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Two-way traffic on the economic ladder

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Many public discussions of income inequality in the United States tend to adopt the Marxian/socialist line that the rich are getting richer while the poor are getting poorer, and that the same rich people are gobbling up an increasing share of wealth.

Empirical data show otherwise. While incomes for those in the highest-earning categories are increasing, so are those in the lowest categories. More importantly, focusing on snapshots in time of various income categories ignores that people are moving up and down the economic ladder all the time – even for the topmost categories.

In fact, just over half of Americans will rank among the top 10 percent of income earners for at least one year during their working lives, and more than one in nine will make it to the top 1 percent, according to research performed by Cornell University sociology professor Thomas Hirschl. But most people will not stay there for long.

Only 14 percent will remain in the top 10 percent of incomes for a decade or more, and a mere 1 out of 100 in the top 1 percent today will be there in 10 years.

“Affluence is dynamic,” said Hirschl. “The 1 percent really isn’t the 1 percent. People move around a lot.”

Even looking more broadly, beyond income to wealth, similarly shows that life at the top of the economic food chain is fleeting. More than 71 percent of those on the Forbes 400 list of Americans with the highest net worth have fallen off the list between 1982 and 2014, the Cato Institute’s HumanProgress.org reports.

There is still a lot of opportunity to move up from the bottom, too. Researchers from the U.S. Treasury Department’s Office of Tax Analysis found that nearly two-thirds of those in the bottom 20 percent of earners in 1987 had risen to higher income brackets by 2007, with more than 7 percent of them moving all the way to the top 20 percent.

Instead of focusing on static income categories, we would do better to remove barriers – such as occupational licensing laws, minimum wage laws, stifling taxes and regulations on entrepreneurs and policies that limit development and artificially drive up housing prices – that make it harder for people, particularly the poor, to move up the economic ladder.