



– I’M CONFUSED!!! –

**YOU SAY IT’S THE SIZE OF THE PIE THAT COUNTS?
– NOT THE RELATIVE SIZE OF THE SLICE? UFF DA!**

Stephen L. Bakke – December 23, 2011

The Mainstream Media Throws Gasoline on the Fire!

There is that great concern about income inequality in this country. In the course of the last three weeks, I’ve been all over America, 19 cities altogether. And I’ve had a lot of high-income people come to me and say we really do have to do something about income inequality because that could trigger a class war in this country. And the consequences are not very pretty to contemplate. – former NBC anchor Tom Brokaw

Does Mr. “Brokejaw” have knowledge about the definition of poverty and its “comings and goings” in the last several decades? Does Mr. Brokejaw have knowledge to back up what appears to be his opinion that class mobility is “long gone”? He should read my recent report on the topic. Does Mr. “Brokejaw” actually have facts to back up his panicky declaration of imminent class warfare?

I regret that a professional like Brokaw would actually try to sensationalize something that even he (in my opinion) must believe is over-sold and over-perceived. That misconception is picking up on what Obama apparently wants us to believe: that people are poor because others are rich – a zero sum! That’s so wrong! So let’s once more try to redirect the discussion and set the record straight!

Pathological Altruism – Let’s Make Sure We “Divvy” Up the Pie

Here I am, back on that old topic of “equal results for all” – and the obsession to achieve that through our federal laws and policies. This obsession has been referred to as “pathological altruism.” I first dealt with the subject of egalitarianism a few years ago in a report on the ever widening differences between the “world views” of liberals and conservatives.

The definition of equality for a person on the Right emphasizes the concept of equal opportunity. The Left focuses on equality of result. Liberals tend to infer unequal opportunities when observing unequal outcomes – i.e. they believe equal outcomes will be the rule if people truly have equal opportunities. This is known as egalitarianism. Some cynics believe the Left hates inequality even more than it hates “true evil” (whatever that is).

In the final analysis the Left wants to “divvy” up the pie. The Right contends that conservative policies would more effectively “expand the pie,” and they sincerely believe that by doing so, everyone is better off. And that’s what this report is all about.

Is Poverty Increasing?

Mentioning poverty brings what thoughts to your mind? It has been shown that people quickly conjure up an image of starvation and destitution. According to recent media reports, the number of people in the U.S. living in poverty has been rising consistently over decades, and that the U.S. poverty rate is among the highest in the developed world. Really?! There is a ridiculous level of naïveté exhibited by media comparisons with other countries. **Remember, poverty statistics are relative measurements within that country.** In-depth studies indicate that in general, the poor in the U.S. are better off than the poor in the rest of the world!!

Additionally, the definition of poverty seems to be changing. I found reference to two different measurement revisions apparently evolving.

On the one hand, the Census Bureau has announced a new method which adds the value of other things, such as “entitlements” received, to measure how much the individual/family actually has available to spend as a consumer. This new method shows that people in the U.S. who meet the measurement for “poverty” actually have more disposable income and “stuff” than previously thought. Therefore, most people living in “poverty” do have adequate food, shelter, medical care, air conditioning, cable TV, and DVD players (from a recent Heritage Foundation report). There may be a nutrition problem that is under-addressed, but true “hunger” appears to be an overstated concern. Similar positive findings also apply to the “middle class” according to a report by Bruce D. Meyer of the University of Chicago and James X. Sullivan of the University of Notre Dame.

Another “potential” change to the definition of poverty came to my attention when I read that Obama wants to “supplement” other poverty measures with some ideas of his own. It appears that his administration holds the opinion that poverty should automatically shift relative to an average for all Americans. In that case, if the entire population experienced an approximately equal, but significant, “real” increase in “prosperity/money/stuff/living conditions,” the numbers of citizens counted as being in poverty would not change, even though most would be experiencing vastly improved prosperity. **How silly is that?! Again, we witness the (not always unintended) false results of any “relative measurement”!**

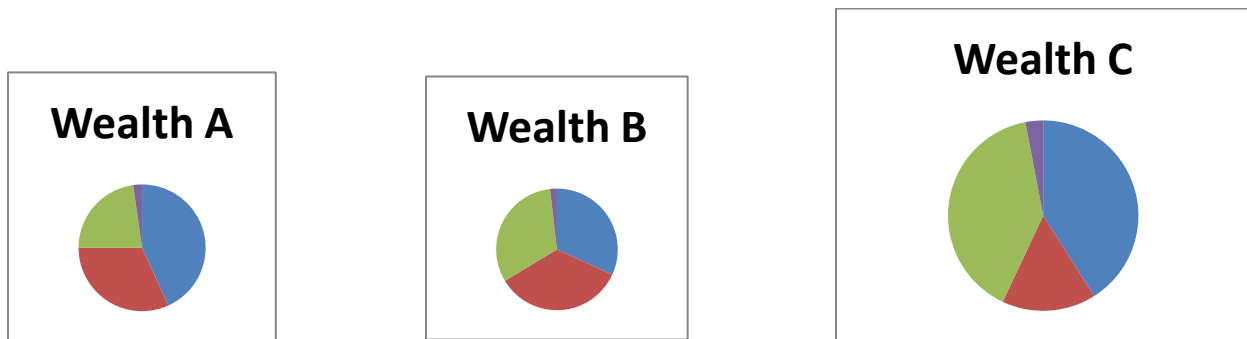
The bottom line for me is: poverty will never be “officially” eliminated as long as “relative measurements” are used! Traditional measurements and the myriad of reports we typically are given, dramatically understate the well-being of Americans. Establishing policy based upon reality would permit us to truly concentrate on those who desperately need a government “safety net” – **and there are many!**

Now Back to the Discussion of “Pies and Slices”

What do I mean in the above title that “it’s the size of the pie that counts, not the relative size of the slice”? Basic Econ 101 teaches that it’s not how the pie is divided that determines American’s true wealth, but whether that pie grows or shrinks. And be reassured that information from the CBO indicates that **over the last 3 decades, every quintile of American income has shown a real increase in purchasing power of at least 18%!**

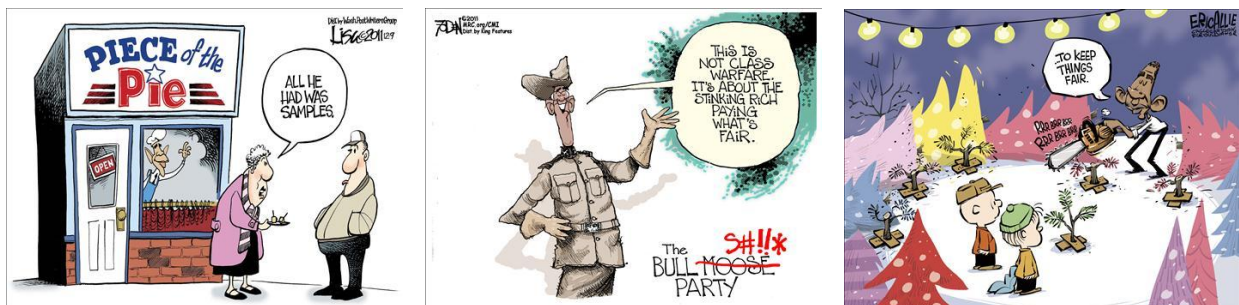
Here are a couple of (realistic but not “statistically based”) illustrations. First consider the changes that occurred between examples A and B below. Note that the total wealth (adjusted for inflation and everything else), as represented by the size of the chart (total wealth), stays virtually the same

over time. However, the 4 “slices” (representing wealth levels for various classes) have changed relative size. In example “A” there are significant differences in the size of the slices. In “B” they are all approximately equal in size except for the thinnest. Let’s assume that the thinnest (barely visible, and purple) slice represents the “despised and hated 1%.” This reduction in size of the “hated purple” would be considered a positive change by the more liberal among us – i.e. “more equality.” While there has been a reduced share of wealth for the “despised and hated 1%,” there has been no overall growth. Any gain by one group must come from the wealth of another group, and the “despised and hated 1%” doesn’t have enough to go around to effect a big difference for anyone.



Now consider a movement over time from example “A” to example “C.” Also imagine you are part of the “red” pie slice. Overall, total wealth grew by approximately 130% (trust me – “C” is more than twice as large as “A”). You folks in the red slice now have a relatively smaller slice of the pie with “C” – about half the relative proportion compared with “A.” Hey! Class mobility “cuts both ways” – look how much larger the green slice is – they’re “movin’ on up to the East Side”.

In this example, the “despised and hated 1%” have increased their share by 3 times! But even you, the red slice folks, while “dis-improving” relative to others, **still have improved your overall well-being!** Which is best for most (or perhaps even all) in the population – movement from “A to B” or from “A to C.” There is strong evidence that many of the most progressive among us would consider the egalitarian results of achieving “B” as preferable to the vast differences created if “C” is achieved. And besides, the “despised and hated 1%” has done better than everyone else – and that can’t be permitted under any circumstances – or so some say! But isn’t the result of “C” actually the best since all economic classes have improved their real purchasing power and relative well-being, in spite of the continued “inequality? Many don’t agree.



Facts are stubborn things; and whatever may be our wishes, our inclinations, or the dictates of our passion, they cannot alter the state of facts and evidence. – John Adams