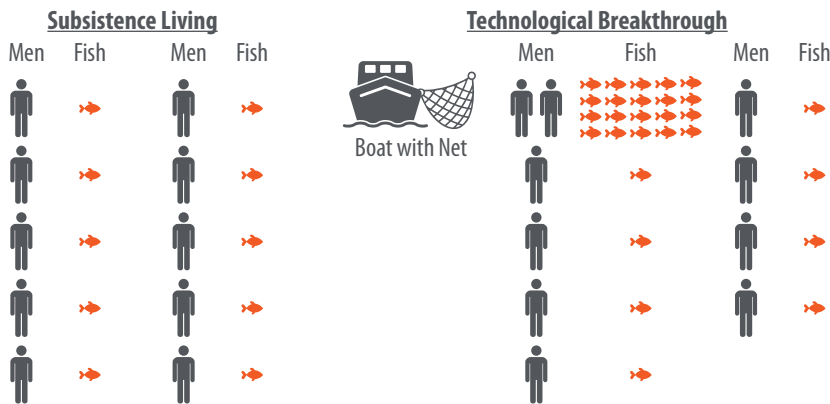


From Subsistence to Prosperity: Why Redistribution Fails

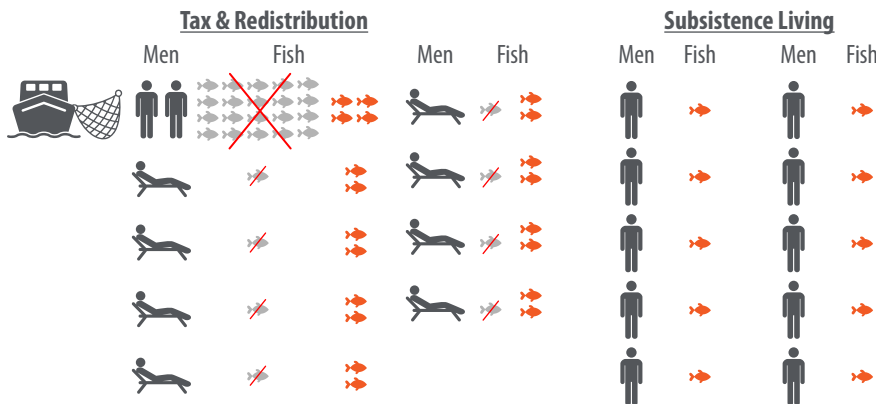
In this week's "Three on Thursday," we explore how high taxation and income redistribution harm living standards, stifle economic growth, and hinder wealth creation, using Paul Zane Pilzer's *Fish Story* from his 1990 book, *Unlimited Wealth*. Today, 18.5% of personal income is redistributed by the government, while 40% of total income is taxed (or borrowed) and spent at federal, state, and local levels. This heavy burden has prevented the U.S. economy from achieving 4% real GDP growth. Wealth isn't a finite resource to divide—it's generated through innovation, productivity, and investment. High taxes and redistribution, though often well-meaning, literally rob the US economy of the benefits of technology. Economies thrive with smaller governments, but living standards decline with big governments. European economies, with even higher taxes, have grown slower than the U.S. for decades. Below, we've included three graphics and the fish parable to explain how redistribution harms growth.

Subsistence Living & Technological Breakthrough



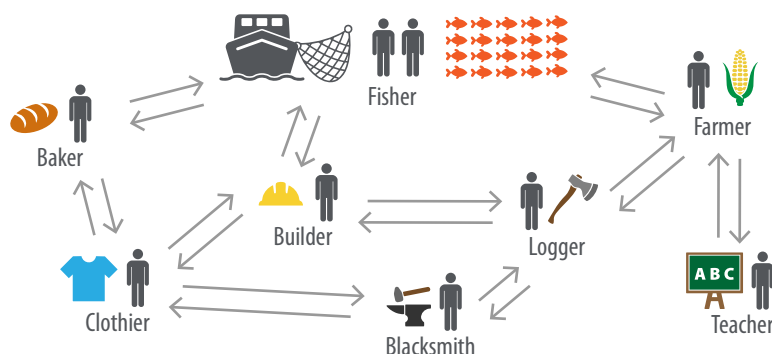
Imagine a self-sufficient island with ten men who make their living fishing from shore. Each day they wake up, go to sea, catch a fish, eat it, and go back to bed. It's subsistence living at the most basic level. There are no savings – no stored or saved wealth. If someone gets sick and can't fish, there's no way to help them. No one has any extra. Two of these people dream of a new technology – a fishing net and boat. They spend six days fishing only a few hours a day and risk catching just one fish between them, slowly starving, but use that extra time to invent the iBoat and iNet. On the 7th day, they go out to sea and catch 20 fish in the iNet – it worked! Now, it only takes two men to catch more than enough fish for the entire island. Thanks to this breakthrough, their productivity has skyrocketed—each iBoat fisherman is now 1,000% more productive. But what happens to the other eight men? The invention has changed everything.

Redistribution Robs the Benefits of Technology



At this point, the island faces two possible futures. In the first, the eight without a net start to feel cheated. With the two men now producing 20 fish a day, the other eight decide it's not right they get to have more fish than what they really need. Because of this "inequality" they decide to tax 80% of the fishermen's income—taking 16 fish—and redistributing two fish to everyone. At first, this seems fair, the technology has lifted everyone's living standard. Each person gets two fish instead of one. But the two fishermen lose their incentive to maintain or improve their net and boat. Moreover, the other men on the island lose their incentive to fish at all, since they know their food will be provided by the tax. Over time, the boat and net fall apart, productivity collapses, and the island returns to subsistence living. This is the problem with taxation for redistribution: it literally robs the benefits of innovation and progress. Everyone was better off because of the boat and net, but heavily taxing their creators stifles future advancements and destroys incentives. Inequality caused by innovation isn't a problem—it's a sign of growth and potential. To understand, think of the alternative.

Technology Boosts Living Standards



With just two men now producing enough fish for everyone, the remaining eight are free to explore opportunities aligned with their unique skills and passions. Some might farm corn, gather coconuts, or prepare and preserve food, while others focus on improving the boat and net, developing new tools, or even crafting goods and services. These new contributions allow them to trade with the fishermen for surplus fish, fostering a dynamic and cooperative economy. With their time and energy redirected, they can build better shelters, create storage systems, and focus on education, healthcare, and innovation. Over time, this leads to a flourishing island—a community that moves beyond survival to achieve prosperity, innovation, and a significantly improved quality of life for everyone. Fear of inequality and the growth of government are the enemies of prosperity – and the American experiment is the proof.

There is no guarantee that past trends will continue, or projections will be realized.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.