

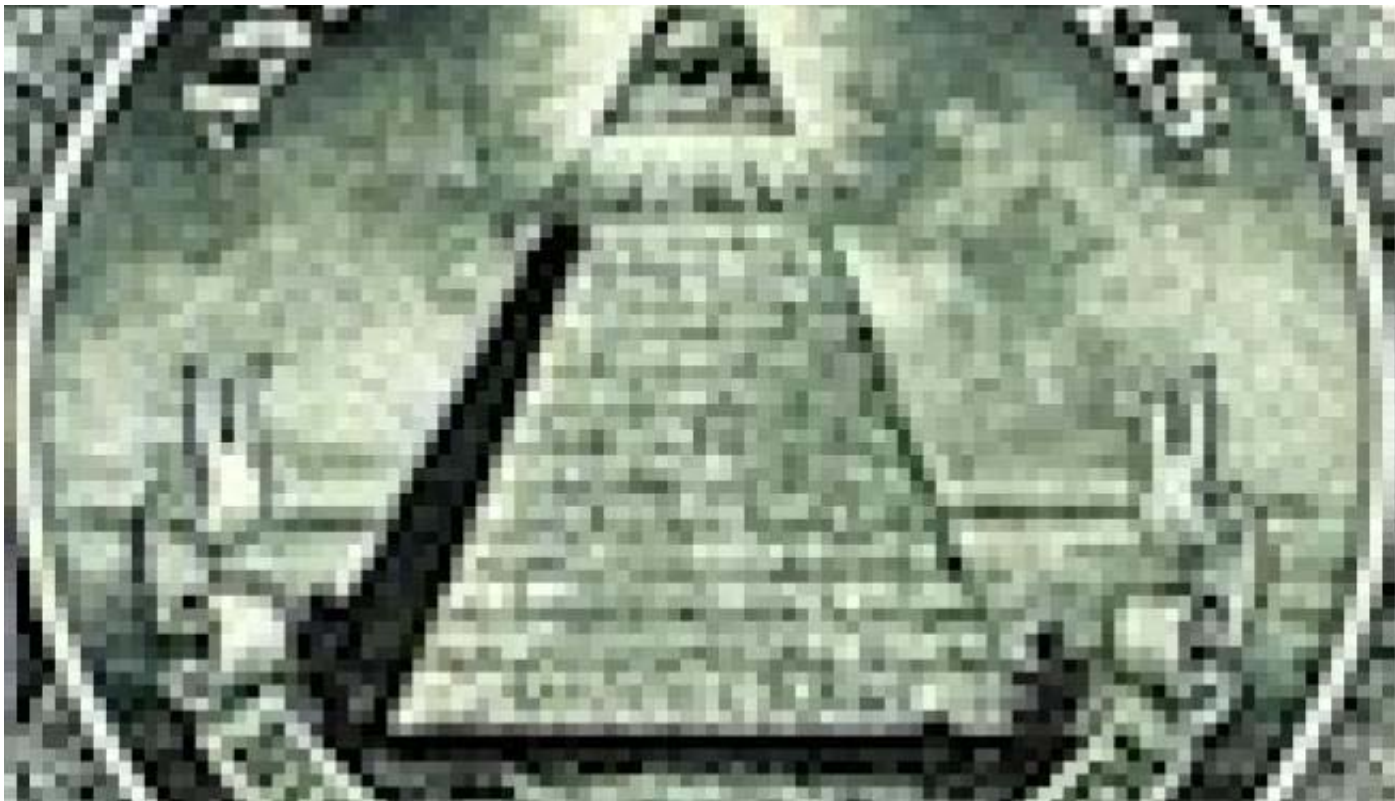


Economics

The Mirage of Income Mobility

Americans' income mobility may be falling, but an undue focus on the fact misses the bigger picture.

By Dalibor Rohac



Much is made of the low levels of income mobility in the United States. According to a Pew study released in July, Americans who are born into the very top or bottom quintiles are likely to stay there as adults. Last year, in his celebrated speech in Osawatomie, Kansas, President

Obama famously deplored falling social mobility. After World War II, according to the president, "a child who was born into poverty had a slightly better than 50-50 chance of becoming middle class as an adult.... [I]t's estimated that a child born today will only have a one-in-three chance of making it to the middle class."

Social mobility is an integral part of the American Dream. It is also a relatively recent phenomenon. In fact, the free enterprise system is the first and only one that enables poor people to become rich, both in absolute and relative terms. That said, an undue focus by policymakers on income mobility instead of real issues -- like barriers to economic opportunity and a sluggish economy suffocated by policy uncertainty -- can do more harm than good to those it is purported to help.

At the present time, the much-discussed fall in income mobility is an artifact of the data and a symptom of serious problems facing America's poor -- but not a problem by itself. As Tyler Cowen has argued on his blog, there is a trivial reason why Europe's relative mobility is higher than that of the United States. Europe is a continent with high marginal tax rates, a plethora of public service jobs, and generous social services. As a result, many highly talented Europeans choose to pursue careers that don't pay much. However, their equally talented children may choose otherwise.

In America, in contrast, high-ability individuals of all generations will almost invariably choose occupations in which they end up earning high incomes. To the extent that intelligence and ability are either hereditary or result from high-quality parenting, children of high achievers will also tend to be high achievers. As Mr. Cowen writes, "'High intergenerational mobility' is sometimes a synonym for 'lots of parental underachievers.'"

Also, the image of the United States as a rigid class society results from looking only at *relative* measures of income mobility, i.e. moves among different income strata of the society. A look at *absolute* income mobility provides a more cheerful picture. Eighty-four percent of Americans have incomes that exceed what their parents earned at a similar stage in life, according to the Pew study. The figure is 93 percent for those raised in the bottom quintile of the income distribution.

True, income mobility in the United States might be falling, which is an indication of deeper problems -- namely the erosion of the private enterprise system, and the existence of barriers to economic opportunity for the poorest. In the present economic, political, and ideological environment, entrepreneurial success is difficult to achieve, and when achieved, it is taxed, regulated heavily, and sneered at in the infamous "you-didn't-build-that" style.

A concern for income mobility, without an understanding of what is wrong with the society's economic and institutional fundamentals, is a bad guide to policy. If higher income mobility is what policymakers care about, all they need to do is to tax the rich at high enough rates, and give sufficiently large handouts to the poor. Of course, they will have to disregard the disastrous consequences of such policies, which shrink the size of the total economic pie.

But the size of the economic pie matters. People, especially those at the bottom of the income ladder, care whether they see their prosperity rising -- compared to an absolute or a relative standard -- and whether they have an opportunity to succeed in life, regardless of whether that involves moving to the next income quintile or not.

Existing barriers to economic opportunity need to be lifted, especially those with a disproportionately debilitating effect on economic opportunity for the least well-off. The list is long: prohibitive regulations of certain professions and uncertainty about future tax rates, but also minimum wages, unionization, and constraints on parents' choice of schools and school districts. To attempt to increase social mobility, without fixing these problems, is to put the cart before the horse.

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