

# CLIMBING TOWARD THE AMERICAN DREAM A SECOND ANALYSIS OF ECONOMIC MOBILITY IN UTAH

## HIGHLIGHTS

- Analysis of a large sample of data from the Utah State Tax Commission over two nine-year periods shows that income mobility is most common for middle income groups.
- The data show “stickiness” for both high- and low-income earners – they largely remained in their original income groups.
- Overall, economic mobility has decreased in recent years. In other words, more people stayed within their respective income groups between 2003 and 2011 than during the previous nine-year period.
- A majority of tax filers had higher incomes by the end of each of the periods, though less than a third of filers were “upwardly mobile.”
- The most recent nine-year period saw an 11 percentile point increase in people who were “downwardly mobile,” increasing to 39% of the population.
- During the Great Recession, Utahns’ incomes stagnated and homeownership rates slid. Also, income inequality has been rising for decades.
- However, there are aspects that should give Utahns hope; incomes have been on the rise since the end of the recession, Utah’s income inequality is near the lowest in the nation, and Utah’s homeownership rate is on par with its level during most of the past 50 years.

The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.

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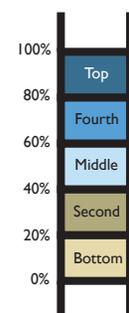
Financial inequality between the rich and the poor has been rising in the United States and in Utah over the past few decades. Some assert that such inequality is harmful in terms of societal and health related issues and that inequality is the reason for the slow recovery from the Great Recession.<sup>1,2</sup> Others contend that inequality provides incentive for the creation of wealth and increases innovation, and that financial inequality can be mitigated by economic mobility, or the ability of people to move up and down the economic ladder.<sup>3</sup> Following an earlier analysis in 2010, this report examines the American Dream, with a focus on economic mobility in Utah by looking at five equally-sized income percentiles, often referred to as quintiles. These quintiles – or “rungs” – of the income and wealth “ladder” are portrayed in Figure 1.

Utilizing several different mobility measures to compare mobility within these quintiles over two nine-year tax-filing periods, Utah Foundation determined that income mobility is most common in middle income groups, though mobility has decreased for all groups in the most recent nine-year period. This report also details other aspects of the American Dream including mobility across generations, income, wealth, and housing.

## THE FLEETING AMERICAN DREAM?

The definition of the “American Dream” was broad when it was first coined in 1931 and seems to be as equally broad now; James Truslow Adams first wrote of it as the “dream of a land in which life should be better and richer and fuller for every man, with opportunity for each according to his ability or achievement,”

**Figure 1: Rungs of the Economic Income and Wealth “Ladder”**



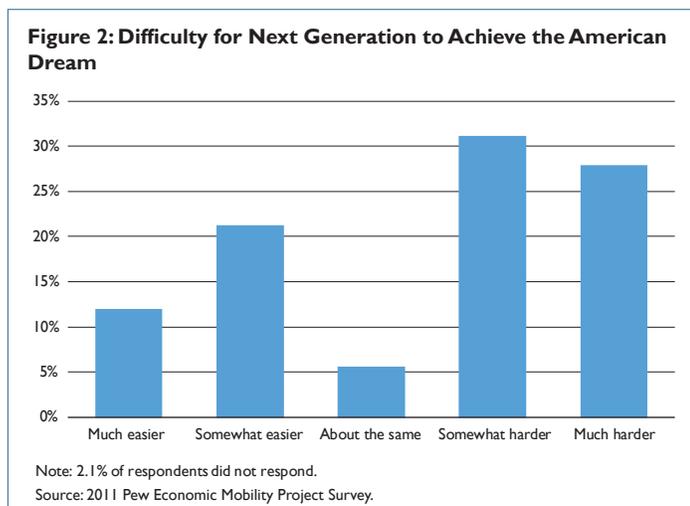
though not “merely material” riches.<sup>4</sup> Concretely, the definition could simply be whether a person’s hard work and determination is paying off, whether they are better-off than their parents, whether they are making a decent income, or whether they own a home. The American Dream might be a combination of these. Regardless of the definition, the concept is ubiquitous: from great literature and major motion pictures to motivational speeches and dinner discussions.

In terms of reaching the American Dream as self-defined by survey respondents, almost 31% of Americans believe they have reached it and nearly 37% believe they will reach it.<sup>5</sup> However, most people do not feel good about American Dream prospects for the next generation. Figure 2 shows that 59% of parents believe it will be “somewhat harder” or “much harder” for their children to achieve the American Dream. In the same survey, 77% of respondents without children believe it will be harder for the next generation.<sup>6</sup>

This glum outlook for future generations may be due in part to residual economic negativity from the Great Recession, the continuing moderate recovery, and the ongoing federal budget crisis. It could also be due to large unemployment increases and labor force decreases in the 16 to 19 year-old age group between 2007 and 2011.<sup>7</sup> Has the American Dream suffered in recent years? We begin answering this question by examining income mobility.

## INCOME MOBILITY LADDER TO SUCCESS

The whole concept of economic mobility is that it measures how much people move up and down the economic ladder, and the very ability or likelihood that people will do so. One definition of the American Dream – and the primary analysis in this report – is whether people are doing better than in the past due to their educational attainment, hard work and personal determination. This is referred to as intragenerational economic mobility. For this report, the Utah Foundation measured intragenerational mobility using income, with assistance from the Utah State Tax Commission and its former Senior Economist Matthew Lund. To perform this analysis Utah Foundation combined the measures and methodology of several economic mobility reports. This report’s analyses of relative and absolute income mobility were modeled after a paper from the U.S. Treasury Department.<sup>8</sup> This report also includes a measure derived from work by the Brookings Institution that combines relative and absolute income mobility. This measure shows whether taxpayers are getting ahead in just absolute terms or if taxpayers are actually



moving up the income distribution.<sup>9</sup> Utah Foundation presents these analyses over two periods to allow for trend analysis based on the methodology of a report from the Economic Mobility Project, which is a nonpartisan, collaborative effort of The American Enterprise Institute, The Brookings Institution, The Heritage Foundation, and The Urban Institute, led by the Pew Charitable Trusts.<sup>10</sup>

## Methodology

The measures in this report illustrate the movement of actual taxpayers from one quintile to another. They do not simply show changes in average or aggregate incomes. The data were collected by the Utah State Tax Commission from taxpayers’ Utah income tax returns.

There are advantages and disadvantages to using tax return data. One advantage is that the data include capital gains, which are often underreported in survey data. Capital gains come from wealth itself, rather than just one’s wage or salary. This includes stocks and bonds, real estate revenue, and business profits. Another advantage is that the tax return data include a large number of high-income taxpayers. Survey data generally contain relatively few high-income households and the upper levels of the data are not known.<sup>11</sup>

One disadvantage is that not all people file returns. Accordingly, non-filers – who are predominately very low-income earners – are excluded from the data. Another disadvantage is that tax data contain very little demographic information, like race/ethnicity and education, though it does include age and marital status. Other disadvantages are that some taxpayers underreport their incomes, that some capital gains are reported when realized instead of when received, and that some filers have large tax-losses, which could significantly decrease large incomes in subsequent years. Accordingly, some of the movement from very high incomes to the bottom 20% is due to federal adjusted gross income (FAGI) that is simply adjusted down due to previous years’ business losses.<sup>12</sup>

The mobility analyses included in this report focus on two, nine-year tax filing periods. These periods are from 1994 to 2002 and from 2003 to 2011. Conveniently, the Utah State Tax Commission had an even number of tax filing years available for analysis, so Utah Foundation was able to use all of the data available. By analyzing the periods side-by-side, Utah Foundation has been able to determine whether mobility has increased or decreased over the two periods.

## Data

Data from the Utah State Tax Commission’s database of tax returns were analyzed by commission staff and summarized for this report in a manner that did not reveal any personal tax information to Utah Foundation researchers. For the analysis of economic mobility from 1994 to 2002, a sample of 239,313 tax returns from Utah full-time, non-dependent residents was analyzed. For the 2003 to 2011 period, the sample size was 364,057 tax returns. For other measures of income levels, sample sizes vary by year, totalling more than one million filers by the end of the period.

For analysis of mobility over time, only the tax returns of those filers who filed in Utah at the beginning and end of each comparison period were used. The data are based upon FAGI, which is reported on the first line of Utah state tax returns. To remove inflation effects over time, income is adjusted to 2011 dollars using the Consumer Price Index.<sup>13</sup> Income is also adjusted for household size by dividing by

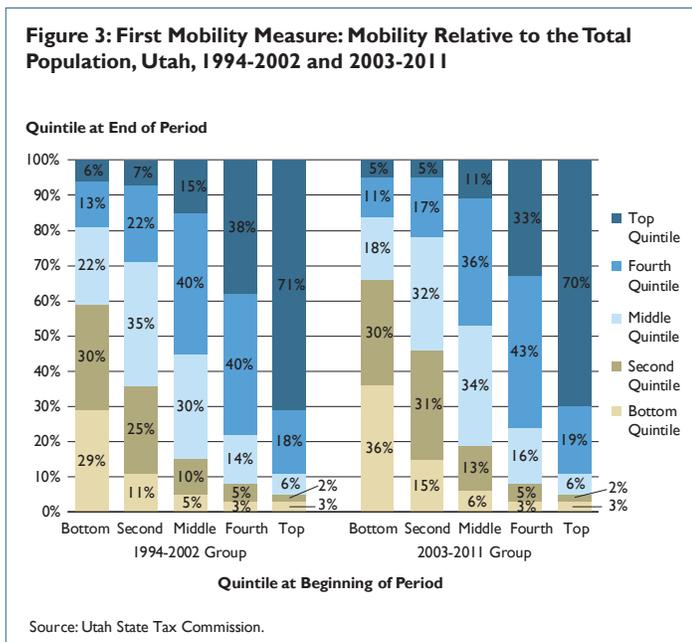
the square root of the dependents.<sup>14</sup> This commonly used adjustment helps account for the differing needs of small and large households. It implies that a four-person household has twice the monetary needs (since the square root of four is two) than that of a one-person household, and a nine-person household has three-times the monetary need (since the square root of nine is three).

Because income mobility is partly determined by factors related to the lifetime pattern of income, it is useful to impose age limits on the sample population. This limits the upward mobility that comes from the income growth of new entrants to the workforce (college graduates who obtain their first career job) and the downward mobility that comes from income declines due to individuals exiting the workforce (those entering retirement).<sup>15</sup> To avoid counting these transitions, Utah Foundation’s analysis excludes taxpayers who were under age 25 or over age 54 in the beginning year of the first period (1994) and the beginning year of the second period (2003). This is a common practice used in previous income mobility studies.

### First Measure: Mobility Relative to the Whole Population

The first measure included in this report determines the quintiles of tax filers between 25 and 54 years old at the beginning of each of the measurement periods (1994 and 2003). The ending quintile for these same tax filers (2002 and 2011) is then determined relative to the whole tax filing population in Utah. Thus, the mobility of the two panel groups is affected by the filers entering and exiting Utah’s workforce.

As can be seen in Figure 3, there is much more “stickiness” for the top quintile than for the bottom one. In fact, of the top quintile income earners in 1994 and 2003, 71% and 70%, respectively remained in the top quintile nine years later. There seems to be good upward mobility for all quintile groups in each of the 1994 and 2003 taxpayers, with between 30% and 40% moving up to the next quintile. In fact, all groups were more likely to move to higher quintiles than to lower ones, except of course the top quintile which could not move up any further. However, the amount of mobility decreased slightly in the second period for all of the four lower quintiles, with the 2003-2011 group’s filers remaining in their respective quintiles at slightly higher rates.

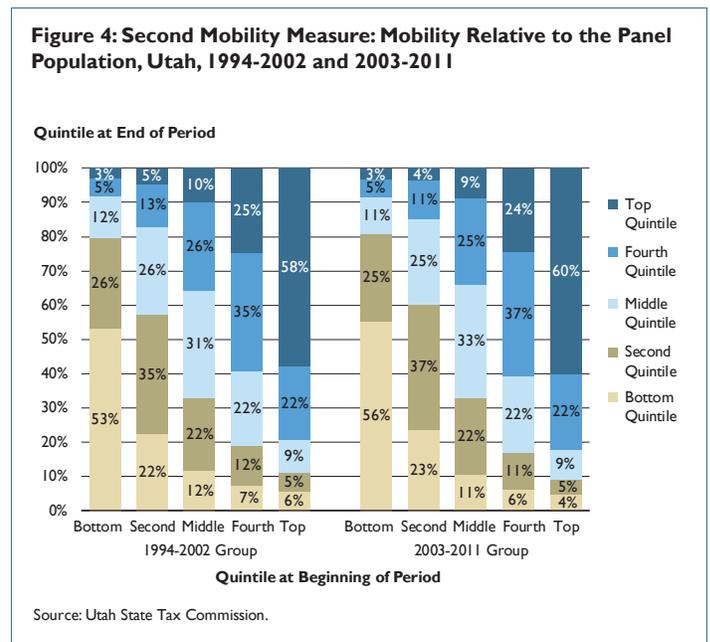


This measure may be somewhat over-stating mobility. Since this measure is in relation to the whole population, upward movement represented in Figure 3 may be influenced by new tax filers. These new filers are typically new wage earners with lower incomes so it is only natural that there would be a certain amount of upward mobility for all groups. This group may also include new immigrants who are also more likely to enter the population with lower incomes.<sup>16</sup> Because Utah has experienced rapid foreign-born population growth (from 4.1% of the employed population in 1990 to 11.6% of the employed population in 2011), this group is likely to influence some of the upward movement in the figures.<sup>17</sup> If taxpayers only move up the economic ladder because new entrants to the economy earn less money, their overall economic well-being may not have actually improved.

### Second Measure: Mobility Relative to the Panel Population

Often, the lowest income earners are those who have been in the workforce for the shortest period of time. For example, the U.S. median personal income for 25 to 29 year olds is \$26,910 annually, which then tends to increase until it tops out at \$36,747 for 50 to 54 year olds.<sup>18</sup> Thus, as the workforce ages, they tend to gain experience and gain income. Accordingly, taxpayers improve their economic standing – or their position on the economic ladder – not only by excelling compared to other taxpayers in the panel population but by comparison with the new 25 to 29 year olds that are taking lower-paying jobs.<sup>19</sup> To account for this issue, the second mobility measure compares the 1994 group with itself at 2002, and the 2003 group with itself at 2011. Since no new taxpayers enter into the comparison, the potential upward movement from new, young taxpayers is eliminated. Thus, the only upward movement is from an increase in the taxpayers’ wages or if taxpayers from higher levels have fallen.

As can be seen in Figure 4, the second mobility measure shows much more stickiness for the lowest wage earners than the first measure. Of the bottom quintile earners in each of 1994 and 2003, 53% and 56% respectively were still in the bottom quintile nine years later. The second mobility measure shows less stickiness for the highest wage earners than the first measure. Of the top quintile earners at the beginning of each of the periods, 58% and 60% respectively



**Figure 5: Third Mobility Measure: Absolute Income Mobility, in 2011 Dollars, Utah, 1994-2002 and 2003-2011**

	Distribution of Percentage Changes in Income						Total	
	Decreased More than 50%	Decreased 25 to 50%	Decreased Up to 25%	Increased up to 25%	Increased 25 to 50%	Increased 50 to 100%		Increased 100% or More
Bottom 20%, 1994-2002	6%	3%	5%	6%	7%	15%	58%	100%
Bottom 20%, 2003-2011	7%	5%	8%	9%	8%	13%	49%	100%
Middle 60%, 1994-2002	5%	6%	12%	18%	19%	23%	16%	100%
Middle 60%, 2003-2011	8%	10%	17%	20%	16%	16%	11%	100%
Top 20%, 1994-2002	11%	13%	20%	23%	15%	12%	7%	100%
Top 20%, 2003-2011	13%	15%	23%	22%	12%	9%	5%	100%
Top 1%, 1994-2002	36%	16%	13%	10%	7%	8%	10%	100%
Top 1%, 2003-2011	49%	13%	10%	9%	6%	5%	8%	100%
Combined Income Groups, 1994-2002	7%	8%	14%	19%	17%	19%	16%	100%
Combined Income Groups, 2003-2011	9%	11%	18%	20%	14%	14%	14%	100%

Note: The table uses the tax returns of primary non-dependent taxpayers who were between ages 25-54 in 1994. Income breaks for the quintiles are based on the full cross-section of tax returns for 1994. Income is defined as federal adjusted gross income divided by the square-root of exemptions.  
Source: Utah State Tax Commission.

were still in the top quintile nine years later. Like the first mobility measure, the second measure shows slightly less overall mobility in the 2003-2011 period than the 1994-2002 period. In other words, there are fewer people exiting their respective quintiles by the end of the second nine year period.

**Third Measure: Absolute Mobility**

One disadvantage to determining mobility based upon a taxpayers' crossing, or not, of a quintile dividing line is that some very small changes in income may be reflected as movement between mobility levels. Another disadvantage is that large changes in income would not be reflected if the taxpayers did not cross the quintile dividing lines. Also, quintile ranges change over time and may be increasing with increasing inequality.<sup>20</sup>

The third measure of mobility – the taxpayers' absolute mobility – addresses these issues by simply showing to what degree earners' incomes increased or decreased. As utilized elsewhere in this report, mobility in this measure is determined using incomes adjusted to 2011 dollars. As seen in Figure 5, the third measure shows that real incomes for taxpayers in the bottom quintile increased much more than other quintiles by the end of each of the periods. For example, 49% of the tax filers in the bottom quintile saw their real incomes increase by 100% or more between 2003 and 2011. Over the same period only 5% of the top quintile saw their real incomes increase by 100% or more. Further, tax filers with greater incomes were more likely to see their real incomes decrease over each of the periods than filers with lower incomes. This is certainly true for those at the top one percent, 49% of which saw their real incomes decrease more than half between 2003-2011.

The 2003-2011 period was economically more difficult than the 1994-2002 period on all quintiles. Fewer taxpayers experienced increases in their real incomes in the second period than in the first period. Correspondingly, for all of the income groups combined there were more filers with decreasing real incomes in the second period than in the first. Figure 5 shows that there were 1% more tax filers in the second period with real incomes that increased by up to 25%. However, there were 10% fewer tax filers in the second period with real incomes that increased by 25% or more. This is likely to be related to impacts of the Great Recession.

Absolute measures of income mobility can also be deceptive because they are based upon taxpayers' earnings at the beginning of the panel period. Accordingly, if a filer's income starts out low, a modest increase can reflect a large percentage increase. If a person starts out at \$5,000 per year and increases to \$10,000, a 100% increase, they will still have a hard time paying the rent. Also, economic growth and other

factors have a natural tendency to increase incomes with age so that most people will likely experience increases in income over time.

**Fourth Measure: Combined Relative and Absolute Income Mobility**

The American Dream could also be analyzed as a combination of one's income with the added effect of such income increasing one's stature in society. This would be a combination of both absolute and relative terms. The fourth measure details changes in taxpayers' incomes during each of the two nine-year periods to show the percent of taxpayers that are (a) upwardly mobile, (b) riding the tide, (c) falling despite the tide, and (d) downwardly mobile.<sup>21</sup>

Being upwardly mobile means that the taxpayer has a higher income and has moved up one or more quintiles. The lower the quintile,

**Figure 6: Fourth Mobility Measure: Combined Relative and Absolute Income Mobility, Based on 2011 Dollars, Utah, 1994-2002**

Mobility Category	Income Quintile in 1994					All Taxpayers
	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Highest Quintile	
Upward Mobile						
Higher income and up 1 or more quintiles	47%	43%	36%	25%	n/a	30%
Riding the Tide						
Higher income and same quintile	37%	33%	31%	34%	48%	36%
Falling Despite the Tide						
Higher income and down 1 quintile	n/a	3%	8%	9%	7%	6%
Downward Mobile						
Lower income and lower or same quintile	16%	21%	25%	32%	45%	28%
Total	100%	100%	100%	100%	100%	100%

Source: Utah State Tax Commission.

**Figure 7: Fourth Mobility Measure: Combined Relative and Absolute Income Mobility, Based on 2011 Dollars, Utah, 2003-2011**

Mobility Category	Income Quintile in 2003					All Taxpayers
	Lowest Quintile	Second Quintile	Middle Quintile	Fourth Quintile	Top Quintile	
Upward Mobile						
Higher income and up 1 or more quintiles	45%	39%	34%	24%	n/a	28%
Riding the Tide						
Higher income and same quintile	30%	27%	28%	31%	45%	31%
Falling Despite the Tide						
Higher income and down 1 quintile	N/A	0%	2%	3%	3%	2%
Downward Mobile						
Lower income and lower or same quintile	25%	34%	36%	41%	53%	39%
Total	100%	100%	100%	100%	100%	100%

Note: Columns may not add to 100% because of rounding.  
Source: Utah State Tax Commission.

the more likely the tax filer is going to be upwardly mobile. This is certainly true of the “rising stars” that find quick increases in earnings early in their mid-20’s through mid-30’s. However, there was a smaller percentage of upwardly mobile filers in all quintiles in the second period than in the first period, except for a quarter of the filers in the fourth quintile which made it into the fifth quintile in each period.

The “tide” in these categories refers to the phrase “a rising tide lifts all boats.” In other words, it is placing taxpayers’ performance in relation to economic growth and the natural increase in personal income over time. Taxpayers who are riding the tide have higher incomes but are remaining in the same quintile, and taxpayers who are falling despite the tide have higher incomes but are in a lower quintile. About one third of the bottom four quintiles and just under a half of the top quintile rode the tide in each period, though the percentage decreased a bit for all groups at the end of 2011 from the end of 2002. The overall percentage of taxpayers riding the tide in the two periods declined from 36% to 31%. A small percentage of filers fell despite the tide by 2002, and that percentage decreased even more by 2011.

Lastly, being downwardly mobile means that the taxpayer has a lower income and a lower or same quintile. All quintiles in the second period became more downwardly mobile than their counterparts in the first period. The percentage of taxpayers in the downwardly mobile group increased from 28% to 39%

Overall, the top two quintiles were more likely to ride the tide or be downwardly mobile, and the bottom two quintiles were more upwardly mobile. Additionally, there has been a shift for all taxpayers over the two periods from a greater likelihood of riding the tide to a greater likelihood of downward mobility.

### SUCCESS COMPARED TO PARENTS

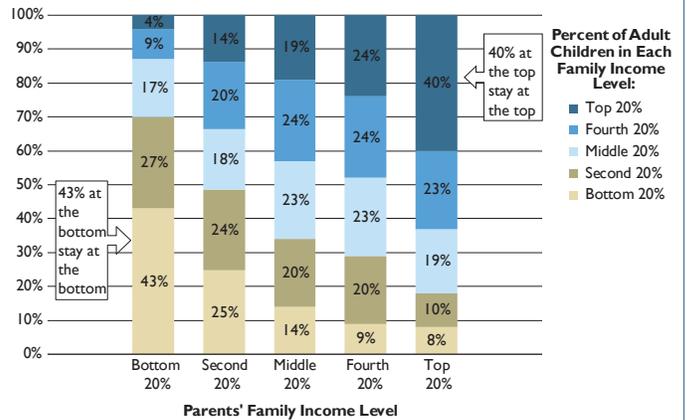
Another measure of mobility is the movement of children up or down the economic ladder relative to their parents. This is also referred to as intergenerational economic mobility.

The Panel Study of Income Dynamics, or PSID, has been collecting national data on a wide variety of metrics since 1968.<sup>22</sup> The Economic Mobility Project has used the PSID data to evaluate intergenerational economic mobility. The Project found that children raised at the top and the bottom quintiles had less mobility than the other three quintiles. These quintiles were the “stickiest,” with 40% of the top and 43% of the bottom remaining at the income level that they were born into.<sup>23</sup> The same is true for the stickiness of wealth levels, where 41% of the bottom is stuck at the bottom and 41% of the top remaining at the top.<sup>24</sup> However, even within the top and bottom 20% of incomes, a majority of the population ends up in other quintiles, thus exemplifying that the barriers between income groups can be overcome.

### MOBILITY FACTORS

A survey regarding twenty-two different factors and their effect on economic mobility identified that hard work, a person’s drive and personal ambition, access to quality K-12 education, and the attitudes and values a person’s parents taught them were deemed as “the most important” factors.<sup>25</sup> Race and gender were ranked as least important.<sup>26</sup> In reality this may not be completely accurate. National studies have shown African American and blacks have a harder time exceeding the family income and wealth of their parents than whites, and experience more stickiness at the bottom and are more likely

**Figure 8: Intergenerational “Stickiness” at the Bottom and Top 20% Incomes, U.S.**



Note: Mean of parents’ incomes from 1967-1971 and adult children’s incomes from 2000-2008. Source: Pew Charitable Trusts.

to fall from the middle than whites.<sup>27</sup> While there does not seem to be much difference between the mobility of women and men, their income gap continues to exist as detailed later in this report.<sup>28</sup>

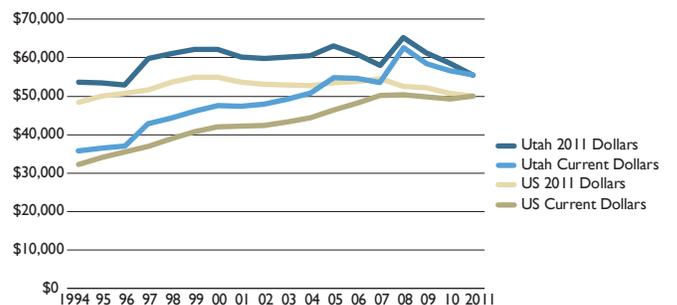
Four-year college degrees also seem to have a strong effect on mobility. They promote upward income (and wealth) mobility out of the bottom, with only 10% being stuck at the bottom compared to 47% without college degrees.<sup>29</sup> Four-year degrees also prevent downward mobility from the middle and top. However, while over half of the top 20% graduate from college, only 7% of the bottom 20% do.<sup>30</sup> Thus, access to college may be one of the greatest hurdles to achieving economic mobility.

The fundamental component of economic mobility is income. This report next examines income using U.S. Census and Utah State Tax Commission data.

### HOUSEHOLD INCOMES SHOW SLIGHT DECLINES SINCE RECESSION

Median household income has historically been slightly higher in Utah than for the nation. In 2011, that gap was approximately \$5,450, down from approximately \$12,250 in 2008. The national median household income has remained fairly steady since the beginning of the Great Recession in 2007, while Utah’s median income decreased

**Figure 9: Utah and U.S. Median Household Incomes, in 2011 and Nominal Dollars, 1994-2011**



Note: The large increase in 2008 is likely due to a sampling error. The U.S. Census now recommends using the American Community Survey for state-level data, though such data are not available before 2005. Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

**Figure 10: Utah Median Federal Adjusted Gross Income and Percent Change, 1994-2011 (in 2011 Dollars)**

	1994	2011	Percent Change
Bottom 20%	5,176	6,425	24%
Second 20%	17,444	19,645	13%
Middle 20%	33,123	36,376	10%
Fourth 20%	56,684	62,526	10%
Top 20%	99,325	115,171	16%
Top 1%	484,754	973,863	101%

Source: Utah State Tax Commission.

precipitously. When both Utah and U.S. incomes are adjusted to 2011 dollars, both are at their lowest level since 1996.

Utah’s ranking in median household income is influenced by the relatively low number of single-person households in Utah compared to other states. Utah’s median household income is inflated because there are fewer single-person households in Utah, which households typically have lower income levels. In 2011, only 25.1% of households in Utah were “non-family” compared to 33.8% nationwide.<sup>31</sup> Since people living alone are considered “non-family,” this measure eliminates the lower-income, single-person households. Accordingly, in comparing median family incomes Utah ranks nearer to the national average. In 2011, Utah’s family income was \$62,809 compared to \$61,455 nationwide.<sup>32</sup>

### INCOME ANALYSIS BY QUINTILE

Data from the Utah State Tax Commission were used to calculate the median income for groups of individuals by quintile. Unlike the tax commission analyses above which utilize individual taxpayer data, these data are an aggregate of the income groups. Quintile analysis in Figure 10 shows that income, adjusted for inflation, has been on the rise for all income groups since 1994. The cumulative increases for each quintile have ranged between 10% for each of the middle and fourth quintiles, up to 24% for the bottom quintile. The change in income for the bottom quintile equates to less than \$1,300 per year. Income changes increase quickly through the economic ladder to more than \$15,000 for the top quintile. The top 1% saw a median income increase of nearly \$500,000 over this 17-year period.

It is also important to note the impact the Great Recession had on all income quintiles. The recession generally caused real income declines, as measured by FAGI, with decreases for all quintiles. While the recession clearly slowed growth for the economy, the drop seen

in statewide median incomes as shown in Figure 9 is not necessarily reflected by federally adjusted gross income quintiles in Figure 11. Interestingly, the median federally adjusted gross income for the top quintile began dropping slightly before the recession. Since the recession, median incomes have been largely flat with small changes for all income groups.

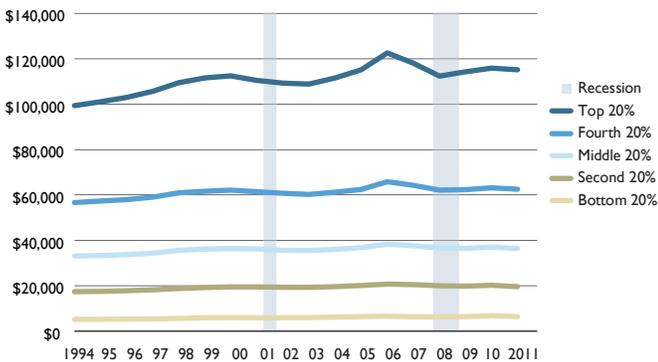
### Income Analysis by Age

Data from the Utah State Tax Commission were also used to calculate the median income for taxpayers grouped by their age in 1994. The median incomes for these cohorts were tracked over 17 years in order to determine how their median incomes changed as they aged. The information below is detailed herein by taxpayers’ ages at the beginning of the period. Accordingly, the group listed as “18-24” include the original group’s filers who also filed taxes in Utah in subsequent years and 17 years later are between the ages of 35-41. The “25-34” year old group includes taxpayers that filed in subsequent years and are between 42-51 in 2011, and so on. By performing this analysis, Utah Foundation was able to determine how median income changes as teens reach adulthood, as recent graduates reach middle age, and as those at the peak of their career reach retirement. This helps inform and explain the analysis of economic mobility.

A person’s income generally grows until they near retirement. Figure 12 shows income changes in 2011 dollars. Each of the four youngest age groups, or those 44 years of age and under in 1994 or 61 years of age and under by 2011, experienced generally increasing incomes over the period. The two oldest groups experienced generally decreasing incomes since 2000, which is expected due to retirement; by 2011, all of the filers in these groups were 62 years of age and over. In the 2001 recession, all of the older groups saw income stagnation or declines, and during the Great Recession all age groups saw declines except those that were under 18 in 1994.

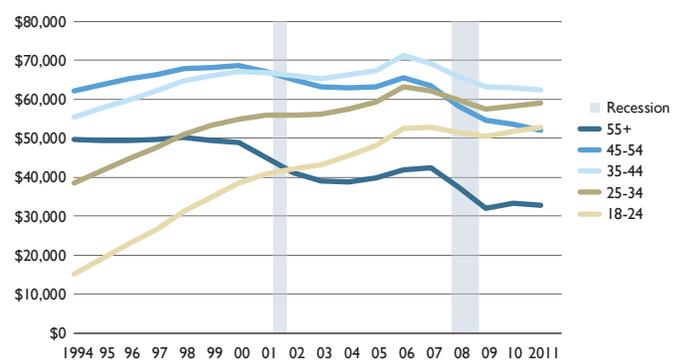
The decrease of median incomes during recessions may not necessarily be due to decreases in workers’ wages, but instead due to an overall increase in the unemployment rate. If the unemployed who were previously over the median income continue filing their tax returns, either as individuals or jointly, their returns will have the effect of bringing down the median income within their age group. In addition, recessions have created a greater downward pressure on the median income of older groups than younger ones, due more in part to the longer duration of unemployment

**Figure 11: Utah Median Federal Adjusted Gross Income by Quintile (in 2011 Dollars)**



Source: Utah State Tax Commission.

**Figure 12: Utah Median Federal Adjusted Gross Income by Taxpayer’s Ages in 1994 (in 2011 Dollars)**



Source: Utah State Tax Commission.

**Figure 13: Utah's Median Earnings by Educational Attainment, 2011**

Educational Attainment	Median Income
Less than high school graduate	\$19,956
High school graduate (includes equivalency)	\$27,499
Some college or associate's degree	\$30,387
Bachelor's degree	\$41,910
Graduate or professional degree	\$61,989

Source: U.S. Census Bureau, American Community Survey.

experienced by older workers than an increased likelihood of early retirement.<sup>33,34</sup> It is encouraging for the 18-24 and 25-34 year old groups that median incomes are again rising since the end of the Great Recession. However, the 34-44 and 45-54 year old groups do not seem to be rebounding as well.

### FACTORS AFFECTING INCOME

Median incomes of income quintiles and age groups do not tell the whole story because there are an uncountable number of factors that affect income. One major factor has to do with typical lifetime patterns. As shown in Figure 12, young workers start their careers in relatively low-paying jobs after leaving high school, and even following certificate and college degree completion. As they gain work experience, skills, and additional education (see Figure 13), their job earnings arc upwards.<sup>35</sup> Analyzing income by age groups shows that median incomes are highest between the ages of 50 and 54.<sup>36</sup> Then, upon retirement or career changes at the end of their working years, they tend to experience reductions in their income, which can also be seen in Figure 12.

Another important factor in income change is household membership. Marriage can increase household income if both spouses are employed. Having children may reduce household income with a possible reduction of hours or a cessation of working. When children enter school, a parent may go back to work, or parents may increase their hours. Death of a working household member or divorce can again reduce household incomes.

While gender, race and ethnicity do not change over time, they do show great differences in income. The Provo/Orem area and the Ogden/Clearfield area have the first and second largest full-time, year-round wage disparity between men and women in the country.<sup>37</sup> Women in Utah earned 69% of men (\$32,843 vs. \$47,573).<sup>38</sup> Analysis has shown that while a portion of the income gap may disappear when the type of job, career experience, and education levels are taken into consideration, these factors do not explain away the income gap.<sup>39</sup> There are also large income gaps between races and ethnicities. Figure 15 shows that Asian and White populations have incomes more than \$20,000 per year higher than American Indian and Alaskan Native, Black or African American, and Native Hawaiian and Other Pacific Islander populations. Racial and ethnic income differences are partly related to factors such as educational outcomes, which are

**Figure 14: Utah's Median Earnings by Household Type, 2011**

Household Type	Median Earnings
Married-couple families	\$70,299
Female family householder, no husband present	\$32,598
Male family householder, no wife present	\$42,794
Female non-family householder	\$26,615
Male non-family householder	\$37,094

Source: U.S. Census Bureau, American Community Survey.

**Figure 15: Utah's Median Earnings by Race and Ethnicity Type, 2011**

Race and Ethnicity	Median Earnings
White	\$57,292
Black or African American	\$35,322
American Indian and Alaska Native	\$28,908
Asian	\$58,129
Native Hawaiian and Other Pacific Islander	\$35,666
Some other race	\$41,288
Two or more races	\$43,938
Hispanic or Latino origin (of any race)	\$41,802
White alone, not Hispanic or Latino	\$58,495

Source: U.S. Census Bureau, American Community Survey.

themselves affected by such things as parental education levels and socioeconomic status.<sup>41,42,43,44</sup>

As noted above in the discussion of income changes during the Great Recession, economic trends are also important in determining income. These trends include economic growth, inflation, technological change, international trade flows, and population growth.<sup>45</sup> Economic expansion leads to increases in real incomes of individuals, though much of this increase over the past 20 years has been gained by the top 10% of the population.<sup>46,47</sup> Government economic policies such as regulation, taxes and entitlement payments can also affect income growth.<sup>48</sup>

In addition to the factors that affect incomes in general, there are also several factors that directly decrease the FAGI (federal adjusted gross income) which are used in this report as part of the taxpayer analysis of data from the Utah Tax Commission. The FAGI is calculated by subtracting specific deductions, including health savings accounts, IRAs, student loan interest, tuition and fees, and alimony from total income. These all have the appearance of decreasing wages, but are in reality only doing so on filers' tax forms. Some of these deductions, including those for student loan interest and tuition and fees, were added to the tax code in the late 1990s and early 2000s, which have some effect on FAGI during this study period.<sup>49</sup>

### INCOME INEQUALITY ON THE RISE

When discussing economic mobility and income it is important to examine financial inequality. Mobility is inextricably linked to inequality. Income and wealth inequality can be mitigated by economic mobility, though research suggests that countries with high inequality have lower levels of mobility.<sup>50</sup> Thus, the higher the inequality, the less likely people are to make it up from the bottom rungs of the ladder due to factors such as education, neighborhoods, savings, health care and family structure.<sup>51</sup>

In the U.S., the shares of aggregate household income for the top 20% have been trending away from the other rungs in the ladder. In 1970, the top 20% earned 43.3% of the nation's income, and the top 5% earned 16.6% of the income. Gradually, over a 40-year span ending in 2011, these increased to 51.1% and 22.3% respectively. During this period, each of the other four-fifths of the nation's households have seen decreasing income shares, with the greatest decrease being experienced by the middle quintile from 17.4% to 14.3%.<sup>52</sup>

Utahns have not been exempt from this trend. Even through the Great Recession – between 2006 and 2011 – the top 20% and 5% income earners increased their aggregate earnings from 45.6% and 19.1%,

**Figure 16: The U.S. and Utah are Trending Toward More Inequality**

	Inequality Index (Gini coefficients)								
	1980	1990	2000	2006	2007	2008	2009	2010	2011
Utah	0.371	0.395	0.41	0.41	0.409	0.411	0.414	0.419	0.425
U.S.	0.415	0.445	0.463	0.464	0.467	0.469	0.469	0.469	0.475

Note: A limitation to this measure is that it looks only at income, not capital gains or wealth which comprise a majority of the difference between those at the top of the income spectrum and those at the bottom.

Sources: U.S. Census Bureau, American Community Survey, 2006-2011, 1-year samples; and Censuses of Population, Statistics Branch/HHES Division, 1980-2000.

respectively, to 46.6% and 19.7%.<sup>53</sup> The greatest aggregate losses in Utah were felt equally between the bottom and second 20%.<sup>54</sup>

Utah is tied with Iowa for the smallest income differential between the bottom and top 20%, at just 5.6. In other words, the richest fifth of the state's households had income 5.6 times higher than the poorest fifth, or \$144,583 compared to \$25,884. By another measure, the differential between the bottom 20% and the top 5% was 8.9 for Utah, just behind Iowa at 8.6, or \$229,824 compared to \$25,884. The national average for each of these measures was 8.0 times and 13.3 times respectively.<sup>55</sup>

A common measure of income inequality is the Gini coefficient. The Gini coefficient is a mathematical measure of the inequality of a region's income distribution. A coefficient of 0 indicates that income is evenly distributed among the population in the region. This is a hypothetical number where everyone has the same income. A value of 1 indicates perfect income inequality, where one individual has all the income and no one else has any. Typically, countries with values of less than 0.3 like Sweden, Norway and Germany are considered very equal, while countries with values over 0.5 like South Africa, Haiti and Columbia are considered very unequal.<sup>56</sup> The U.S. has a Gini coefficient of 0.475.<sup>57</sup> Countries like Canada, Germany and Norway not only have lower inequality but also end up with greater mobility than the U.S.<sup>58</sup>

In 2011 Utah's Gini coefficient was 0.425.<sup>59</sup> This was the third lowest income inequality of any state in the nation, and has been one of the ten lowest for thirty years. Only Wyoming (0.408) and Alaska (0.410) have lower rates of income inequality by this measure, while Washington D.C. (0.534) and New York (0.503) have the most inequality. As seen in Figure 16, both Utah and the U.S. have trended towards inequality since the 1980s at approximately the same rate.<sup>60</sup>

The increase in inequality is due to numerous factors. Some of it may be explained by an increase of income and wealth at the very top; between 1980 and 2005, more than 80% of all of the nation's income gains went to the top one percent of wage earners.<sup>61</sup> The increase is also possibly due in large part to the increase in "job polarization," which is the shift of the workforce from middle-skill, middle-pay jobs to higher-skill and lower-skill jobs.<sup>62</sup> This shift has resulted in a decrease in middle-skill occupations; these occupations made up 59% of the employment in 1983, but only 45% of the employment in 2012.<sup>63</sup> In addition, while low-skill occupations saw a slight increase in average wages in comparison to the median of all wages, middle-skill occupations' average wage decreased.<sup>64</sup>

### GREATER INEQUALITY OCCURS WITH WEALTH

Income and wealth levels are very different. While income may be viewed as being unevenly distributed, it is not nearly as unevenly

**Figure 17: U.S. Income and Wealth Differences**

Wealth or Income Class	Mean Household Income	Mean Household Net Worth
Top 1 percent	\$1,318,200	\$16,439,400
Top 20 percent	226,200	2,061,600
60th-80th percentile	72,000	216,900
40th-60th percentile	41,700	61,000
Bottom 40 percent	17,300	-10,600

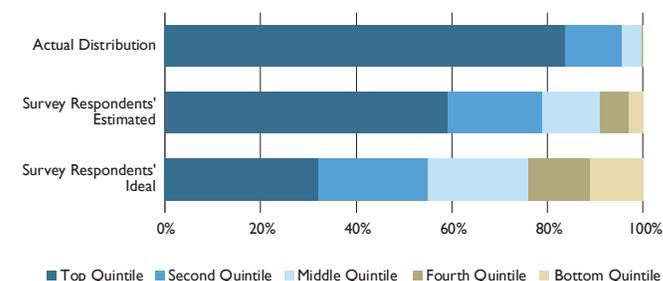
Source: Edward N. Wolff.

disbursed as is wealth. This makes sense, since wealth is an accumulation of income not spent over time. Wealth is often viewed as "net worth." Household net worth is a total of all the household's assets – including the homes, automobiles, investments and savings – minus the household's liabilities or debt. As shown in Figure 17, the top 20% income households have nearly 10 times more wealth than income.<sup>65</sup> The income to net worth ratio decreases precipitously for lower income households until wealth becomes negative for the bottom 40%.

In addition to income and wealth being different, perceptions of wealth distribution are also very different. In a recent survey of wealth, respondents were asked what the ideal wealth distribution would be in the United States.<sup>66</sup> They answered that it would be ideal for the top quintile of wealthiest people to own 32% of the nation's wealth, with the next two quintiles owning 23% and 21%, respectively. The respondents estimated that the top quintile actually held 59% of the nation's wealth, followed by 20% and 12% for the following quintiles. In actuality, the richest quintile holds 84%, with 12% and 4% going to the next two quintiles; the bottom two quintiles hold less than 1% between them. In the same survey, respondents preferred equality to wealth distribution by 77% to 23%. According to biennial Gallop polling since 1985, a majority of Americans (fluctuating between 56% and 68%) "feel that the money and wealth in this country should be more evenly distributed among a larger percentage of people."<sup>67</sup>

Governments, if they choose, can attempt to combat inequality. One way is to redistribute wealth through taxation, or taxing from the rich and giving to the poor through public services or transfer payments. Another way is best summarized by one of Ronald Reagan's top aides, who stated that "you don't want to make the rich poor; you want to make the poor richer."<sup>68</sup> Governments might enact policies that align with free market principles, thus allowing for a business climate which may stimulate the economy to help more wage earners increase incomes with the rising "tide."<sup>69</sup>

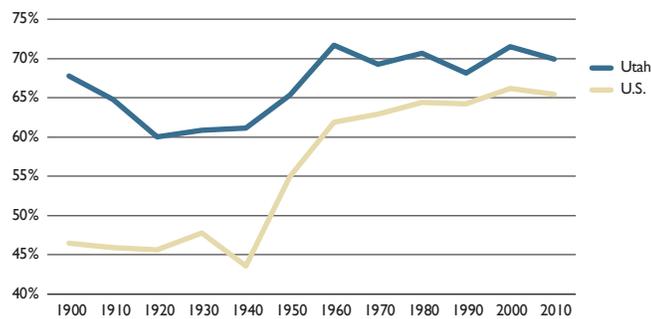
**Figure 18: Opinions and Misconceptions about Wealth Distribution in the U.S.**



Note: Because of their small percentage share of total wealth, neither the 4th quintile value (0.2%) nor the bottom quintile value (0.1%) are visible in the "Actual Distribution" bar.

Source: Michael I. Norton and Dan Ariely.

**Figure 19: Homeownership Rates by Decade, Utah and U.S.**



Source: U.S. Census Bureau, Census of Population and Housing.

## HOMEOWNERSHIP RATES SHOW SLIGHT DECLINES SINCE RECESSION

The final view of the American Dream in this report is homeownership. National homeownership rates climbed steadily following the end of World War II through the beginning of the current millennium. As seen in Figure 19, Utah's rate has been more variable than the national average. While the state's ownership rate has experienced numerous peaks and dips since 1900, it is the only state that has never fallen below 60%.<sup>70</sup> Both Utah and the nation have seen their homeownership rates decline slightly since the housing bubble burst in 2006 and the nation entered into the Great Recession in December of 2007. Utah dropped to 69.4% in 2011 from a historical peak of 72.0% in 2006.<sup>71</sup> Nationwide, ownership dropped to 64.6% from a historical peak of 67.3% in 2006.<sup>72</sup> The erosion of homeownership, while slight, provides some indication of a weakening of one of the main tenets of the American Dream.

## CONCLUSION

The American Dream for most Americans is based on the idea that success should be the result of merit. Those who work the hardest and have the greatest talent should be rewarded, and demographic features such as gender, race, ethnicity and socioeconomic status should not be considered. This may not always be the case, nor does it seem assured that future generations can count on the American Dream. This may be in some part due to realities of economic mobility, income, financial inequality and homeownership. All of them show disturbing trends. Mobility over the periods analyzed in this report is decreasing. Incomes stagnated during the Great Recession. Inequality is increasing. Homeownership rates slid after the "housing bubble" burst.

However, while mobility may be decreasing, there still appears to be much mobility between income groups. Further, a majority of taxpayers are seeing income gains by either "riding the tide" or being "upwardly mobile." Incomes have been on the rise since the end of the recession, and Utah's income inequality is near the lowest in the nation. Lastly, the homeownership rate is still on par with the levels during most of the past 50 years.

Climbing to the top 1% or even just to the top 20% from lower economic rungs is not the norm. Nonetheless, the measures of the American Dream explored in this report and one's ability to progress up the economic ladder may provide some small amount of comfort to many Utahns and their outlook for the future.

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