Income Mobility: Alive and Well

BY DAVID R. HENDERSON

"As Rich-Poor Gap Widens in the U.S., Class Mobility Stalls," blares the headline on page one of the May 13 *Wall Street Journal*. When you see such a headline, wouldn't you think it means that the income mobility of Americans is no longer as great as it was? That's what we tend to think when we see the verb "stalls." Some of us probably picture a car traveling along the road at a good clip and then slowing down. If it were really true that the ability of Americans to move from one income group to another has fallen in recent years, that would be some cause for alarm. It would certainly justify a front-page article in the *Wall Street Journal*.

But it's not true. Moreover, and here's the amazing thing, the *Journal*'s very own article doesn't claim that income mobility is falling.

You read that right. An article with a dramatic headline about income mobility having "stalled" doesn't claim that income mobility has, in fact, fallen. In the third paragraph, when the article's author, David Wessel, finally gets to the important facts, he writes:

> As the gap between rich and poor has widened since 1970, the odds that a child born in poverty will climb to wealth—or a rich child will fall into the middle class—remain stuck. Despite the spread of affirmative action, the expansion of community colleges and the other social change designed to give people of all classes a shot at success, Americans are no more or less likely to rise above, or fall below their parents' economic class than they were 35 years ago.

In other words, income mobility, according to the article, has not changed over the last 35 years. So it turns out that the *Journal* uses the word "stall" to mean "remain constant." Just imagine what the headlines would look like if the newspaper's editors had the same news sense when writing about other things that didn't happen or that continued on normally. Here are a few examples:

> "California goes another month without earthquake."
> "War between France and U.K. nowhere on the horizon"
> "Women continue to get pregnant"

One has the impression that David Wessel got a few pieces of data showing that income mobility has fallen, hopped on the issue to write a path-breaking article, did enough research to find that there was no story, and then wanted not to have wasted a few weeks of research and so wrote the story anyway. That's the charitable interpretation. The other interpretation is that he wanted, in the worst way, to undercut the belief in income mobility that helps make this a great country and that he used all the sneaky language tools at his command to make his case.

Wessel is not alone. On May 15, just two days later, the *New York Times* carried an article similar in tone: "Class in America: Shadowy Lines that Still Divide." A careful reading of the article leads one to the conclusion that, if its data are correct, income mobility is alive and well. According to the *Times*, "mobility seems to have stagnated." Note the use of the word "stagnated." It means the same thing as "stalled." When the article's authors, Janny Scott and David Leonhardt, get to the

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facts, they admit as much, writing: "Some economists consider the findings of the new studies murky; it cannot be definitively shown that mobility has fallen during the last generation, they say, only that it has not risen. The data will probably not be conclusive for years."

Yet throughout their piece, the reporters add lines that undercut the message that income mobility is unchanged. They write, for example, "Conservatives tend to assert that mobility remains quite high, even if it has tailed off a little." Yet they cite no evidence that mobility has tailed off. Elsewhere they quote Amherst College president Anthony W. Marx as saying, "If economic mobility continues to shut down, not only will we be losing the talent and leadership we need, but we will face a risk of a society of alienation and unhappiness." But Marx's statement assumes that economic mobility has shut down. A good reporter would either not have bothered using this statement because it so contradicted the truth, or would have offset it with a quote or a comment pointing out the statement's falsity. Scott and Leonhardt did neither.

Moreover, the tone of the *Times* piece is that there's a problem here. Even while pointing out how many of life's luxuries are available to the mass of Americans now compared to 50 years ago, the authors are determined to find a pile of manure in with the pony. So, for example, in discussing who gets the best school districts, the "right preschool program," or the best medical specialists, they refer to "the quiet contest among social groups that the affluent and educated are winning in a rout."

The word "quiet" has become one of the most pernicious words in modern American journalism. Reporters regularly talk about quiet conversations between people or quiet attempts of various special interests to influence politicians. How do the reporters know that various conversations that they weren't party to were quiet? They don't. I'm guessing that most of the conversations alleged to be quiet were actually carried on at normal volume. But by using the term "quiet," modern American journalists manage to connote something sinister about the enterprise. Similarly here, the *Times* reporters seem to want to communicate that competition for good schools and good doctors is sinister.

More important than the motives of reporters at the *Wall Street Journal* and the *New York Times*, though, are the facts about income mobility. And the facts, both those the reporters cited and those they didn't, show that income mobility is doing fine in the United States.

Consider data that Wessel cites from a study of wages for American men born between 1963 and 1968. The study, by Bhashkar Mazunder, an economist at the Federal Reserve Bank of Chicago, shows that for men whose fathers were in the bottom 25 percent of earners, 32 percent were in the top half. For men whose fathers were in the top 25 percent, 34 percent were in the bottom half. Mazunder also found that 14 percent of men whose fathers were in the bottom 10 percent of the wage scale made it to the top 30 percent, and 17 percent of men whose fathers were in the top 10 percent dropped down to the bottom 30 percent. Wessel made sure to put the word "only" in front of these percentages, presumably to persuade the reader that this is not much mobility, but it seems like pretty high mobility to me.

Work Counts

Also interesting is what factors cause some people to be at the top of the statistical distribution of income. Not surprisingly, work is one such factor. The *Times* piece quotes a study which found that in 1973 the highest-paid tenth of the country worked fewer hours than the bottom tenth. Today, according to that study, the highest-paid tenth works more hours. Imagine that: working more hours and getting more income that way. Who'd have thunk it?

Although the *Times* doesn't cite the specific study that reached this conclusion about work hours, the one they have in mind is probably that of MIT economist Dora Costa. She found that in 1991 workers whose total earnings put them in the bottom tenth of the wage distribution worked an average of 7.5 hours a day, compared to 8.5 hours for workers whose earnings put them in the top tenth. What's the point? Simply this. It's usually not difficult to sign up for jobs in which you can work more hours, and so part of the low income of low-income workers is due to the fact that many of them choose to work fewer hours. So even if there were decreased mobility from one income group to another, some of this would reflect choices on the part of low-income workers not to work harder. Such choices are

PERCENT OF HOUSEHOLDS WITH:	Poor Households 1984	Poor Households 1994	All Households 1971
Washing machine	58.2	71.7	71.3
Clothes dryer	35.6	50.2	44.5
Dishwasher	13.6	19.6	18.8
Refrigerator	95.8	97.9	83.3
Freezer	29.2	28.6	32.2
Stove	95.2	97.7	87.0
Microwave	12.5	60.0	<1.0
Color television	70.3	92.5	43.3
VCR	3.4	59.7	zero
Personal computer	2.9	7.4	zero
Telephone	71.0	76.7	93.0
Air conditioner	42.5	49.6	31.8
One or more cars	64.1	71.8	79.5

Source: W. Michael Cox and Richard Alm, *Myths of Rich and Poor,* Basic Books, 1999, p. 15

not necessarily bad choices: more power to them if they want to enjoy their leisure. But then any slowing of movement from a lower-income group to a higher-income group would not necessarily be a sign of increased rigidity or increased difficulty of moving up.

In a *Wall Street Journal* op-ed ("For the Record," May 18, 2005), Alan Reynolds, an economist with the Cato Institute, points out a related finding about the connection between work and income that economists who study the issue have noted for at least the last quarter century: one of the main reasons some households have more income than others is that the higher-income households have, on average, more people working than the lower-income households. He notes that in 2003, median income for households with two full-time workers was $85,517, compared to only $15,661 for households in which nobody worked. Reynolds cites a 1980 study by Alan Blinder, a Princeton economist and former adviser to President Clinton. Blinder found that the highest-income fifth of families worked 30 percent of total weeks worked in the economy, whereas the lowest-income fifth worked only 7.5 percent of total weeks worked. Yet, given the average incomes of the various quintiles at the time, on an income-per-week-worked basis, the ratio of income of the highest fifth to the lowest fifth was only two to one.

But more important, life isn't a race, unless you insist on making it one. Let's say someone starts out in the lowest fifth and never makes it beyond the second-lowest fifth or out of the lowest fifth. So what? That doesn't imply slow progress. All it means is that that person is not progressing in real income as fast as many others are progressing. But the person is progressing quickly. Why? Look at what that person has compared to his or her counterparts only a decade or so earlier. In their book, *Myths of Rich and Poor*, Michael Cox, an economist with the Federal Reserve Bank of Dallas, and journalist Richard Alm compare poor households in 1994 with their counterparts in 1984 and with all households in 1971. (See the table.)

Notice that for all items except freezers, poor households had more of them in 1994 than in 1984, and often, as in the case of VCRs, clothes dryers, and color televisions, substantially more. Why did freezers decline slightly? My guess is that it's because refrigerators improved, so people didn't need a freezer as much. Notice, also, that for many items, including washing machines, clothes dryers, dishwashers, refrigerators, stoves, microwaves, color TVs, VCRs, computers, and air conditioners, the poor in 1994 were doing better than the average of all households in 1971, just one generation earlier. Now that's progress.

You might point out that you would expect the poor to do better when you consider how much the inflation-adjusted prices of many of these items have fallen. But that's exactly my point. Economic progress occurs when people figure out how to do more with less. The fact that the real prices of many of these goods have fallen and the quality has increased means that even poor people are doing much better than they were. That's irrelevant only to those who see life as a race, the kind who believe, in the words of the bumper sticker, "He who dies with the most toys wins."

The improvement in people's standard of living, no matter which quintile they're in, is even more dramatic over longer periods. Think about some of the things we take for granted today. Consider three. When I was a teenager in the mid-sixties, one glamorous item that was pure science fiction was the phone that cartoon character Dick Tracy wore on his wrist. Now, with cell phones, we have close to that same thing—the limit is probably not technology but, rather, lack of demand. And as anyone knows who has walked an American street in the last three years, cell phones are not the exclusive preserve of the rich. A large percent of people of all income categories owns cell phones.

Maybe cell phones don't matter that much to you. But surely food must. One of the items that was almost a luxury at mid-century was eggs. In today's dollars, a dozen eggs in 1950 sold for $2.92. Nowadays, you can buy a dozen eggs for under a dollar, a greater than 66-percent drop in price. And it's not just the price of eggs; prices of food generally have fallen.

Health Care

Finally, consider health care. My father had polio in 1943. My sister had it in 1952, and in that same year, 3,145 Americans died of polio. But because of a doctor named Jonas Salk and a drug company named Parke Davis that wanted to make money, a vaccine for polio was invented and marketed in April 1955. By 1993 the number of cases of polio—not deaths, but cases—was down to three. And not just polio, but also typhoid fever, small pox, tuberculosis, and many other diseases have either disappeared or occur with far less frequency than they did even 50 years ago.

The incidence of these horrible diseases declined not because the United Nations or some other government body decreed that people had a right to be free from such horrors. Instead, the improvement in health occurred because thousands of strangers who didn't care directly about you wanted to make money off your sickness, not by making you sicker, but by making you better.

Which brings us back to income mobility. One reason people want income mobility is that they can't stand inequality in income. So, in their view, if there is to be inequality, it had better not last long. But that ignores an important function of income inequality: it gives people an incentive to serve others. If income inequality were eliminated so that everyone made the same amount of money, why would someone bother working on the Alaska pipeline in the dead of winter so that you can heat your house when it's 20-below outside? Why would doctors work long hours to make people better? Why would music composers keep coming up with new music that enhances your life? Why, in short, would people take chances, work hard, work in unpleasant situations, and persist in their visions? It's not just that you would go without Bill Gates and a few thousand people like him. You would also go without the few million people, only a handful of whom you know, who are out improving things in marginal ways that, added together, make a huge difference in your life, allowing you to live in a way that even kings 300 years ago would not have believed.

The whole focus on income inequality is mistaken. The vast majority of Americans are doing as well as they are because a few million or so are making a lot of money figuring out how to create new products and new ways to increase our productivity. Show me an economy with equal incomes and I'll show you an economy that's in the toilet. Many pundits and analysts sift through the data to find inequalities in income, which isn't hard to do. Then they sometimes suggest a new government program or tax that reduces human freedom and prosperity. Instead, they should recognize the many ways that governments hold people down—in the United States and elsewhere—and figure out how to end those oppressive measures. Then virtually all of us would be freer and wealthier. What's not to like about that?