Why So Many Rich People Don’t Feel Very Rich

By CATHERINE RAMPELL

Our post last week on whether the salary of Robert Gibbs, who is leaving his post as White House press secretary, is "modest" provoked some interesting reader comments. Several readers chimed in to say that even if it most likely placed Mr. Gibbs comfortably in the top 10 percent of earners, an annual salary of $172,000 probably didn’t feel like a lot of money, given where he lives, similarly educated counterparts in the private sector, etc.

But there seems to be a broader fissure underlying this discussion: why don’t people at the 90th percentile of the income distribution feel particularly rich?

The answer is simple: because any Americans who are richer than this cohort are so much richer.

At the request of The New York Times, the Tax Policy Center estimated Americans’ income percentiles for households across the United States in 2010. The numbers were calculated by Rachel Johnson, a research associate at the center, and were rounded to the nearest $100. The chart below shows where these income breaks fall.
As you can see, for the bottom 90 to 95 percent of Americans, the income distribution is relatively flat. For an American household in the bottom 30 percent of the distribution, a move upward of five percentiles (to the 35th percentile) would mean an increase in cash income of just a few thousand dollars. Same goes for a family at the 40th percentile, and at the 60th percentile.

But notice what happens on the right side of the graph, around the percentiles in the mid-90s, when the line suddenly kinks upward.

The line gets much steeper because at the very top of the income scale, the monetary divisions between percentiles grow much greater. Those in the middle earn a little less than people a few percentiles up from them, whereas those at the top earn a lot less than their counterparts in nearby, higher percentiles. For example, those who aspire to hop from the 30th percentile to the 35th percentile would need to increase their cash income by $4,000 annually (or by about 17 percent); those who aspire to hop from the 94th percentile to the 99th percentile would require an increase of $324,900 (or 171 percent).

In other words, at least in dollar terms, there is much greater inequality at the very top of the income scale than at the bottom or in the middle. Whether this translates to much greater differences in standards of living at the top is debatable, as an extra $1,000 for a poor family likely makes a much bigger impact on that family’s quality of life than an extra $1,000 for a wealthy family.
Still, when evaluating their own incomes, most families are trying to keep up with the Joneses: they envy the wealthier neighbor whose lifestyle they aim to match. And in dollar terms, the rich are falling far shorter of their respective Joneses than the middle-income and lower-income are.

So when the 95th-percentilers think of their incomes in the context of what their richer neighbors are earning, this cohort doesn’t feel very rich. (Indeed, the gap between the rich and the very rich has been growing in the last few decades. Exactly why the gap has been growing is unclear, but it has most likely been influenced by a combination of tax policy, deregulation and technological advances that allow people to control more capital.)

It is perhaps no wonder, then, that so many people who are statistically rich call themselves “upper middle” or even “middle class.” They are much, much richer than lots of poor people, but also much, much poorer than some very visibly rich people. From their perspective, they truly are in the middle. It’s the income version of China’s “Middle Kingdom” syndrome.

**Addendum:** Since a number of readers have asked for it, here is the Tax Policy Center’s percentile data used to create the chart above.
April 19, 2011, 1:41 pm

Rich People Still Don’t Realize They’re Rich

By CATHARINE RAMPELL

There’s a movement afoot to mail every taxpayer a “taxpayer receipt,” a breakdown of how the government spends its money. The goal is to educate people about where their taxes go, since Americans are famously unaware about such matters.

But as long as we’re talking about educating Americans about fiscal policy, why not start with what they actually pay in taxes, and what they earn, relative to their fellow Americans?

I am constantly amazed by how little Americans know about where they stand in the income and taxing distribution. The latest example is evident in a recent Gallup study, which found that 6 percent of Americans in households earning over $250,000 a year think their taxes are “too low.” Of that same group, 26 percent said their taxes were “about right,” and a whopping 67 percent said their taxes were “too high.”

Views About Own Income Taxes — by Annual Household Income

Based on 2005-2011 combined data

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<th>Less than $30,000</th>
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<td>Too low</td>
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<td>No, not fair</td>
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GALLUP
And yet when this same group of high earners was asked whether “upper-income people” paid their fair share in taxes, 30 percent said “upper-income people” paid too little, 30 percent said it was a “fair share,” and 38 percent said it was too much.

**Perceptions of Taxes Paid by Various Income Groups — by Annual Household Income**

Based on 2005-2011 combined data

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GALLUP

So members of a group that is, statistically speaking, “upper income” are very unlikely to think their taxes are “too low,” but are five times as likely to say that “upper-income people” as a group pay “too little.”

I blame this disconnect on the fact that upper-income people don’t realize they’re upper income. It’s the “Middle Kingdom” effect.

Everyone thinks they’re middle-class partly because of cultural reasons, and also partly because of the way the income distribution is skewed. The greatest income inequality is at the very top. As a result, people who are rich but not the richest — in the $250,000 zone, say — see they have more than lots of poor people, but also much less than a few very visibly rich people. Then they conclude they’re in the middle, so they must be middle class.

As a result, many Americans are misinformed about how reliant the country is on their tax contributions, and what kinds of additional sacrifices they might have to make to help get the nation’s fiscal house in order, at least if they hang onto their previously professed beliefs about who should shoulder this burden.
As with the “taxpayer receipt,” I’m not sure it’s really the Internal Revenue Service’s duty to notify Americans about where they stand in the pecuniary pecking order (or the best use of I.R.S. funds, for that matter). I would probably place that responsibility with the media and the nation’s education system.

So far both have done a miserable job of enlightening Americans about their good (or bad) fortune.
Man vs. Machine

By CATHERVNE RAMPEL

In the epic battle of man versus machine, machines have a growing price advantage.

As I wrote in a story today, companies’ spending on capital has grown much faster than their spending on labor since the recovery began in June 2009. Spending on equipment and software has risen 25.6 percent in the last seven quarters, while companies’ aggregate spending on employees has risen only 2.2 percent.

Now, many economists will argue that hiring always lags capital spending, which is generally true. What’s troubling is how wide the gap in spending growth is this time around. In the seven quarters immediately following each of the last 10 recessions,
equipment and software spending rose on average 15.6 percent, and labor spending rose on average 8.8 percent.

 Somehow, capital spending is growing faster and labor spending is growing more slowly than has been the case in almost every previous recovery on record.

 One reason hiring has been so sluggish is that equipment and software prices have been dropping quickly, while labor costs have been rising fast.

 Again, this usually happens, but has been especially true in the current recovery. Here’s a chart showing the change in prices for compensation and for equipment and software since the recovery officially began in the second quarter of 2009:

![Percent Change in Costs of Equipment/Software and Employee Compensation Since Recovery Began](chart.png)

Bureau of Labor Statistics and Bureau of Economic Analysis, via Haver Analytics

It may seem strange that the cost of labor is rising so fast. With such a weak economy, it doesn’t seem as if a lot of workers are getting raises. (Are you?)

And technically, employees are not getting much of a raise — at least not in cash. The higher cost of labor is primarily being driven by rising benefits costs and, in particular, rising health insurance costs.
Let's take another look at that last chart, splitting up the total employee compensation prices into two separate indexes for wages/salaries and for benefits:

![Percent Change in Wage/Salary Costs and Benefits Costs Since Recovery Began](chart)

As you can see, the benefits cost line is quite steep. Even more daunting to employers, it could get even steeper in the years ahead; health care costs are rising sharply, and their costs a year or two from now are very hard to predict.

So it's no wonder companies are reluctant to invest in new workers when the economy still seems so uncertain.
Delegating Economic Policy to the Technocrats, and Away from Democracy

By CATHERINE RAMPELL

In a column in The New Republic, Peter Orszag, President Obama’s former budget director, argues for making the country’s policy-setting less dysfunctional by making it “less democratic.” One means for reducing politicized gridlock, he says, is to delegate more authority to “depoliticized commissions” of experts.

This is similar to the rationale behind establishing the Federal Reserve as an independent body: The Fed, at least theoretically, is shielded from short-term political interests. It can instead make decisions based what is good for the long-term interest of the economy, as determined by immutable economic laws and objective academic research. (In reality, of course, there have been many attempts to put political pressure on the Fed over the years, and within the central bank there is still broad disagreement about what’s best for the long-term interest of the economy.)

Mr. Orszag also notes some other expert commissions, such as the military-base closing commissions, and the Independent Payment Advisory Board (IPAB), created by last year’s Patient Protection and Affordable Care Act to make changes to the Medicare payment system. The military-base closing commissions have generally been effective, and the jury is still out on the nascent IPAB.

On narrowly defined (and often technical) policy issues, expert panels can be useful. But as I wrote in an article last year about politicians’ poor incentives, delegating policy authority to technocratic panels is more problematic when dealing with larger economic matters that involve social value judgments, like austerity measures and tax reform.
These policy areas may sound like dry academic subjects. But they are thoroughly infused with, and ultimately shaped by, moral beliefs.

There are, after all, infinite combinations of spending cuts and tax increases that can add up to the same bottom line. Deciding what should get trimmed and what taxes should be increased or decreased involves questions of favoritism, welfare, compassion, fairness and all sorts of other subjective judgments not answerable by the “laws” of economics.

It’s not clear that a doctorate in economics (or, for that matter, in theology) gives a person any more moral authority than anyone else. That’s why such decisions are decided through a republican democracy — both lower case — and not by genius academics, however messy and dysfunctional the resulting process may be.
Out of Harvard, and Into Finance

By CATHERINE RAMPELL

Given the efforts at some of the top schools to guide their students away from Wall Street and into public service, I’ve been wondering whether the career choices of the nation’s young elites have changed much in the last few years.

I’ve gathered some data from three elite schools known for sending a lot of students into finance: Princeton, Yale and Harvard. Each school categorizes the jobs of its graduating seniors in different ways, so we can’t compare them to one another. But we can look at within-school trends to see how student choices are changing over time.

Note: The percentages below refer to students who actually had jobs, and so for the most part exclude students who were unemployed or in graduate school.

Since I’m a proud Tiger, let’s start with Princeton, which sent me data going back to 2000. The share entering finance jobs is in yellow, and I’ve included exact percentages for some of the more popular industries:
Of Princeton seniors who had full-time jobs lined up after graduation, 35.9 percent went into finance in 2010 (the most recent year available). That’s a very large share, but still lower than the peak of 46 percent in 2006.

The steady flow of Princeton students to Wall Street has caused the university some P.R. (and legal) problems in the past, since the school’s motto is, “In the Nation’s Service, and in the Service of All Nations.”

The share of newly minted Princeton grads going into public service jobs — either at nonprofits or in government — was 25.6 percent in 2010. That’s higher than it had been; in 2006, before the recession officially began in December 2007, it was 15 percent.

Now onto Yale, which releases information about where graduates end up a year after commencement.

Yale has numbers going back several decades, and they show that young Bulldogs are weathering the job market just fine. Of all classes Yale has surveyed since 1968, the class
of 2010 had the largest percentage of its graduates employed in the first year after college. Despite the weak economy, 75 percent of all members of the class of 2010 had jobs a year after graduation; in 1968, just 20 percent did.

On the flip side, the percentage of Yale college graduates who were engaged in graduate/professional study in the first year after graduation was at its lowest level (21 percent) since the school started keeping track of that number in 1960.

Here are the percent distributions for new Yale grads who were working (or actively looking for work, as opposed to study or other activities) a year after tossing up their mortarboards. The school breaks down its employed students’ career choices into more categories, so I apologize if the multicolored chart below is giving anyone seizures:

Note: Industry categories with fewer than 1 percent of employed students are excluded.
Of the 2010 graduates who were working a year out, 14 percent were in business/finance jobs, down from a peak of 31 percent in 2000.

However, the share of students going to industry went way up last year. A Yale spokeswoman said this category includes sectors like manufacturing, business/management consulting, sales and marketing, I.T. jobs of all sorts (software engineering, development, sales), engineering and real estate.

Finally, let’s look at Harvard.

When I asked Harvard about career choice data, the school said it could publicly release numbers only for 2006 and for 2008-11. So we have fewer years to examine, but they still seem to tell a story:

Source: Harvard Office of Career Services
Upon graduation, those Harvard grads entering jobs were more likely to enter finance than any other career: in fact, 17 percent of new grads did so. But this share is still significantly lower than it was just a few years ago. In 2008, 28 percent of employed new grads worked in financial services.

The share in consulting has also been trending downward. (As my colleague David Leonhardt wrote a few weeks ago, consulting seems to be losing its cachet among newly minted M.B.A.’s, too.)

Of course, this is but a small sample of top schools, which are in no way representative of the broader job market for 22-year-olds.

Even so, these data are a nice peek at how the financial crisis may be changing elite students’ ambitions.