



INSIGHTS

AMERICA'S 400 RICHEST: NOT A CLUB BUT A COLLECTIVE (REALLY!) *by Geoff Colvin*

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HANKING THE IRS IS PROBABLY

not the sentiment most in your heart at this time of year, but in fact the revenues have given us something valuable. It's a trove of data that paints a picture of America's super-rich, and the picture would be unrecognizable to many people.

We should study it especially at tax time, as the topic of economic inequality inevitably heats up. The Occupy Wall Street movement will try to revive itself, and once again we'll hear plenty about the outrageous wealth of the 1%.

But almost all the discussion is built on a flimsy foundation, an unspoken assumption that's wrong. The debate generally assumes that the 1% are a group of plutocrats who have found a way to rake in staggering incomes year after year. For example, a recent *New York Times* report on research by economist Emmanuel Saez begins, "Incomes rose more than 11% for the top 1% of earners during the economic recovery, but not at all for everybody else, according to new data," prompting an image of someone in a Manhattan skyscraper or a Silicon Valley corporate campus whose huge income just gets huger year after year.

But that is mostly not reality. A portrait of the super-rich based not on our imaginations or old stereotypes or political rhetoric but on the most recent data is quite different. The most important difference by far is that the super-rich are not a group at all. America's top earners are largely not the same people from year to year. The IRS doesn't provide relevant data for the top 1% but does so for an even more exclusive cohort, the top 400 earners. The most recent data detail their incomes from 1992 through 2009. Entry-level income was \$77.4 million in 2009, having peaked in 2007 at \$138.8 million.

The big headline from the data is the total number of different people who have been among the top 400 during that 18-year period. What's your guess: 500? 800? 1,000? The correct answer is 3,869 out of a possible 7,200 (if no one had ever repeated). Of those people, 73% appeared in the top 400 exactly once during 18 years. Far from being a closed caste of super-earners, the top 400 are a constantly changing assemblage, the vast majority of whom experience one spectacular year.

Unsurprisingly, most of those people in their time at the top don't earn much income from salaries—that source furnished less than 10% of income

in the most recent five years of the survey period. But cutting against the stereotype, they also don't earn much from interest and dividends—15% to 20% during the most recent several years. By far the cohort's largest source of income, over 70% in some years, is capital gains.

A picture emerges. Someone sells an asset, probably a business or a stake in a business. Maybe he spent a lifetime building it. Maybe he got lucky and invested in the right Internet company. He cashes in and collects a fortune. He makes his one appearance in the top 400, then he leaves that rarefied air.

The difference between this data-based picture and the one that dominates the inequality debate is important because it's really a contrast between two nearly opposite views of our economic system. In one, the super-rich are a cozy, self-perpetuating club that somehow rigs the game in order to keep collecting a hefty share of the economy's rewards. In the data-driven view, by contrast, "super-rich" isn't a group of people but a wide-open place from which, on average, most residents get kicked out every year so a new majority can move in. In one view, America is a land of privilege and injustice. In the other, it's a land of extraordinary opportunity.

To be sure, a few people in the top 400 are indeed regulars. Of all those who made the cut over the 18-year study period, about 2% did so 10 or more times. But those are obviously the exceptions. The norm is that almost no one lasts long at the summit.

As you sign your 1040 and grumble about the advantages of the super-rich, do think about the 400. Envy them. But be cautious about resenting them or the system that produces them. They may not be who you think. ■