



# FACTS & OPINIONS

*On Public Interest Issues*

## Quotes

Greater than the tread of mighty armies is an idea whose time has come.

—Victor Hugo

There is no art which one government sooner learns from another than that of draining money from the pockets of the people.

—Adam Smith

The freer you are, the more responsible you become.

—Jean Bethke Elshtain

Make all your scandals complex and you can beat the rap every time.

—Peggy Noonan

It is a signal mark of decadence when people are more troubled by pain than by sin, by suffering than by moral evil.

—William Temple

## Just The Facts — About Income "Growth"

Dr. Alan Reynolds, Hudson Institute

In the final presidential debate, President Clinton said, "Income is growing again, for the first time in ten years." You might think that a claim that income had not risen in ten years might raise a few questions. Yet the remark went unchallenged, like many other dubious assertions on both sides of the campaign.

The President was referring to a recent release from the Census Department, entitled Money Income in the United States. What that report actually said was "For the first time in six years, households in the United States experienced an annual increase in real median income." By this measure, income had not increased for six years, not ten. Getting the dates right is important, because the highest tax rates were reduced ten years ago (in 1986), but increased in 1990 and 1993. As it turns out, the

facts about income growth since 1989, or since 1992, are nothing about which to brag.

In 1995, median household income did indeed rise by 2.7 percent, as many newspaper headlines dutifully reported. But there was much more to the story than the general public ever read. For one thing, the same census report also points out that in 1995, "Median . . . [household] income was 3.8 percent below the 1989 level." For another, no other measure of income increased nearly as much as "household" income did in 1995.

The increase for married couples was only 1.8 percent. In fact, median family income has fallen by 3.6 percent from 1989 to 1995, after rising by eight percent from 1980 to 1989. Since average real income certainly did not increase by anything approaching 3.6 percent in 1996,

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**Just the Facts —  
About Income  
"Growth"  
Dr. Alan Reynolds**

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**FACTS & OPINIONS**

May 1997

Volume 3, Number 2

**Executive Director**

Dr. Don Racheter

FACTS & OPINIONS is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute, whose activities are supported by contributions from private individuals, companies, corporations, and foundations. The Institute does **not** accept government funding of any kind.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

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it follows that average family incomes in 1996 are still substantially lower than they were in 1989. That is unprecedented. In the entire postwar period, American families have never before gone seven years with no increase in average incomes.

Another way to measure income gains is to divide after-tax income by population. Unlike the usual measures of income by families (which means more than one person) or households (which includes singles), real "disposable" income per capita takes the 1993 tax increases into account. The census report notes that "Per capita income did not change in real terms between 1994 and 1995."

In California, in fact, real per capita income has not increased since 1992. Real after-tax income per person in that state rose to \$20,970 in 1995 from \$19,390 in 1992 — an apparent increase of 8.1 percent. But consumer prices rose by 8.6 percent from 1992 to 1995, which means real after-tax income per Californian actually fell by 0.5 percent.

The fact that after-tax incomes last peaked in 1992 is no coincidence. Had it not been for the 1993 increases in federal tax rates on gasoline, Social Security benefits, and the state's deceptively high nominal incomes (due to high living costs), there would

have been a slight increase in California's real income per person.

Returning to the 1995 national figures, why did household income increase more rapidly than incomes of married couples? Unlike other news sources, *Investor's Business Daily* noticed that most of the reported increase in real household incomes in 1995 was due to government transfer payments — more people becoming entitled to entitlements.

Among full-time workers, on the other hand, the income news was dismal. "The median earnings of women working year round, full-time declined by 1.5 percent," says the census report. "The last time women who worked year round, full-time experienced an annual increase in median income was 1992."

In fact, median income of working women fell 1.8 percent from 1992 to 1995. Brutal tax rates on second earners enacted in 1993, and the related stagnation of productivity since then, is surely the most plausible explanation. Yet the drop in incomes among working women did not need to be explained, because it was almost never reported in the general media.

In fairness, the apparent stagnation or decline of real incomes since 1989 or 1992 may well be exaggerated. That is because the usual method of adjusting for

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*Reprinted from Foresight, a monthly publication of Hudson Institute. For subscription information call: 317-545-1000.*

inflation exaggerates actual increases in the cost of living and thus understates real gains. However, the upward bias in the consumer price index, which the Boskin Commission estimates at about one percentage point per year, is nothing new. If real, inflation-adjusted income growth has been better than it looks in the nineties, then it was also better than it looked in the eighties.

Figures that show median family income falling by 3.6 percent from 1989 to 1995, in real terms, might thus be adjusted upward by one percent a year to show a negligible increase of 1.4 percent over the entire five-year period, or 0.3 percent a year. However, figures that show median family income increasing by eight percent from 1980 to 1989 would also have to be adjusted upward by one percent a year to show a corrected increase of 17 percent, or 1.9 percent a year. Excluding the recessions of 1981-82 and 1990-91 would improve the gains a bit, but the prosperity gap between the Reagan and Clinton years would remain just as embarrassing.

No matter how we fiddle with the numbers, real income growth has still slowed dramatically, to virtually zero in recent years, particularly for those who work for a living rather than depend on the generosity of taxpayers. Productivity gains have

likewise slowed dramatically, regardless of how much the measure of such gains may have been understated. Perhaps the 0.3 percent decline in productivity in the third quarter of 1996 should be adjusted to show an increase of 0.2 to 0.4 percent. If so, then productivity gains in the 1983 to 1989 expansion should likewise be adjusted upward to show gains of about two percent a year. Again the gap remains the same.

Stagnant productivity and salaries should have been the most fundamental economic issue of the last presidential campaign. Yet the public continues to be deprived of the facts. The fact is that living standards rose briskly in the much maligned 1980s, but have been virtually unchanged ever since. Reasonable people may disagree about the causes of income stagnation, but it is not so reasonable to ignore or deny such obvious facts.◊

**Food For Thought**

**If the soon-to-retire Baby Boom Generation receives the same level of Social Security and Medicare benefits as current retirees, the annual combined deficit for the two programs will increase to 1.7 trillion by 2030. To erase this gap would require a total payroll tax of 35% to 55% over and above federal and state income taxes.**

*David Egan, Wall Street Journal, 10/16/96*

## Ertl Toy Story

Terence P. Jeffrey

*Terence Jeffrey is editor of Human Events. Reprinted by permission of the author.*

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**An independent spirit, a willingness to take a risk. . .and a family that stuck together through hard times, all paid off in the end – not just for the Ertls themselves, but for everyone in their community.**

**A**t the end of the summer of 1945, when World War II was won, Fred Ertl's union struck against the Dubuque foundry where he worked. Fred didn't waste time on the picket line. He went home and started a business in his basement.

Stoking up a coal fire in an old pot-bellied furnace, Fred melted down war-surplus aluminum and poured the molten metal into molds of Mississippi sand. When his five young sons came home from school, they bolted the miniature tractor parts he had created into perfect scale models of John Deere's finest farming machine. Fred's wife Gertrude painted the little tractors on the kitchen table and kept the family books.

The eldest sons then toured Iowa in a 1940 Oldsmobile. They sold their prized product to scores of independent merchants in dozens of little farm towns from the bluffs of Old Muddy

to the banks of the Missouri. In the heart of Middle America, an American dream came true.

An independent spirit, a willingness to take a risk, a little imagination, a lot of work, and a family that stuck together through hard times, all paid off in the end — not just for the Ertls themselves, but for everyone in their community.

The little company grew. The Ertl toy story that started as a summer romance blossomed into a marriage between a family-owned business and a model American town.

In 1959, Ertl built a plant just west of Dubuque in the community of Dyersville — where Field of Dreams would be filmed. Before anybody ever spotted the fictive shade of Shoeless Joe shagging flies on the edge of a local cornfield, the Ertl family had created hundreds of real jobs right in the heart of the town.

## Ertl Toy Story

Terence P. Jeffrey

How do you preserve a family business from an inheritance tax designed to destroy it?

In truth, Ertl was the heart of town. Its exquisite miniature trucks inspired a happy cult of toy collectors. Dyersville was dubbed “The Farm Toy Capital of the World.” A “Farm Toy Hall of Fame” was built. Fred and Gertrude Ertl were posthumously honored as the first Farm Toy Hall of Famers.

But in 1967 the Ertls ran smack into the federal estate tax. Fred and Gertrude were retiring. They faced a dilemma that millions of Americans have faced in the decades since the 16th Amendment gave the federal government the power to tax estates: How do you preserve a family business from an inheritance tax designed to destroy it?

Son Joe Ertl explained the problem to the *Dubuque Telegraph Herald*. His family’s business was sold, he said, “. . .because of problems with the inheritance tax. You have to sell when you retire, or it's sold when you die.”

The Ertls sold to Victor Comptometer Corporation. The company entered the corporate food chain, and there was no turning back.

In 1977, Victor Comptometer sold out to Kidde and Company. In 1987, Kidde was consumed by a foreign conglomerate, Hanson PLC, a leveraged-buyout operation managed by two British peers of the realm, Lord James Hanson and Lord James White.

In building up its stable of American subsidiaries, Hanson also incurred a significant corporate debt. So in 1995 it “demerged” its debt-laden U.S. holdings into a separate corporation called “U.S. Industries” — run out of offices in London.

Ertl was not a poorly run business. It was consistently profitable. But U.S. Industries, looking for a way to cut costs and pay down its loans, looked south of the border for Ertl Toys.

Hanson had opened a toy factory in Tijuana, Mexico, in 1989 that it used only half the year. In the fall of 1995, with the new NAFTA trade agreement guaranteeing they could bring products into the U.S. tariff-free, U.S. Industries announced it was moving 300 jobs — more than a quarter of its payroll — from Dyersville to Baja. The Iowans needed \$9.00 an hour (\$18,000 per year) to get by. The Mexicans were willing to toil for \$1.50.

Peter Simon, an economist at Loras College told the Dubuque paper, “It’s too bad that corporate profits take precedence over worker loyalty and job security. It’s just a feature of capitalism that you have to maintain profitability, and those profits have to grow. You can’t really blame Ertl because they’re just trying to survive in a more competitive world.”

Herein is the phony class war of the estate tax laid bare.

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## Ertl Toy Story

Terence P. Jeffrey

The estate tax, meant by government to level incomes among Americans, robbed him of that choice.

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It is not “just a feature of capitalism,” as it has been practiced by American capitalists like the Ertls, that “corporate profits take precedence over worker loyalty and job security.” The traditional virtues and values that made it possible for the Ertls to create a family business in the first place precluded simple greed.

Would Fred Ertl, his company already making profits, have moved that company to Mexico simply to effect a marginal uptick in the bottom line? Would he have banished his neighbors' jobs? I doubt it.

The estate tax, meant by the government to level incomes among Americans, robbed him of that choice. It swept his company toward the hands of distant corporate raiders, trying to drive up stock prices, who need to cut every marginal cost to succeed. The estate tax took a company out of the hands of an American family of capitalists who cared about their workers and their town and put it in the hands of the very British aristocracy from whom the Founders of this Republic wrested our economic freedom at the risk of their lives, fortunes, and sacred honor.

Public corporations like U.S. Industries do not pay estate taxes. Why not abolish the tax, and keep the Field of Dreams level for the guy who starts a business in his basement?o

## The Darker Ages

Joseph Sobran

C.S. Lewis used to urge his students at Oxford and Cambridge to read one old book for every contemporary book they read — not because the old authors were always right, but because they at least made different mistakes from our contemporaries. They help take our minds outside the prison of modernity.

That's why so many of us still love (not always this side of idolatry) Shakespeare. He isn't always “right,” and it's misleading to treat him as a source of doctrine anyway. But he presents us with a nobler world than our own, a world of higher moral aspirations, even though it's also inhabited by such human fiends as Iago and Goneril. Of course it's a world in which even monsters speak with wondrous excellence. If only our politicians could talk like Caliban!

For the last few decades, leftist scholars have been discovering reactionary attitudes in the classics — racism, sexism, anti-Semitism, imperialism, the lot. But just as the progressive forces have gone from attacking religion and the family to the subtler strategy of appropriating them (as in “gay marriage”), the more sophisticated leftists have lately moved from disparaging the classics to claiming them as their own.

## The Darker Ages

Joseph Sobran

What is now called multiculturalism, might better be described as anticulturalism.

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The Greeks have been enlisted in support of sodomy, and Garry Wills has recently tried to make a feminist heroine of Odysseus's faithful wife Penelope. Of course the Greeks favored pederasty and despised homosexuality between adults, while Penelope remains the archetypal example of standing by your man (even while he disports himself abroad with other women); but let's not quibble. The classics also have their subversive uses.

Wills is right about one thing, though: the classics shouldn't be appropriated by defenders of the status quo either. They don't all speak in unison, much less in favor of the sort of political regime we live under today.

But that is precisely what Lewis meant. His conservatism was a genuine effort to conserve things in peril of oblivion. As a devout Christian, he saw the modern world as grossly abnormal and in need of infusions from other cultures. (Among the Elizabethans, by the way, he much preferred Spenser to Shakespeare.)

Lewis's classicism, in other words, was really "multicultural." But unlike today's multiculturalists, he wasn't intent on destroying

Christian culture; he wanted to restore it to health.

What is now called multiculturalism might better be described as anti-culturalism. Every sin of Christian civilization pales beside those of pagan cultures, where massacre, torture, tyranny, infanticide (especially of female infants), abortion, slavery, sexual mutilation, pederasty, and other inhuman and degraded practices have abounded.

The misnamed "Dark Ages" were actually the period during which Europe absorbed Christianity and abolished or modified the customary cruelties of the ancient world. In fact, it is an act of historical ingratitude to call that period the "Dark Ages," when it actually marks the longest span of real moral progress in recorded history.

The modern world reserves the term "progress" for the tradition of destroying the colossal achievements of the "Dark Ages," and congratulates itself on its degradation. We need not only to conserve the testimony of the past, but to keep it undefiled by ideology, or we'll soon be living in the dark ages.○

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600 North Jackson Street  
Mt. Pleasant, IA 52641**

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U.S. POSTAGE PAID  
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PERMIT NO. 338

*FACTS & OPINIONS* is our quarterly membership newsletter arriving in February, May, August, and November. It consists of short articles and essays on current public affairs. If you have an article that you believe is worth sharing, submit it to:

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