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 **POVERTY & INEQUALITY:  
CLEAR CAUSES OF A  
COMPLEX PROBLEM  
- BUT THE SOLUTIONS  
ARE REALLY TOUGH  
AND ELUSIVE!  
- Part 1 -**

 **Stephen L. Bakke - February 10, 2014**



It's a wonder we make any progress at all!

*Thomas Paine wrote in 1776: "These are the times that try men's souls." Maybe that's an older version of what Louis Armstrong was feeling when he sang the spiritual, "Nobody knows the trouble I've seen. Nobody knows my sorrow." - Stefano Bachovich - obscure curmudgeon and wise political pundit - a prolific purveyor of opinions on just about everything - my primary "go to guy."*

Poverty is never a good thing, and we should always pursue its reduction through wise and demonstrably effective policies and safety nets. No conservative would argue otherwise. Also, **for the purpose of this discussion ONLY**, let's assume inequality is a growing problem, even without considering the question of mobility. With that challenge in front of us, let's assume that before attacking the problem we must identify what's causing it.

We Americans often resist carefully identifying actual problems and true solutions. Rather, we look for splashy and emotional issues and attach some "feel good" solutions to them. We make no headway, and wonder ..... why??? This report simply enumerates some of the reasons I believe have led to, or made greater, the issue of poverty and the reality of financial inequality in the U.S. *(For related articles go to the end of this report for several links.)*

How are we messing up relative to poverty and inequality? Let me count the ways:

- Ever hear of **internal devaluation**? That's what happens to the wealth of our citizens when we have **quantitative easing (printing money) and deficit spending** - inflation and unpredictable outcomes. Sadly, these policies and practices **hit the lower and middle class wages and benefits while benefiting the rich through stock market inflation!**
- **Legislation and regulations that reduce employment** in very real terms i.e. observe the labor participation rate as opposed to the unemployment rate. **The available jobs in this country have been going down dramatically relative to the population.**

The potential for generating jobs in the fossil fuel energy industry is huge - at least in the hundreds of thousands - if only the government would get out of the way on things like fracking and the Keystone pipeline. The CBO disclosed that the near term reduction in "equivalent employment," due to ObamaCare is almost 2.5 million jobs. You can be sure it's higher than that! And don't forget, **the "very wealthy" don't suffer much from those job reductions.**

- Increases in energy production, from fracking and other technological advances, means lower energy prices than would otherwise be the case. **The administration is a detriment to increasing energy production. As a result lower and middle class wealth is adversely affected to a greater degree than the rich, due to higher energy and gasoline prices than would otherwise be the case.**
- Unions are big supporters of most of Obama's policies and programs. But **put to rest the myth that strong union wage and benefit gains lifts the wages of those not unionized.** John C. Goodman of the National Center for Policy Analysis (NCPA) reports that unions restrict the supply of labor in unionized sectors of the economy, while at the same time push these potential workers into the nonunionized sectors and the wage market is negatively affected. **And who suffers from lower wages? NOT the rich! They gain!**
- Expanding on the prior point, look at the effect of **Obama's "bailout" of GM and Chrysler.** The **unionized workers got a windfall. Non-union workers lost everything** – jobs and retirement benefits. Obama and the unions took on all the others, and **guess who won!? The relatively well off unionized workers, that's who! The non-union employees lost big time!**
- **Bailouts, the bane of true conservatives,** are sold on the basis of helping the economy. Progressives love bailouts! But they promote concentration of wealth at the top! This fits right in with the **progressive's insistence on blatantly picking winners and losers in the economy.** Their decisions are based on their opinion as to what companies, sectors or individuals are most consistent with their left wing view of "right and wrong" in society. **This is "crony capitalism" at its worst! And it concentrates wealth among just a few "compliant" companies and individuals.** Wealth accumulated through cronyism contributes to an economy's stagnation. This doesn't apply to business in general, only the "chosen few."

**For know-nothings on the left there has always been the belief that the reason there is poverty is because there is wealth.** – John C. Goodman, NCPA

**What really irks me ..... is the assumption that bigger government reduces poverty. That's nonsense. The data shows that growth is the best way of helping the poor** – Daniel J. Mitchell, Cato Institute

- **Minimum wage legislation.** At best it's meaningless. At its worst it contributes to poverty and inequality. It's meaningless because a very few employees are working at minimum wage. And very few of those earning minimum wage are actually from poor families. Also, it's been proven that some of those who are poor will lose their jobs if a major increase in the minimum is mandated! Wage rates, up and down the spectrum, will also adjust accordingly, because many union agreements are now tied to the minimum wage. In the final analysis, those persons already working do indeed increase their spendable income, but at the expense of consumers who suffer from the rising prices caused by minimum wages increases. **The lowest paid workers lose employment and have to paying more as consumers. The poor get poorer.**
- **The Federal Reserve – it's there to level the field for the less influential and ensure stability, right? Wrong!** I addressed one aspect of "quantitative easing" earlier, as regards the inflationary "internal devaluation" it causes, to the detriment of the "unrich." But how about the fact they are holding interest rates artificially low, isn't that good for the poor and middle class? Bottom line: low interest most benefits the most wealthy! **Cheap money is easy to obtain and the wealthy can use it for better than average returns. As for others, the traditional savers, the middle class, is thrown under the bus!** Returns on savings, an integral part of their wealth, is wiped out! So much for having a Fed that's friendly to the "common man"!
- **Whiplash decision making by the administration** forces the business community into **inaction because of uncertainty.** Who will hire, or expand, or invest if we don't know what the rules will be? **The rich sit tight while the poor and middle class must languish.**

- Here's one that not everybody thinks about! **Federal transfer payments and Social Security have done much to increase inequality.** In recent years, transfer payments have been benefiting, to a greater extent, those above the poverty level. The lowest quintile's share of transfer payment has been reduced from approximately 54% in 1979 to 36% in 2007. **How about that as an example of harming the poorest for the benefit of the more affluent?**
- What could be more innocent than **Social Security and Medicare**? Whether you like it or not, it's adding to the inequality in our country. These programs are set up so that they transfer wealth from relatively low earning/asset poor young people to increasingly affluent senior citizens. Folks, you're going to have to get used to the fact that the older citizens are a relatively affluent segment of our population. Not all, for sure – but the vast majority are affluent. **This furthers inequality in this great land!**
- **Class warfare** – to me it's kinda' like the Obama administration is saying “here let me give you all of this wealth (bailouts, crony capitalism, picking winners and losers, etc.) and then hitting them over the head with it!” **Makes no sense!**

To be continued .....

***In the next report I will continue this discussion by introducing the unfortunate fact that we are experiencing a changing dynamic between market demand, production, labor, and prices. Also, I get into speculating about our drifting cultural values and how that is damaging our country and creating poverty and inequality! (I might get in a little trouble with this one!)***

**Links to related reports on my website:**

*Poverty in the U.S. – Understand, THEN Fix – Click [HERE](#)  
 Minimum Wage Laws – Do they work? – Click [HERE](#)  
 Economic Mobility & Class Warfare – Click [HERE](#)  
 Economic Mobility – Does it Exist? – Click [HERE](#)  
 The Audacity of Obama's Girlfriend Julia – Click [HERE](#)*

*The Size of the Pie vs. the Size of the Slice – Click [HERE](#)  
 Who Declared this War? – Click [HERE](#)  
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