

It's Soap Box Time

September 5, 2006

“Productivity rises; wages lose ground”, was the headline story in the Wichita Eagle September 4, 2006, Labor Day. The article, taken from the Miami Herald and written by Niala Boodhoo, consisted of the following excerpts from a recent study by the Economic Policy Institute, a Washington DC based think tank entitled “The State of Working America: 2006/2007.”

- 1. Between 1995 and 2000 US productivity grew 2.5% annually. Real median family income grew 2.2% annually**
- 2. Between 2000 and 2005 US productivity grew 3.1% annually however the real median family income dropped 0.5%.**

All of the above are the reasons that we are so bearish on the financial condition of the consumer. The author of the article went on to chastise corporate America for their failure to pass along productivity gains in wages. She makes the point that productivity is the key to rising standards of living, but over the last 5 years it has not trickled down to the working person. At the same time, the pay of corporate CEO's today is 262 times the average worker, as opposed to 24 times in 1965. Sadly, all of the above is true, and the unfortunate aspect of the article is the clarion call for government intervention to address this unfair state of affairs.

What might be the populous action that needs to be taken? Higher minimum wage, tariffs on foreign goods, longer depreciation schedules, favorable legislation concerning labor unions, increased income taxes on the “rich,” elimination of the favorable capital gains tax, elimination of non-taxable municipal bond interest, elimination of the favorable tax on dividends, high corporate income taxes, and just generally more legislation taxing capital and redistributing income to eliminate the “hour glass” spread of incomes.

Great! All of the above would, if implemented, turn a recession into a depression. The hourglass income distribution would change from 36-24-36 to 30-20-46, not a pretty picture. It well could be worse.

What has happened to the sectors of the economy, in our opinion, is as follows:

- 1. Workers are being outsourced due to globalization.**

- 2. Corporate America has merged and downsized in order to remain or become competitive.**
- 3. Government is now, and forever has been, short sighted and interested only on getting re-elected. We can count on them to do the wrong thing.**

Despite it all, if we can keep the government mostly out of it, we believe that the free market place will take care of the disparities of the 2000-2005 period.

Where does it say that everything evens out year by year? The capitalistic system works quite well IF we would learn to keep our hands off. Sarbanes-Oxley is a prime example of horrible legislation. It is pure and simple welfare legislation for accountants and lawyers.