

Subject: The American Dream  
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The American Dream represents the belief that everyone will experience economic improvement over their own lives as well as the lives of their children and grandchildren. The term was first used by James Adams in 1931 at the start of the decade long downturn. A longing for the lost American Dream was just as strong during the Great Depression as during the Great Recession. While some dismiss its impact on economic behavior, the American Dream has important implications on consumer decisions about spending and saving. When consumers are confident that their future incomes will rise, they are also more willing to increase their spending and use credit; when confidence about long term income is absent, consumers want to avoid using credit and favor saving. Long term optimism intensifies growth in material aspirations, pessimism favors savings, although higher saving is more difficult to achieve with stagnant or falling real incomes. Over the past several decades, changes in long term expectations shifted consumers from unquenched consumption desires that powered a booming economy, to a situation during most of the past decade in which the economy suffered from insufficient consumer demand.

Consumers are asked to assess long term trends in their household's income, how it changed during the past five years and how they expected their household income to change during the next five years. The American Dream is perhaps best captured by the proportion who reported continuous gains, both in the past and in the next five years. All of the data represent annual averages. Unfortunately, the questions have been infrequently asked before 2012. Across all households, 67% reported improved finances during the prior five years in 2018, up from just 40% six years ago in 2012. The proportion that anticipate rising incomes during the next five years was 54% in 2018. Although this was up from 41% in 2012, expected income changes posted only half of the percentage point gain compared with assessments of past income trends (+13 points versus 27). The proportion of households that reported both past income gains and expected future gains was 41% in 2018, twice as high as the 20% recorded in 2012. While the recent gains have certainly been a welcome development, it has been the tepid gains in future income prospects that constrained the American Dream for the majority of households.

The distribution of responses across age, education, and income subgroups indicate large differences across groups and relatively small differences in how the distributions changed from 2012 to 2018. For example, the younger respondents held much more positive expectations about future income prospects, but the gains from 2012 showed much smaller differences across age groups. Age, education, and income subgroups all showed the same large differences in levels and much smaller difference in changes over the six year period. While the differences in percentages reporting better finances across age, education and income subgroups were easily anticipated based on life-cycle other socioeconomic considerations, the consistency in the degree of change across these same demographic subgroups was more remarkable.

Long Term Income Trends															
	Past Financial Gains (%Better off than 5 years ago)					Expected Financial Gains (%Expect to be better off in 5 years)					Continuous Financial Gains (%Better off last 5 & next 5 years)				
	2012	2016	2017	2018	Δ PPTs '18-'12	2012	2016	2017	2018	Δ PPTs '18-'12	2012	2016	2017	2018	Δ PPTs '18-'12
<b>All</b>	40%	58%	64%	67%	+27	41%	52%	54%	54%	+13	20%	36%	40%	41%	+21
<b>Age</b>															
18 - 24	58	70	76	72	+14	71	72	76	77	+6	44	51	58	57	+13
25 - 34	60	79	81	80	+20	75	82	80	76	+1	46	66	65	63	+17
35 - 44	53	69	74	74	+21	63	69	70	71	+8	34	51	55	55	+21
45 - 54	43	60	65	69	+26	53	59	58	61	+8	26	38	41	45	+19
55 - 64	37	52	59	64	+27	33	39	43	41	+8	13	23	29	30	+17
65 or older	25	35	46	53	+28	18	22	24	25	+7	7	10	14	18	+11
<b>Education</b>															
Less than High School	34	44	57	56	+22	26	40	42	41	+15	11	19	28	25	+14
High School degree	36	51	56	62	+26	33	46	49	51	+18	16	30	33	37	+21
Some college	35	54	62	65	+30	44	52	57	57	+13	19	33	40	41	+22
College degree	44	64	69	70	+26	50	60	57	57	+7	26	44	44	45	+19
Graduate studies	47	64	69	69	+22	46	54	52	48	+2	25	40	41	40	+15
<b>Household Income</b>															
Bottom 20%	28	41	46	47	+19	36	47	47	46	+10	12	24	26	28	+16
Second 20%	31	52	57	60	+29	35	50	52	52	+17	16	33	35	34	+18
Middle 20%	40	58	68	69	+29	44	52	56	58	+14	21	38	43	45	+24
Fourth 20%	46	67	73	78	+32	47	58	57	56	+9	26	43	46	47	+21
Top 20%	55	74	79	80	+25	51	59	60	59	+8	31	47	50	52	+21
Top 10%	57	77	81	81	+25	51	59	61	59	+8	33	49	52	52	+19