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## TODAY'S "SHORT TOPIC" ARE INEQUALITY AND CAPITAL GAINS TAXES REALLY THE ISSUE?



By Stephen L. Bakke  April 13, 2016

### *Here's what provoked me:*

*In the face of continued "fretting" about income inequality, I once again must try to make sure the issue of "mobility" always is considered in the debate about inequality and the ongoing exercise of analyzing and solving economic problems.*

### *Here's my response:*

#### **Are Inequality and Capital Gains Taxes Really the Issue?**

An April 10 letter ("The issue is less one of inequality than one of taxes coming in") referred to a D.J. Tice column about inequality and executive compensation. A 1993 law limited corporate tax deductions to \$1,000,000 for top corporate executives. This led to an emphasis on "pay for performance" compensation. Tice presents the theory that growth of stock option compensation has fueled the growth of inequality.

The writer took issue with Tice by stating that the real culprit coming out of the 1993 legislation was the lower capital-gains taxes on stock option appreciation. The writer obviously discounts the "incentive for capital investment" argument used for justifying low capital-gains taxes.

I believe that earnings inequality isn't the most important issue. If economic mobility exists, much of the concern about inequality should be mitigated. I submit the following:

- First let's get our facts right. Be careful when using income statistics to measure the disparity between rich and poor. Remember that for the poorest, reported income excludes transfer payments and other "income" benefits they receive. Also, if income taxes paid by the rich (which is fairly substantial overall) is not deducted, that also exaggerates the disparity in income.
- Once we have our facts straight, let's look at "mobility" – i.e. the movement between income categories – often measured in 20% segments. While mobility should be improved, except for very small percentages at the extremes of "richest and poorest," U.S. mobility is higher than one might expect.

Determining effective policies requires accurate and relevant facts!