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COMMENTARY
For the Record

 By **ALAN REYNOLDS**
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Major newspapers are in the throes of Mobility Mania: who "makes it" in America, and why; who doesn't, and why not. This newspaper began a series last week titled "Challenges to the American Dream." The New York Times followed suit with a multiparter on "Class in America," which aims to disparage the notion that the U.S. is a land of opportunity by claiming that "new research on mobility, the movement of families up and down the economic ladder, shows there is far less of it than economists once thought and less than most people believe."

Yet the scholarship commonly cited in support of such assertions -- new research by Gary Solon of the University of Michigan, David I. Levine of Berkeley, and Bhashkar Mazumder of the Chicago Fed, among others -- says no such thing. A paper last fall by Mr. Solon observed that several of the newest estimates, including two from Messrs. Levine and Mazumder, suggest that it has become substantially easier to move from one economic class to another (as a 1997 Urban Institute study also concluded). Those new results were statistically weak, however, and an alternative estimate from Messrs. Levine and Mazumder pointed in the opposite direction -- implying family background might have grown more important between the early 1980s and early 1990s. But they described the latter result as merely "suggestive," and Mr. Solon now suspects the data were distorted. As for the latter's own research, he concluded that "our estimates are still too imprecise to rule out modest trends in either direction."


The discovery that something has not changed, or might have moved imperceptibly in either direction, would not normally be considered front-page news. But income distribution is an agenda-driven ideological fixation that frequently impairs journalistic judgment. To fully understand this non-news about unchanged class mobility, it helps to focus on a few reasons why some people earn more than others -- they work harder, and have more experience and/or more schooling. Some observations:

- Households with two full-time workers earn five times as much as households in which nobody works. Median income for households with two full-time earners was \$85,517 in 2003 compared with \$15,661 for households in which nobody worked. Median income for households with one worker who worked full-time all year was \$60,852, compared with \$28,704 for those who worked part-time for 26 weeks or less.

Alan Blinder of Princeton emphasized this point in a 1980 study: "The richest fifth of families supplied over 30% of the total weeks worked in the economy," he wrote, "while the poorest fifth supplied only 7.5%. Thus, on a per-week-of-work basis, the income ratio between rich and poor was only 2-to-1. This certainly does not seem like an unreasonable degree of inequality."

- Experienced supervisors earn twice as much as young trainees. Median income for households headed

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by someone age 45 to 54 was \$60,242 in 2003, compared with \$27,053 for those younger than 24. When we define people as poor or rich at any moment in time, we are often describing the same people at earlier and later stages of life. Lifetime income is a moving picture, not a snapshot.

- Those with four or more years of college earn three times as much as high school dropouts. Median income for college grads was \$68,728 in 2003, compared with \$22,718 for those without a high school diploma.

To repeat, there is no evidence that it has become harder to get ahead through hard work at school and on the job. Efforts to claim otherwise appear intended to make any gaps between rich and poor appear unfair, determined by chance of birth rather than personal effort. Such efforts require both a denial that progress has been widespread and an exaggeration of income differences. To deny progress, the Times series claims that "for most workers, the only time in the last three decades when the rise in hourly pay beat inflation was during the speculative bubble of the 90's." Could anyone really believe most workers have rarely had a real raise in three decades? Real income per household member rose to \$22,966 in 2003 from \$16,420 in 1983 (in 2003 dollars) -- a 40% gain.

To exaggerate inequality, the authors claim that "the after-tax income of the top 1 percent of American households jumped 139 percent, to more than \$700,000, from 1979 to 2001, according to the Congressional Budget Office." But that is mainly because the CBO subtracts corporate income taxes from its idiosyncratic measure of the "comprehensive income" of individual stockholders. Because the top 1%'s share of corporate taxes rose to 53.5% in 2002 from 35.6% in 1980, the CBO records that as an increasingly huge individual tax cut and therefore as an invisible increase in stockholders' after-tax incomes. Arbitrarily subtracting corporate taxes from after-tax incomes of investors has nothing to do with labor income, though occupational mobility is the essence of the income mobility debate.

Since the Census Bureau overhauled the way it counts income in 1993-94 (making the figures incomparable with prior years), the share of income earned by the top fifth rose to 49.8% in 2000-03 from 49% in 1993-94. Because differences in household income can largely be explained by the number of workers and their education, it follows that a rising share of income earned by the top fifth of households should be largely explainable by work and education.

There are two workers per household in the top fifth of income distribution, but fewer than one in the bottom fifth, which relies heavily on transfer payments that generally keep pace with inflation. Yet by definition, rising real wages mean incomes of two-earner families rise more rapidly than inflation. Real median income among families with two full-time workers was \$85,517 in 2003 and \$75,707 (in 2003 dollars) in 1987 -- a 13% increase. But median income among families in which neither spouse worked (\$27,130 in 2003), was just 1.4% higher than in 1987. The gap between two-earner families in the top fifth and no-earner families in the bottom must grow wider when salaries rise in real terms.

It is statistically dubious to compare long-term growth of average income in any top income group with growth below. Only the top group has no income ceiling, and the lower income limit defining membership in that top group rises whenever incomes are rising. In 2003, a household needed an income above \$86,867 to make it into the top 20%, but an income above \$68,154 (in 2003 dollars) would suffice in 1983. When the Census Bureau averaged all the income above \$86,867 in 2003, they were sure to come up with a larger figure than in 1983, when the average was diluted by including incomes nearly \$20,000 lower.

The endless academic fascination with murky income distribution figures generally ignores differences in work effort and focuses on formal schooling -- a wider "skill premium" between those with and without a college degree. And when it comes to differences in schooling, we can't talk sensibly about the struggles of poorly educated people without mentioning immigration: 52% of male immigrants from Latin

America did not finish high school (usually in their home countries, though we count many as U.S. dropouts). Most were legal immigrants because they had relatives here. Because the U.S. has humanely imported millions of poorly educated people in recent decades, it is unreasonable to compare U.S. income mobility with countries -- e.g., Germany -- that are far more restrictive about admitting unskilled immigrants.

A kernel of truth within the income mobility confusion is that good parenting matters to a child's lifetime success. Economics Nobel laureate James Heckman notes that "good families promote cognitive, social and behavioral skills," but "single parent families are known to produce impaired children who perform poorly in school, the workplace and society at large." Yes, there are many attentive parents with low incomes who spend hours reading to toddlers, and there are negligent parents with high incomes. But many dysfunctional families do have low incomes, and collecting more taxes from functional families in order to send more transfer payments to dysfunctional families can have perverse results. Mr. Heckman points out that "generous social welfare programs . . . discourage work and hence investment in workplace based skills. . . . Subsidizing work through the EITC . . . can reduce the incentives to acquire skills and so perpetuate poverty across generations."

Recent "news" reports implying it has become more difficult for young Americans to live better than their parents fail to identify any genuine problem. And they suffer from one added handicap: They are demonstrably untrue.

Mr. Reynolds, senior fellow at the Cato Institute, is writing a book on income distribution for Greenwood Press.

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