CHESS PIECES AND INCOME STATISTICS

In controversies revolving around social justice issues, some of the most serious distortions of reality are based on statistics showing income distribution trends over time. The statistics may be perfectly accurate, but the distortions come from discussing people as if they were like inert chess pieces, and remained fixed in the same income brackets over time.

Trends Over Time

The *New York Times,* for example, has said that "the gap between rich and poor has widened in America."[1] This has long been a theme common in such other media outlets as the *Washington Post* and many television programs, as well as among politicians and academics.

As a *Washington Post* columnist put it: "The rich have seen far greater income gains than have the poor."[2] Another *Washington Post* columnist described "the wealthy" as "people who have made almost all the income gains in recent years."[3] President Barack Obama said, "The top 10 percent no longer takes in one-third of our income, it now takes half."[4] Professor Joseph E. Stiglitz of Columbia University declared that "The upper 1 percent of Americans are now taking in nearly a quarter of the nation's income every year."[5] According to Professor Stiglitz, "society's wealth distribution" has become "lopsided."[6] By contrast, the other "99 percent of Americans" are said to be together "in the same stagnating boat."[7]

If these were the same people in the same income brackets over the years, the conclusions reached would be valid. ***But these are not the same people in the same brackets over the years***. According to the U.S. Department of the Treasury, using income data from its Internal Revenue Service: "More than 50 percent of taxpayers in the bottom quintile moved to a higher quintile within ten years."[8] Other empirical studies show a similar pattern.[9] One study indicated that more than half of all American adults are in the top 10 percent of income recipients at some point in their lives,[10] usually in their later years. Whether at high income levels or low income levels, most Americans do not stay fixed in the same income bracket, as if they were inert chess pieces.

Other empirical studies that followed the incomes of ***specific individuals*** over a span of years also showed a pattern directly the opposite of the pattern in widely cited studies which implicitly assume that the same people remain in the same income brackets over the years. But a built-in ***assumption*** of stagnation is not stagnation, when there is ***turnover*** of most individuals in these brackets from one decade to the next.

An early study at the University of Michigan followed specific individuals— working Americans— from 1975 to 1991. The pattern it found was that individuals who were initially in the bottom 20 percent in income in 1975 had their incomes rise over the years— not only at a higher rate than the incomes of individuals in the higher brackets, but also in a several times larger total amount.[11] By 1991, 29 percent of those who were in the lowest quintile in 1975 had risen all the way to the top quintile, and only 5 percent of those initially in the bottom quintile remained where they had all been in 1975. The rest were distributed in other quintiles in between.[12]

These are not fictional Horatio Alger stories about rare individuals rising from rags to riches. These are mundane realities about people usually having higher incomes in their thirties than they had in their twenties, and continuing to have increases in pay as they acquire more experience, skills and maturity.

Meanwhile, individuals who were initially in the ***top*** quintile in 1975 had the ***smallest*** increase in real income by 1991— smallest in both percentage terms and in absolute amounts. The amount by which the average income of people initially in the top quintile in 1975 rose was less than half that in any of the other quintiles.[13] The pattern of these results— radically different from conclusions in studies which implicitly assume that it is the same people in the same income brackets over the years— was repeated in the later study by the U.S. Treasury Department, already cited. This later study, based on Internal Revenue

Service data, followed specific individuals— those who filed income tax returns over the course of a decade, from 1996 through 2005.

Those individuals whose incomes were initially in the bottom quintile of this group had their incomes rise by 91 percent during that decade. That is, their incomes nearly doubled in a decade, which is hardly "stagnating," Professor Stiglitz to the contrary notwithstanding. Those individuals whose incomes were initially in the much-discussed "top 1 percent" saw their incomes actually ***fall*** by 26 percent during that same decade.[14] Again, we see the ***opposite*** of what has been said repeatedly, loudly and angrily by income distribution alarmists in politics, in the media and in academia.

A still later statistical study, in Canada— covering the years from 1990 to 2009— showed a very similar pattern. During those two decades, 87 percent of the people initially in the bottom quintile rose into a higher quintile. The incomes of those initially in the bottom quintile rose at both a higher rate and a larger absolute amount than the incomes of those who were initially in the top quintile.[15]

It might seem as if these three studies, so similar in their outcomes, could not be true if the other and more widely cited studies— from the U.S. Bureau of the Census and other sources— were also true. But the two sets of studies measured very different things.

The University of Michigan study, the Treasury Department study and the Canadian study were all studies that followed ***the same individuals*** over a span of years. The more widely cited studies, from the U.S. Bureau of the Census and other sources using an approach similar to that of the Bureau of the Census, have been fundamentally different in at least two ways.

Published data from the 2020 census or the Bureau of Labor Statistics, for example, are data on statistical categories containing ***multiple*** individuals each, such as families, households or "consumer units." But, just as different families contain different numbers of individuals, so do these other statistical categories. When these categories of income recipients are divided into income quintiles, these quintiles can contain equal numbers of such categories, but ***not*** equal numbers of people— nor even approximately equal numbers of people.

Different Numbers of People

According to the Bureau of Labor Statistics, there were 42,187,200 people in the bottom quintile of income recipients in 2019. That same year, the B.L.S. statistics showed that the top quintile contained 84,915,200 people— just barely more than twice as many people as the bottom quintile.[16] Comparisons of the incomes received by people in the top and bottom quintiles therefore have a built-in exaggeration of income disparities between individuals, since twice as many individuals would have twice as much income, even if every individual in both categories had the ***same*** income.

When single-parent families are more common among low-income people than among high-income people, it is hardly surprising that there are fewer people in the bottom quintile than in the top quintile. Not only are fewer people likely to ***receive*** less income, that is especially so when discussing how much money they ***earn***— as distinguished from money received from such sources as welfare or unemployment compensation. Bureau of Labor Statistics data show that there were ***5 times*** as many people earning income in the top quintile as in the bottom quintile.[17]

How surprising— or unfair— is it when 5 times as many people who are earning incomes receive a larger total amount of income?

People who draw alarming inferences from Census and similar other data reason as if they are discussing what was happening to a given set of human beings, when in fact they are discussing the fate of "the top quintile," "the top ten percent," "the top 1 percent" or some other statistical category. These are categories containing ***different numbers of individuals*** in different quintiles, as well as ***an ever-changing mix of individuals*** in each of these quintiles from one decade to the next.

What are the implications of all this?

If, for example, there were a complete redistribution of income, so that every income recipient recorded in the 2020 census now received exactly the same income as other recipients in a subsequent year, that would mean a ***zero*** disparity in individual incomes. But, if the new income data were organized and displayed in the same separate categories as before, comparing the same sets of individuals who had previously been in the various quintiles in the 2020 census, the data would show those people who had formerly been in the top quintile would now appear to have just over *twice* the incomes of those people who had formerly been in the bottom quintile.

In other words, a *zero* income disparity in fact would now appear statistically as an income disparity larger than today's income disparity between women and men or between black and white Americans!

"Stagnating" Income Growth

There is also a long history of alarmist claims about supposedly "stagnating" income growth among Americans as a whole. For example, the average real income— that is, money income adjusted for inflation— of American households rose by only 6 percent over a period of more than a quarter of a century, from 1969 to 1996. But the average real income per person in the United States rose by 51 percent over that very same period.[18] How can both these statistics be true? Because the average number of people per household was *declining* during those years. The Bureau of the Census stated, as far back as 1966, that the average number of persons per household was declining.[19]

Income alarmists have their choice of statistics to use. A *New York Times* writer said: "The incomes of most American households have failed to gain ground on inflation since 1973."[20] A *Washington Post* writer said: "the incomes of most American households have remained stubbornly flat over the past three decades."[21] An official of a Washington think tank was quoted in the *Christian Science Monitor* as saying: "The economy is growing without raising average living standards."[22]

Sometimes such conclusions may arise from statistical naivete. But sometimes the inconsistency of the patterns in which data are cited might suggest bias. Long-time *New York Times* columnist Tom Wicker, for example, used per capita income statistics when he depicted success for the Lyndon Johnson administration's economic policies, but he used family income statistics when he depicted failure for the policies of Ronald Reagan and George H.W. Bush.[23]

There is no intrinsic reason why the income distribution of *individuals* cannot be presented and analyzed, especially when incomes are in fact usually paid to individuals, rather than to families, households or "consumer units." But income distribution alarmists seldom, *if ever,* cite income statistics that compare the same individuals over time. As we have seen, such statistics show radically different results than the conclusions of income distribution alarmists.

Turnover in Income Brackets

The turnover rate of individuals is especially high in the highest income brackets. What Professor Paul Krugman of the City University of New York has referred to as "the charmed circle of the 1 percent"[24] must have a somewhat fleeting charm, because most of the people in that circle in 1996 were no longer there in 2005.[25] Neither high-income people nor low-income people are like inert chess pieces.

The turnover rate is even more extreme among the "top 400" highest income recipients than among the "top 1 percent." The Internal Revenue Service's income tax data showed that, during the years from 1992 to 2014, there were 4,584 people in the so-called "top 400" income recipients. Of these, 3,262 were in that bracket just one year during those 23 years[26]— which is within one generation.

When incomes received by thousands of people over the years are presented statistically as if these were incomes received by hundreds of people, that is a tenfold exaggeration of income disparities. If, as sometimes claimed, "the rich" have "rigged the system," it seems strange that they would rig it so that 71 percent of them would not repeat their one year in that high income bracket during the 23 years covered by the Internal Revenue Service data.

The "Rich" and The "Poor"

The loose use of words in many discussions of income differences includes calling people in the top quintile of income recipients "rich" and those in the bottom quintile "poor." But, in the 2020 census data, the top quintile begins with a household income of $141,111.[27] That is a very nice income for an individual, and perhaps somewhat less impressive for a couple making just under $75,000 a year each—especially if these people have risen to that income level from more modest income levels, over the years. But in neither case would such people be considered "rich," or able to afford the lifestyle of genuinely rich people with their own mansions, yachts or private planes.

The "poor" are often as misleadingly labeled as "the rich." In the University of Michigan study, where 95 percent of the people initially in the bottom quintile rose out of that quintile during the years covered, that left just 5 percent behind during those years. Since 5 percent of the 20 percent initially in the bottom quintile was just 1 percent of the population sampled, only this 1 percent, who were in the bottom quintile for the duration of that study, were therefore eligible to be called "poor" during all those years. Contrary to Professor Stiglitz's claim that the incomes of the 99 percent were "stagnating,"[28] it is the incomes of this low-income 1 percent that was stagnating.

How poor are "the poor"? Compared to what? We may each conceive of poverty in different ways, perhaps thinking of times and places where poverty has meant hunger, cramped housing, ragged clothing and other such afflictions. But poverty statistics are defined by the government statisticians who collect and publish official data. In these data, official "poverty" means whatever these statisticians say it means. No more and no less.

By 2001, three-quarters of officially "poor" Americans had air-conditioning, which only a third of all Americans had, just a generation earlier, in 1971. Ninety-seven percent of people in official poverty in 2001 had color television, which less than half of all Americans had in 1971. Seventy-three percent owned a microwave oven, which fewer than 1 percent of Americans owned in 1971, and 98 percent of "the poor" in 2001 had either a videocassette recorder or a DVD player, which no one had in 1971.[29]

As for living in cramped quarters, the average American in officially defined poverty had more space per person than the average European— not the average European in poverty, but the average European, period.[30]

None of this suggests that Americans living in poverty have no problems. They often have more serious and even urgent problems today as victims of crime and violence than in the past, when their material standard of living was not as high. But that is a major problem deserving long-overdue attention on its own, more so than a supposedly "stagnating" income problem.

The terms "rich" and "poor" are misleading in another and more fundamental sense. These terms apply to people's stock of wealth, not their flows of income. ***Income*** taxes do not tax wealth. Even taxing 100 percent of a billionaire's income would not stop that billionaire from remaining a billionaire, though it can stop others from becoming billionaires. Praise for some billionaires who publicly recommend higher ***income*** taxes may be somewhat excessive.

Implications for "Social Justice"

Attempts to verbally convert people currently in different income brackets into different social classes ignore turnover— especially in high-income brackets, where many people are transients with a one-year spike in income. Presumably it is flesh-and-blood human beings whose well-being we are concerned about, not disparities between statistical categories containing very different numbers of people and ever-changing mixes of people.

What is the significance of the fact that the share of income going to people in the top quintile has been growing? To the income redistributionists, it suggested that a given set of people was receiving— or "taking"— a larger share of society's total income. But, while this might have been a valid conclusion, if the people in the different income brackets had been continuous residents in those brackets, that was not the case when they were transients.

With more than half of all American adults reaching the top quintile (and even the top decile) in household income at some point in their lives,[31] the increased reward awaiting those who reach that level over the years has meant that there was now a higher pay-off for rising to the top. Such an outcome is consistent with the fact that the age of peak earnings has risen over time from the 35–44-year-olds to people 45–54 years old.[32] This in turn is consistent with the fact that technological development has made knowledge more valuable, relative to the physical vitality of youth. Since everyone ages, such an outcome does not automatically concentrate high incomes in particular social classes.

Statistics can be enormously valuable, for testing our beliefs against empirical evidence. But that requires careful attention to specific data, and to the words which accompany those data. As economist Alan Reynolds, a Senior Fellow at the Cato Institute, put it:

> Measuring the growth of incomes or the inequality of incomes is a little like Olympic figure skating— full of dangerous leaps and twirls and not nearly as easy as it looks. Yet the growth and inequality of incomes are topics that seem to inspire many people to form very strong opinions about very weak statistics.[33]

NOTES

1. "Class and the American Dream," ***New York Times***, May 30, 2005, p. A14.
2. Eugene Robinson, "Tattered Dream: Who'll Tackle the Issue of Upward Mobility?" ***Washington Post,*** November 23, 2007, p. A39.
3. E.J. Dionne, Jr., "Political Stupidity, U.S. Style," ***Washington Post,*** July 29, 2010, p. A23. This column also appeared in ***Investor's Business Daily***, under the title "Overtaxed Rich Is a Fairy Tale of Supply Side."
4. ***Public Papers of the Presidents of the United States, Barack Obama: 2013*** (Washington: United States Government Publishing Office, 2018), Book II, p. 1331.
5. Joseph E. Stiglitz, ***The Great Divide: Unequal Societies and What We Can Do About Them*** (New York: W.W. Norton, 2015), p. 88.
6. Ibid., p. 90.
7. Ibid., p. xv.
8. U.S. Department of the Treasury, "Income Mobility in the U.S. from 1996 to 2005," November 13, 2007, p. 7.
9. See, for example, W. Michael Cox and Richard Alm, "By Our Own Bootstraps: Economic Opportunity & the Dynamics of Income Distribution," ***Annual Report, 1995,*** Federal Reserve Bank of Dallas, p. 8; Mark Robert Rank, Thomas A. Hirschl and Kirk A. Foster, ***Chasing the American Dream: Understanding What Shapes Our Fortunes*** (Oxford: Oxford University Press, 2014), p. 105; Thomas A. Hirschl and Mark R. Rank, "The Life Course Dynamics of Affluence," ***PLoS ONE,*** January 28, 2015, p. 5.

10. Thomas A. Hirschl and Mark R. Rank, "The Life Course Dynamics of Affluence," *PLoS ONE*, January 28, 2015, p. 5.

11. W. Michael Cox and Richard Alm, "By Our Own Bootstraps: Economic Opportunity & the Dynamics of Income Distribution," *Annual Report, 1995,* Federal Reserve Bank of Dallas, p. 8.

12. Ibid.

13. Ibid.

14. U.S. Department of the Treasury, "Income Mobility in the U.S. from 1996 to 2005," November 13, 2007, p. 10. See also "Movin' On Up," *Wall Street Journal*, November 13, 2007, p. A24.

15. Niels Veldhuis, et al., "The 'Poor' Are Getting Richer," *Fraser Forum*, January/February 2013, p. 25.

16. U.S. Bureau of Labor Statistics, "Consumer Expenditures Report," Report 1090, December 2020, Table 1, p. 12.

17. Ibid.

18. John McNeil, "Changes in Median Household Income: 1969 to 1996," *Current Population Reports*, P23–196 (Washington: U.S. Bureau of the Census, 1998), p. 1.

19. Herman P. Miller, *Income Distribution in the United States* (Washington: U.S. Government Printing Office, 1966), p. 7.

20. Louis Uchitelle, "Stagnant Pay: A Delayed Impact," *New York Times,* June 18, 1991, p. D2.

21. Barbara Vobejda, "Elderly Lead All in Financial Improvement," *Washington Post*, September 1, 1998, p. A3.

22. Amy Kaslow, "Growing American Economy Leaves Middle Class Behind," *Christian Science Monitor*, November 1, 1994, p. 2.

23. Compare Tom Wicker, "L.B.J.'s Great Society," *New York Times*, May 7, 1990, p. A15; Tom Wicker, "Let 'Em Eat Swiss Cheese," *New York Times*, September 2, 1988, p. A27.

24. Paul Krugman, "Rich Man's Recovery," *New York Times*, September 13, 2013, p. A25.

25. U.S. Department of the Treasury, "Income Mobility in the U.S. from 1996 to 2005," November 13, 2007, p. 4.

26. Internal Revenue Service, Statistics of Income Division, "The 400 Individual Income Tax Returns Reporting the Largest Adjusted Gross Incomes Each Year, 1992–2014," December 2016, Table 4, p. 17.

27. Emily A. Shrider, Melissa Kollar, Frances Chen and Jessica Semega, "Income and Poverty in the United States: 2020," ***Current Population Reports,*** P60–273 (Washington: U.S. Government Publishing Office, 2021), p. 9.

28. Joseph E. Stiglitz, ***The Great Divide***, p. xv.

29. Alan Reynolds, ***Income and Wealth*** (Westport, Connecticut: Greenwood Press, 2006), p. 67.

30. Robert Rector and Rachel Sheffield, "Air Conditioning, Cable TV, and an Xbox: What Is Poverty in the United States Today?" ***Backgrounder,*** No. 2575, Heritage Foundation, July 18, 2011, p. 10.

31. Thomas A. Hirschl and Mark R. Rank, "The Life Course Dynamics of Affluence," ***PLoS ONE***, January 28, 2015, p. 5.

32. W. Michael Cox and Richard Alm, "By Our Own Bootstraps: Economic Opportunity & the Dynamics of Income Distribution," ***Annual Report, 1995***, Federal Reserve Bank of Dallas, p. 16; U.S. Bureau of the Census, "Age— All People (Both Sexes Combined) by Median and Mean Income: 1974 to 2020," ***Current Population Survey, 1975–2021,*** Annual Social and Economic Supplements (CPS ASEC), Table P–10.

33. Alan Reynolds, ***Income and Wealth***, p. 22.