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Donald Trump is wrong: America is no oligarchy

Many people who don't make much money today can rationally hope to end up in the top 10pc or even top 1pc at some point in their careers

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Where America goes, the rest of the world follows. The US presidential race is being overshadowed by rising class tensions, with Donald Trump, despite his own wealth, fuelling class warfare and envy towards the better off and Wall Street. America has many problems, of course, and the old blue collar workforce has found it hard to readjust to the technological revolution and the rise of globalisation. It may even be possible that America has fared worse than Britain in this regard; it certainly does seem that incomes for some parts of the workforce have fallen far more dramatically than anything seen in recent years in Britain.

But for all the entirely understandable feeling of helplessness in some sections of American society, the country remains remarkably socially fluid.HumanProgess.org, an initiative spearheaded by the free-market Cato Institute in Washington DC, has collated the data. The picture it paints is dramatically at odds with the caricature presented by the likes of Trump and his anti-capitalist comrades.

Exhibit A is the Forbes 400 list of the richest Americans. Remarkably, more than 71pc of those listed in 1982 (and their heirs, when relevant) had been booted out of the top 400 by 2014; lots of new people, including tech entrepreneurs, have displaced them. It's hard to remain for long at the top of the pile (and some choose to leave it through charitable donations); America is no fixed oligarchy controlled by a tiny coterie of individuals. The reality of capitalism is that it is ruthless: fortunes can easily be wiped away as a result of innovation and competition.

Exhibit B looks at the top 400 highest earners (which in the US context includes all kinds of income, not just from labour). Between 1992 and 2013, 72pc were in the top 400 for just one year; the turnover of people in that group was extremely elevated. Only 3pc remained in it every year for more than a decade. As Mark J Perry of the University of Michigan, who has written about this in detail for the American Enterprise Institute, explained: "Of the group of 4,474 unique top earners from 1992-2013, there were 3,213 individual taxpayers who made it into the 'Fortunate 400' only one time during the 22-year period."

Exhibit C looks at the entire top 1pc of income earners (again, a concept defined quite differently than is the case in Britain). It's not that hard to reach the top for a brief period: 11pc of

Americans will be part of the club (and make at least $332,000) for at least one year, HumanProgress explains in a brief note on its website by Chelsea German.

It gets even better for Americans hoping to reach the top tenth of the income distribution: a report from Thomas Hirschl, a sociology professor at Cornell University, found that more than half of the population will belong to that particular group for at least one year during their working life.

All of this tells us four things. First, American society is far from static: it makes no sense to take snapshots of income for just one year. One needs to look at lifetime earnings. Second, the more competition and the more open the market, the better. Closed, stultified, ultra-regulated economies are bad for social mobility. Third, it is rational for normal earners not to back high taxes on the better off: many people who don't make that much today can rationally hope to end up in the top 10pc or even top 1pc at some point in their careers. Hammering high levels of income is especially bad for those who will only earn a lot very briefly. Last but not least, while these figures are for the US, we can be sure that a similar analysis for the UK would suggest very similar conclusions.

No recession in sight

Getting the balance right is tough in economics. It's very easy to be overly pessimistic: the world always looks like a dangerous, precarious place. In fact, market economies, by dint of the fact that they are so decentralised and rely on voluntary, unplanned action, usually look more fragile than they really are. But it's even easier to be over-optimistic: human beings love to delude themselves. We tend to be swayed by manias and bubbles, forget the lessons of history and assume that the recent past is the best guide to the future.

What's truly tough is to be dispassionately objective, calling out bubbles or bad news when relevant but also giving equal weight to good news. This is quite different to sticking to the consensus, an approach which is intermediate between bullishness and bearishness. The most sensible forecasters aim to fall in none of these camps: they have their own view of the way the economy works, and they scrutinise trends and data. They try to ignore white noise and stick to their guns.

Crucially, they don't try to be too precise and attempt instead what F A Hayek called pattern predictions: they call big movements. Trying to predict a statistic to the tenth of a percentage point (will GDP grow by 2.1pc this year, or by 2.2pc?) is impossible.

The intense market volatility of the past few days and the collapse in oil prices are not keeping me up at night. I mourn the former but celebrate the latter. The UK is, in many ways, still lying on a bed of nitroglycerine: interest rates are ultra-low, the budget deficit remains huge, residential property prices are too high, the current account is unhealthy (and a sign that other things are wrong) and our competitiveness is being eroded by taxation, regulation and an idiotic approach to infrastructure. But there is also much that is going right, with employment booming, incomes increasing and investment rising. We are not about to slump into another recession. That day will come, but not yet.