

# The Telegraph

## How can US politics survive no shared understanding of the economy?

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We've all heard the sayings. Whether it's former journalist CP Scott's: "Comment is free, but facts are sacred", or the late US Senator Daniel Patrick Moynihan's "You are entitled to your opinion, but you are not entitled to your own facts", it's comforting to believe that certain realities are beyond reasonable dispute.

Yet even basic "facts" about the economy in the US are today wrangled over. Republicans and Democrats there don't just disagree about the wisdom of certain policy ideas or whether observed trends in certain metrics are worrisome. Each side has their very own data and account of the world, creating irreconcilable narratives about the state of the nation.

Left-wing Democratic Presidential candidates, such as Bernie Sanders and Elizabeth Warren, reach for academic work to claim there's been income stagnation for four decades, spiralling inequality, a tax system becoming ever less progressive, and endemic poverty.

Republicans reject all these claims, themselves armed with studies from credible university professors and government sources. In a country riven by tribalism, and beset by segmented news consumption, economists fail even to provide politicians with a simple shared understanding of the state of the American economy.

Exhibit A comes from a conference in New York this past Monday. On the first panel, progressive economist Joseph Stiglitz (a Nobel Prize winner) claimed that earnings for ordinary American workers had not risen for 40 years. Just an hour later, former Director of the Congressional Budget Office, conservative Doug Holtz-Eakin, said this was totally wrong. Both could call on academic support.

Economists Emmanuel Saez and Gabriel Zucman have concluded that the bottom 50pc of Americans have seen no gains in real pre-tax income for four decades. Yet another study by Gerald Auten of the US Treasury and David Splinter of the Joint Committee on Taxation instead suggests the average real income of the bottom half of Americans has risen by nearly one-third since 1979, or two-thirds accounting for all taxes and benefits.

Such huge differences turn on assumptions about how to assess income, account for unreported income, or measure inflation - all methodological choices that no politicians will bother analysing.

Those same tensions underpin different political narratives on inequality. French economist Thomas Piketty famously concluded that the pre-tax income share of the top 1pc of Americans nearly doubled between 1979 and 2015, increasing from 11.2pc to 20.2pc. But, again, the Auten and Splinter work, using a different measure of income, and correcting some flaws in Piketty's data, concludes the rise has been less aggressive - from 9.5pc to 14.1pc.

Taking account of government taxes and benefits, the top 1pc's income share has risen more slowly still, from 7.2pc in 1979 to just 8.6pc in 2015.

When income data is disputed, so, inevitably, becomes assessment of current tax policy. A widely trailed new book by Zucman and Saez this week provocatively implied that the US was already close to having a combined "flat tax". That is, the total taxes paid by Americans as a proportion of income do not really change much as income rises (ranging from 26pc to 33pc effective rates, and even falling for the top 0.01pc of earners).

Splinter's work once more rejects this entirely. Using different income data and accounting for other transfers, he finds instead that the tax system to be hugely progressive: the top 0.01pc of earners facing an effective rate of 50pc, dramatically higher than the 12pc faced by those in the bottom half of the income distribution.

It's not just the rich either. Academics can't decide the true scale of how many people in America are poor. US Census data implies that 12.3pc of Americans should be considered "in poverty", for example. But former Bureau of Labor Statistics assistant commissioner John Early recently concluded that the official rate greatly overstates poverty by both overestimating inflation and leaving out numerous government benefits. Making those adjustments, he believes the "true" poverty rate is just 2pc.

Now, all countries have political parties with different philosophies. Economic debates are always controversial, with great uncertainty about the wisdom or effects of policy decisions. But American politicians are now not just faced with the challenge of how to interpret or react to established data in formulating their ideas. They are having to select from the work of scholars who themselves often fundamentally disagree on the actual underlying state of play. Inevitably, they select the facts that fit their priors.

Hence Bernie Sanders can claim that the "very, very rich [are] getting much richer, [the] middle-class struggling, [and] 40 million people living in poverty", while Republicans can say the world is getting better, the middle-class is shrinking because more are becoming upper-class, and redistribution is already extensive and unsustainable. And this is just a microcosm of a broader phenomenon. On multiple other fronts, from market power of companies, to trends in wealth, through to minimum wage assessments, unbridgeable chasms exist in what "the facts" actually are.

All this further divides an already deeply divided country. With these disagreements, opponents' policy ideas cease to be just misguided or the wrong priorities. No, they become something that jars with "the evidence" as you see it. That these methodological debates by economists are important in the search for truth is irrelevant. Most voters will have neither the time nor inclination to parse through detailed information about income sources or deflators.

A country can have a robust debate about ideas and priorities, or how to interpret the world as we find it. But can it have a meaningful policy discussion when the intellectual class has no shared understanding of the facts? The next US Presidential election race may show us.

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