

Democracy in America

Inequality of opportunity

The cost of the American dream

Americans, especially rich ones, underestimate the importance of where and to whom they are born



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Sep 8th 2017 | by C.K. | WASHINGTON, DC

PAUL RYAN, the Speaker of the House of Representatives, recently tweeted that, “[i]n our country, the condition of your birth does not determine the outcome of your life. This is what makes America so great.” The idea that every American newborn has an equal opportunity to enjoy the good life is false. But it isn’t just the Speaker who radically underestimates the importance of the lottery of birth—his is a popular view country-wide. And that is one of the reasons why debates about tax in America are so heated.

Richer parents can afford to send their children to better schools and colleges and can offer financial support for housing and other expenses. For these and a host of other reasons, where and to whom you are born is a significant determinant of life outcomes, especially in America. Miles Corak of the University of Ottawa reports that it is possible to predict nearly 50% of the variation in wages of sons in the United States by looking at the wages of their fathers a generation before. That compares to less than 20% in relatively egalitarian countries like Finland, Norway and Denmark. In America, more than half of sons born to fathers in the top decile of incomes fall no further than the eighth decile themselves, while only about half of those born to bottom decile father rise higher than the third decile.

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Taking a broader perspective, the role of birth luck looks even larger. Branko Milanovic, an economist, suggests that two thirds of global income distribution can be explained simply by looking at where people live. According to World Bank data, the average monthly consumption of the richest 10% of Tanzanians was \$173 in 2012. In America, the lowest decile sees an average income of \$226. That there is

simply no overlap in decile consumption between the two countries is not because Tanzanians are all layabouts who made poor life choices, but because they live in a

poor country. Being born in America is worth so much because it means you've won the between-country birth lottery.

That is not what most Americans believe, however. Pew surveys suggest that 57% of Americans disagree with the idea that "success in life is pretty much determined by forces outside of our control." That's considerably above the global average, and compares to 31% disagreeing in Germany, for example.

Mr Ryan's colleagues are particularly likely to share his opinions on American meritocracy. Benjamin Newman, a political scientist at the University of Connecticut and his colleagues looked at the results of surveys and found that rich people in America were more inclined to believe in meritocracy while poor people emphasised the role of luck. The median net worth of a member of Congress was \$1,029,505 in 2013. That compares to a national household median net worth of \$56,355 according to the Centre for Responsive Politics.

There are straightforward policy fixes that can reduce unequal opportunity at birth. One of them is taxation. Evelyne Huber, a political scientist at the University of North Carolina and her colleagues looked at the income share of the top 1% across rich countries from 1960 to 2012. They found that raising the top tax rate reduces the share of the 1%. Increasing taxes reduces inequality and lower inequality is itself associated with lower inheritance of the inequality that remains.

But that is not the direction that either Congress or the White House is heading. On September 6th, President Donald Trump announced via Twitter: "Will be going to North Dakota today to discuss tax reform and tax cuts. We are the highest taxed nation in the world—that will change."

In fact, amongst the OECD club of rich countries, America's tax revenues are 26.4% of GDP—the fifth lowest. That compares to an OECD average of 34.3% and above 40% in many countries with low inheritance of inequality including Sweden and Denmark. But until more lawmakers in Washington, DC accept that the considerable majority of their income is due to where, when and to whom they were born, the idea that taxes are "unfairly" high will remain prevalent. And that will help perpetuate the country's yawning inequality of opportunity.