Written by William P. Hoar on November 4, 2019
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Correction, Please!

New Wealth Tax Won't Foil the Bogeyman of Rising "Income Inequality"

Item: *Among several stories deploring growth of income inequality, CNN carried a September 10 article entitled "US income growth stalled in 2018, Census says." Reported CNN: "Median US household income stayed essentially flat in 2018 at $63,200, breaking a three-year streak of increases, according to data released by the Census Bureau on Tuesday.... Median income in 2018 was not statistically different than in 2007 or in 1999, which was the high point."*

Item: *After the Census data were reported, the* Washington Post *for September 10 similarly said that "the gap between the rich and poor has grown." The left-wing paper said: "'Median household income today is right where it was in 1999. We've seen two decades with no progress for the middle class,' said University of Michigan economics professor Justin Wolfers. 'The economy is producing more than before, but the gains aren't being shared equally.'"*

(By the way, the professor cited above, Justin Wolfers, has also declared that the "biggest risk to the American economy is Trump in the White House"; see CBNC video, for example, February 15, 2019.)

Item: *The Associated Press for September 26 reported that the "gap between the haves and have-nots in the United States grew last year to its highest level in more than 50 years of tracking income inequality, according to U.S. Census Bureau figures released Thursday."*
Item: The New York Times, *in its October 2 print edition, reported: "Progressive Democrats are advocating the most drastic shift in tax policy in over a century as they look to redistribute wealth and chip away at the economic power of the superrich with new taxes that could fundamentally reshape the United States economy.... Their plans envision an enormous transfer of money from the wealthy to ordinary people, with revenue from the wealth tax used to finance new social programs like tuition-free college, universal child care and 'Medicare for all.'"*

Item: *On his Twitter feed for October 1, 2019, Vermont Senator Sanders responded to a story about how much money his presidential campaign had amassed, tweeting: "The billionaire class should be very, very nervous. The working people of this country are ready for a political revolution."*

Correction: Be careful for what you wish for, Bernie. Remember Robespierre? That French revolutionary who once encouraged chopping off thousands of heads eventually lost his own to the fond embrace of Madame la Guillotine. Or perhaps Sanders is confident that the mob will absolve a socialist whose public service has, *voilà*, turned him into a millionaire who owns three houses.

Bernie, at least at this point, just wants to lop off assets of those with more than he. In September, when he preached the latest details of his gospel of envy — claiming that it would raise $4.35 trillion over 10 years for the government — San-ders tweeted: “There should be no billionaires. We are going to tax their extreme wealth and invest in working people.”

Never mind if this process hurts investment and the wages of working people, as well as the creation of wealth. The egalitarian solon is mining for votes.

Sanders is certainly not the only player exploiting the politics of resentment amid our supposed crisis of income inequality. Barack Obama in 2013 called rising income inequality the “defining challenge of our time.” Hillary Clinton in her 2016 campaign vowed to attack the “cancer of inequality.” More recently, Elizabeth Warren advocated her wealth-tax plan because, in her words, “The rich and powerful are taking so much for themselves and leaving so little for everyone else” — as if there were a finite pile of greenbacks being unfairly pilfered by plutocrats. Even purported “moderate” Joe Biden echoes the radicals, bemoaning, “This wealth gap that exists in the United States of America is so profound now.”

These politicians are hoping Americans will confuse their concept of fiscal equality with political equality, where the government protects our equal rights to life, liberty, and the pursuit of happiness. We are not promised economic equality.

The mainstream media have been adding to the confusion by stressing the “shrinking” and “stagnating” middle class, as if Americans are born into and remain within the same station of life. That is just not so. As described by economist Thomas Sowell (in a column called “Economic Mobility”), “Most working Americans, who were initially in the bottom 20% of income-earners, rise out of that bottom 20%. More of them end up in the top 20% than remain in the bottom 20%.”

Another prominent academic who has spent considerable time studying this topic is Mark Perry, a scholar at the American Enterprise Institute and a professor of economics and finance at the University of Michigan’s Flint campus. Perry notes that “one of the main factors in explaining differences in income among US households is the number of earners per household.” After breaking out these and other details, the professor summarizes the data in a very different manner than depicted by left-wing class warriors. High-income households in the United States, he writes,

have a greater average number of income-earners than households in lower-income quintiles, and individuals in high-income households are far more likely than individuals in low-income households to be well-educated, married, working full-time, and in their prime earning years. In contrast, individuals in lower-income households are far more likely than their counterparts in higher-income households to be less-educated, working part-time, either very young (under 35 years) or very old (over 65 years), and living in single-parent or single households.

Individuals have a good deal of control over many of those variables, including going to school and graduating; getting and staying married; and obtaining and keeping full-time jobs.

Government numbers can be distorted (depending on who is looking at the statistics). Perry acknowledges, for instance, that the median household income increased by just 2.7 percent between 1999 and 2018. But during that period the numbers in households and their composition changed. Thus, as the professor explains, when you adjust for the declining average household size, which fell in 2018 to an all-time low “of 2.52 persons, the increase in median household income per household member increased by 5.9% over that period, or more than twice the increase in unadjusted household income.”

Also warping the "income inequality crisis" we are supposedly suffering these days are our official poverty numbers. The United States has been waging the "War on Poverty" for more than five decades. And we currently spend more than a trillion dollars annually on this war, yet the percentages of "poor" (though not necessarily the same people) remain about the same — around 13.5 percent. However, the totals are exaggerated when you consider what is *not* considered "income" in the Census numbers: Left out are the value of food stamps (aka SNAP, or Supplemental Nutrition Assistance Program); Earned Income Tax Credit (EITC); Medicaid; Children's Health Insurance Program (CHIP); subsidized housing, heating; and more.

In reality, as a Cato Institute policy analysis by John Early explains, perhaps two percent "of the population — not 13.5 percent — live in poverty." The U.S. government, each year, "takes more than $1 trillion from above-average earners and gives it to low earners so that all except a small fraction receive middle-income status. As a result, income inequality in America is not significantly different from that of other advanced nations."

There are other reasons why many Americans might feel that their pay has not kept up with costs. Some have to do with other aspects of compensation. According to *Reason's* Veronique de Rugy, fringe benefits have increased far more over the past four decades than wages. Such benefits are a good part of a worker's compensation. During that period, the value of employer-provided health insurance, for one significant benefit, has increased by 60 percent.

Of course Sanders and Warren pretend that only the uber wealthy will be tapped, and just a bit, in their schemes to benefit the hard-pressed needy.

Yet, the driving underlying purpose is to punish achievement. This is the theme of *Equal Is Unfair: America's Misguided Fight Against Income Inequality*, a 2016 book by Don Watkins and Yaron Brook. They illustrate how the "inequality narrative" is actually a war against success — more aimed at taking down those on the top than helping those on bottom of the income scale. Coauthor Watkins has likened this to redistributing school test scores by lifting up "D" students by taking points from "A" students.

In Warren's plans, more taxes against the rich will fund (among other things) free healthcare for everyone in the country, child care, college for anyone who wants to go, and more low-income housing. These are pipe dreams.

Examine the price tags of the items in the progressive agenda supported by virtually all of the Democratic presidential candidates. If these additional burdens were added, it would mean almost a doubling of current federal expenditures. These various promises would require "increasing middle-class taxes to three to 10 times existing levels or radically higher, unsustainable federal borrowing," according to a recent Heritage Foundation backgrounder.

Then there's Warren's would-be financial transaction tax. A to-the-point reading, from the *Wall Street Journal*, in a September article by Phil Gramm (the former chairman of the Senate Banking Committee) and Mike Solon called "Warren's Assault on Retiree Wealth" said Warren's financial transaction tax would "destroy savings built over a lifetime — and sink the economy." Her scheme, continued the writers, would blow up "fiduciary-duty protections" of established law and regulations

by rewriting the charter for every corporation with gross receipts of more than $1 billion. Every corporation, proprietorship, partnership and limited-liability company of that size would be forced to enroll as a federal corporation under a new set of rules. Under this new Warren charter, companies currently dedicated to their shareholders' interest would be reordered to serve the interests of numerous new "stakeholders," including "the workforce," "the community," "customers," "the local and global environment" and "community and societal factors."

Eliminating corporations' duty to serve investors exclusively and forcing them to serve political interests would represent the greatest government taking in American history.

A paper by the Chamber of Commerce argues that this change would boost home mortgage costs, as well as mutual fund and pension fund expenses and corporate financing costs. Moreover, "the higher cost of capital will result in less investment and thus less economic growth, fewer jobs, and less income tax revenue."

Note also that wealth taxes, as has been pointed out by Peter Suderman and John Osterhoudt for *Reason*, "have been tried before, and they haven't worked the way Warren promises."

There's no doubt about that. A Tax Foundation paper, for example, has revealed that the number of member nations of the Organization for Economic Cooperation and Development who collected revenue from problematic wealth taxes dropped from a peak of 14 in 1996 to just four in 2017. In those four, revenues "made up just 1.45 percent of total revenues on average in 2017."

Suderman and Osterhoudt also note that, as opposed to income taxes and sales taxes (which tax "money when it moves around"), wealth taxes draw on "the same pot of money every year, making the pile smaller and smaller over time. It's essentially a tax on large savings — the money that investors and entrepreneurs rely on to start new businesses." A wealth tax is also bound to be challenged legally over its unconstitutionality because of the Constitution's ban of a national "direct" tax that is not collected evenly from the states based on their populations.

The justification for such economic destruction is said to be growing "income inequality." Yes, some folks do have more than others. That's life in a free capitalist economy. But would you prefer to live in a prosperous country where most gain (or have an opportunity to do so) even though others might get a larger percentage? Or would you want to be stuck in a depressed country where everybody is uniformly poor (except for the political overseers who are more equal than others)?

— William P. Hoar

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