

THE UPSIDE OF DOWNWARD MOBILITY

We Americans have long assumed that our kids will earn more than we do. That idea is colliding with harsh economic realities. But that doesn't mean the good life is gone. An exclusive book excerpt. **By Matt Miller**

THE VOTERS IN THE town hall meeting were so silent you could almost hear them straining to listen. No public official, let alone a newly sworn-in President, had ever talked to them this way. "Look," said the President, walking across the stage with a microphone in hand, "here's what no one wants to tell you. Structural changes in our economy, and new competition from countries like China and India, mean that we're in a different world now. That pattern we once took for granted, in which our incomes basically kept rising across the board, turns out to be something we can't sustain. Many of you are earning less than your parents did, and the truth is, many of your children will earn less than you do." The President paused, watching as the words sank in. "I don't think denial helps any of us. I know it won't help us come together to do the things we need to do as a nation to thrive even amid these new realities."

Don't worry, you didn't miss the news; the scene above has not happened yet. Few politicians would say those things even if they believed them to be true, because it would challenge a notion at the heart of the American dream: the idea that the kids will earn more than we do. This idea has been at the core of American experience for so long that it seems to us the natural order of things, a brand of progress to which we're practically entitled. Political leaders plainly believe we cherish this prospect,

because it is central to how they talk about our lives. It's as if relinquishing the certitude that the kids will earn more than we do would be to give up something essential in the American spirit.

The problem, as new research shows, is that we have to face a new reality. As many as 100 million Americans now live in families that are earning less in real terms than their parents did at the same age. The rise of such developing economies as China and India means the earnings picture is only likely to get worse. One in three American jobs may be exposed before long to competition from workers overseas, putting an effective wage cap on large swaths of employment even if jobs don't actually move offshore. New research also shows that, contrary to popular myth, upward mobility is now lower in the U.S. than in

many European countries. People sense what's unfolding, even if it remains politically taboo to say so. A July 2007 poll by the Pew Global Attitudes Project found that 60% of Americans surveyed say the next generation will be worse off than theirs, vs. 31% who say it will be better off. Yet the truth is that these developments, while hardly what we would choose, are not something to fear. Yes, they represent a jolt to our expectations and an unsettling break with our history. But if we approach the future with fresh eyes, the tests we now face will present an opportunity to fix serious flaws in our economy. Liberating ourselves from this Dead Idea will force us to reexamine a fundamental question that is almost never explicitly discussed: What is the role of the individual,

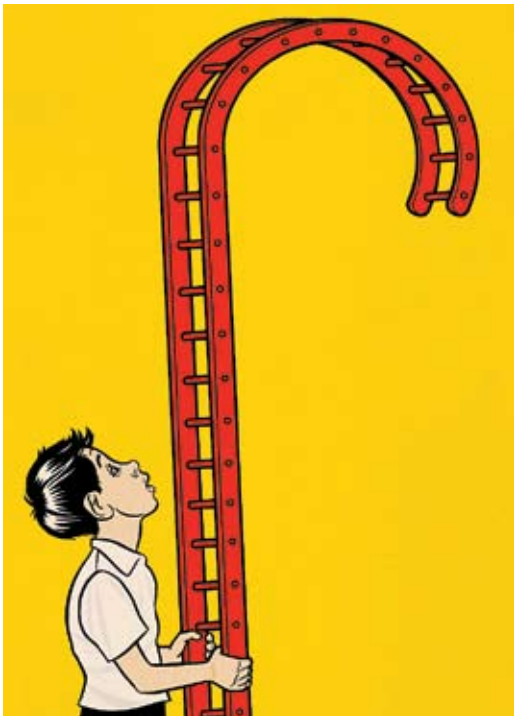


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and what should be the role of the broader community, in assuring opportunity and security in a wealthy nation like the U.S.? As events force us to consider fresh answers to this question, the result will be a good life, and in some ways a better life, even for Americans who face wage strains. America will have gained the sturdier brand of hope that comes from dealing squarely with unpleasant realities rather than wishing them away.

Why do Americans think a better standard of living for their children is a national birthright? Because this remarkable pattern has largely been our experience since the nation's earliest days. The new republic's official policy of classlessness and ethic of equal opportunity made it unique in history. In short, America was about upward mobility, the chance to rise from the station into which you were born to whatever heights your talents and efforts might let you attain. This helps explain why America came to lead the world in mass education. Yet all this individual opportunity might have meant little had America's early years not coincided with the kickoff of the Industrial Revolution. This made the idea of economic progress something that applied on a grand scale, not just to particular people with moxie and drive.

The twin tragedies of the Great Depression and World War II interrupted the general march of progress, but the remarkable boom that followed made earlier norms of generational economic advance seem timid. Real incomes doubled in a generation. Americans at all income levels shared in the gains. Yet in retrospect, despite the achievements of the boom, the entire episode was in a real sense a historical accident, the result of the U.S. being the only economy left standing after a devastating global war. Foreign competition was virtually nonexistent. Families who'd been through two wars and a depression in 30 years were bursting to enjoy life, and they greeted American manufacturers with long-suppressed appetites for cars, refrigerators, televisions, air conditioners, lawn mowers, air travel, and more. "Keeping up with the Joneses" became something of a middle-class obsession, as the boom unleashed a competitive consumption spree.

Yet this wasn't just the magic of the market. A number of other institutions helped assure that prosperity was broadly shared. Labor unions, a robust minimum wage, progressive taxes, and a sense of restraint on corporate boards regarding the salaries of chief executives all contributed to a sense of a shared economic destiny. As postwar prosperity unfolded, all this gave ordinary people a greater sense of security. The rising tide kept rising.

The impact has been profound, and largely positive. Our "can do" spirit and "anything is possible" determination tamed the frontier, helped win two world wars, invented countless technologies, and put a man on the moon. But the way our success mutated

over time into the expectation that our kids would always do even better has created three problematic ways of thinking:

The first is that we've overestimated the power of the individual to shape his own economic destiny. The thread running through our admiration of Benjamin Franklin and Abraham Lincoln on to such modern icons as Bill Gates, Ronald Reagan, Bill Clinton, and Barack Obama is the celebration of the self-made man: In America you shape your own destiny via determination and hard work. The corollary of our faith in the individual has been a tendency to judge harshly those who fail. After all, with so much opportunity for the taking, if you can't make it in America, it's probably your own fault. The question is whether our instincts here have been shaped by a faith that no longer accurately reflects the prospects of even many hard-working Americans in the global economy.

The second problematic way of thinking is what the author and *Washington Post* columnist Robert Samuelson has called America's sense of "entitlement." In this view, we became so spoiled by progress that we presumed endless growth was simply our due—and believed further that this growth would enable us to solve virtually every social problem, from poverty to racial animus to health inequities. This is the economic face of American exceptionalism, the idea that the U.S. is somehow destined to be blessedly immune from the travails that ordinary nations face. The distrust of government that has become the legacy of such hubris makes the work of reform harder today, because a high burden of proof is imposed on those who would use government for new purposes.

There's a third worrisome attitude traceable to our faith that the kids will earn more than we do. This is the imprudent conviction that we can live beyond our means, because somehow we'll earn enough later to deal with any problems. This outlook represents a dramatic shift from earlier American thinking, as the sociologist Daniel Bell noted in 1976. "Twentieth-century capitalism wrought a ... startling sociological transformation," he wrote, "the shift from production to consumption as the fulcrum of capitalism."

Both as individuals and as a society, we've been gambling on better days tomorrow to make good on unsustainable borrowing today.

Such is the toll of a Dead Idea. These habits of mind leave us ill-equipped to cope with the economic realities we now face. One in three Americans, of all races and at all income levels, now live in families that earn less than their parents did, according to research from the University of Michigan and the Pew Charitable Trusts. This finding is more disturbing when you consider that families

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We think we can live beyond our means because we'll earn enough later to deal with any problems.



MATT MILLER WE OVERESTIMATE THE POWER OF THE "RUGGED INDIVIDUAL."

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work longer hours today thanks to the rise of two-earner families. The U.S. now offers its citizens a smaller chance of rising from their economic status at birth than do France, Denmark, Norway, Sweden, Canada, and Germany. The contrast with the “good old days” is stark. After World War II, about a quarter of the men whose fathers had been in the bottom quarter of income distribution made it to the top quarter of income earners over their working lives. Now the figure is more like 6%.

So what will these new circumstances mean for individuals and the country? The answer will turn on the way the new downward mobility affects Americans’ attitudes toward the role of government. Public opinion surveys have long shown that Americans see themselves as authors of their economic fate, while Europeans tend to believe that forces outside the individual’s control have greater influence. Yet the forces that are now undermining upward mobility in America are in fact largely outside people’s control. Does that mean Americans will be open to more aggressive policies (to bolster health care, pensions, and education, for example) that might promote economic opportunity and security, even if they mean higher taxes or “bigger government”? As the post-American Dream era unfolds, it’s hard to imagine that the growing disconnect between

the economic trajectory of millions of families and the nostalgia of our public debate can be sustained much longer.

The comforting news, at least from history’s perspective, is that our challenge may in some sense be temporary. Britain, after all, was said to be in “decline” from the 1870s onward, even as living standards for the British rose massively over the ensuing hundred years. Many British families were hurt in those decades when Britain lost its relative economic edge, but once a new global equilibrium had been reached, the broad British earnings escalator resumed its rise. Similarly, a period of painful adjustment now for millions of Americans as other powers rise and new technologies are deployed is not inconsistent with an eventual return to broadly shared long-term increases in our material well-being. In other words, “The kids will earn more than we do” is a Dead Idea that could come back to life later in this century.

Or perhaps sooner, if President-elect Obama aims high enough and we get lucky to boot. It seems increasingly likely that Obama will meet the current crisis not only with bold steps to spur near-term economic recovery, but also by seeking the kind of transformative reforms required if everyday Americans are to rise again. Again, Britain’s example

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A source of hope comes from a surprising place: Britain, which is striking a balance between economic efficiency and social justice.

is instructive. Everyone knows that the unifying trauma of World War II helped forge a consensus in Britain under which basic health care and pension security became universal. But in ways that have gone little noticed in the U.S., this social contract was recently deepened under Tony Blair and Gordon Brown as the global economy posed new threats. Consider: Blair introduced and boosted Britain's first-ever minimum wage past \$9 an hour, an unthinkable level in American debate (at least until Obama quietly proposed to phase it in during the campaign). Yet British unemployment in recent years has been lower than that of the U.S. Or take schools. Britain shares the accountability fetish that George W. Bush usefully enshrined in No Child Left Behind. But there the resemblance ends. In Britain, high-poverty schools receive more per-pupil spending than other schools; in the U.S. it's usually the opposite. Britain has hiked teacher salaries 25% to lure new talent and drive achievement gains; here, by contrast, little beyond lip service has been paid to address America's teacher crisis.

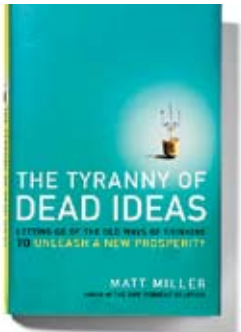
This isn't to say Britain is nirvana. But it has begun to marry economic efficiency and social justice in ways more likely to sustain a consensus for the open markets and technological change that in the long run benefit most people. In the face of new global

challenges, in other words, Britain's political center has moved.

The question now is whether Barack Obama can move America's. Obama has pledged ambitious steps to make health care affordable, improve college access, recruit an army of new teachers,

boost wage subsidies, and more. Success will depend partly on his ability to redefine our obligations to those Americans who are fated to lose out during the difficult transition ahead. And that's a task that starts, first and foremost, inside our heads. There has never been a nation with so much of its self-image riding on the idea that the kids will earn more than we do. The death of this idea as the measure of American progress will force us to rebalance American capitalism and augment our romance with the power of free men and free markets with a deeper awareness of its limits. Psychologists say that narcissists obsessed with their own "specialness" can be cured only when they learn to accept their ordinary humanity. Something

like this acceptance in the realm of economic life lies ahead for the U.S. We can't control every aspect of our economic trajectory in this new era. But with the right presidential leadership, we can influence how we think about what is happening—and, more important, what we do about it. ■



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