

Some Say Doubling Your Income and Savings Can Harm You

Economic Prospect John Teevan August 4, 2023

I have two surprises today. One is real. The other is, in my opinion, false.

1. Let's start with Europe: You may have heard that America's poorest state, Mississippi, has per capita GDP greater than that of France. It's true. In fact, the IMF reports that the Eurozone's per capita GDP is lower than every state in the U.S. except for Idaho and Mississippi. How can that be? (WSJ July 23, 2023)

France, after WW2, had a growth spurt that lasted 30 years (Les Trente Glorieuses). During that time France not only rebuilt what the war destroyed but modernized everything. It was wonderful. When the 30 years of catch-up time was over, so was the growth. France along with all of Europe fell behind preferring government spending (avg 45% of GDP) to growth of the economy. More recently, since 2008, the entire Eurozone has grown at a total of 6% while the U.S. economy having chosen growth has almost doubled, growing by 82% (government spends 27% of GDP) (WSJ). That's how once-impooverished Mississippi finally overtook France in per capita GDP.

Mississippi? A long-term perspective surprises us because we are so used to the brief news cycle. Since 1990 the global increase of people escaping extreme poverty has been amazing, but today I've chosen to focus only on rich countries. Over time, growing the 'economic pie' makes even Mississippi escape poverty.

2. A few say the U.S. is also very poor: As surprising as the relative poverty of Europe may be, it is shocking to read those who claim that many Americans are impoverished. That harm comes from our relative (that's the key word) income or wealth *compared to the very richest*. France has only 42 billionaires; the U.S. has 724; Europe: 355. (Forbes 2021). I want to explore what I see as the odd thinking of those who say, apparently sincerely, that billionaires actually cause poverty by hogging a bigger piece of the pie. Here's how they figure it. Hang on.

Imagine in 1975 that a school teacher was making \$7,500 and had a pension and savings worth \$25,000. The richest person in her county had an income of \$250,000 and had a total wealth of around \$25 million. The school teacher made 3% of that high income person and had wealth of .1% of the wealthiest. We can measure economic (and only economic) well-being or poverty using those numbers. (The chart will help keep this straight)

Then in 1980 a \$1 billionaire moves to town. That billionaire is paid a total comp of \$750,000 annually. Now the school teacher earns 1% of that highest salary (\$7,500/\$750,000) instead of 3%. That's a two thirds reduction in her salary. Since the billionaire has four times the wealth of the formerly richest person, our school teacher's savings had declined to one fourth of the share it was before. A 'reduction' of 75% of her wealth. That new billionaire caused her to 'lose' 75% of her wealth and 67% of her salary *in relative terms* affecting her and everyone who isn't a billionaire.

How the Wealthy Impoverish Ordinary People			
	1975	1980	1985
Her Salary	\$ 7,500	\$ 7,500	\$ 15,000
Top Salary	\$ 250,000	\$ 750,000	\$ 750,000
% of Top	3.0%	1.0%	2.0%
Her Savings	\$ 25,000	\$ 25,000	\$ 50,000
Top Wealth	\$250 Million	\$1 Billion	\$1 Billion
% of Top	1%	One Qtr of 1%	One Half of 1%
The billionaire arrives in 1980.			

In 1985 she doubles her salary and savings. Now she's making \$15,000 or 2% of that billionaire's salary. Her savings and pension have doubled to \$50,000, but it's a smaller percent of the new billionaire's wealth.

Here's the point. Some claim that a billionaire, by moving to town in 1980, harmed our teacher *relative* to her situation in 1975. However, doubling her wealth and income in 1985, in their view, still left her worse off *in relative terms* than she was in 1975. Did Tiger Woods' incredible winnings impoverish other pro golfers?

How? At \$25,000 she earned 3% of the former top-paid person and now, after doubling to \$50,000 she's making only 2%. As for savings, she lost half of her share of the former wealthiest's wealth. If you make poverty relative and increase the top wealth, everyone is worse off *in relative terms* even if their salary and savings double. This is the bunkum that comes from defining income *only* in relative terms. In the real world school teachers, business owners, factory and office workers, and immigrants are much better off in a wealth-creating society like Mississippi regardless of the contrary opinions of others though extreme wealth has its issues. In a fixed pie/limited good society (think Middle Ages) the rich did harm the poor. Our modern bounty grows the pie.

What do we learn from Europe? That growth is the most important contributor to economic well-being.

What do we learn from our school teacher? That the *relative* wealth method can be abused to demonstrate something we know is not so. Have the orthopedics in K-county harmed us? Of course not. Income inequality is a legitimate issue, but much less so when it is handled by people with such a distorting perspective.