school for business management. I want to own my own business, at some point.

BROOKE GLADSTONE: Do you feel poor?

NATASHA BOYER: I do, because I feel like I've worked and worked and worked to, to get where everybody else is and I'm not there yet.

BROOKE GLADSTONE: Do you think that you're to blame for that at all?

NATASHA BOYER: I'm not gonna say I deserve to be poor and I'm not gonna say I deserve to be rich. I feel like you get what you work for.

BROOKE GLADSTONE: So you think life is fair.

NATASHA BOYER: Not always, that's for sure. Like, like down-home, they'll look at you - I've got my nose pierced, they'll tell me I have to take it completely out. There's jobs down-home that won't hire me because I've got tattoos on my arms. And yes, these are decisions that I've made, but I feel like everybody should have their right of expression. And that is something else that falls under not being fair because there are people that do get discriminated for tattoos, piercings, their hair color, even.

BROOKE GLADSTONE: Race?

NATASHA BOYER: Oh yes, still. My boyfriend is black and he pretty much is the only black man down home. He gets stared at. People will point at him.

But I do have a son. I want his life to be better than what I lived, and that's why have to stay so optimistic at this point in my life. I do feel poor but I feel like if you find somebody that can help you through all that, not necessarily with money, you have that one person that says they're going to be there and they prove it, you're gonna make it through as long as you look forward and you don't pay attention to what's happened in your past or their past. I've had horrible things that's happened to me when I was growing up. When I had my son all that went away. Everything in my past went away.

And then I had met my boyfriend. He's not spent a night away from me. He's always there. He takes my son as his. I know he is not gonna leave me and he's not gonna leave my son. My son's life's already better because I never had my father. I just got to keep looking forward no matter what the situation is, whether I'll be living in a tent or I'm living in a mansion. It's always gonna get better if you, you think positively.

BROOKE GLADSTONE: As it happens, the incident at Sycamore Creek Church was one of many similar church lessons and random acts of kindness last year.

[CLIPS]:

PASTOR: God has chosen you for this evening -

CONGREGANTS: Amen.

PASTOR: - to give you a tip of \$1300.

[CHEERS]

WOMAN: I want you to know, tonight you have 1600 -

[CHEERS]

MAN: All of these people chipped in. We think this is a record, but we are going to give you a tip of \$3,400 –

[CHEERS/END CLIP]

BROOKE GLADSTONE: As for Natasha, one could argue that her loyalty to a friend in need, one of Alger's unassailable virtues, is precisely what did her in. And, in fact, this happens again and again. There's a body of research, starting in 1970 with anthropologist Carol Stack's book *All Our Kin*, that traces the networks of kinships that poor people rely on to survive, by sharing funds and child care, even basic goods. But those networks also impede upward mobility because good fortune is expected to be shared. Your choice then is either to sever those bonds or distribute the fruits of your lucky break until it's too small to make a difference.

But there are lucky breaks and then there is real luck, luck so decisive yet so pervasive, you hardly know it's there because it's always been there. Consider the phrase, "Lift yourself up by your bootstraps." I mean, obviously, it can't be done. You can't defy gravity by tugging on your shoes. In fact, once that phrase was a metaphor for the impossible. For example, in 1860, the year of *Ragged Dick*, a metaphysics professor named William Hamilton wrote that trying to analyze one's own mind is, quote, "an effort analogous to one who would lift himself up by his own bootstraps." But that is precisely what one must do to demolish the bootstrap myth, once and for all.

PROF. GREGORY CLARK: More than half of your outcome in life is already determined at the point that you're born.

BROOKE GLADSTONE: Economist Gregory Clark, speaking last year with C-SPAN's Peter Slen about his book, *The Sun Also Rises*. Clark used surnames to track social mobility across the world and found that it took many generations for families, both rich and poor, to regress to the mean, to become average. True, it's not a seamless progression. Your father may be rich and you may be broke but your children will likely move back up the ranks.

PROF. GREGORY CLARK: Just like the force of gravity being pretty much everywhere on the planet, the force of social mobility seems to operate in the same way across

all the societies we can observe.

BROOKE GLADSTONE: Even if you emigrate, your status, high or low, follows along.

PETER SLEN: Professor Clark, what does all of your research mean to the so-called "American dream"?

PROF. GREGORY CLARK: I have to say that I'm afraid that America is not a special society. It's not an immobile society, it's just not any better than medieval England. And so, I think that does imply an end to the American dream. [LAUGHS]

BROOKE GLADSTONE: In fact, you are twice as likely to achieve the American dream in Canada, though the likelihood of achieving it here varies hugely from county to county. Stanford Economist Raj Chetty has tracked millions of families and found that a child in San Jose has an impressive 13% chance to move from the bottom fifth income bracket to the top, as great a chance as any place on earth. Meanwhile, a child in Memphis has a 3% chance. But if a family moves from a low-mobility area to a higher one, their children's chances rise, and the younger they move, the better they do. Chetty charted it year-by-year among siblings.

RAJ CHETTY: Every extra year you spend in a better environment makes you more likely to go to college, less likely to have a teenage pregnancy, makes you earn more as an adult, makes you more likely to have a stable family situation.

BROOKE GLADSTONE: That was Chetty on PBS *NewsHour*. He says the worst-performing neighborhoods are correlated with segregation, income inequality, single-parent families, poor schools and lack of social cohesion. These neighborhoods are very often black and overlooked when officials set budget priorities. Chetty says that government can effectively begin to boost mobility by investing in and fixing those neighborhoods. Meanwhile, it can do a better job of moving families, especially with young kids, out of them.

RAJ CHETTY: Twenty-five percent of the gap in earnings between blacks and whites is driven simply by the fact that blacks tend to grow up in neighborhoods that are much worse, on average, than whites.

BROOKE GLADSTONE: The government already spends more than \$20 billion annually on housing vouchers calculated to enable poor families to rent in better areas, but they can take years, even decades, to get. And when they get them, most states allow landlords to refuse vouchers, and they often do. So these families wind up where they started, paying a savvy slumlord much more for much less because there's no place else for them to go.

[CLIP]:

REV. DR. MARTIN LUTHER KING, JR.: In 1863, the Negro was told that he was free as a result of the Emancipation Proclamation being signed by Abraham Lincoln. But he was given any land to make that freedom meaningful.

BROOKE GLADSTONE: Martin Luther King at the National Cathedral in Washington, 1968.

REV. DR. MARTIN LUTHER KING, JR.: It was something like keeping a person imprisoned for the number of years and suddenly discovering that that person is not guilty of the crime for which he was convicted. And you thus go up to him and say, "Now you are free" but you don't give him any bus fare to get to town. And the irony of it all is that at the same time the nation failed to do anything for the black man, it was giving away millions of acres of land in the West and the Midwest, which meant that it was willing to undergird its white peasants from Europe with an economic floor. But not only did it give the land, it built land-grant colleges to teach them how to farm. Not only that, it provided low interest rates so that they could mechanize their farms. And to this day, thousands of these very persons are receiving millions of dollars in federal subsidies every year *not* to farm. And these are so often the very people who tell Negroes that they must lift themselves by their own bootstraps. It's all right to tell a man to lift himself by his own bootstraps, but it is a cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps.

[END CLIP][MUSIC UP & UNDER]

BROOKE GLADSTONE: In 2003, the National Bureau of Economic Research published a famous study, in which researchers responded to help wanted ads for

clerical, administrative and customer service jobs in the *Chicago Tribune* and the *Boston Globe*. They applied with names associated with whites, like Greg, or blacks, like Jamal, based on naming data for babies born in the late '70s. The white names produced 50% more callbacks. A white name yielded as many more callbacks as an extra eight years of experience on a black resume. In another study based in New York, whites with criminal records got more callbacks than blacks with clean records. So much for bootstraps.

E.B. White once wrote, "Luck is not something you can mention in the presence of self-made men." Indeed, surveys find that wealthy people are far more likely than poor ones to say hard work is what leads to success and to credit hard work above all for their happy lot in life. Of course, hard work and talent matter but they offer no guarantee, as Robert Frank, professor of economics at Cornell University, observes in, *Success and Luck: Good Fortune in the Midst of Meritocracy*. He says success may also hang on the month or location of your birth, not to mention the wealth you're born *with*. But when we compose our personal narratives, those things recede into the mist, as Frank found when confronted by Fox News Host Stuart Varney.

[CLIP]:

STUART VARNEY: Am I lucky or not?

PROF. ROBERT FRANK: Yes.

STUART VARNEY: Who I am and where I am, I'm lucky.

PROF. ROBERT FRANK: Yes, you are.

STUART VARNEY: Lucky. Okay.

PROF. ROBERT FRANK: And so am I.

STUART VARNEY: That's outrageous. That is outrageous. What about the risk I took? Do you know what risk is involved in coming to America with absolutely nothing? Do you know what risk is involved in trying to work for major American ep - network

with a British accent, a total foreigner? Do you know what risk is implied for this level of success?

PROF. ROBERT FRANK: I do.

STUART VARNEY: Is it luck that you hold a tenured position?

PROF. ROBERT FRANK: Yes.

STUART VARNEY: [LAUGHS] That's nonsense! I am insulted by what you said.

PROF. ROBERT FRANK: Well, that's absolutely, you -

[BOTH SPEAK/OVERLAP]

STUART VARNEY: You are going against the American dream.

PROF. ROBERT FRANK: I'm not.

STUART VARNEY: No, if you come to America with nothing and you play by the rules, you work hard, you get disciplined inside yourself -

PROF. ROBERT FRANK: Right.

STUART VARNEY: - you marry and have children, in that order, okay, you do all of those things, you play by the rules, you *will* make it in America, and luck has nothing to do with it.

PROF. ROBERT FRANK: That's not true, sir.

[AUDIENCE LAUGHTER/END CLIP]

[NYU CLIP]:

PROF. ROBERT FRANK: I got in my cab leaving the studio and, of course, only then did I think about all the fast pitches he had thrown my way that I'd completely failed even to swing at, but -

BROOKE GLADSTONE: Frank, speaking sometime later at New York University.

PROF. ROBERT FRANK: He said he'd come to the USA with nothing. He had a degree from the London School of Economics. That's, that's coming to the US with nothing. He had somehow overcome the handicap of working in America with a British accent.

[AUDIENCE LAUGHTER]

Americans love British accents! He said he took risks. Well, what's a risk? I looked it up. Merriam-Webster: Risk is the possibility that something bad or unpleasant, such as an injury or a loss, will happen." He took risks and he succeeded. Well, that means, by definition, that he was lucky. Full stop. But I didn't have the wit to point that out.

[END CLIP] [MUSIC UP & UNDER]

BROOKE GLADSTONE: But what does it matter, pointing it out? Well, as Frank notes, several studies suggest that when we feel gratitude, when we're generous to strangers, when we're reminded of luck's importance, we are more likely to plow some of our own good fortune back into the common good. But we underplay luck because we can recall our own struggles far better than the fateful but fuzzy role with chance and because the very idea corrodes our faith in free will, but mostly because, like Benny Franklin, we're deeply invested in our own autobiographies.

Take me. My parents went broke a couple of times. Once we had to put all our stuff out on the lawn to be auctioned. I went to college almost totally on aid. But I always knew I was going to college, even on nights when supper was leftover Kentucky fried chicken I brought home from the job. I knew that this was temporary. So I can say, wow, I'm really self-made. But I know I'm not. Sure, I always kinda knew I was lucky, but not until working on *this* series did I really begin to understand what that meant.

Hard work is real, but bootstraps are bunk and social mobility a myth. Unless a nation chooses to build the infrastructure, the roads on which a person can move upward, you pretty much can't get there from here.

"Busted: America's Poverty Myths" is produced by Meera Sharma and Eve Claxton and edited by Katya Rogers. This series was produced in collaboration with WNET in New York as part of "**Chasing the Dream: Poverty and Opportunity in America.**" Major funding for "Chasing the Dream" is provided by the JPB Foundation, with additional funding from the Ford Foundation.

Next week, many, arguably most Americans, walk a tightrope through life.

MAN: Sixty-four percent of people don't have enough money to cover \$1,000 emergency expense, should it arise.

MAN: There were people in the area that could not afford a funeral or a cemetery plot.

WOMAN: People are raising their own money, using social media fundraising sites like this one, to cover costs insurance won't.

BROOKE GLADSTONE: When an unexpected event causes you to lose your footing and all you've built goes plunging down, is there anything out there to break your fall?

WOMAN: You never know when it's your turn. Anything can happen. You might be on top of the world tomorrow but it can end for you the next day, you know, and you will go through poverty, what we goin' through.

BROOKE GLADSTONE: The Great American Myth of the Safety Net, on next week's On the Media.

[MUSIC UP & UNDER]

BOB GARFIELD: That's it for this week's show. On The Media is produced by Alana Casanova-Burgess, Jesse Brenneman, Paige Cowett, Micah Loewinger and Sara Qari. We had more help from Leah Feder. Our technical director is Jennifer Munson. Our engineer this week was Casey Holford. On the Media is a production of WNYC Studios. I'm Bob Garfield.

BROOKE GLADSTONE: And I'm Brooke Gladstone.

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00:12

The conventional wisdom about our world today is that this is a time of terrible decline. And that's not surprising, given the bad news all around us, from ISIS to inequality, political dysfunction, climate change, Brexit, and on and on. But here's the thing, and this may sound a little weird. I actually don't buy this gloomy narrative, and I don't think you should either. Look, it's not that I don't see the problems. I read the same headlines that you do. What I dispute is the conclusion that so many people draw from them, namely that we're all screwed because the problems are unsolvable and our governments are useless.

00:57

Now, why do I say this? It's not like I'm particularly optimistic by nature. But something about the media's constant doom-mongering with its fixation on problems and not on answers has always really bugged me.

01:11

So a few years ago I decided, well, I'm a journalist, I should see if I can do any better by going around the world and actually asking folks if and how they've tackled their big economic and political challenges. And what I found astonished me. It turns out that there are remarkable signs of progress out there, often in the most unexpected places, and they've convinced me that our great global challenges may not be so unsolvable after all. Not only are there theoretical fixes; those fixes have been tried. They've worked. And they offer hope for the rest of us.

01:52

I'm going to show you what I mean by telling you about how three of the countries I visited -- Canada, Indonesia and Mexico -- overcame three supposedly impossible problems. Their stories matter because they contain tools the rest of us can use, and not just for those particular problems, but for many others, too.

02:12

When most people think about my homeland, Canada, today, if they think about Canada at all, they think cold, they think boring, they think polite. They think we say "sorry" too much in our funny accents. And that's all true.

02:27

(Laughter)

02:29

Sorry.

02:30

(Laughter)

02:32

But Canada's also important because of its triumph over a problem currently tearing many other countries apart: immigration. Consider, Canada today is among the world's most welcoming nations, even compared to other immigration-friendly countries. Its per capita immigration rate is four times higher than France's, and its percentage of foreign-born residents is double that of Sweden. Meanwhile, Canada admitted 10 times more Syrian refugees in the last year than did the United States.

03:05

(Applause)

03:12

And now Canada is taking even more. And yet, if you ask Canadians what makes them proudest of their country, they rank "multiculturalism," a dirty word in most places, second, ahead of hockey. Hockey.

03:28

(Laughter)

03:31

In other words, at a time when other countries are now frantically building new barriers to keep foreigners out, Canadians want even more of them in.

03:41

Now, here's the really interesting part. Canada wasn't always like this. Until the mid-1960s, Canada followed an explicitly racist immigration policy. They called it "White Canada," and as you can see, they were not just talking about the snow.

03:59

So how did that Canada become today's Canada? Well, despite what my mom in Ontario will tell you, the answer had nothing to do with virtue. Canadians are not inherently better than anyone else. The real explanation involves the man who became Canada's leader in 1968. Pierre Trudeau, who is also

the father of the current prime minister.

04:20

(Applause)

04:24

The thing to know about that first Trudeau is that he was very different from Canada's previous leaders. He was a French speaker in a country long-dominated by its English elite. He was an intellectual. He was even kind of groovy. I mean, seriously, the guy did yoga. He hung out with the Beatles.

04:42

(Laughter)

04:43

And like all hipsters, he could be infuriating at times. But he nevertheless pulled off one of the most progressive transformations any country has ever seen. His formula, I've learned, involved two parts. First, Canada threw out its old race-based immigration rules, and it replaced them with new color-blind ones that emphasized education, experience and language skills instead. And what that did was greatly increase the odds that newcomers would contribute to the economy. Then part two, Trudeau created the world's first policy of official multiculturalism to promote integration and the idea that diversity was the key to Canada's identity.

05:29

Now, in the years that followed, Ottawa kept pushing this message, but at the same time, ordinary Canadians soon started to see the economic, the material benefits of multiculturalism all around them. And these two influences soon combined to create the passionately open-minded Canada of today.

05:49

Let's now turn to another country and an even tougher problem, Islamic extremism. In 1998, the people of Indonesia took to the streets and overthrew their longtime dictator, Suharto. It was an amazing moment, but it was also a scary one. With 250 million people, Indonesia is the largest Muslim-majority country on Earth. It's also hot, huge and ungly, made up of 17,000 islands, where

muslim-majority country on Earth, it's also not, huge and unity, made up of 17,000 islands, where people speak close to a thousand languages. Now, Suharto had been a dictator, and a nasty one. But he'd also been a pretty effective tyrant, and he'd always been careful to keep religion out of politics. So experts feared that without him keeping a lid on things, the country would explode, or religious extremists would take over and turn Indonesia into a tropical version of Iran. And that's just what seemed to happen at first. In the country's first free elections, in 1999, Islamist parties scored 36 percent of the vote, and the islands burned as riots and terror attacks killed thousands.

06:58

Since then, however, Indonesia has taken a surprising turn. While ordinary folks have grown more pious on a personal level -- I saw a lot more headscarves on a recent visit than I would have a decade ago -- the country's politics have moved in the opposite direction. Indonesia is now a pretty decent democracy. And yet, its Islamist parties have steadily lost support, from a high of about 38 percent in 2004 down to 25 percent in 2014. As for terrorism, it's now extremely rare. And while a few Indonesians have recently joined ISIS, their number is tiny, far fewer in per capita terms than the number of Belgians. Try to think of one other Muslim-majority country that can say all those same things.

07:51

In 2014, I went to Indonesia to ask its current president, a soft-spoken technocrat named Joko Widodo, "Why is Indonesia thriving when so many other Muslim states are dying?"

08:02

"Well, what we realized," he told me, "is that to deal with extremism, we needed to deal with inequality first."

08:09

See, Indonesia's religious parties, like similar parties elsewhere, had tended to focus on things like reducing poverty and cutting corruption. So that's what Joko and his predecessors did too, thereby stealing the Islamists' thunder. They also cracked down hard on terrorism, but Indonesia's democrats have learned a key lesson from the dark years of dictatorship, namely that repression only creates more extremism. So they waged their war with extraordinary delicacy. They used the police instead of the army. They only detained suspects if they had enough evidence. They held public trials. They even sent liberal imams into the jails to persuade the jihadists that terror is un-Islamic. And all of this paid off in spectacular fashion, creating the kind of country that was unimaginable 20 years ago.

09:00

So at this point, my optimism should, I hope, be starting to make a bit more sense. Neither immigration nor Islamic extremism are impossible to deal with. Join me now on one last trip, this time to Mexico. Now, of our three stories, this one probably surprised me the most, since as you all know, the country is still struggling with so many problems. And yet, a few years ago, Mexico did something that many other countries from France to India to the United States can still only dream of. It shattered the political paralysis that had gripped it for years.

09:37

To understand how, we need to rewind to the year 2000, when Mexico finally became a democracy. Rather than use their new freedoms to fight for reform, Mexico's politicians used them to fight one another. Congress deadlocked, and the country's problems -- drugs, poverty, crime, corruption -- spun out of control. Things got so bad that in 2008, the Pentagon warned that Mexico risked collapse.

10:04

Then in 2012, this guy named Enrique Peña Nieto somehow got himself elected president. Now, this Peña hardly inspired much confidence at first. Sure, he was handsome, but he came from Mexico's corrupt old ruling party, the PRI, and he was a notorious womanizer. In fact, he seemed like such a pretty boy lightweight that women called him "bombón," sweetie, at campaign rallies. And yet this same bombón soon surprised everyone by hammering out a truce between the country's three warring political parties. And over the next 18 months, they together passed an incredibly comprehensive set of reforms. They busted open Mexico's smothering monopolies. They liberalized its rusting energy sector. They restructured its failing schools, and much more. To appreciate the scale of this accomplishment, try to imagine the US Congress passing immigration reform, campaign finance reform and banking reform. Now, try to imagine Congress doing it all at the same time. That's what Mexico did.

11:13

Not long ago, I met with Peña and asked how he managed it all. The President flashed me his famous twinkly smile --

11:21

(Laughter)

11:24

and told me that the short answer was "compromiso," compromise. Of course, I pushed him for details, and the long answer that came out was essentially "compromise, compromise and more compromise." See, Peña knew that he needed to build trust early, so he started talking to the opposition just days after his election. To ward off pressure from special interests, he kept their meetings small and secret, and many of the participants later told me that it was this intimacy, plus a lot of shared tequila, that helped build confidence. So did the fact that all decisions had to be unanimous, and that Peña even agreed to pass some of the other party's priorities before his own. As Santiago Creel, an opposition senator, put it to me, "Look, I'm not saying that I'm special or that anyone is special, but that group, that was special." The proof? When Peña was sworn in, the pact held, and Mexico moved forward for the first time in years. Bueno.

12:28

So now we've seen how these three countries overcame three of their great challenges. And that's very nice for them, right? But what good does it do the rest of us?

12:38

Well, in the course of studying these and a bunch of other success stories, like the way Rwanda pulled itself back together after civil war or Brazil has reduced inequality, or South Korea has kept its economy growing faster and for longer than any other country on Earth, I've noticed a few common threads.

12:57

Now, before describing them, I need to add a caveat. I realize, of course, that all countries are unique. So you can't simply take what worked in one, port it to another and expect it to work there too. Nor do specific solutions work forever. You've got to adapt them as circumstances change.

13:14

That said, by stripping these stories to their essence, you absolutely can distill a few common tools for problem-solving that will work in other countries and in boardrooms and in all sorts of other contexts, too.

13:30

Number one, embrace the extreme. In all the stories we've just looked at, salvation came at a moment of existential peril. And that was no coincidence. Take Canada: when Trudeau took office, he faced two looming dangers. First, though his vast, underpopulated country badly needed more

bodies, its preferred source for white workers, Europe, had just stopped exporting them as it finally recovered from World War II. The other problem was that Canada's long cold war between its French and its English communities had just become a hot one. Quebec was threatening to secede, and Canadians were actually killing other Canadians over politics. Now, countries face crises all the time. Right? That's nothing special. But Trudeau's genius was to realize that Canada's crisis had swept away all the hurdles that usually block reform. Canada had to open up. It had no choice. And it had to rethink its identity. Again, it had no choice. And that gave Trudeau a once-in-a-generation opportunity to break the old rules and write new ones. And like all our other heroes, he was smart enough to seize it.

14:44

Number two, there's power in promiscuous thinking. Another striking similarity among good problem-solvers is that they're all pragmatists. They'll steal the best answers from wherever they find them, and they don't let details like party or ideology or sentimentality get in their way. As I mentioned earlier, Indonesia's democrats were clever enough to steal many of the Islamists' best campaign promises for themselves. They even invited some of the radicals into their governing coalition. Now, that horrified a lot of secular Indonesians. But by forcing the radicals to actually help govern, it quickly exposed the fact that they weren't any good at the job, and it got them mixed up in all of the grubby compromises and petty humiliations that are part of everyday politics. And that hurt their image so badly that they've never recovered.

15:39

Number three, please all of the people some of the time. I know I just mentioned how crises can grant leaders extraordinary freedoms. And that's true, but problem-solving often requires more than just boldness. It takes showing restraint, too, just when that's the last thing you want to do. Take Trudeau: when he took office, he could easily have put his core constituency, that is Canada's French community, first. He could have pleased some of the people all of the time. And Peña could have used his power to keep attacking the opposition, as was traditional in Mexico. Yet he chose to embrace his enemies instead, while forcing his own party to compromise. And Trudeau pushed everyone to stop thinking in tribal terms and to see multiculturalism, not language and not skin color, as what made them quintessentially Canadian. Nobody got everything they wanted, but everyone got just enough that the bargains held.

16:40

So at this point you may be thinking, "OK, Tepperman, if the fixes really are out there like you keep insisting, then why aren't more countries already using them?" It's not like they require special powers to pull off. I mean, none of the leaders we've just looked at were superheroes. They didn't accomplish anything on their own, and they all had plenty of flaws. Take Indonesia's first democratic president, Abdurrahman Wahid. This man was so powerfully uncharismatic that he once fell asleep in

the middle of his own speech.

17:12

(Laughter)

17:13

True story.

17:19

So what this tells us is that the real obstacle is not ability, and it's not circumstances. It's something much simpler. Making big changes involves taking big risks, and taking big risks is scary. Overcoming that fear requires guts, and as you all know, gutsy politicians are painfully rare. But that doesn't mean we voters can't demand courage from our political leaders. I mean, that's why we put them in office in the first place. And given the state of the world today, there's really no other option.

17:55

The answers are out there, but now it's up to us to elect more women and men brave enough to find them, to steal them and to make them work.

18:08

Thank you.

18:10

(Applause)

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