The Withering of the Affluent Society

Though Americans see upward mobility as their birthright, that assumption faces growing challenges, with consequences not just for the size of our wallets but for the tenor of our politics.

BY ROBERT J. SAMUELSON

The future of affluence is not what it used to be. Americans have long believed—it's part of our national character—that our economic well-being will constantly increase. We see ourselves as a striving, inventive, and pragmatic people destined for higher living standards. History is a continuum of progress, from Robert Fulton's steamboat to Henry Ford's assembly line to Bill Gates' software. Every generation will live better than its predecessors.

Well, maybe not.

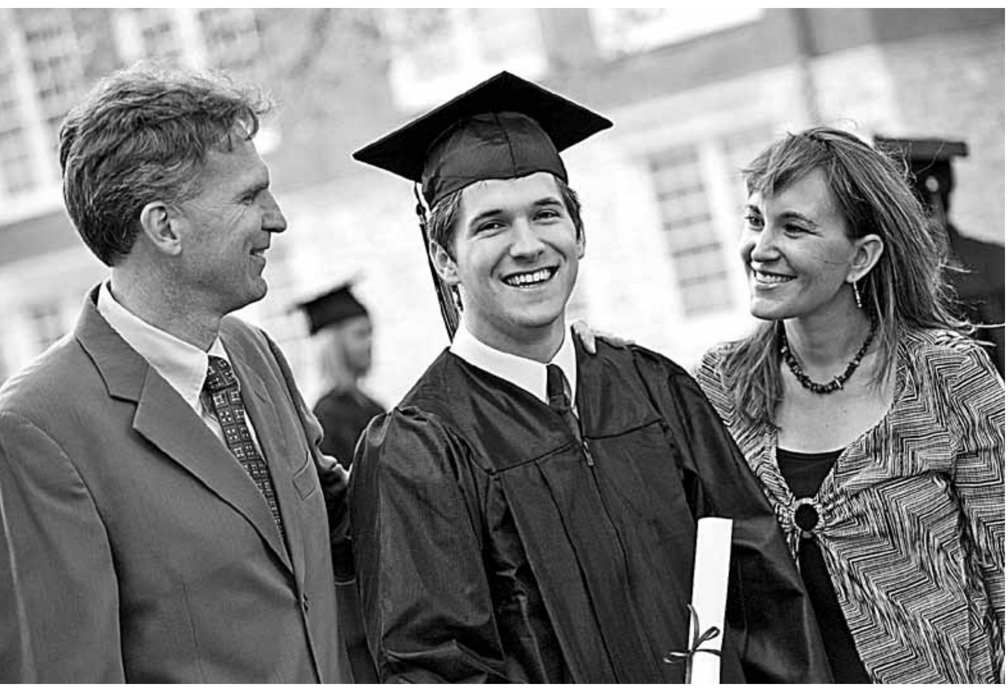
For millions of younger Americans—say, those 40 and under—living better than their parents is a pipe dream. They won't. The threat to their hopes does *not* arise from an impending collapse of technological gains of the sort epitomized by the creations of Fulton, Ford, and Gates. These advances will almost certainly continue, and per capita income—the average for all Americans and a conventional indicator of living standards—will climb. Statistically, American progress will resume. The Great Recession will be a bump, not a dead end.

The trouble is that many of these gains will bypass the young. The increases that might have fattened their paychecks will be siphoned off to satisfy other groups and other needs. Today's young workers will have to finance Social Security and Medicare for a rapidly growing cohort of older Americans. Through higher premiums for employer-provided health insurance, they will subsidize care for others. Through higher taxes and fees, they will pay to repair aging infrastructure (roads, bridges, water systems) and to support squeezed public services, from schools to police.

The hit to their disposable incomes would matter less if the young were major beneficiaries of the resultant spending. In some cases—outlays for infrastructure and local services—they may be. But these are exceptions. By 2025 Social Security and Medicare will simply reroute income from the nearly four-fifths of the population that will be under 65 to the older one-fifth. And health care spending at all age levels is notoriously skewed: Ten percent of patients account for 65 percent of medical costs, reports the Kaiser Family Foundation. Although insurance provides peace of mind, the money still goes from young to old: Average health spending for those 45 to 64 is triple that for those 18 to 24.

Robert J. Samuelson, a columnist for *The Washington Post*, is the author most recently of *The Great Inflation and Its Aftermath: The Past and Future of American Affluence* (2008).

The living standards of younger Americans will almost certainly suffer in comparison to those of their parents in a second crucial way. Our notion of economic progress is tied to financial security, but the young will have less of it. What good are higher incomes if they're abruptly revoked? Though it wasn't a second Great Depression, the Great Recession was a close call, shattering faith that modern economic policies made broad collapses impossible. Except for the savage 1980-82 slump, post-World War II recessions had been modest. Only minorities of Americans had suffered. By contrast, the Great Recession hurt almost everyone, through high unemployment, widespread home foreclosures, huge wealth losses in stocks and real estate—and fears of worse. A 2012 Gallup poll found that 68 percent of Americans knew someone who had lost a job.



Congratulations! After you pay off your student loans, you can get to work on the national debt.

SJLOCKE / ISTOCKPHOTO

The prospect of downward mobility is not just dispiriting. It assails the whole post–World War II faith in prosperity. Beginning in the 1950s, commentators celebrated the onrush of abundance as marking a new era in human progress. In his 1958 bestseller *The Affluent Society*, Harvard economist John Kenneth Galbraith announced the arrival of a "great and unprecedented affluence" that had eradicated the historical "poverty of the masses."

Economic growth became a secular religion that was its own reward. Perhaps its chief virtue was that it dampened class conflict. In *The Great Leap: The Past Twenty-Five Years in America* (1966), John Brooks observed, "The middle class was enlarging itself and ever encroaching on the two extremes"—the very rich and the very poor. Business and labor could afford to reconcile because both could now share the fruits of expanding production. We could afford more spending on public services (education, health, environmental protection, culture) without depressing private incomes. Indeed, that was Galbraith's main theme: Our prosperity could and should support both.

To be sure, there were crises of faith, moments when economic progress seemed delayed or doomed. The longest lapse occurred in the 1970s, when double-digit inflation spawned pessimism and frequent recessions, culminating in the 1980-82 downturn. Monthly unemployment peaked at 10.8 percent. But after Federal Reserve chairman Paul Volcker and President Ronald Reagan took steps to suppress high inflation, faith returned.

Now, it's again imperiled. A 2011 Gallup poll found that 55 percent of Americans didn't think their children would live as well as they did, the highest rate ever. We may face a crimped and contentious future.

Let's be clear: The prospect is not national impoverishment; it is of relative deprivation. Even if disposable per capita incomes fell 10 percent—an extreme outcome—Americans would remain wealthy by any historical standard. Such a change would entail a decline in the annual disposable income from \$37,000 to \$33,300 (in 2011 inflation-adjusted dollars), probably over many years. People might adjust in ways that barely affected daily routines. They might live in slightly smaller houses, drive more fuel-efficient vehicles, or eat out a bit less. These are inconveniences, not tragedies.

But popular expectations would be dashed. Even assuming a full recovery from the Great Recession—possible, though not certain—the resulting prosperity will be qualified by greater competition for scarce economic resources. Massive federal budget deficits are only the most conspicuous sign of a society that has promised itself more than it can afford. To resurrect a familiar metaphor: A more slowly growing economic pie will face more claimants for slices. Some will receive bigger slices, others smaller.

Generally speaking, there are two types of economic mobility, though they're often confused. The first is intergenerational mobility (also called "relative mobility"). It involves children moving up or down the economic ladder from their parents' position—do they rise to the top, stay where they started, or fall toward the bottom? Call the second type "national" mobility (specialists refer to it as "absolute mobility"). It concerns whether or not most members of each succeeding generation live better than their predecessors. If they do, then the whole society can be upwardly mobile even if all children occupy the same position relative to others as their parents on the social ladder. To take an obvious example, the poorest third of Americans lived much better in 1980 than in 1930.

In the United States, both types of mobility abound. For starters, birth is not fate. Americans do not automatically match their parents' position on the economic ladder. A report by the Pew Economic Mobility Project finds that 61 percent of children born to parents in the richest fifth of Americans fall from that stratum, while 58 percent of children born in the poorest fifth rise above to a higher stratum. There's not much movement from the very bottom to the very top. Only six percent of children make that journey. But in between, there's much shifting.

Similarly, economic growth since World War II has allowed most Americans to live better than their parents did—even if they haven't moved up the economic ladder. In the first two postwar decades, household incomes roughly doubled. Despite slower growth since then, about two-thirds of today's Americans have higher incomes than their parents at a similar age, Pew finds. Even this understates the extent of the achievement, because some of those who lost ground still have relatively high incomes. They're children of well-to-do families who don't match their parents' status, but their fall has been modest. Among the poorest fifth of Americans, about four-fifths have incomes higher than their parents'.

Both types of mobility have contributed to America's success. Although studies suggest that intergenerational mobility—again, children moving up or down the economic ladder—is greater in some other countries, the United States has enough of it to foster the bedrock belief that striving and talent are rewarded. That is important because societies in which economic status is rigid discriminate against individual ability and effort and discourage parents from striving to help their children succeed. As for national (or "absolute") mobility, it affects social peace and satisfaction, because intergenerational mobility is a zero-sum game. For everyone who climbs the ladder into a higher stratum, someone else must fall down into a lower one. By contrast, a rising tide does lift all boats.

EVEN IF THE UNITED STATES fully recovers from the Great Recession, Americans will endure greater competition for scarce economic resources.

But there's a rub: Upward national mobility requires strong economic growth—and U.S. growth is weakening. Growth comes from two sources: more labor (more workers or longer hours) and improved efficiency (or labor productivity, measured in output per hour). Unfortunately, slower labor force expansion virtually guarantees a decline in overall U.S. economic growth.

As economist Brink Lindsey of the Kauffman Foun-

U.S. ECONOMIC GROWTH, 1950–2040

	1950–2011	2002–2011	2012–2022	2023–2040
Annual GDP growth (%) due to:				
Labor force increases	1.5	0.8	0.7	0.5
Productivity increases	1.8	1.4	1.7	1.7
Total annual growth	**3.3**	**2.3**	**2.3**	**2.2**

Note: Some numbers do not add due to rounding.
Sources: Congressional Budget Office, Social Security Administration

dation notes, two powerful trends boosted labor force growth for many years: the influx of baby boomers from the late 1960s to the mid-1980s, and the flood of married women into jobs starting in the late 1950s. Both trends have ended. Baby boomers are retiring; the oldest ones, born in 1946, turned 65 in 2011. And women's participation ebbed a decade ago, well before the recession, with some women deciding to stay home or retire early. (From 1960 to 1999, the labor force participation rate of women 16 and over rose from 38 percent to 60 percent; in 2011, it was 58 percent.)

As a result of these trends, the number of new workers barely exceeds the number of those retiring. Barring major pleasant surprises, the slower labor force increases reduce projections of overall economic growth from a postwar average of slightly more than three percent to slightly more than two percent, as the table above shows. (The table shows "potential" economic growth under assumed conditions of "full employment," but actual results are also affected by business cycles.)

Ideally, we would raise productivity to offset slower labor force growth. Realistically, we don't know how to do this. What creates higher productivity is a murky mixture of new technologies, industry organization, government policies, management competence, worker abilities, and market pressures. Economists don't fully understand the process and can't manipulate it. Future rates of productivity growth could as easily fall as rise. In the table, the assumed annual gains average 1.7 percent, near the post–World War II rate of 1.8 percent. But gains might be two percent, one percent, or who knows what. Large deficits and higher taxes may crowd out investment or discourage risk taking, slowing productivity increases. That would further trim future economic growth, making it even harder for the young to achieve upward mobility.

It's already hard enough. The mounting number of retirees increases pressure to move money from workers to the elderly. Consider that in 1960 the worker-to-retiree ratio was 5:1; in 2010 it was 3:1, and the projection for 2025 is nearly 2:1. At the federal level, the pressures stem from higher spending on Social Security, Medicare, and Medicaid. At the state and local levels, they stem from Medicaid (states pay about 40 percent of its costs) and pensions for government workers. In *The Predictable Surprise: The Unraveling of the U.S. Retirement System* (2012), Sylvester Schieber, an actuary and former chairman of the Social Security Advisory Board, estimates that state and local public employee pensions are 20 to 25 percent underfunded.

Higher taxes to pay for Social Security and Medicare will undermine after-tax wages. So will mounting employer costs for health insurance and pensions; these expenses limit what companies would otherwise pay in wage increases. Schieber estimates that all these factors could absorb two-thirds of compensation growth from 2015 to 2030. Other studies reach similar conclusions. Economist David Auerbach and physician Arthur Kellermann, both of the Rand Corporation, find that 80 percent of median-family income gains from 1999 to 2009 went to higher health spending in the form of employer-paid premiums, out-of-pocket costs, and taxes. And these studies don't count the cost of infrastructure repair.

The future of today's young has been heavily mortgaged. The grimmest prospect is a death spiral for the welfare state. That could happen if we continue to pay for promised benefits by increasing taxes or deficits, further retarding economic growth and thus spurring still more tax and deficit increases to sustain benefits. But to all of these unsettling possibilities, there's a ritualistic, upbeat response: We shall overcome. We're a can-do people. The U.S. economy adapts to change. It creates new technologies and industries. Its long-term resilience is incontestable. As Vice President Joseph Biden once put it, "No one's ever made money betting against America."

Unfortunately, that isn't true. Many people have


In the postwar affluent society, presents were piled high under American Christmas trees.

made money betting against America: those who sold stocks in August 1929 or the dollar in the late 1970s, and those who bet against the U.S. mortgage market in 2006. The list goes on. It's true that over long stretches—decades—the U.S. economy has generated higher living standards for most citizens. But even this truth is selective. Banking panics occurred regularly in the 1800s. In the mid- to late 19th century, disease and poor diets lowered living standards of urban workers. Then came the Great Depression, the Great Inflation, and now the Great Recession.

So: America is not entitled to economic success. What actually happens depends on private markets and public policies. To be sure, the future is not etched in stone. Uncertainties abound, as any prediction must acknowledge. Here are three caveats.

First, forecasts of the future as an extension of the present are suspect. Unforeseen events—for good and ill—intervene. History is littered with false prophets. Consider Harvard economist Alvin Hansen (1887–1975). In 1938, when unemployment was still 19 percent, he sought to explain why the U.S. economy couldn't shake the Depression. His answer was "secular stagnation." There was no engine of expansion. Slower population growth meant fewer new consumers and less reason for businesses to invest. Technology was not advancing, dampening investment in new industry. And decades earlier the "frontier" had effectively ceased to exist, so there was no longer any spending on new settlements to boost the economy.

It was all plausible—and wrong. After World War II, the baby boom created a population explosion. Countless technologies spawned new industries in television, aviation, synthetic fibers, and plastics, to name a few. And there was a new frontier to settle—suburbia.

The second caveat is that economic progress may be overrated. Younger Americans may be less obsessed with material goods as the be all and end all of a satisfying life. Moreover, many Americans will enjoy rising incomes over their lifetimes, reflecting experience and seniority. In 2009, for example, the median income of working men aged 45 to 54 was 40 percent higher than for their counterparts aged 25 to 34. Viewing their own lives, most Americans might feel upwardly mobile. The difference would be that tomorrow's 45-year-olds might have less than today's.

Finally, we are not helpless. We might mitigate the forces that assail a broad-based affluence. Just because health spending hasn't been tamed in the past doesn't mean it won't be tamed in the future. As society ages, Americans may recognize that longer life expectancies justify longer working lives and that wealthier retirees deserve fewer (or no) subsidies from less affluent younger workers. That could lead to steps that would reduce the burdens of the old on the young.

Though the future will doubtlessly differ from how anyone now imagines it, the trends fostering downward mobility are insistent, because they are rooted in demographics, politics, and global economics.

We are at a symbolic turning point. The coincidence of the Great Recession with baby boomers' retirements marks the eclipse of the post–World War II social compact, formed in the 1950s and '60s. That arrangement promised that business cycles would be mild, because economic policy could moderate booms and busts. Technological change would be gradual, because dominant firms such as General Electric, AT&T, and General Motors controlled it and had a stake in gradual change. Large institutions were mostly benign. Major corporations provided career jobs and generous fringe benefits (health insurance, pensions) for most of their workers. There were reciprocal loyalties and obligations between employee and employer. Greater wealth enabled government to create a safety net for the old, the disabled, and the poor.

CLASSICSTOCK / CORBIS

The props underlying this unspoken compact have been weakening since 1980. Technological changes are no longer gradual; they're abrupt and disruptive, driven largely by computer hardware and software companies, or Web-based enterprises such as Google and Facebook. Career jobs still exist but are dwindling in number. The reciprocal loyalties between workers and their employers have weakened. The promise of overall economic stability seems hollow. The fundamental lesson of the 2007–09 financial crisis is that economists overestimated their ability to prevent calamitous boom-bust cycles. Globalization has increased economic complexity faster than economists' capacity to keep up. The social safety net—actually, the welfare state—is popular, but huge government deficits put its affordability in doubt.

The premise of the post–World War II affluent society, that we were or would soon become so rich that we could afford almost anything, was never true, but we often acted as if it were. We avoided unpleasant choices, especially in government, accepting routine federal budget deficits (46 out of 51 years since 1961). Now, limits are painfully evident. There are more promises than can be fulfilled. Meeting all of government's spending commitments would require higher, broad-based taxes, which both liberals and conservatives reject, or perpetually large deficits, which both parties consider unsustainable and undesirable.

What looms is a future of more distributional struggles between young and old, rich and poor, different regions, and many interest groups. Each will defend subsidies, work to avoid tax increases, and maneuver for regulatory advantage.

The role of economic growth in advanced nations is less to make people richer than to reduce conflict. If most people feel that they're "getting ahead," they're less resentful of others who are doing better or hold different views. "Periods of economic expansion in America and elsewhere, during which most citizens had reason to be optimistic, have also witnessed greater openness, tolerance, and democracy," writes Harvard economist Benjamin Friedman in *The Moral Consequences of Economic Growth* (2005). If, however, people fall behind—or fear they will—they become more resentful. Until the Great Recession, three decades of growing economic inequality had inspired little popular backlash. This changed after unemployment rose. The Tea Party and Occupy Wall Street movements reflect the fallout of feared downward mobility.

Lower economic growth will have broad consequences. Already, defense spending is headed toward claiming the lowest share of GDP since 1940. In effect, the welfare state is defeating the Pentagon. Some will cheer, others complain. Either way, America's global role will change.

The prospect of downward mobility could discourage younger Americans from marrying and having families—a development that would accelerate America's aging. Although people marry and have children for many reasons, their economic outlook is an important influence. Low-income men are not prime candidates for marriage. Birthrates collapsed in the 1930s because families worried that they could not support new offspring. It is surely no coincidence that in the wake of the Great Recession the number of marriages fell five percent in 2010 and births three percent.

As it is, the generations are in an undeclared war. Americans in their late forties, fifties, and sixties believe that the contract made with them should be kept. They want their Social Security and Medicare benefits. They are angry when what they thought were career jobs are unexpectedly terminated; corporate buyouts and firings weren't part of the bargain. Meanwhile, their children and grandchildren are befuddled and frustrated. Their unemployment rates are high, and their wage levels—compared to those of the past—are low. Yet they feel guilty advocating trims to Social Security and Medicare, even when the transfers go from the struggling young to the comfortable old.

The Affluent Society was more a state of mind than an explicit economic target or threshold level of income. It announced the arrival of an era when traditional economic concerns were being overwhelmed by a seemingly unstoppable flood of abundance. Prosperity was a panacea. We could afford a decent society as well as a wealthy society. Many traditional social, political, and economic choices could, with a little patience, be evaded. There was enough for almost everything. We have been, in historian David Potter's apt phrase, a "people of plenty." What happens when there is less plenty than we expected? We are about to find out. ■