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Movin' On Up

A Treasury study refutes populist hokum about "income inequality."

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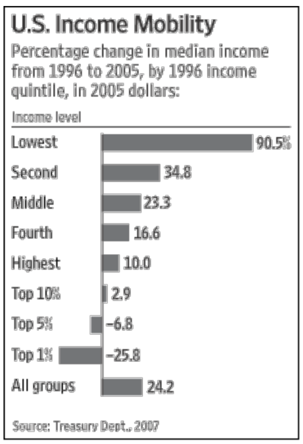
If you've been listening to Mike Huckabee or John Edwards on the Presidential trail, you may have heard that the U.S. is becoming a nation of rising inequality and shrinking opportunity. We'd refer those campaigns to a new study of income mobility by the Treasury Department that exposes those claims as so much populist hokum.

OK, "hokum" is our word. The study, to be released today, is a careful, detailed piece of research by professional economists that avoids political judgments. But what it does do is show beyond doubt that the U.S. remains a dynamic society marked by rapid and mostly upward income mobility. Much as they always have, Americans on the bottom rungs of the economic ladder continue to climb into the middle and sometimes upper classes in remarkably short periods of time.



The Treasury study examined a huge sample of 96,700 income tax returns from 1996 and 2005 for Americans over the age of 25. The study tracks what happened to these tax filers over this 10-year period. One of the notable, and reassuring, findings is that nearly 58% of filers who were in the poorest income group in 1996 had moved into a higher income category by 2005. Nearly 25% jumped into the middle or upper-middle income groups, and 5.3% made it all the way to the highest quintile.

Of those in the second lowest income quintile, nearly 50% moved into the middle quintile or higher, and only 17% moved down. This is a stunning show of upward mobility, meaning that more than half of all lower-income Americans in 1996 had moved up the income scale in only 10 years.

Also encouraging is the fact that the after-inflation median income of all tax filers increased by an impressive 24% over the same period. Two of every three workers had a real income gain--which contradicts the Huckabee-Edwards-Lou Dobbs spin about stagnant incomes. This is even more impressive when you consider that "median" income and wage numbers are often skewed downward because the U.S. has had a huge influx of young workers and immigrants in the last 20 years. They start their work years with low wages, dragging down the averages.

Those who start at the bottom but hold full-time jobs nonetheless enjoyed steady income gains. The Treasury study found that those tax filers who were in the poorest income quintile in 1996 saw a near doubling of their incomes (90.5%) over the subsequent decade. Those in the highest quintile, on the other hand, saw only modest income gains (10%). The nearby table tells the story, which is that the poorer an individual or household was in 1996 the greater the percentage income gain after 10 years.

Only one income group experienced an absolute decline in real income--the richest 1% in 1996. Those households lost 25.8% of their income. Moreover, more than half (57.4%) of the richest 1% in 1996 had dropped to a lower income group by 2005. Some of these people might have been "rich" merely for one year, or perhaps for several, as they hit their peak earning years or had some capital gains windfall. Others may simply have not been able to keep up with new entrepreneurs and wealth creators.

The key point is that the study shows that income mobility in the U.S. works down as well as up--another sign that opportunity and merit continue to drive American success, not accidents of birth. The "rich" are not the same people over time.

The study is also valuable because it shows that income mobility remains little changed from what similar studies found in the 1970s and 1980s. Some journalists and academics have cited selective evidence to claim that income mobility has declined in recent years.

But the 58% of lowest-income earners who moved to a higher income quintile in this study is roughly comparable to the percentages that did so in several similar studies going back to the late 1960s. "The basic finding of this analysis," says the Treasury report, "is that relative income mobility is approximately the same in the last 10 years as it was in the previous decade."

All of this certainly helps to illuminate the current election-year debate about income "inequality" in the U.S. The political left and its media echoes are promoting the inequality story as a way to justify a huge tax increase. But inequality is only a problem if it reflects stagnant opportunity and a society stratified by more or less permanent income differences. That kind of society can breed class resentments and unrest. America isn't remotely such a society, thanks in large part to the incentives that exist for risk-taking and wealth creation.

The great irony is that, in the name of reducing inequality, some of our politicians want to raise taxes and other government obstacles to the kind of risk-taking and hard work that allow Americans to climb the income ladder so rapidly. As the Treasury data show, we shouldn't worry about inequality. We should worry about the people who use inequality as a political club to promote policies that reduce opportunity.