

# Lancaster Online

## **Fight war on poverty with economic solutions**

Stuart Wesbury

August 18, 2018

In late June, the Wall Street Journal published an op-ed titled “How Income Equality Helped Trump.”

Based on a Cato Institute Study — “Reassessing the Facts about Inequality, Poverty, and Redistribution,” by John F. Early — it claimed that those who say income inequality exists and is growing in the United States are wrong.

This conclusion, of course, is a challenge to the narrative that drives almost every poverty debate — that is, the liberal narrative — which goes like this: The U.S. needs to increase its investments in Medicaid, food stamps, housing assistance and many other supports in order to correct the ills of inequality. But that narrative is wrong. Let’s look at the evidence.

Many studies of income focus on IRS form 1040 — particularly line 22, “Total Income,” or line 37, “Adjusted Gross Income.” In either case, drawing data from these two sources for all Americans submitting a tax return clearly shows dramatic income inequality among Americans.

Thus, we often hear statements declaring that the CEO of XYZ Corp. earns 200 times the income of that company’s lowest paid employee. Or some athlete or entertainer earns more per game or film than a minimum-wage employee may earn in a lifetime. Yes, the income inequality demonstrated by these numbers is clear. However, a conclusion based on these income numbers alone is misleading.

What is missing from such analyses is the fact that \$1 trillion of tax revenue paid by Americans to all levels of government is redistributed to low-income individuals and families. In addition, earned income is taxed by governments; this reduces the dollars available to be spent by taxpaying Americans. When these many taxes are paid and government tax dollars are redistributed, the resulting income disparity is almost eliminated.

In the Cato analysis, the top one-fifth of taxpayers collectively earned 26 times the earnings of the lowest fifth. Yes, there are many high-income people and families whose earnings far exceed those with low income. However, after deducting taxes paid by all taxpayers and adding money received through government redistribution, the income difference between the highest one-fifth and the lowest one-fifth is reduced to only three times. Not 200 times or even 26 times, but just three times.

To emphasize this point, another Cato conclusion states: “Public policy debate should begin with the realization that only about 2 percent of the population — not 13.5 percent — live in poverty. Government annually takes more than \$1 trillion from above-average wage earners and gives it to low earners so that all except a small fraction receive middle-income status.”

This should be a cause for celebration for those wishing to see evidence of the effect of government redistribution and progressive income taxation in America. But we must be aware of the downside: For working families receiving little or no government support, such leveling appears unfair and an unearned reward for those working little or not at all. The Wall Street Journal’s op-ed authors concluded that working individuals and families felt this was unfair use of their tax dollars and voted for Donald Trump in frustration. This is not a surprising political outcome.

This brings us to the ultimate solution to the income issue: employment. Rather than utilizing government redistribution to equalize incomes, let a booming economy do it. And that is just what is happening, as evidenced by the second-quarter 4.1 percent growth in gross domestic product reported last month.

“One Good Job” was the title of former Lancaster Mayor Rick Gray’s Poverty Commission report. The explosive Trump economy is producing hundreds of thousands of good jobs. Unemployment rates are at or close to record lows for everyone, including minorities, women and men. Workers now may feel comfortable about changing employers for better jobs and wages, and former workers have moved off their couches, energized by growing employment opportunities.

All of this good news is made even better as the numbers of Medicaid and food stamp recipients decrease. Rather than using government handouts to equalize incomes, we are now seeing this happen through employment and rising incomes.

While we may have been able to make major strides in the elimination of income inequality, we will continue to hear of concerns about the inequality of wealth distribution.

Our nation has taken a giant step forward in attacking the wealth problem with income inequality elimination. More businesses need to establish retirement programs and encourage savings among their employees. More affordable housing and housing ownership need to be addressed. Education’s role in improving useful employment skills and increased income is critical.

But let us celebrate our income equality success and build more and better approaches toward wealth accumulation. The opportunity to do just this has arrived in our great country.