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TODAY'S "SHORT TOPIC"
INEQUALITY: IMPORTANT POLICY DECISIONS REQUIRE ACCURATE, COMPLETE, AND BALANCED INFORMATION!

By Stephen L. Bakke May 20, 2016

Here's what provoked me:

My hometown newspaper is one of my pleasant reading obligations each and every week. I've noticed the publisher sometimes uses a self-proclaimed "progressive" website to provide editorial commentary. One such opinion dealt with encouraging a "revolution" to increase the tax rates necessary to reign-in the increasing inequality in wealth ownership. While I personally dislike the widening inequality gap, this commentator went too far in the wrong direction seeking a solution. So, for the first time ever, I submitted a guest opinion to my weekly, beloved, home town newspaper, the Lake Mills (Iowa) Graphic. Here it is!

Here's my response:

Inequality: Important Policy Decisions Require
Accurate, Complete, and Balanced Information!

In the May 4th Graphic, a guest opinion offered a solution for the nation's financial inequality in "Inequality Will Get Worse Until There's a Revolution." The writer startled us by declaring: "America's wealth concentration has increased tenfold since Bill Clinton first ran for president."

The writer recalled the 2015 Sanders campaign speech which claimed: "……the top one-tenth of 1 percent own almost as much wealth as the bottom 90 percent." That statement was contrasted with candidate Bill Clinton's statement bemoaning that: "……the top 1 percent owned as much wealth as the bottom 90 percent." From this comparison was derived the "tenfold" increase in 24 years.

The solution offered would prevent wealth accumulation by increasing taxes on regular income, "investment income" (capital gains), and on estates.

I agree that wealth inequality has been growing, and that's a bad thing. I also stipulate that tax reform is needed. But major, transformative change demands that smart decisions be made. This comes only from using accurate, complete, and balanced information. We should all be careful which facts we rely upon!

Sander's 2015 statement about "the top one-tenth of 1 percent" has now been mostly discredited. A more universally accepted measure was reported in the Wall Street Journal – i.e. the top 1 percent now owns as much wealth as the other 99%. Rather than increasing tenfold as this writer asserts, the increase has been a very small fraction of the "tenfold" that is claimed. Using this distorted information could lead to overreaction and bad policy decisions!

Let's reconsider some facts.

The administration has insisted on holding interest rates artificially low – ostensibly to stimulate the economy. But this has created an "artificial" economic expansion – "stock market inflation." Therefore, low yielding interest bearing investment funds have migrated to the stock market. That has driven prices up. The wealthy benefit disproportionately from stock price increases, and thereby inequality has increased! This is just one of the existing policies ignored by this writer.

Furthermore, high capital gains taxes discourage investors from making much needed equity investments, and delay the ultimate divestment of those investments - all to avoid paying taxes. History has shown that capital gains tax collections actually go up when rates are lowered.

We do need income tax reforms which address both loopholes and rates, and there certainly are wise and equitable estate tax changes that could be made. But we must guard against taxes becoming "confiscatory" rather than reasonable and just. That often happens when the goal is narrowed to only consider ways of "leveling the playing field."

Tax policy changes should be analyzed more thoroughly for unintended consequences. I fear this writer's bold suggestions would be ineffective and result in many unwelcome surprises.