WORCESTER TELEGRAM & GAZETTE

The path to financial success

By Gary Gienger

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Horrified politicians hyperventilate that income inequality and returns to capital are growing in the U.S. That generates several questions. Is it so? Is it unexpected? Is it bad? What can be done to improve the incomes and spending power of our lower-skill workers?

Alan Reynolds of the Cato Institute explained in the Wall Street Journal that the data underlying the income inequality assertions is worthless, since, among other problems, it does not take into account trillions of untaxed income embedded in private retirement funds.

Still, given changes in our world and society, anyone who stayed awake during a competently taught Macroeconomics 101 course would not be surprised that income inequality might grow.

For politicians and community organizers who never bothered with an economics course, let's review three core economic tenets. First, increased supply lowers price. Second, increased demand raises price. Third, when something is taxed you get less of it, whether that is investment, production, sales, jobs, or economic activity.

The development of China and India has added hundreds of millions of low-skilled workers to the worldwide labor supply. Our government has long refused to stanch the inflow of Central American workers. These factors increase the supply of low-skill labor available in the world and U.S., increase the competition for low-skill jobs, and lower the wages those jobs pay.

With the rapid industrialization of major economies such as China, still growing their economy 7.7 percent last year, the demand for capital is relatively high, raising the price and returns an investors can demand.

These results are not the fault of those making investments or of those earning higher incomes. We know that Steve Jobs, Warren Buffet, Bill Gates and countless entrepreneurs and investors have made enormous contributions to employment and our society. Whom did the inequality of income that resulted from their success hurt?

Though some politicians appear to enjoy demonizing success to justify taking wealth to spend on their friends or pet projects, attacking the wealth of successful individuals via taxes will not address income inequality for a simple reason.

As California and Illinois are finding out, capital, brains, and ambition are mobile. They, and the jobs they generate, will not long stay in any state or nation that does not appreciate them, because they have other places to go. The golden egg-laying goose can be killed or driven away.

Only the naïve would believe that Michael Jordan is leaving Illinois simply because he wants to play more golf, that Phil Mickelson will forever stay in California after they raised their income tax rates to 12.3 percent, or that income taxes had nothing to do with Rush Limbaugh relocating from New York City (12.7+ percent income tax) to Florida (0 percent).

With these moves, the former locations lose tax revenue, potential investment, and jobs.

Similarly, corporate profits are taxed higher in the U.S. than anywhere else in the industrialized world, biasing our global companies toward investing and growing jobs elsewhere, as I have personally seen while performing investment analysis for dozens of our largest firms.

The Covidien and Medtronics merger is a current Massachusetts example of how taxes force our jobs and company headquarters offshore.

Other societal changes also impact income inequality. By definition, a household with one parent working does not have the income it would have if there were two working parents, and the number of single-parent households has grown.

The tendency of college graduates to meet and marry college graduates clusters higher incomes. Health care cost increases have eaten up the productivity gains of our working class, preventing employers that cover health insurance from raising direct wages as they otherwise would.

If spendable income is the real concern, we must consider taxes, as many taxes impacting lower-income workers, such as Social Security, Medicare, sales, cigarettes, gasoline, and property, are higher than they were 30 years ago.

Well intentioned or not, I shudder that Massachusetts is pursuing wind power and has recently forced our utilities to contract to pay 18.6 cents per kilowatt plus a 3.5 percent annual increase. This is over three times the average 2013 wholesale electric costs in New England of 5.6 cents (according to ISO), not counting the tax subsidies the windmill investors receive, and occurs when our electric rates were already approaching twice those of some states.

My fears are not mitigated by an assessment of whether our politicians have taken into account the impact high "green" energy costs will have on companies, jobs, especially low-skill jobs, and inequality in our state. Nor am I comforted when I see how well becoming Europe's highest generator of wind power in 2010 has worked for that great economic power, Spain.

We can have intelligent economic policy or feel-good economic policy. Only one choice will improve the incomes and living standards of our lower-skill workers.

Some steps that could be taken include stopping the inflow of low-skill workers; developing our natural gas and oil production and distribution capability to create domestic jobs; rapid permitting of manufacturing companies that utilize our increasing advantage in low-cost energy; returning housing construction to historic norms; preventing the "green" focus from increasing costs and making our industry and workers non-competitive; reducing the taxes on U.S. company profits, encouraging domestic investment and job growth.

Given the political advantages of promoting class envy, racial division, and green activist zealotry, I hold little hope that states like Massachusetts will act to enhance the economic success of our working citizenry.

As individuals follow the path identified by Michael, Phil, and Rush, Massachusetts seems willing to follow the path of Illinois and California.

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