Chapter 3

CHESS PIECES FALLACIES

In much of the social justice literature, including Professor John Rawls' classic *A Theory of Justice,* various policies have been recommended, on grounds of their desirability from a moral standpoint— but often with little or no attention to the practical question of whether those policies could in fact be carried out and produce the end results desired. In a number of places, for example, Rawls referred to things that "society" should "arrange"[1]— but without specifying either the instrumentalities or the feasibilities of those arrangements.

It is hard to imagine what institution could take on such a gigantic task, other than government. That in turn raises questions about the dangers of putting more power in the hands of politicians who run the government. The innocent-sounding word "arrange" cannot be allowed to obscure those dangers. Interior decorators ***arrange***. Governments ***compel***. It is not a subtle distinction.

Governments must compel some things, ranging from traffic laws to laws against murder. But that does not mean that there are no dangers to be considered when expanding government compulsion for whatever seems desirable. That would mean destroying everyone's freedom for the sake of whatever crusade has caught the fancy of some influential segment of the population.

Rawls' approach has by no means been unique to Rawls, or even to modern times. Back in the eighteenth century, there were people with similar ideas. Adam Smith expressed his opposition to such people, and to the very presumption of some doctrinaire theorist— a "man of system," as he put it— who "seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board."[2]

The exaltation of ***desirability*** and neglect of ***feasibility***, which Adam Smith criticized, is today still a major ingredient in the fundamental fallacies of the social justice vision. Its implications extend to a wide variety of issues, ranging from the redistribution of wealth to the interpretation of income statistics.

The confiscation and redistribution of wealth— whether on a moderate or a comprehensive scale— is at the heart of the social justice agenda. While social justice advocates stress what they see as the desirability of such policies, the feasibility of those policies tends to receive far less attention, and the consequences of trying and failing often receive virtually no attention.

There is no question that governments, or even local looters, can redistribute wealth to some extent. But the larger issue is whether the actual effects of attempting more comprehensive and enduring confiscation and redistribution policies are likely to be successful or counterproductive. Leaving moral issues aside for the moment, these are ultimately factual questions, for which we must seek answers in the realm of empirical evidence, rather than in theories or rhetoric.

REDISTRIBUTION OF WEALTH

Politically attractive as confiscation and redistribution of the wealth of "the rich" might seem, the extent to which it can actually be carried out in practice depends on the extent to which "the rich" are conceived as being like inert pieces on a chessboard. To the extent that "the rich" can foresee and react to redistributive policies, the actual consequences can be very different from what was intended.

In an absolute monarchy or a totalitarian dictatorship, a mass confiscation of wealth can be suddenly imposed without warning on the "millionaires and billionaires" so often cited as targets of confiscation. But, in a country with a democratically elected government, confiscatory taxation or other forms of confiscation must first be publicly proposed, and then develop sufficient political support over time among the voters, before being actually imposed by law. If "millionaires and billionaires" are not oblivious to all this, there is little chance that they will not know about the impending confiscation and redistribution before it happens. Nor can we assume that they will simply wait passively to be sheared like sheep.

Among the more obvious options available to "the rich"— when they are forewarned of large-scale confiscations of their wealth— include (1) investing their wealth in tax-exempt securities, (2) sending their wealth beyond the taxing jurisdiction, or (3) moving themselves personally beyond the taxing jurisdiction.

In the United States, the taxing jurisdiction can be a city, a state or the federal government. The various ways of sheltering wealth from taxation may have some costs to "the rich" and, where their wealth is embodied in immovable assets such as steel mills or chains of stores, there may be little they can do to escape confiscation of these particular forms of wealth. But, for liquid assets in today's globalized economies around the world, vast sums of money can be transferred electronically from country to country, with the click of a computer mouse.

This means that the actual consequences of raising tax rates on "the rich" in a given jurisdiction is a factual question. The outcome is not necessarily predictable, and the potential consequences may or may not make the planned confiscation feasible. Raising the tax ***rate*** X percent does not guarantee that the tax ***revenue*** will also rise X percent— or will even rise at all. When we turn from theories and rhetoric to the facts of history, we can put both the explicit and the implicit assumptions of the social justice vision to the test.

History

Back in the eighteenth century, Britain's imposition of a new tax on its American colonies played a major role in setting off a chain of events that led ultimately to those colonies declaring their independence, and becoming the United States of America. Edmund Burke pointed out at the time, in the British Parliament: "Your scheme yields no revenue; it yields nothing but discontent, disorder, disobedience. . ."[3]

Americans were not just inert pieces on the great chessboard of the British Empire. American independence deprived Britain not only of revenue from the new taxes they imposed, but also deprived the British of revenue from the other taxes they had already been collecting from the American colonies. This was by no means the only time when an increase in the official rate of taxation led to a ***reduction*** in the tax revenues actually collected.

Tax Rates versus Tax Revenues

Centuries later, similar withdrawals from taxing jurisdictions took place within the United States. The state of Maryland, for example, anticipated collecting more than $100 million in additional tax revenues, by increasing the tax rate on people whose incomes were a million dollars a year or more. But, by the time the new tax rate took effect in 2008, the number of such people living in Maryland had declined from nearly 8,000 to fewer than 6,000. The tax revenues, which had been anticipated to rise by more than $100 million, actually ***fell*** instead by more than $200 million.[4]

Likewise, when Oregon raised its income tax rate in 2009 on people earning $250,000 a year or more, its income tax revenues also ***fell*** instead of rising.[5] Americans were still not inert chess pieces.

None of this has been peculiar to Americans, however. Similar things have happened when other countries raised— or even threatened to raise— tax rates substantially on high incomes, in the expectation that this would automatically bring in more tax revenue, which it may or may not do. When such plans were advanced in Britain, for example, the ***Wall Street Journal*** reported:

> A stream of hedge-fund managers and other financial-services professionals are quitting the U.K., following plans to raise top personal tax rates to 51%. . . .Lawyers estimate hedge funds managing close to $15 billion have moved to Switzerland in the past year, with more possibly to come.[6]

Conversely, a ***reduction*** in tax rates does not automatically result in a reduction in tax revenues. People are not inert chess pieces in either case. Just as higher tax rates can repel people, businesses and investments, lower tax rates can attract them. In Iceland, as the corporate tax rate was gradually reduced from 45 percent to 18 percent between 1991 and 2001, tax revenues tripled.[7]

In the United States, tax-exempt securities provide an obvious way for high-income people to avoid paying high tax rates. As the federal income tax rate rose sharply during the Woodrow Wilson administration, the number of people reporting taxable incomes of $300,000 or more declined from well over a thousand in 1916 to less than three hundred in 1921. The federal income tax rate on the highest incomes in 1920 was 73 percent.[8] By 1928, the highest income tax rate had been reduced to 25 percent. Between those two years, the total amount of income tax revenue collected ***increased***, and the proportion of all income taxes collected from people earning a million dollars or more per year also ***increased***, from less than 5 percent in 1920 to 15.9 percent in 1928.[9]

In advocating these tax rate reductions in the 1920s, Secretary of the Treasury Andrew Mellon pointed out that the rich had vast sums of money invested in tax-exempt securities.[10] These securities paid a lower rate of return than other securities that were subject to taxation. Investing in tax-exempt securities, despite their lower rate of return, made sense when the top tax rate was 73 percent. But, at a top tax rate of 25 percent, it made sense for many high-income people to shift their investments to other securities that paid a higher rate of return, even though that return was subject to taxation.

High-income people, not being inert chess pieces, figured this out. So the federal government collected more tax revenue from them at the lower tax rate, because 25 percent of something is larger than 73 percent of nothing.

Both Secretary of the Treasury Andrew Mellon and President Calvin Coolidge said beforehand that a reduction of the tax ***rate*** would increase the tax ***revenue***,[11] as it did, and bring in more tax revenue from high-income people. Secretary Mellon had also complained that tax-exempt securities had created a situation that was "repugnant" in a democracy— namely, that there was, in effect, "a class in the community which cannot be reached for tax purposes."[12] Failing to get Congress to take steps to end tax-exempt securities,[13] Mellon was at least able to get higher income people to pay a larger share of the income taxes by other means.

Nevertheless, Mellon's arguments for reducing the top tax rate were denounced as "tax cuts for the rich," as similar plans for similar reasons have been denounced ever since.[14]

For some— including distinguished professors at elite universities— the implicit assumption that tax ***revenues*** automatically move in the same direction as tax ***rates*** seems impervious to factual evidence. But such evidence is readily available on the Internet from the official records of the Internal Revenue Service.[15] Nevertheless, the chess pieces fallacy remains largely unchallenged, so social justice advocates can continue to advocate higher tax rates on the rich, on the basis of its ***desirability*** from their perspective, without regard to questions as to its ***feasibility*** as a revenue-collection mechanism.

In politics, highly expensive proposals to have the government provide various benefits "free" to everyone can be very appealing to some voters, when the additional costs to the government are said to be paid for by collecting higher tax revenues from "millionaires and billionaires," whether or not this actually turns out to be true. Such an outcome might seem desirable to some voters, from a social justice perspective, but ***desirability*** does not preclude questions of ***feasibility***.

In politics, the goal is not truth but votes. If most voters believe what is said, that rhetoric is a success, as far as politicians are concerned. But, from the standpoint of the public, the claim that the cost of government giveaways will be paid for by taxes collected from "millionaires and billionaires" is a proposition that very much requires empirical examination, since "millionaires and billionaires" are not always cooperative.

People who imagine that the benefits they receive "free" from government will be paid for by others may discover that they themselves end up paying for those benefits, as a result of inflation.

The Inflation "Tax"

Just as tax rates on paper are not necessarily collected, so things that are ***not*** taxes can have the same effect as taxes. Inflation is one of those things.

When tax revenues to pay for "free" benefits given to various groups fail to cover the expenses of those benefits, the government can get additional money needed to cover the deficit by issuing more government bonds and selling them. To the extent that these bonds are purchased in the market, the cost is passed on, with interest added, to taxpayers in the future. But, if not enough of these bonds are bought in the market to cover the remaining deficit, these bonds can be purchased by the Federal Reserve System, a federal government agency legally authorized to create money. Then, as this additional money goes into circulation, the result is inflation.

The net result of inflationary price increases is that ***everyone's money***— regardless of their income— loses some of its value. It is the same as if a tax had been imposed on everybody, from the poorest to the richest, and with everyone paying the same tax rate on their money as "millionaires and billionaires" pay. But a tax on money is ***not*** a tax on tangible assets, such as factories or real estate— which increase in market value during an inflation. The net result of all this is that an inflation "tax" can take a higher percentage of the assets of the poorest people, whose money is likely to be a higher percentage of their total assets, because they are less likely to own factories, real estate and other tangible assets that rise in market value during an inflation.

In short, an inflation "tax" is likely to be a ***regressive*** tax, paid whenever buying groceries, gasoline or other consumer goods at higher prices. The illusion of getting "free" benefits from the government may be maintained, so long as the recipients do not see the connection between the higher prices they end up paying for what they buy, after the government gives them "free" things.

The biggest beneficiaries of this situation are likely to be politicians, who can attract voters by offering them "free" benefits— "as a right, not a privilege"— which the voters end up paying for in a roundabout way, through inflationary price increases on the things they buy.

Politicians cover their tracks by calling the key mechanism— the Federal Reserve's creation of money to buy government bonds— by the obscure insider phrase, "quantitative easing," instead of saying in plain English that the government is producing more of its own money, in order to pay for the things it is giving away "free." Sometimes a technical-sounding term— "QE2"— is used, to designate a second round of creating money. That sounds so much more impressive than simply saying "producing more money for politicians to spend."

CHESS PIECES AND PRICE CONTROLS

Just as people's behavior changes when governments change tax rates, so their behavior changes when governments change the terms of other transactions. This is one of the most basic principles of economics. It has been known for centuries by economists, and even by others before there was any such occupation as an economist.[16] But what has been known by some has not been known by all, so governments have been setting prices on various goods and services by law, for thousands of years— going back to Roman times, and even to ancient Babylon before that.[17]

Reactions to Price Controls

The people subject to price-setting laws have seldom remained passive, as if they were inert chess pieces. How many governments understood this before they passed such laws is unknown. But what is known is that a President of the United States— Richard Nixon— who was fully aware of the adverse economic consequences of price controls, imposed those controls anyway. His response to criticism of that decision by economist Milton Friedman was: "I don't give a good goddamn *what* Milton Friedman says. He's not running for re-election."[18] President Nixon was in fact re-elected, by a larger majority than that which first put him in the White House.

As for the economic consequences of the price controls, they were what such consequences have been in other places and times, going back for centuries. At prices set by government below the level set by supply and demand, the amount demanded by consumers went up— because of the artificially lower prices— and the amount produced by producers went down, also because of those same artificially lower prices. Neither consumers nor producers were inert chess pieces. The net result was that there were widespread shortages of food, gasoline and numerous other things. But these consequences became widely apparent only ***after*** the election.[19]

None of this was peculiar to the United States. When the government of the African nation of Zimbabwe decreed drastic cutbacks in prices to deal with runaway inflation in 2007, the *New York Times* reported that citizens of Zimbabwe "greeted the price cuts with a euphoric— and short-lived— shopping spree." But, as in the United States, this increase in the amount consumers demanded was accompanied by a ***decrease*** in the amount that producers supplied:

> Bread, sugar and cornmeal, staples of every Zimbabwean's diet, have vanished... Meat is virtually nonexistent, even for members of the middle class who have money to buy it on the black market... Hospital patients are dying for lack of basic medical supplies.[20]

The people in Africa were not inert chess pieces, any more than people in Europe or America.

Many studies of many forms of price controls, in countries around the world, have revealed very similar patterns.[21] This has led some people to ask: "Why don't politicians learn from their mistakes?" Politicians ***do*** learn. They learn what is politically effective, and what they do is ***not*** a mistake politically, despite how disastrous such policies may turn out to be for the country. What can be a mistake politically is to assume that particular ideals— including social justice— can be something that society can just "arrange," through government, without considering the particular patterns of incentives and constraints inherent in the institution of government.

Minimum Wage Laws

Not all price control laws force prices down. Some price control laws force prices up. In these latter cases, producers produce more, because of the higher prices, but consumers buy less. Again, people are not inert chess pieces in either case. While price control laws that force prices down tend to create shortages, price control laws that force prices up tend to create unsalable surpluses.

Rent control laws are examples of the former, and such laws have created housing shortages in cities around the world.[22] Agricultural price support programs in the United States are an example of the latter, and they lead to farmers growing larger crops than the consumers will buy, at the artificially higher prices. The unsalable surpluses have led to expensive government programs to buy this surplus output— and store it, while figuring out how to dispose of it and limit future production. These costs run into many billions of dollars of the taxpayers' money.

A special form of price control to force prices up are minimum wage laws, often supported by people with a social justice vision.

Minimum wage laws are among the many government policies widely believed to benefit the poor, by preventing them from making decisions for themselves that surrogate decision-makers regard as being not as good as what the surrogates can impose through the power of government.

Traditional basic economics, however, says that people tend to purchase less at a higher price. If so, then employers— not being inert chess pieces— tend to hire less labor at a higher price, imposed by minimum wage laws, than they would hire at a lower price, based on supply and demand. Here the unsalable surplus is called unemployment.

Although minimum wage rates are usually set by law at a level lower than what the average worker makes, these laws nevertheless tend to set wage rates ***higher*** than what an unskilled beginner would earn by supply and demand in a freely competitive market. Therefore the impact of a minimum wage law tends to be greater on young beginners— especially teenage workers— whose unemployment rates are especially relevant as tests of the economic principles which suggest that minimum wage laws create higher rates of unemployment.

With all the official statistics available, it might seem as if differences of opinion on this subject would have been resolved long ago. But, over the years, vast amounts of ingenuity have been deployed, seeking to evade the obvious, as regards the effects of minimum wage laws. Rather than elaborate and examine those arguments here, which have been elaborated and examined elsewhere,[23] a few plain facts may be sufficient.

In 1948, the unemployment rate in the United States for black 16-year-old males and black 17-year-old males was 9.4 percent. For their white counterparts, the unemployment rate was 10.2 percent. For black 18-year-old males and black 19-year-old males, their unemployment rate was 10.5 percent, and for their white counterparts the unemployment rate was 9.4 percent.[24] In short, there were no significant racial differences in unemployment rates among teenage males in 1948.

While an unemployment rate of around 10 percent for young, inexperienced workers is higher than the usual unemployment rate among workers in the population at large, it was lower than usual for teenagers. More important, for examining the effects of minimum wage laws on unemployment, these unemployment rates for teenage males were only a *fraction* of what unemployment rates for teenage males of both races would be from the 1970s onward, extending on into the early twenty-first century.[25]

Was there no minimum wage law in 1948? Was there no racism? Actually, there were both. But the federal minimum wage law— the Fair Labor Standards Act of 1938— was a decade old in 1948, and the intervening years had such high rates of inflation that the minimum wage specified in 1938 was well below what even an unskilled teenage male beginner (such as myself in 1948) was paid in the devalued dollars of 1948. For all practical purposes, there was no *effective* minimum wage law. As Professor George J. Stigler, a leading economist of that era, said in 1946: "The minimum wage provisions of the Fair Labor Standards act of 1938 have been repealed by inflation."[26]

In 1950, however, there began a series of increases in the minimum wage rate over the years, in order to keep up with inflation. The 1950s were the last decade in the twentieth century in which black

16-year-old and 17-year-old males had annual unemployment rates below 10 percent in any years. In later decades of that century, the annual unemployment rate of black teenage males ***never fell below 20 percent***. In some of those years, it ranged above 40 percent. Moreover, there was now usually a substantially higher unemployment rate among black teenage males than among white teenage males. In some years, the difference exceeded two-to-one.[27]

Anyone who lived through those early years knows that there was ***more*** racism then than today. As late as 1950, public schools in Washington were explicitly segregated by race, and the General Accounting Office and some other federal agencies also had racially segregated employees, though not officially.[28] Why then was there no significant difference in unemployment rates between black and white teenage males in 1948? A short, one-word answer is economics.

Nobel Prize-winning economist Milton Friedman denounced minimum wage laws as "one of the most, if not the most, antiblack laws on the statute books."[29] One of his students, Gary S. Becker, went on to win a Nobel Prize in economics for his landmark work that included an in-depth analysis of the economics of discrimination.[30] The basic argument can be readily understood, without the technical vocabulary of economists.

Racism is an attitude inside people's heads, and may cost racists nothing. But discrimination is an overt act, out in the real world, that can cost the discriminator either little or much, depending on economic circumstances.[31] In a free competitive market, with prices determined by supply and demand, discrimination can have serious costs to the discriminator.

Minimum wage laws reduce the cost of discrimination to the discriminator. A wage rate set by government— at a level higher than it would be set by supply and demand in a competitive market— causes reactions by both workers and employers, as with other sellers and buyers who are not inert chess pieces.

Higher wage rates attract more job applicants. But these higher costs of labor tend to reduce the amount of labor employers hire. The net result is a chronic surplus of job applicants for low-wage jobs affected by minimum wage laws. In these circumstances, employers who turn away qualified minority applicants can often readily replace them with other qualified people from the chronic surplus of job applicants. Discrimination under these circumstances may cost the employer nothing.

When there is no minimum wage law, or no *effective* minimum wage law, as in 1948, there is unlikely to be a chronic surplus of job applicants. Under these conditions, employers who turn away qualified minority applicants would have to either pay more to attract additional other qualified applicants to replace them, or else work existing employees overtime, at higher overtime rates of pay— costing the employer money in either case.

In these circumstances, it is not surprising that there was no significant difference in unemployment rates between black and white male teenagers in 1948, even though there was more racism then than in later years. Nor is it surprising that, after a series of minimum wage rate increases over the years, to offset inflation and make the minimum wage law effective again, a substantial racial gap in teenage male unemployment rates became common. So did much higher unemployment rates for teenage males of both races, than what their unemployment rates had been in 1948, when wage rates were largely determined by supply and demand.

In general, the cost of discrimination to the discriminator can vary considerably from one kind of economic activity to another— being higher for businesses in competitive markets, where the employer's own money is at risk, than among non-profit organizations, regulated public utilities and government agencies. History shows that these last three kinds of institutions have long been among the most discriminatory kinds of employers.[32]

It costs government discriminators nothing to discriminate, because the costs are paid by the taxpayers. Similarly for discriminators in non-profit institutions, where employers are likewise spending other people's money. The situation in government-regulated public utilities is somewhat more complicated, but the net result is that these public utilities' costs of discrimination can be passed on to their customers, who have no choice but to pay, when dealing with a government-regulated monopoly.[33]

Each of these three kinds of institutions has had a long history of especially discriminatory policies against minority workers, as compared to policies in institutions operating in competitive markets, with employers' own money being at risk.[34] Prior to World War II, for example, black professors were virtually non-existent in white, non-profit colleges and universities. But there were hundreds of black chemists employed in profit-based businesses in competitive industries during that same era.[35] Such patterns were not confined to the United States or to blacks.

The pattern of most discrimination where it costs the discriminators least, and least discrimination where it costs the discriminators most, is a pattern found in many countries. In Poland between the two World Wars, for example, Jews were 9.8 percent of the population in 1931,[36] and just over half of all private physicians in Poland were Jewish. But Jewish physicians were seldom hired by Poland's government hospitals.[37] Other people, spending their own money, and concerned about their own health, obviously acted differently, or so many Jewish physicians would not have been able to make a living.

During even the worst days of racially discriminatory laws in South Africa under officially declared white supremacy policies, there were some whole occupations set aside by law exclusively for whites. But, nevertheless, there were some competitive industries where a majority of the employees in those occupations were in fact black.[38] A government crackdown fined hundreds of companies in the construction industry alone for having more black employees than they were allowed to have under the apartheid laws, and in occupations where they were forbidden to hire any blacks.[39]

How the severity of racial discrimination in South Africa during that era varied with the kind of industry, and the degree of government control, was revealed in ***South Africa's War Against Capitalism*** by black American economist Walter E. Williams, who did his research in South Africa during the era of apartheid.

Neither social justice advocates nor anyone else can safely proceed on the assumption that the particular laws and policies they prefer will automatically have the results they expect, without taking into account how the people on whom these laws and policies are imposed will react. Both history and economics show that people are not just inert chess pieces, carrying out someone else's grand design.

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."[40] 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."[41] Another ***Washington Post*** columnist described "the wealthy" as "people who have made almost all the income gains in recent years."[42] President Barack Obama said, "The top 10 percent no longer takes in one-third of our income, it now takes half."[43] 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."[44] According to Professor Stiglitz, "society's wealth distribution" has become "lopsided."[45] By contrast, the other "99 percent of Americans" are said to be together "in the same stagnating boat."[46]

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."[47] Other empirical studies show a similar pattern.[48] 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,[49] 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.[50] 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.[51]

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.[52] 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.[53] 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.[54]

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.[55] 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.[56]

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.[57] 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.[58]

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."[59] A *Washington Post* writer said: "the incomes of most American households have remained stubbornly flat over the past three decades."[60] 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."[61]

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.[62]

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"[63] must have a somewhat fleeting charm, because most of the people in that circle in 1996 were no longer there in 2005.[64] 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[65]— 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.[66] 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,"[67] 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.[68]

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.[69]

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,[70] 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.[71] 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.[72]