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## **ABSTRACT**

### **Fading Hope in the US**

A substantial literature claims that the strong increase in inequality over the last decade in countries such as the US would lead to a collapse of society. Fading hopes in the population seem to confirm this. The paper rejects this interpretation since the decline in hopes cannot be traced back to rising inequality.

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## **1. Introduction**

In the eyes of some prophets like Tony Judt (2010), Robert Reich (2010) or Raghuram Rajan (2010) the world (or at least the US) seem to fall apart as a result of the increasing inequality in Western societies. Increasing inequality in these societies is a relatively recent phenomenon, since the decades after the Second World War were characterized by decreasing inequality. At the beginning there were huge differences in inequality and there were also large differences in the speed of decline between nations. It was only at a turning point in the 1970s, when inequality started increasing again (see OECD, 2008, p. 33).

Our paper analyzes whether this change in societies is related to attitudes of the population where we focus on “hope”. It seems that hope in the population has also been in decline over the last decade, at least in the US. We examine whether this can be traced to the higher level of inequality. If rising inequality would lead to decreased “hope”, we assume that we would find a rising impact of the level of education and of being “white” (the advantaged group) on “hope”. Section 2 documents the rising income inequality and the fading hopes in the US. Section 3 studies the determinants of hope and provides an answer to the inequality disaster hypothesis.

## **2. Rising income inequality and fading hope in the US**

Figure 1 provides a detailed overview of the evolution of income inequality in the US over time for the period 1967 – 2009 (WCPC (2010)). Dividing the households into five parts, the mean household incomes (in 2009 consumer price adjusted terms) of those quintiles are exposed. The figure speaks for itself: There is no income increase since 1967 in the bottom two quintiles, very little in the third quintile, some in the fourth, but there is a substantial increase in the fifth (and top) quintile only. We exclude the recent recession here, since this is a separate issue. The strong rise in inequality took place in two steps first in the 1980s and then in the 1990s with a stagnation thereafter.

It has to be expected that this rising income inequality has been perceived by substantial parts of society, in particular in the lower income brackets as having a bearing on themselves and their children’s future. Maybe it is not the distribution in itself but

rather the dramatic speed of the increase: the changes in the distribution are the result of the fact that most of the benefits of economic growth in the period 1967 to 2010 were “captured” by the top 20% of the income earners while the lowest 80% saw hardly any income increase.

What do people expect of the future if they have experienced ten years of standstill in incomes? Table 1 presents the general view of US citizens’ relative optimism in 1999 and 2010 using data provided in PEW (2010). It provides responses about the long-term expectations for the lives of individuals and families, about the general future for the US and the perspective of the US economy. A key question that enables us to measure individual hopes are the responses to the choices for the question: "I’m optimistic about life for me and my family over the next 40 years."

As Table 1 suggests, in 1999 there were 81% of the US citizens who were optimistic about the future, presumably based on the experiences of income growth or betterment in general in the preceding period. By 2010 this percentage had substantially decreased to 64%. This implies that most Americans are still optimistic about their long-term future, however. It is just the degree of confidence that has changed. Also, the respondents are less optimistic about the future of the US, as the optimism declined from 70% over the decade to 61%. This is correlated with the decline in the belief in the rising strength of the US economy from 64% in 1999 to 56% in 2010.

We presume that these substantial changes could be associated with the documented rise in income inequality. If this is true we would expect that differences in educational levels would cause stronger differences in hope over time as the level of education has been a strong disequalizer in wages (OECD (2011)). We also would expect that disadvantaged ethnic groups should become less optimistic. The next section will explore these hypotheses.

### **3. Explaining fading hopes**

We use regression analysis of the individual data on hope discussed in the previous section to study the effects of background variables such as gender, age, education, ethnicity and activity on the labor market on relative optimism. We measure optimism or hope by the following question:

*Question: "First, thinking about you and your family... Would you say you are very optimistic, somewhat optimistic, somewhat pessimistic, or very pessimistic about life for you and your family over the next 40 years?" 0: "Very pessimistic", 1: "Somewhat pessimistic", 2: "Somewhat optimistic", 3: "Very optimistic".*

This measured variable "hope" is ordinal with values 0, 1, 2 and 3. We decided to present the findings of our OLS estimates using robust standard errors since ordinal probit regressions did not provide qualitatively different results. We were able to employ data from 1,460 individuals in 1999 and 1,437 in 2010. Regression results are contained in Table 2.

Our findings suggest that males are more pessimistic about their future than females, but this difference has increased only slightly over time. In comparison to the reference age group 18-29, older age groups are more pessimistic, and this difference has become much stronger during the decade. Further, the older the individuals, the more pessimistic they are in 2010. This is in stark contrast to 1999 when the age group 50-64 was the most pessimistic, and the only age group that was significantly different from the reference group of the young. The most important change has happened to the 65 and older people who seem to have now a substantially lower level of hope than the young (and all other age groups). This is a finding that is very likely not only driven by concerns about their own perspectives but, given their age, also their expectations for their entire family.

In the 1999 sample, education still made people more optimistic. For the view of the future seen in 2010, education is no longer relevant (small size of coefficients) and also not statistically significant from those with no education. Those employed and active in the labor force are not different from those who were inactive, and this has remained unchanged over the decade. Being active on the labor market increases positivism but not significantly so.

Ethnicity is strongly and significantly correlated with optimism/ pessimism in 2010, while not being significant in 1999 (except for whites), with African Americans being the most optimistic. Those with the smallest hope are Asians and Asian-Americans

followed by the Whites. Hispanics remained close to African Americans. This implies that the relative hope of Hispanics and African Americans in comparison to the Whites, Asians and Asian-Americans has improved over the decade.

The inclusion of other variables like regional dummies in the US and religious affiliations, and the interactions of variables did not generate new insights.

#### **4. Discussion and conclusions**

The hypothesis driven by the public debate has been that it is the rising inequality in the first decade of the 21st century which has changed the color of the outlook of citizens. However, while it is true that a rising inequality was observed at a time of a decline in hope, the results of our regression analysis do not support this being related in any relevant way. In particular this should have implied that the impact of education would have become more significant for the outlook of US citizens over the decade. We also should have found that disadvantaged ethnic groups became less optimistic. In fact, the opposite has happened in both cases.

The PEW (2010) surveys of 1999 and 2010 show clearly the fading of hope of US citizens for betterment in the future. Younger Americans (18-29 years) remain the more optimistic ones, where the decrease in optimism with age is far more pronounced in 2010 than in 1999. More remarkable is that the correlation of higher levels of education with optimism of 1999 has disappeared in 2010. This makes it difficult to interpret the decrease in optimism as related to income development, as it was the higher educated group which has most benefited from economic growth in the period. Also the finding that African Americans have become in 2010 the most optimistic is not so easy to align with the labor market experience.

In other words: the suggestions of several authors that the US development with increasing inequality cannot be sustained is not supported by the PEW observations, if education level and ethnic minority are used as a test.

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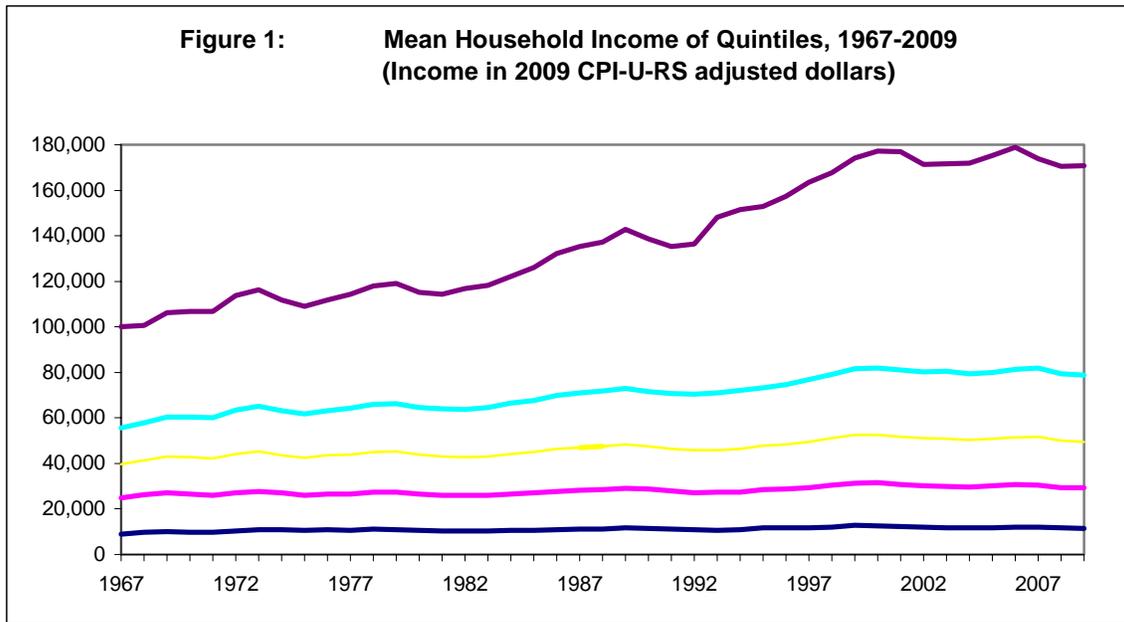
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Figure 1: Inequality in the US



Source: WCPC (2010), p. 1.

Table 1: US optimism about the long-term future

Over next 40 years, view of...	May 1999	April 2010
<b>Life for you/your family</b>	%	%
Optimistic	81	64
Pessimistic	15	31
Don't know	4	4
	100	100
<b>Future of U.S.</b>		
Optimistic	70	61
Pessimistic	27	36
Don't know	3	3
	100	100
<b>U.S. economy</b>		
Stronger	64	56
Weaker	31	39
Neither/DK	5	5
	100	100

Source: PEW (2010), p. 2.

Table 2: Analysis of Hope

	2010	1999
<b>Male</b>	-.146*** (.050)	-.082* (.042)
<b>Age</b> , reference group: 18-29		
30-49	-.195** (.077)	-.106** (.052)
50-64	-.364*** (.076)	-.237*** (.064)
65+	-.458*** (.088)	-.147* (.086)
<b>Education</b> , reference group: None, high school incomplete		
High school graduate, technical, trade, or vocational school	.026 (.126)	.142 (.093)
Some college, associate degree, no 4-year completion	.035 (.127)	.179* (.094)
College graduate, or post-graduate training	.133 (.124)	.217** (.092)
<b>Employed</b>	.079 (.059)	.060 (.057)
<b>Ethnicity</b> , reference group: African-American		
White	-.533*** (.083)	-.147** (.074)
Hispanic	-.209 (.134)	-.092 (.113)
Asian, Asian-American	-.575*** (.171)	-.167 (.162)
Some other race	-.385*** (.139)	-.129 (.123)
Const.	2.455*** (.146)	2.316*** (.116)
Obs.	1437	1460
$R^2$	.073	.025

Source: PEW (2010), own calculations: OLS regression using robust standard errors.

Note: Question "First, thinking about you and your family... Would you say you are very optimistic, somewhat optimistic, somewhat pessimistic, or very pessimistic about life for you and your family over the next 40 years?" 0 "Very pessimistic" 1 "Somewhat pessimistic" 2 "Somewhat optimistic" 3 "Very optimistic". A "\*", "\*\*", and "\*\*\*" refers to significance at the 10%, 5% and 1% level respectively.