ECONOMIC VIEW; Time to Slaythe Inequality Myth? Not So Fast

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Body

IF there is one thing that most people think they know about incomes in the United States over the last few decades, it is probably that salaries have grown more unequal. The rich have gotten richer ***faster*** than everyone else has.

In recent weeks, a new book has challenged this conventional wisdom, calling it a statistical mirage, and its striking claim has begun to receive national attention. Among native-born Americans, lower- and middle-income families have actually received proportionately bigger raises than the wealthy, according to "The Progress Paradox" (Random House), written by Gregg Easterbrook, a Washington journalist. Only a great influx of immigrants - many of them poor, but richer than they were in their home countries - has made ***inequality*** appear to widen in the statistics, Mr. Easterbrook says.

"Factor out immigration," he writes, "and the rise in American ***inequality*** disappears."

The idea has echoed from the book into the pages of The Washington Post, The Chicago Sun-***Times***, The San Diego Union-Tribune, The ***Times*** of London and BusinessWeek magazine, among other publications. It seems like one of those facts that could rewrite conventional wisdom about the American ***economy***.

It happens, however, ***not*** to be true.

The millions of immigrants who have entered the country in recent decades have indeed made ***inequality*** look larger than it otherwise would. But even among households headed by native-born Americans, the rich have done far better than others over the past 20 years - as well as over the past 30, 40 or 50 years, according to government statistics and the economists who study them.

The reasons will sound familiar. The long bull market of the 1980's and 90's helped mainly the well off, as has the rising value of a college degree in an increasingly complicated ***economy***. At the middle and bottom of the income distribution, meanwhile, the overseas exodus of factory jobs, the stagnation of the minimum wage, the shrinking power of labor unions, the automation of the workplace and - yes - the immigration boom have all helped keep a lid on raises.

"The fact of the matter is, income trends have favored people at the top of the income distribution, and that's true of native-borns, too," said Gary Burtless, a senior fellow at the Brookings Institution in Washington, whose research is cited in Mr. Easterbrook's book. "There is no data source that disagrees with that simple statement. In fact, the better the data, the more that the skew appears."

Mr. Easterbrook, a senior editor at The New Republic who is a visiting fellow at Brookings, acknowledged last week that he had gone too far in the book. His discussion of ***inequality*** occupies a very small part of "The Progress Paradox," he said, and he was mainly arguing that immigration played a role in the rise in ***inequality***. "Even if there were ***not*** that increase in immigration, there would certainly be a rise in ***inequality***," he said in an interview. "I did a poor job of writing that page."

The book's central argument is that Americans do ***not*** realize quite how good they have it. Diseases that once ended thousands of lives are now just a nuisance, and life expectancy has soared. Home heating and air-conditioning are almost ubiquitous. The prices of air travel and telephone calls have plummeted, allowing average people to move easily around the country and to talk to the other side of the world. In the typical household, all the children have rooms of their own.

"All told, except for the clamor and speed of society, and for trends in popular music," writes Mr. Easterbrook, "your great-great-grandparents might say the contemporary United States is the realization of utopia."

The rise in income at all steps on the ***economic*** ladder is crucial to the story. Even in the bottom half of the distribution, the average native-born family makes about 20 percent more than it did in 1970, after adjusting for inflation, according to an analysis of census data by Andrew A. Beveridge and Susan Weber, both of Queens College.

But as real as this increase is, it hides an important part of the story, which in turn explains why the ***inequality*** question and Mr. Easterbrook's exaggeration matter.

Less than half of the rise in pay among lower-income households comes from actual wage increases. Most of the rise is a result of families putting in more hours on the job as many women have joined the work force. This has obvious benefits, giving today's women ***economic*** freedom that their grandmothers did ***not*** have, but it also leaves less ***time*** for children, aging parents and everything else outside the office.

The pay increases for upper-middle-class and wealthy households, on the other hand, stem largely from healthy jumps in how much they earn each hour. Over all, a native family at the 90th percentile - earning more than 9 in 10 others - made 68 percent more in 1999 than in 1969, after adjusting for inflation, according to an examination of census numbers by the Public Policy Institute of California. At the 20th percentile, the increase was 30 percent.

This gap has allowed upper-income families to afford better health care and homes in better school districts, among other things, and it underlies much of the current ***economic*** debate.

MANY Democrats argue for an increase in the minimum wage (as does Mr. Easterbrook) or a repeal of the recent tax cuts, which benefited mainly upper-income families. Some of the Democratic presidential candidates want an overhaul of trade policy to keep middle-class jobs from moving abroad. Veterans of the Clinton administration counter that trade restrictions would make the country poorer over all. They tend to propose training and support programs for people who have lost their jobs.

Many Republicans say that government intervention to narrow the income gap would undermine the country's free-market system. An ***economy*** that tempts people to get very rich is a healthier one, they add.

All this is fodder for debate. Whether ***inequality*** has risen or fallen, however, is a settled question.

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Graphic

Chart: "Richer, ***Faster***"Among families headed by someone born in the United States, high-income families saw their earnings grow ***faster*** than middleincome ones. 1949Annual family income50th percentile: $19,61990th percentile: $40,20390th as a multiple of the 50th: 2.0 1959Annual family income50th percentile: 29,78890th percentile: 60,63090th as a multiple of the 50th: 2.0 1969Annual family income50th percentile: 40,80490th percentile: 81,39790th as a multiple of the 50th: 2.0 1979Annual family income50th percentile: 45,05090th percentile: 93,17290th as a multiple of the 50th: 2.1 1989Annual family income50th percentile: 47,73490th percentile: 106,67890th as a multiple of the 50th: 2.2 1999Annual family income50th percentile: 51,00090th percentile: 122,40090th as a multiple of the 50th: 2.4 (Sources by Queens College; Census Bureau)

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