

# Big-Government Liberalism Doesn't Help the Poor: It Hurts Them

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Most people have good intentions about helping the poor. But many fail to notice that the resulting government policies have the opposite effect. The policies create and sustain poverty instead. Here are examples of big government hurting the poor:

Welfare: Until 1940, 75-to-85 percent of black children lived in two-parent families. Today, more than 70 percent of blacks are born to single woman. As black economist, Walter Williams, put it, "The welfare state has done to black Americans what slavery couldn't do, what Jim Crow couldn't do, and what the harshest racism couldn't do; that is to destroy the black family." Government welfare creates dependency and low self-esteem. The poor are just as intelligent and energetic as the rest of us. To believe that they can't get *themselves* out of poverty is to believe they are intrinsically inferior, which is the very essence of racism. Instead, government policies that generate the poverty should be repealed.

Minimum Wages: Economists agree that minimum wages creates unemployment. Currently, the unemployment among young American blacks is 50 percent. Economist Milton Friedman labeled minimum wage the most racist law on the books.

Davis-Bacon: The Davis-Bacon Act was enacted in the 1930s to prevent blacks from taking high-paying jobs then held by whites. The law provides that workers on constructions jobs funded by government must be paid "prevailing wages," meaning union wages. But blacks weren't admitted into construction unions and are usually not admitted now. The Davis-Bacon Act remains in effect.

Schools: American schools are failing, especially in central cities. In Detroit 25 percent of those who have attended public school are functionally illiterate. Government has allowed the schools to be controlled by unions, who care more about the welfare of the teachers (and the union leaders) than they do about the children. The decline of American schools became more precipitous after the federal government began heavy funding of education in the 1970s. For example, the feds don't pay when a student is held back to repeat a grade. To continue receiving the money, schools therefore advance students to higher grades even when they can't read. Bilingual education for immigrant children often means they fail to learn English well enough to obtain well-paying jobs.

Affirmative Action: Because of affirmative action, young minorities are accepted into colleges for which they are not qualified. Many fail to graduate, leading to lost years and low esteem. Had they gone to a school for which they were qualified, their lives would have been enhanced.

Zoning: It's generally against the law for people to shine shoes or perform other jobs on city streets, or to operate cottage industries at home. A person who seeks only to braid black hair cannot call herself a hairdresser without undergoing long and expensive training in skills she doesn't need.

Unemployment: Many people avoid looking seriously for a job until shortly before their unemployment insurance benefits terminate. Economists agree that unemployment insurance increases unemployment.

Social Security: From the beginning, money received in social security taxes was immediately paid out to whatever the government was spending money on that day. The Social Security trust fund consists solely of government bonds, which can be paid only from future tax revenues. When Social Security began, there were forty workers for every beneficiary. Now, there are three workers. In twenty years or so, there will be only two. Will those two workers allow themselves to be taxed enough to pay for half a beneficiary? Of course not. Wealthy white women, with long life expectancies, receive more than they paid into the Social Security system. Poor black men, with short life expectancies, receive less than they paid into the system. Poor black men therefore subsidize wealthy white women. The Social Security system must be revised, with the retirement savings of people under 55 invested in securities, like those of company pension plans.

Healthcare: The primary reason for the high cost of American healthcare is because people are prevented from paying for the first few thousand dollars of healthcare costs each year. Imagine if your food were paid by a third party. As one wag put it, "Forget hamburger; I'd want steak every day, and so would my dog." With third party payments, people care only about the quantity and quality of their healthcare. Costs are largely irrelevant, driving the costs all the higher. Another major driver of healthcare costs is high tort damages. Large campaign contributions from tort lawyers induce Congressmen to avoid capping such damages.

Lotteries: Government supplanted the private numbers rackets with state-sponsored lotteries, supposedly for education. But the money supplied by lotteries means that less money needs to be allocated for education from other tax revenues. Lotteries therefore enable the expansion of government across the board. While governments spend huge amounts in a failed effort to prevent drug addiction, they sponsor lotteries that create gambling addiction, especially among the poor.

Government Impediments to Trade: The costs to consumers from tariffs and other government impediments to trade are eight-to-ten times higher than the benefits to those who work in the protected industry. With tariffs on the importation of steel, for example, the costs to steel users greatly outweigh the benefits to unionized steel workers. Had our trade to Cuba not been embargoed in the 1950s, the Cuban people would be far more prosperous than they are today. Free trade makes people wealthy. Since dictators depend on poverty, Castro would long since have become history.

Price Controls: For over fifty years, New York City has imposed rent control. Wealthy people have gained the benefit. With stable lives, they remain in the same apartment with low rent for long periods. But the low rent means that landlords build less housing, which raises the rents of the poor, who move frequently. The price of U.S. milk is about double the world price, benefiting U.S. producers. Poor people spend a larger portion of their income on milk, and they are hurt disproportionately.

Capital: For every non-farm job in America, at least \$500,000 has been invested. Some of the investments are in the company involved. Others are in transportation, schools, and other infrastructure. A young person seeking a job doesn't have \$500,000, of course. That money comes from wealthier people. The higher the tax rates, the less the wealthy can invest, and the greater the rate of unemployment. Most government investments, by the way, are fruitless.

Drugs: The criminalization of drugs hurts the poor. Like alcohol, drugs should be treated as a medical problem. Let's say you're a retailer of illegal drugs, and I'm a wholesaler. We agree that I will supply you with a certain amount of drugs for a certain payment. You pay me, but I renege on the supply. You can't sue me, because we'll both be thrown in jail. You therefore enforce your property rights with violence. The criminalization of drugs causes the industry to be the greatest source of violence in America. Most of the victims are poor. Potential black entrepreneurs enter the drug trade, from which they end up in jail.

Regulation: In 2004, government regulation cost approximately \$1.1 trillion. This represented 11 percent of national income and was higher than the cost of healthcare. The burden of regulation falls heaviest on small businesses, which are the most likely to hire the poor.

Ethanol: Each gallon of ethanol requires more energy to produce (for farm machinery, etc.) than the ethanol itself supplies. Ethanol also causes engines to deteriorate faster than oil. Even if all of the corn grown in America were used to make ethanol, it would supply only 4 percent of America's energy needs. Meanwhile, the amount of corn diverted to ethanol drives up the world price of corn, causing suffering among poor people who depend on corn products for food.

Taxes: Governments control only the tax rates, not the revenues. When rates are raised, the economy suffers, especially for the poor, and government revenues fall. When tax rates are reduced, the economy thrives, especially for the poor, and revenues increase. The reduction of tax rates by Presidents Harding, Coolidge, Kennedy, Reagan, and Bush 43 were enormously beneficial. The IRS code, almost 17,000 pages long, generally benefits people and businesses which Congress favors and raises the cost of those it does not. The economic disruption hurts the poor most. Approximately 1.1 million people prepare tax returns for others – a huge, unnecessary cost.

Foreign Aid: The U.S. government pays foreign aid primarily to foreign governments, making the foreign *leaders* wealthy. During the dictatorship of Mobutu in Zaire, for example, the U.S. paid approximately \$4 billion to the Zaire government (formerly the Congo). Funny coincidence; Mobutu was worth approximately \$4 billion when he retired. As Thomas Sowell put it, "Poor people are taxed in America to pay rich people in foreign nations."

Lobbying: With government deeply involved in so many aspects of the economy, lobbying becomes irrepressible. The biggest lobbyists are government agencies themselves. But businesses must also influence government policies, if only to preserve themselves. Government too often accommodates companies by reducing competition. Would you like to fly nonstop from New York's LaGuardia Airport to Los Angeles? You can't; it's against the law. Most flights to or from LaGuardia cannot exceed 1,500 miles nonstop. Why? To protect Kennedy Airport and its airlines from competition. Producers of citrus, milk, peanuts, sugar beets, textiles, electricity, and many others have gained similar help in reducing competition, costing poorer citizens billions every year.

The Great Depression: During the Hoover Administration, tariffs were raised sharply, cutting international trade by two-thirds, and impairing the world economy. Top income-tax rates were also lifted from 25 to 70 percent, and federal expenditures grew faster than the economy. The money supply was cut sharply by the Federal Reserve, starving the economy for cash and forcing the general price level down by a third. Hoover urged businesses to keep labor costs high. Employees

who retained their jobs lived well, because their expenses fell more than their income. But employers had to lay off millions of others, causing the unemployment rate to soar to 25 percent.

Franklin Roosevelt raised the top income-tax rate to 90 percent, further slowing the economy. With revenues disappointing, he imposed excise taxes on everyday things like fruit juice, phone calls, cigarettes, movie tickets, radios, electricity, and cars, which hit the poor hard. The government also forced prices above their natural levels. Jacob Maged, a Jersey City immigrant, for example, was jailed for three months because he pressed a suit for 35 cents instead of 40 cents.

Unlike Wal-Mart today, chain stores in the 1930s were prevented from allowing customers to enjoy the savings from the store's big-volume purchases. In general, businesses in the 1930s were told how much to pay employees, how much to charge, how much to produce, and where to sell. Faulty government policies caused, lengthened, and intensified the Great Depression. Compare this with America's experience during the severe recession that occurred after World War I. President Harding interrupted his card games to cut federal spending and reduce tax rates. The economy rebounded within a year. Would that subsequent presidents played more cards.

The 1970s: The wretched economy of the 1970s also stemmed from faulty economic policies. Federal expenditures grew enormously. Capital gains were subject to a top rate of 70 percent. The government-imposed monopoly over the phone industry raised consumer costs significantly. Prices charged by railroads, airlines, and natural gas companies were all set by government. A trucker who brought a load of tomatoes from the country to the city couldn't return to the country with a load of furniture; no, the trucker had to return empty. Regulators often keep costs high to prevent new companies from entering the business, protecting their friends who are already in it.

The federal government under President Nixon imposed generalized wage and price controls. With products unrealistically cheap, demand was stimulated. But the artificially low prices caused companies to cut production, resulting in shortages. When the price controls were lifted, prices shot higher than they would have had the controls not been imposed in the first place. With the economy under stress, the Federal Reserve created an excess of money, causing inflation and high interest rates. But the Fed also imposed ceilings on the interest rates banks could pay for deposits. The ceilings prevented the banks from raising the rates to the high levels warranted by the inflation. People therefore moved billions of dollars from banks to money-market funds, squeezing the banking system dry. Nine percent unemployment resulted.

The Great Recession of 2009: The Community Reinvestment Act of 1977 forced banks to provide a certain percentage of their mortgages to people who generally couldn't afford repayment. In 1996, the applicable percentage was raised to 42 percent. In 2000, the rate was lifted to 50 percent, and in 2005, 52 percent. If a bank by then didn't lend over half of its mortgage money to people who couldn't afford them, regulators put the bank out of business. Desperate to meet the requirements, banks had to disregard problems and fraud in the mortgage applications.

The amount of debt in the financial industry soared. In 2008, for example, just the *problem* assets of both Lehman Brothers and Merrill Lynch were twice as high as the firm's total capital. The cause of the excessive debt was the guarantee of bank accounts and the supposed protection of investment assets by the federal government. With bank deposits guaranteed, for example, depositors are concerned only about the interest rate paid and the quality of service – not safety. America would be

better off if the government imposed no such guarantees or protections. People would then become very concerned about the safety of their financial institutions. The rich would pay for private auditors to audit the institutions, and the results would benefit the entire nation, including the poor.

Media: The media generally favor big government because government engenders more interesting news than the private sector. With government controlling so much of the nation's resources, policy changes and who's in power become vital. But millions of people fulfilling their personal needs by engaging in daily purchases and sales in free markets are too diverse and boring to hold interest, unless celebrity, sex, food, competition, conflict, disaster, or wrongdoing is involved. The media favor government solutions to problems and become another lobby for its enlargement.

Income Study: The media often point out that the gap between rich and poor in America has increased. This opinion is based largely on a study by academics professors Pikaty and Saez, a study that is deeply flawed. It analyses, not total wealth or income, but adjusted gross incomes reported on IRS Forms 1040. (Adjusted gross income is the number at the bottom of Page 1 of the Form.) Beginning in the early 1970s, the federal government permitted small business owners, who have high income, to report their business income in their *personal* tax returns. Furthermore, the highest tax rate on personal returns was set below the highest rate in corporate returns. Millions of small business owners therefore began to report their corporate income in their personal returns. Pikaty and Saez began their study the year *before* the change went into effect. The study therefore showed a tremendous increase in the reported income of the rich and did not reflect the large reduction of income reported in the corporate returns of those same small-business owners. In addition, the adjusted gross income on personal tax returns excludes funds invested in qualified pensions, such as IRAs and 401(k) plans. Enormous amounts of money have poured into these retirement plans from non-rich Americans. This wealth is not reflected in Pikaty and Saez's study. In general the income of the rich is exaggerated and the income of the poor and middle class is undercounted. This misleading study is nevertheless taken as valid by the media.

The Invisible Hand: A humble wooden pencil is fabricated worldwide by literally millions of people. Hundreds of thousands of people, for example, work at all levels of the world economy to make the trucks, saws and rope used to cut cedar trees for the pencil in California and Oregon. Thousands more in South America provide the coffee drunk by the loggers. Thousands make the locomotives, cars, and tracks to bring the wood to the mill. The mill uses electricity provided by thousands who built the nearby dam and the hydroelectric plant. The graphite (lead) is shipped from Sri Lanka and combined with Mississippi clay. Think of how many people are needed to make just the ships. The pencil's brass is made from zinc and copper, requiring thousands more. The eraser is made from sulfur chloride, rape-seed oil from Indonesia, and pumice from Italy. Literally millions of people combine their services to make a pencil, which costs only about 6½ cents. No person has enough knowledge to make a pencil from scratch. Most of the workers don't know each other. Their working together suppresses war. No government created this system. It's all accomplished by the invisible hand of free markets, which, surprisingly, benefit the poor more than the rich.

Incarceration: The United States incarcerates four times more people, usually poor people, per capita, than Canada. The reason America has so many prisoners is because it has too many laws.

Victimization: Big-government liberals tend to hold the view that only healthy, heterosexual, employed, white, adult males are responsible for their actions. Everyone else is considered a victim.

A Huge Income-Transfer Program: New cars are overpriced. Used cars are underpriced. The passing of cars from high to low levels represents a transfer of billions of dollars of wealth from rich to poor, with no government input. Would that the same pattern occurred with real estate. Alas, the government's deep involvement in real estate prevents this from happening.

Social Liberalism: The highest form of civilization is individual freedom. The more women who are restricted from aborting their fetuses, the more who die from quack-doctor infections. You own your own body; you should be allowed to sell your body parts. The supply of body parts would grow exponentially, saving many lives not being saved now. Charities would come into being to acquire body parts for the poor. The government should prevent people from directly hurting others, but not prevent people from hurting themselves.

Measuring Government Success: Since the government makes no profit, government executives can measure their success only by the number of people they control and the size of their budgets. Except for elections, government growth has no offset. Recently, the Government Accountability Office announced that the federal government had 15 agencies overseeing food-safety laws, 20 separate programs to help the homeless, and 80 programs for economic development. Most government programs create a relatively small constituency which benefits from the program in large amounts. But the costs are spread in small amounts among all Americans.

Private Versus Public: Thomas Sowell points out that private greed is making money selling people what they want. Public service is making people do what *you* want.

Elections: States and congressional districts are in competition with one another as to the amount of government benefits. The longer a senator or congressmen remains in office, the more goodies he can bestow. Therefore, voters are rational in reelecting senators and congressmen over and over. The solution: Term limits. Senators might serve for two terms, congressmen for four, (and judges for perhaps ten years). When a constituent who is denied a potential government benefit threatens to vote the person out of office, the officeholder can respond, "That's okay; I'll be leaving anyway."

#### Government's Proper Duties:

- Protect private property.
- Enforce contracts.
- Keep people from directly hurting others by force or fraud.
- Defend the nation.

In the long run, almost everything else big government does causes more harm than good. One way to limit government's reach is to make all of its revenues voluntary gifts. Government could pay for advertisements, but exercise no coercion in the collection of revenues. The government sector would then occupy a much smaller portion of the economy – probably the right portion.