

Krugman in the 1 Percent

The bard of inequality fails to notice that most Americans are better off than their parents were.

By Michael Tanner

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I am outraged. The City University of New York recently announced that it is going to pay Paul Krugman \$225,000 for part-time work studying income inequality. If you add in his sundry speaking fees, Professor Krugman is solidly ensconced among the hated 1 percent.

I too write about inequality, yet I am not being paid nearly as much. Of course, Professor Krugman does have that Nobel Prize thing going for him, but that hardly seems to justify such blatant inequality. So I have been waiting patiently for Professor Krugman to mail me a check to correct this unfair situation.

Or perhaps, instead, he has been busy lobbying for a taxpayer-funded program to subsidize underpaid inequality writers.

In reality, of course, Professor Krugman's income has absolutely nothing to do with mine. Nor should it. This is not a zero-sum world. I don't earn less because Krugman earns more.

There is no doubt that income inequality has increased in America. Even after adjusting for inflation, the income share of the top 1 percent of Americans rose by 201 percent from 1979 to 2010, compared to just 49 percent for the bottom 20 percent.

But just as Professor Krugman's earnings are irrelevant to mine, the growing wealth of the super-rich tells us little about how the average American is really doing.

And it turns out we are doing pretty well.

First, we should recognize that, by and large, Americans at all income levels are better off than their parents were. A study by the Pew Charitable Trust and the Brookings Institution found that two-thirds of 40-year-old Americans are in households with larger incomes than their parents had at the same age, even taking into account the fact that the cost of living has risen.

In fact, the news is actually even better than that. The average household is smaller today than it was back then, meaning a household income has to cover fewer family members, leaving them better off than the bigger households of the past. A second Pew study found that when incomes are adjusted for household size, four out of five adults today are better off than their parents were at the same age.

Even the poor are doing comparatively well. As Robert Rector of the Heritage Foundation has pointed out, the poorest of Americans today enjoys luxuries that were beyond the reach of even the wealthy not so long ago. For example, 65 percent have a DVD player, 64 percent have cable or satellite television, and 31 percent have two or more cars.

Second, the American dream of moving up the income ladder actually remains alive and well. Krugman, Thomas Piketty, and others may believe that the meritocracy is dead, replaced by a new aristocracy, but the reality is that income mobility remains strong.

For example, a study by Treasury Department economists Gerald Auten and Geoffrey Gee found that more than half of taxpayers moved to a different income quintile between 1996 and 2005, roughly the same as in previous periods. True, there was slightly less mobility in the top and bottom quintiles, but even so, roughly half of those who began in the bottom quintile had moved up to a higher quintile by the end of the period.

Nor did the rich necessarily stay rich. Many of those in the top income quintile saw their incomes decline, and the top 1 percent were even more likely to drop to a lower income group. In fact, the most dramatic downward mobility was among the top 1 percent of taxpayers.

It may take some time to determine the impact of the recession and recovery on various income groups — the rich, who disproportionately hold investment wealth, both took the biggest initial hit and have recovered the most strongly — but the evidence suggests that historical levels of income mobility continue.

Likewise, despite the conventional wisdom, we can still hope that our children will do better than we.

A comprehensive study looking at children born between 1971 and 1983 found that intergenerational mobility has remained extremely stable, with roughly 8 to 9 percent of children born to parents in the bottom quintile of incomes actually reaching the top of the income distribution.

As Raj Chetty of Harvard puts it, “The rungs of the ladder have grown further apart (inequality has increased), but children’s chances of climbing from lower to higher rungs have not changed.”

So, while Krugman enters the realm of the 1 percent, I actually see that as a very positive sign that even those who condemn the affluent and actively attempt to tax them out of existence still have the opportunity to join them. If that’s not a sign of capitalism’s mobility, I don’t know what is.

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