Inequality

By: John C. Goodman **June 9, 2012**

The topic de jour on the political left is inequality. From President Obama to the editorial pages of *The New York Times* the message is the same: low taxes (especially on the wealthy) and deregulation are making the rich richer and the poor poorer. Their solution: more big government.

Here's the problem: nothing about this message is true. The George W. Bush tax cuts made after-tax incomes in the United States more equal, not less equal. Furthermore, all over the world low taxes, less regulation and limited government are associated with more income equality, not less. In addition, the greatest beneficiaries of economic freedom tend to be those at the bottom of the income ladder, not those at the top.

Because a lot of the work debunking left-wing myths about income inequality has been done by my colleagues at the National Center for Policy Analysis (NCPA), I have had a special interest in these questions over the years. What I am about to summarize are the results of careful study and analysis by some of the nation's top economists. These are studies that are routinely ignored by those who parrot the standard liberal line about how unfair capitalism is.

Let's start with the Bush tax cuts. Stephen F. Austin State University economist Michael Stroup has analyzed their impact based on statistics gathered by the Congressional Budget Office (CBO). As reported in an **NCPA study**, here is what he found:

· The Bush tax cuts (so hated by almost every left-wing columnist) led to a more progressive tax system — with the top 1% of the income distribution now paying about one third of all income taxes, while those in the bottom half saw their share of the tax burden cut in half (falling from 6.3% of income taxes to 3.5%).

· Further, those in the top 1% now pay a greater share of their income in taxes, while those at the bottom are paying a smaller share.

· Over time, pre-tax income in the United States has become more unequal; but the share of taxes paid by the rich has increased by more than their share of national income.

Incidentally, Stroup found that the tax system became more progressive throughout the 1990s as well – after the Bush (1990) tax increase, the Clinton (1993) tax increase and the Clinton (1970)

decrease in the capital gains tax rate. But here is the message most voters never hear: Virtually every Republican tax cut — going all the way back to the early rate reductions under Ronald Reagan — left the tax system more progressive. One reason for that is that the Republican tax reform measures took millions of low-income families off the tax rolls. Even though high income taxpayers face lower rates than they once did, they are still shouldering a greater share of the overall tax burden.

As for the international evidence, the Frasier Institute of Canada has gathered an international team of economists to study and measure economic freedom in countries around the world and report annually. (Milton Friedman was an early participant in this project, as was yours truly.) Here are **some recent findings:**

· There is almost no relationship between the degree of economic freedom and the share of national income going to the poorest 10% of the population. (It's 2.4% in the one-fifth of least free countries and 2.6% in the one-fifth of most free countries.)

· There is a huge difference in absolute income, however: Per capita income for the bottom 10% was only $1,061 in 2009 in the least free countries, but reached $8,735 in the most free.

By the way, economic freedom is also very important for the average person. In 2009, per capita income was $4,545 in the one-fifth of least free countries and a whopping $31,501 in the one-fifth of most free countries. In other words, the difference between living in a country with low taxes, low regulation and limited government versus living in a big government country is a nine-fold increase in income!

A final study of interest was produced by Gerald Scully, one of the finest economists of my generation who passed away a few years ago. Like Stroup, Scully used a general measure of overall inequality. In a seminal **NCPA study** he found that other things being equal:

· Freer economies enjoy higher rates of economic growth than less free ones.

· Economic growth increases income inequality, but the effect is small.

· Overall, the increase in inequality from economic growth is outweighed by the reduction in inequality caused by greater economic freedom — creating a net benefit to lower income groups.

Here is the bottom line: economies with the greatest degree of economic freedom not only produce higher incomes for the average family, they also produce a more equal distribution of income than would otherwise have been the case.