



## Myths About Inequality

By John C. Goodman

May 12, 2012

Because they do not seem to have any real solutions to real problems, the leftwing in this country has become fixated on a non-problem: inequality. In the process, people who harp on this idea often get their facts wrong. The following is my attempt to set the record straight.

### **Myth: Those at the bottom are worse off because the rich are better off.**

"The rich are sucking up all the income," said Harvard economist Jeffrey Sachs on Morning Joe. Surveying the past two decades, [Brian Wesbury](#) gives this answer:

Yes the top 1% saw its share of that income rise from 8.5% to 16.9%. And, yes, the bottom 50% saw its share fall from 17.7% to 13.5%, but that smaller share in 2009 was \$1.05 trillion, a 265% increase... In other words, it is true that incomes at the top have risen faster than average incomes, but it is not true that any group has been made worse off. Incomes and living standards for all Americans, including those in lower-income brackets, are up. At the same time, tax burdens for those in lower-income groups have fallen substantially.

### **Myth: The rich are not paying their fair share of taxes.**

In fact, higher income taxpayers pay a considerably larger share of the tax burden than their share of personal income (see the [chart here](#)):

- The top 1% of the income distribution earns 18% of personal income, but pays 27% of total federal tax liabilities.
- The top 10% earns 31% of the income, but pays 44% of the taxes.
- By contrast, the bottom 60% of the population receives 25% of the income, but pays only 14% of the taxes.

### **Myth: The income of the rich has been rising relative to everyone else.**

In fact, a large part of the apparent growth in income inequality is simply the result of differences in the way Americans pay taxes. Writing in the [Wall Street Journal](#), Phil Gramm and Steve McMillan explain it this way:

In 1986, before the top marginal tax rate was reduced to 28% from 50%, half of all businesses in America were organized as C-Corps and taxed as corporations. By 2007, only 21% of businesses

in America were taxed as corporations and 79% were organized as pass-through entities, with four million S-Corps and three million partnerships filing taxes as individuals.

Because of those changes, over the past 20 years the share of income of the top 1% of taxpayers coming from S-corporations tripled. Similarly, lowering the rate on capital gains encouraged taxpayers to realize gains and pay taxes on them. The lower rates on dividend income encouraged companies to pay dividends to individuals instead of keeping the funds as corporate retained earnings. Overall:

If the share of income coming from businesses, capital gains and dividends had remained at the levels before the tax rate changes of 1986, 1997 and 2003 respectively, the income of top 1% filers would have been 31% lower in 2007.

**Myth: The U.S. tax system is less progressive than the tax systems of other countries.**

In fact, the United States has the most progressive tax system of all developed countries. According to the most recent [report from the OECD](#), the United States "collects the largest share of taxes from the richest 10% of the population." As [Gramm and McMillin](#) explain:

When the U.S. collects 16.1% of GDP in income taxes, the top 10% of taxpayers pay 7.3% and the other 90% pick up 8.9%.

In France, however, they collect 24.3% of GDP in income taxes with the top 10% paying 6.8% and the rest paying a whopping 17.5% of GDP. Sweden collects its 28.5% of GDP through income taxes by tapping the top 10% for 7.6%, but the other 90% get hit for a back-breaking 20.9% of GDP.

If the U.S. spent and taxed like France and Sweden, it would hardly affect the top 10%, who would pay about what they pay now, but the bottom 90% would see their taxes double.

**Myth: Income is the best measure of well-being.**

Many wealthy people live modest lives. And many low-income families take advantage of anti-poverty programs that furnish them with housing, Food Stamps and medical care. Surely the best measure of well-being is not what people earn, but what they consume. As it turns out, there has been very little change in inequality of consumption over the past 25 years. As [Diana Furthgott-Roth explains](#):

Government data on individual spending patterns show that the ratio of spending between the top and bottom 20 percent of the income distribution, measured on a per person basis, was essentially unchanged between 1985 and 2010. In 1985 people in the top quintile had spending that was 2.5 times that of people in the bottom quintile. By 2010, this ratio was 2.4.