Rich Man, Poor Man

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There seems to be a growing body of thought that says the U.S. economy is in decline. This notion is based on the supposition that there is a rising inequality between the highest-earning individuals and the rest of us. The implication is that the government must "do something" to rectify this disparity. First, one must distinguish between a widening gap between "rich" and "poor" and what is happening to the standards of living of these two groups. The latest economic statistics support the assumption that the rich are getting richer, but the poor are getting richer too! The divergence is because financial asset prices and real estate prices are surging. So, even though the gap has widened, both rich and poor are becoming wealthier. The former has benefitted from both a rise in the minimum wage and the growth in real earnings. We cannot overlook that there are millions of illegal (poor) immigrants flooding into the U.S. which will distort what is happening to these two groups. Even with this surge, there is record-low unemployment reflecting growing demand for labor, and, under such circumstances, wages should rise in an environment of worker shortages.

Many economists analyzing this relationship infer that there should be some mechanism to reduce or at least minimize this wealth gap. As we look around the world, increasing wealth of the "rich" does not undermine the rising living standards of the "poor." More than likely is the fact that as the rich get richer, the poor and middle class get richer too. Rich people spend and invest that wealth. Each weekend we read the Mansion section of the Wall Street Journal where there are homes whose prices exceed millions of dollars, sometimes hundreds of millions. While some may envy this apparent demonstration of excess wealth associated with the "rich man," the critique misses the fact that the demand for building and maintaining such homes benefits an enormous number of companies and related workers.

The Wall Street Journal recently reported that there continues to be a migration of the "rich man" from high-taxed states to low-taxed states. Politicians in states experiencing an exodus of citizens ignore the fact that rich people pay most state taxes and that the loss of these individuals will undermine the ability of those states to meet their obligations. To complicate these fiscal problems, most of the illegal immigration is affecting those cities that proclaimed their status as "sanctuary cities."

Our research indicates that wealth in America has never been greater. Near record low unemployment, even after a lengthy period of Fed interest rate increases, has not fallen prey to the perceived impact of tight Fed policy. Surprisingly, the economy's ability to continue creating jobs contributes to economic growth. The key to improving all Americans' living standards is less regulation, less intrusive government into the private sector where wealth is created, and the fostering of innovation. To be able to manage large inflows of immigrants, the government cannot continue to implement policies that discourage wealth creation. If policies at the federal and state levels continue down that road, there will be less wealth to go around. May the New Year reflect some recognition of these realities.

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