THE GREAT GATSBY'S ECONOMICS OF THE AMERICAN DREAM

INDICATED BY HOUSEHOLD INCOME INEQUALITY AND SOCIOECONOMIC

MOBILITY

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I, THE UNDERSIGNED MEMBER OF THE COMMITTEE, HAVE APPROVED THIS THESIS

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ABSTRACT

THE GREAT GATSBY'S ECONOMICS OF THE AMERICAN DREAM INDICATED BY HOUSEHOLD INCOME INEQUALITY AND SOCIOECONOMIC MOBILITY

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The purpose of this study is to explain household income inequality and its relationship to socioeconomic mobility using popular culture's *The Great Gatsby*. Utilizing both the 1925 novel by F. Scott Fitzgerald and the 2013 film, the themes of Fitzgerald's work have both sparked a conversation in popular culture and brought about a new perspective explored by economics. With a historical look through U.S. household income inequality and socioeconomic mobility, I will be analyzing the Great Gatsby Curve. The importance of this study is to combine these economic concepts with the cultural ideas of popular fiction to help further explain socioeconomic mobility, household income inequality, and its combined implications.

ACKNOWLEDGEMENTS

I am truly grateful to my professor Jennifer Bailly. Without her guidance on this year-long project, I would not have been able to complete my thesis. I am honored to be a past student of her lectures and thankful that her class material impacted me so much that I built my thesis project around it. I am so happy to be finishing out my undergraduate academic career with such strong accomplishments and skills attributed to the constructive growth that I have experience since meeting Professor Bailly in my first semester of California State University, Long Beach.

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At last, a special thank you to my family for pushing me to pursue my own passions and encouraging me to aim higher and finish stronger. This yearlong journey would not be as sweet and rewarding without their support. Thank you forever.

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INTRODUCTION

Household income inequality is the unequal distribution of income and socioeconomic mobility is the ability to move between societal economic classes. Together, they help form the American Dream – the ideal that all Americans have an equal opportunity of success through determination and perseverance. We have seen *The Great Gatsby* help introduce these economic concepts into both academia and mainstream media. Further evaluation on these topics has led to the introduction of the Great Gatsby Curve, which shows that an increase in household income inequality positively correlates with an increase in socioeconomic immobility. The influence of culture from author F. Scott Fitzgerald's era has helped pave the way for a stronger in-depth consideration of a relationship between these two concepts. Fitzgerald's literature and its themes influenced the curve; however, the curve does little to expand on the effects showcased in the novel and film. At the same time, the original material is missing the statistical analysis to back up its claim. This study works to close the gap and institute the connection with accurate qualitative and quantitative representation of household income inequality and socioeconomic mobility. By comparing the periods of when the influence of *The Great Gatsby* was most relevant, I hope to explain the implications of both concepts with a pop culture fiction's perspective.

The Great Gatsby Curve

Alan Krueger, a labor economist and former chair of the Council of Economic Advisers, introduced the Great Gatsby Curve in January 2012. In a speech at the Center for American Progress titled "The Rise and Consequences of Inequality in the United States", Krueger explained the rise in American household income inequality and its effects in our economy – "[the inequality] is causing an unhealthy division in opportunities." Analyzing the data from various reputable sources, he concluded that since the 1970s, there is a skewed distribution of income. Except for 1992-2000, when all five household income quintiles grew at similar rates, the top 1% of U.S. households grew at rates much higher than everyone else. According to Krueger's speech, the Congressional Budget Office reported "the top 1% of families saw a 278% increase in their real after-tax income from 1979-2007, while the middle 60% had an increase less than 40%." The advantageous rise in the top 1% quintile puts them much higher than any other quintile. The top 1% had about 24% of all income earned in 1926 and about 23% in 2006. Kruger compared this to removing $1.1 trillion of yearly income accrued from all other quintiles and giving it to the top 1%. Income inequality has clearly created a polarized disbursement of earnings.

According to Krueger's 1997 poll asking professional economists what they believed contributed to the rise in income inequality, the result favored advancements in technology. Most of this inequality came around after the 1980s when technology was just beginning to boom; it somewhat halted in the 90s when more and more of the workforce was getting on board with the new technology. Nevertheless, after the 90s, inequality skyrocketed. Since much of technology created a low demand for physical computer labor, the leftover demand was for analytical minds and employees to oversee the devices. Kruger states, "this is one reason why the wage gap between those with a college education or higher and those with less than a college education has soared." The increase in income inequality is also due to the growth of the finance and real estate fields, as well as tax policies that favored the wealthy.

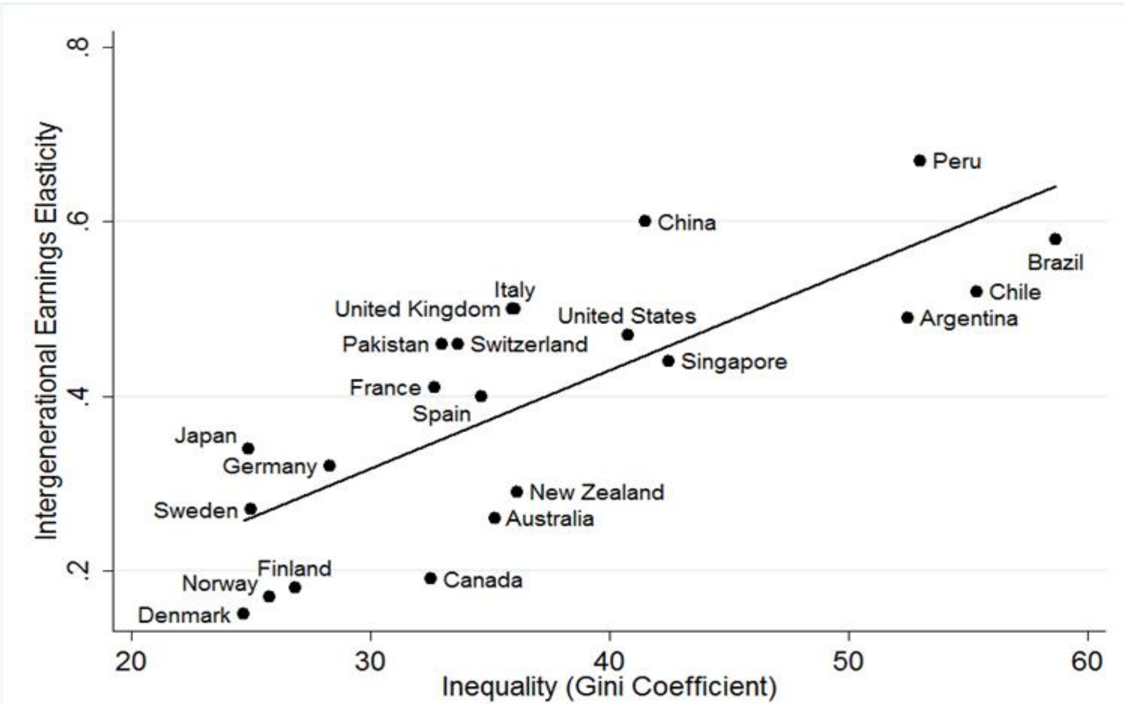

Figure 1

Krueger uses the Intergenerational Income Elasticity, (IGE), measure to explain income mobility in the U.S. (and other countries). IGE is measured by calculating the elasticity of intergenerational earnings. The higher the number of elasticity, the more difficult it is to move up to a different societal class. The estimates he uses from recent studies is 0.47 for the U.S. He plots countries on a graph with income inequality measured by the Gini Coefficient on the x-axis and economic mobility measured by the IGE on the y-axis. Krueger notes, "The points cluster around an upward sloping line, indicating that countries with higher inequality across households also had more persistence in income from one generation to the next." The U.S. falls at (0.34, 0.47) on the graph in the top right area, suggesting that the U.S. has high income inequality and a high measure of elasticity. The focus of this new curve is to forecast the potential effects of rising income inequality on income mobility. Due to the upward sloping nature of the curve, the expectation is to see an increase in intergenerational income immobility across the U.S. as income inequality continues to rise. Simply put, the inequality's rise endangers the ideals of the American Dream.

The problem is the American Dream dies as mobility lessens. Those in the lower quintiles of income will have fewer opportunities available to them than those in the higher quintiles. With the inability to reach opportunities of higher education, better medical services, and a stronger network of professionals, low-income families fall farther and farther away from the American Dream.

Alan Krueger's speech references *The Great Gatsby*'s themes of the American Dream and the difficulty in attaining it. The time period of Krueger's research, (1920s – 2010), was the strongest direct connection I found to the novel. He provided separate explanations of household income inequality and socioeconomic mobility which he brought together with the introduction of the Great Gatsby Curve. The curve was supported with reputable quantitative data and comparative analysis with other economically developed countries. However, it was lacking qualitative analysis of the culture – the American Dream – specifically in the eyes of the popular fiction that inspired the research, *The Great Gatsby* itself, and how its portrayal remains relevant to today's time.

LITERATURE REVIEW

The Great Gatsby by F. Scott Fitzgerald (1925)

The classic novel paints a vibrant picture of the 1920s. Each of the illustrious characters, through symbolism, brings economic concepts to life; the characters represent facets of American culture and even though it has been over ninety years, these facets continue to remain relevant today.

Nick Carraway is a young man, beginning a new life in New York as a bonds sales representative. He rents a home next to a mysterious man of new wealth named Jay Gatsby on the West Egg. His cousin, Daisy Buchanan, lives on the East Egg just across the bay with her husband Tom. They represent old money – a great deal of wealth that has been in their family for generations. Tom has a mistress named Myrtle who lives in the Valley of the Ashes with her own husband; together they operate a gas station. The Valley of the Ashes, where many are middle class and below, fits just between the West Egg and New York. Throughout the novel, we learn more about each character and their bonds to one another. The most prominent is Jay Gatsby.

Jay is often described as a romantic dreamer for both his love of Daisy and his hopes to be a prosperous wealthy man despite his not so great humble beginnings. After running away from poverty at age 16 and saving a wealthy man in distress, the millionaire Dan Cody took Jay under his wing. They sailed on Cody’s yacht and Jay experienced life outside of his North Dakota roots – exploring the world and much of Europe. Even with this newfound knowledge of speech, attire, and appropriateness, Jay still could not make his way to the top and remained dirt poor after Cody’s death. The situation left him with little options, but it is revealed that Jay finally makes his fortunes from bootlegging alcohol and working for swindlers by posing as the front man of the business.

Fitzgerald's character depth and allusive imagery in *The Great Gatsby* explores an economy during a time of prosperity. The American Dream, income inequality, and social mobility are strong themes depicted in the novel. Although each concept is taken a bit to extremes, the novel exhibits economic theory beyond its literary intentions. The American Dream is the ideal that opportunity of success is available to any American who can work for it. By today's standards, hard work is no longer enough. Instead, we have wide gaps of income inequality and low rates of social mobility. Unknowingly, *The Great Gatsby* has served as a preamble into where our American society's economy currently stands.

A stronger look into household income inequality and socioeconomic mobility will bring about a greater insight. This deep dive requires quantitative research along with the qualitative analysis of *The Great Gatsby* to further understand our society's wealth and the parallels between the 1920s and now. Reviewing literature and work on both sides will better explain the connection that runs through the novel's economic themes.

The Great Gatsby Film (2013)

The film expresses the 1920s as an “inexhaustible variety of life” with drinking and dancing matched only for a lavish lifestyle. The ambition of activities makes life of the 20s roaring and full of youthful wannabe bliss.

Jay’s imagination and hope represents the American Dream. His zest for a piece of what he has been reaching for calls to him constantly. Nick Carraway calls it “his extraordinary gift for hope.” Jay’s life is quite simply a clear definition of the American Dream; a young man believes in more for himself and seeks a way to accomplish his inner desires of greater means. Since Jay ties his ultimate American Dream to that of Daisy’s love, he is left always pursuing something in front of him, (the green light), that just happens to always be out of his reach. All the while, the fantasies of his childhood became realities and existed just behind him, (his lavish mansion and other riches). Within the film, the American Dream can also be easily related to Daisy’s lust for extravagance and its continued presence. The hopeful millionaire wants to provide for Daisy and spoil her senselessly and Daisy wants just that from a sophisticated man of wealthy money. While Daisy’s ideals differ from Gatsby’s initial dreams, they eventually coincide to become a single picture-perfect motive – an endless supply of riches that continues to mount upon itself.

The drastic differences in income are clearly shown between the wealthy Buchanan’s, Gatsby, other swindlers, and the not so wealthy residents in the Valley of the Ashes. The Valley appears as a wasteland between New York and the West Egg where folks are working away without the promise of the riches that speed past them. The black soot clogging the valley gives a dirty grungy look to everyone inhabiting the area – clearly representing those low on the income totem pole. From the vibrant color differences alone, the film portrays income inequality to its extremes. Whether accurate or not, it helps highlight a degree of severity of the economic circumstance.

Due to Jay's newfound fortunes and his previous knowledge of the wealthy's way of life, he took command of his position and climbed up the social ladder that was originally unavailable to him. As a "kaleidoscopic carnival spills through Gatsby's door", his façade holds and he becomes very well connected. The flock of various characters attending his massive parties aid his improved social mobility. The most interesting part of Jay Gatsby's situation is that none of it was possible until he received the income to make it happen. His access was capped at a certain social class level until the money started rolling in.

The film utilizes symbolism from the novel and relies heavily on the American Dream to explore the equality of opportunity. However, one of its greatest takeaways is easily overlooked – social mobility is capped without the income to support it. As the rich got richer and grew more mobile, the stable and poor remained the same before declining altogether. Jay learned from Dan Cody and gained the skills necessary to match his goals, but without those earnings, society kept him stunted at bay. This is a concept that needs to be examined in more detail with economic statistics.

Understanding the Great Gatsby Curve

Steven Durlauf and Ananth Seshadri of the University of Wisconsin wrote a research paper in May of 2017 pointing out the Great Gatsby Curve as an intertemporal concept, whereby parental income, (a current decision), affects children's income, (an available future option). The economists seek to establish an interesting claim that social influences on children "create a nonlinear relationship between parental income and offspring income," (Durlauf 2). Basically, parental income defines the social influences on children, so an increase in income inequality correlates with a reduction in mobility. In addition, the paper covers social economics, explained as the exploration of "sociological, social psychological, and cultural mechanisms that have been integrated into economic analyses," (Durlauf 2). The resources from social economics was relevant to their research paper because of their in-depth consideration of cognitive and socioemotional skill formation in children. However, the thesis of the paper centers around the correlation between income inequality and levels of social mobility as caused by "the differences in characteristics of neighborhoods in which children and adolescents develop," (Durlauf 3). The main point discusses how a segregation of income causes a persistence in intergenerational socioeconomic status because of a greater number of segregated neighborhood disparities.

The research paper takes on a new role in its examination of the two economic concepts. Its main point does well to introduce good causes for why income inequality exists and further expands – consequently contributing to social immobility – and these causes relate more similarly to Fitzgerald's novel. From the West Egg to the Valley of the Ashes, the two towns could not be further apart. Myrtle's situation is a prime example of this paper's work. Her and her husband cannot seem to reach above their current pay grade with the separation between her social circle and Tom Buchanan's. Their levels of class, knowledge, and all-around behavior is significantly different. The segregation and greater neighborhood disparities add to the inequality of income – allowing a persistence when it comes to reaching a new level of socioeconomic status.

The position of this paper is brilliant – it helps showcase an easily overlooked character. Those living in the Valley of the Ashes help establish a case for the importance of access to resources and other social means. Jay Gatsby is somewhat the bridge between the two extremes because he started in one area and worked his way up to another. Without Jay's story, we are left with halves that cannot fit together to make a whole. Therefore, Durlauf's research paper misses the overarching connection between the cases.

METHODOLOGY

To further explain socioeconomic mobility and household income inequality and their combined implications, I will utilize popular culture fiction. Fitzgerald wrote *The Great Gatsby* based on themes that he saw were common in his time, 1920s. The basic message of the story reflects aspects of the American Dream. The film was remade in 2013 because of the theme's relevance to today. By comparing data from both times, I hope to find a connection between the economic concepts as an indicator of the American Dream's attainability. I will be analyzing income inequality and intergeneration U.S. income data from the 1920s to 2015 from estimates derived from the U.S. Census Bureau and the Integrated Public Use Microdata Series (IPUM-USA). The Intergenerational Elasticity evaluation will be used as the marker for U.S. socioeconomic mobility. The assessment of data from these two-time periods creates a direct link to the pop culture themes in our mainstream society – allowing us to review the attainability of the American Dream as represented in the 1925 novel and 2013 film.

THE GAP

Each standalone piece of literature explains the American Dream in its own way – overlapping in contextual analysis and introducing new variables to consider. In order to link the existing material together, I will be conducting an independent study focusing on the comparison of data during the times in which the influence of *The Great Gatsby* was most relevant. Both household income inequality and socioeconomic mobility indicate a salient facet of the American Dream. Reviewed in both Krueger's curve and Durlauf's research paper, this dream is becoming more and more unattainable as income inequality rises. This was clearly representative of the 1920s-time period when Fitzgerald published his novel. Jay and Myrtle struggled to not only reach a social class above him but also sustain a lifestyle that fits into that class. Some 90 years later and the representation is relevant once again.

The literature all have a common thread, but lack the binding tie that holds it all together. Fitzgerald's published novel and its accompanying 2013 film version are insufficient alone to accurately represent U.S. household income inequality and socioeconomic mobility. Meanwhile, Alan Krueger's curve and Durlauf's research paper fail to make the incumbent link specific to the literature that inspired the cause in the first place. The focus of relating household income inequality and socioeconomic mobility together was to explore the American Dream. The dream came from many cultural influences and *The Great Gatsby* accurately represents the reality of this dream. Taking these concepts back to the roots to explore popular culture, its interpretation of the economic reality, and the resulted Great Gatsby Curve will help line up a common thread between all three. This will allow us to utilize the cultural ideas of popular fiction to take an in-depth look and further explain household income inequality, socioeconomic mobility, and its combined implications.

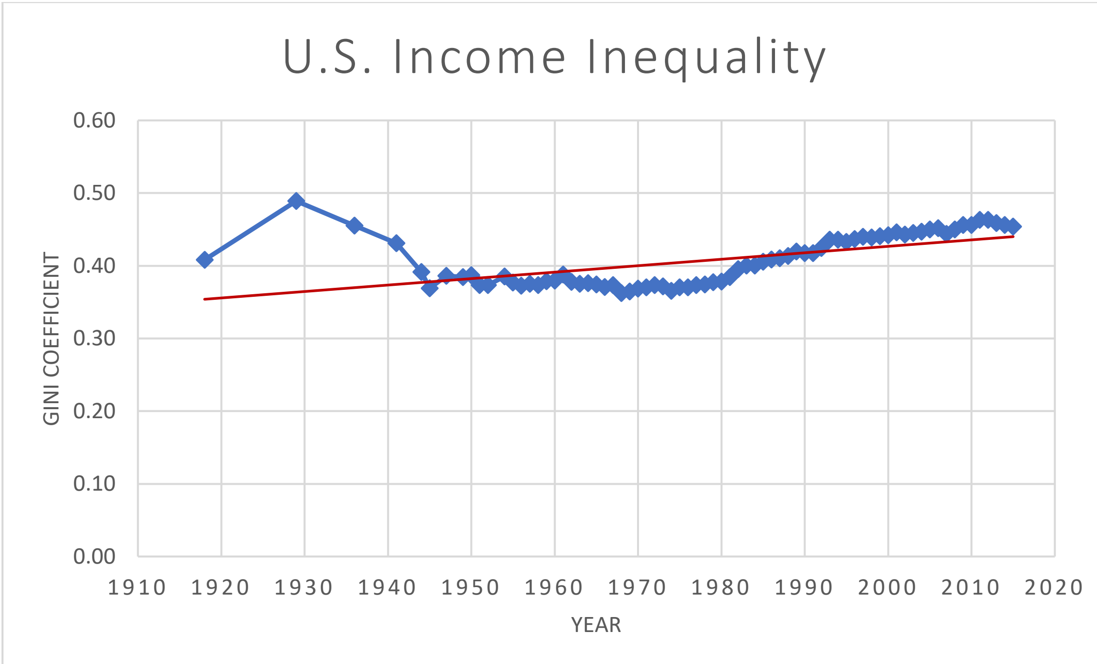

Figure 2

This figure uses estimates derived from the US Census Bureau by The Chartbook of Income Inequality. Inequality rises steeply in the 1920s and then falls until the mid-40s. Around here, it begins to fluctuate at a steady pace. However, from the 1980s and on, income inequality rises.

From 1920-1930, income inequality was high as the economic boom began to separate the rich from the poor. The 20s saw a year where fashion and material items spoke to the wealth of families. In the decade of the 30s, the Great Depression and the Dust Bowl spiraled Americans out of their high living.

Between the mid-40s and the early 90s, income inequality hovers around an upward sloping line. Though inequality seems to fall initially, eventually it begins to steadily rise at an average rate. As job out-sourcing and labor cuts in U.S. factories became more appealing to companies and their budgets, America’s labor force has continued to suffer. In addition, technology and reengineering has allowed for more output to be produced with fewer workers. The result is the rich getting richer against more displaced workers and low-income earners. Inequality began to climb higher after the mid-90s and has since hovered around 0.47.

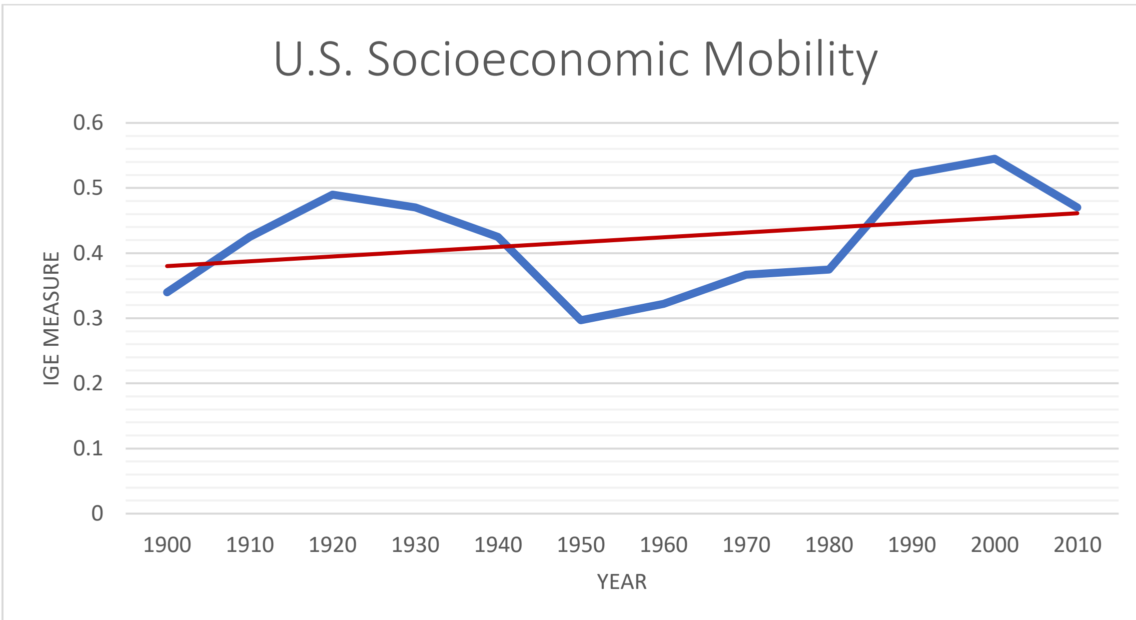

Figure 3

From 1900-1940, the above figure uses estimates derived from the American Economic Association by Claudia Olivetti and Daniele Paserman. From 1940-2010, estimates are derived from the U.S. Census Bureau by economists Daniel Aaronson and Bhashkar Mazumder.

As the IGE measure increases, the more dependent your income is on your parent's income, then the more difficult it is for you to move between economic classes. Although the graph shows mobility is dropping in the 20s, the number is already at its highest point during the period. Once we get to the 50s, the graph follows a similar pattern to income inequality as it rises. Then it skyrockets in the 80s.

The first initial rise we see is from the 1900s-1920s. This increase in the IGE measure is likely due to the geographic differences in the degree of economic development. Basically, the industrial revolution did not spread across the U.S. in a uniform fashion. And as such, income per capita in the south was about half of the national average. Offspring income was greatly affected by the region on which their parents lived. In addition, public schooling also contributed to high immobility rates because the wealthy were able to take advantage of access to better schools, (private schools). Your access to opportunity was varied around this time of the 1900s-1920s.

From the 1920s-1950s, immobility was already high and proving difficult. At this point, immobility began to decrease as the economy started to level out from the industrial revolution and new government implementations. At the same time, the U.S. was entering a post-war phase after World War 1 where the economy saw a boom and opportunity was just about everywhere. It was around this time where the American Dream was the most alive. During the 1920s economic boom, Americans were thriving and interconnected with the growing business ventures and inventions. When the Great Depression hit in 1929, the graph continues to show a decline in the IGE measure, but the slope is a bit flatter than before. Once the 10-year economic depression is over, the measure drops significantly at a steeper negative slope from 1940-1950. The large decline in IGE implies it was easier to move between socioeconomic classes as children's income was less dependent on their parent's earnings. This could also be due to the start of World War 2 around 1939 and the start of the Cold War around 1947. Since the 50s, the rising IGE means an increase in socioeconomic immobility and increase difficulty in moving between economic class. Another post-war era brought about new economic prosperity to America with established businesses growing more and more rich and more Americans producing services rather than just goods.

By the 1980s, the U.S. had rid itself of the high inflation problems of the 1970s but saw major cuts to social programs by the government. Farmers were suffering from droughts and floods and the loan offices of banks were mismanaged as they carried out unwise lending practices. By the year 2000, the IGE measure climbed to its highest point. However, it began to fall again as technology raced to bring about new opportunities and possibilities.

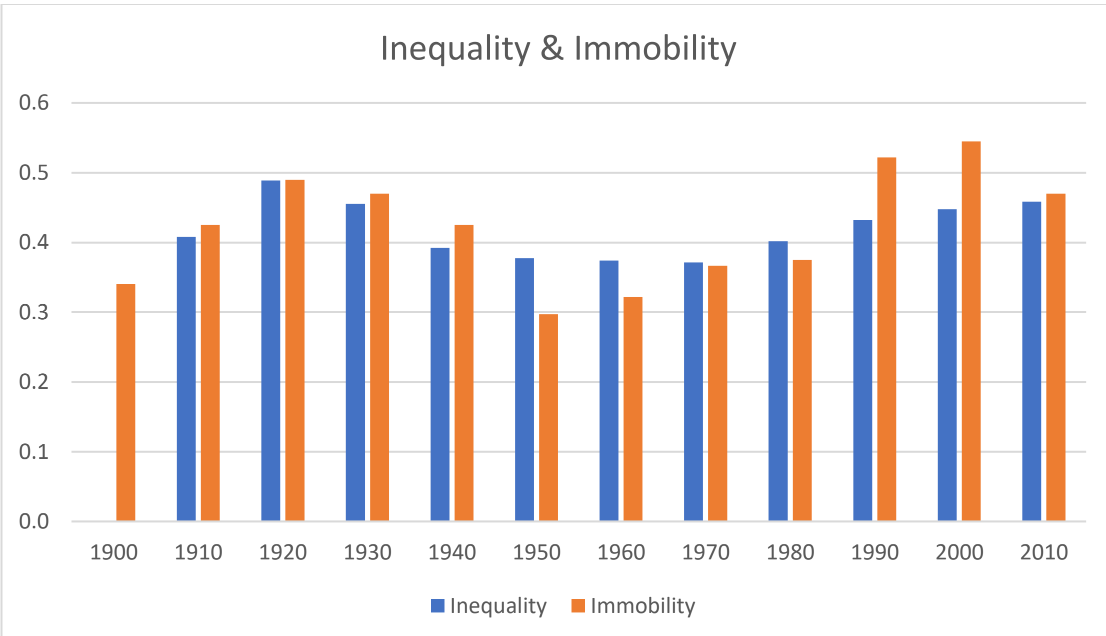

Figure 4

This figure was constructed with data from The Chartbook of Inequality, American Economic Association, and the U.S. Census Bureau. The Gini Coefficient for inequality is averaged for the 10-year blocks to graph it alongside the IGE measure. With a comparative analysis of both variables side-by-side, we can see a general trend where they match in height. This suggests a strong correlation between the two.

In the 1920s, income inequality was increasing while mobility was decreasing. However, both values were extremely high for their time and at the highest point ever up until the 2000s. Income inequality has been steadily increasing and reached high levels once again in the 2000s and 2010s. Not as high as it was in 1920s, but extremely close. In comparison, the IGE measure for mobility had reached its highest point the year 2000 and from there started to work its way back down. Despite the declines, both variables remain at high levels today.

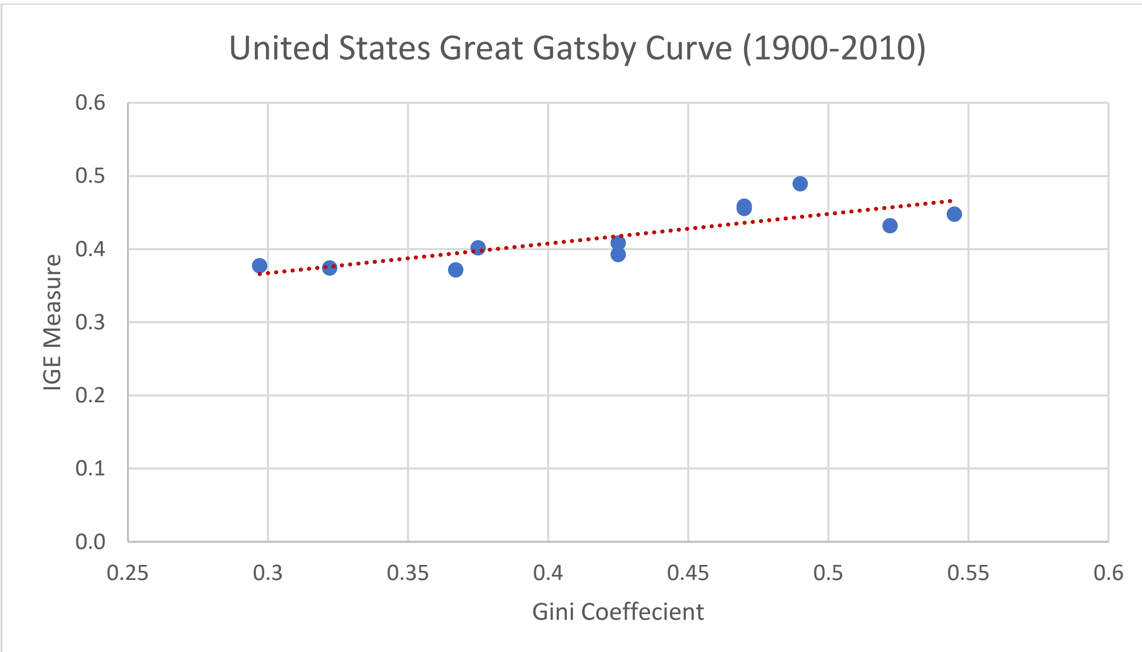

Figure 5

Focusing in on the U.S., this figure was constructed with data from The Chartbook of Inequality, American Economic Association, and the U.S. Census Bureau. The Gini Coefficient for inequality is averaged into 10-year blocks to graph it alongside the IGE measure. With a positive upward sloping line – suggesting a correlation between the two variables – we can accept the evidence of a trendline. This trendline follows the alignment of Alan Krueger's Great Gatsby Curve, (refer to Figure 1 on page 5).

CONCLUDING REMARKS

By analyzing the quantitative data, we have been able to identify that high levels of both income inequality and socioeconomic mobility occurred during the 1920s and the 2010s. Popular culture is often influenced by what is most relevant to society in the moment. In the 1920s, the novel was the reflection and in 2013, the Baz Luhrmann film. Keeping in mind, the interesting take from the research paper *Understanding the Great Gatsby*, we can easily relate the themes of social economics to today. The paper concluded that the persistence in immobility facilitates the segregation of neighborhoods. This is specifically relevant to today; as more children rely on their parent's income to reach future opportunities and success, the more children will be stuck in areas where their parents settle. Remember, low-income neighborhoods lack access to better public education, medical services, policing services, financial services, and more. These qualities were expressed in a different light in the novel through Myrtle's character. Due to her neighborhood, which was clearly segregated by income from the West and East Egg, Myrtle's social circle was limited resulting in her inability to network and rise above her current income class. These are the troubles our current youth is facing now.

A positive trendline shows a direct relationship between income inequality and socioeconomic mobility. As income inequality increases, socioeconomic immobility increases. If one is high, the other is expected to be high as well. This concept goes against the American Dream. Whether you are rich or poor, the hope is that you'll be able to make something of yourself and become financially stable with greater opportunities ahead of you. Unfortunately, our data suggests that dream is becoming more and more unrealistic. Inequality is ubiquitous and a major problem in income distribution. The rich are getting richer and the poor are getting poorer. At the same time, your ability to jump between classes is getting more difficult and access to opportunity is shifting more and more.

We need to set up the youth and future children of the world for success. To do this, we need to pay closer attention to levels of socioeconomic mobility. High levels of inequality negatively affect economic development. As a nation, we lose on productivity and lower the efficiency of our economy. Without the progression of others into higher income classes, we will remain stagnant around a low steady rate of growth, where our future workers will be discouraged by their limited access to opportunity. We cannot expect those in the lower income quintiles to bear the burdens forever – there should be an established a plan to help the low-middle classes succeed.

We need to implement access to better schools and foster education and employment training opportunities. Supplying better services to these communities can help foster the change we hope to see. Of course, supply does not work without demand. While many families in low-income neighborhoods push their kids to do well in school or send them to vocational schools for better chance at a career, there are still families and children with the notion that their efforts will not be realized. We need to not only implement the access to middle and low-income families, but also provide the information necessary to let them know that these opportunities are being specifically introduced to help them successfully grow and develop. For too long, we've let those at the bottom believe that is all they can achieve. The solution is to change those ideals, foster their demand for better living, and supply exactly what they will need to see themselves succeed.

In the novel, Nick Caraway focuses on Jay Gatsby and explores his motives for making specific decisions or the thoughts behind his actions. To further this study, I suggest going more in depth and focusing on another specific character from the Great Gatsby that can represent a group of individuals in our current society undergoing the same difficulties. For example, I would love to go deeper and explore Myrtle's character more. Using her as a case study for a specific generation or a work industry could help explain the difficulties of why some groups are stuck in an apparent poverty trap and are unable to escape. Myrtle and her husband could be related to young business entrepreneurs or students who recently graduated from college. Unless those young entrepreneurs have access to good financial services or those students graduated from reputable colleges that offer good services, their options are limited, and their success capped at a certain ceiling. It would be interesting to discover where that cap is, what ceiling they are hitting, and how it can continue to affect the course of their lives.

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