Growing Social and Wealth Inequality in America

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Global Research, December 16, 2012

Region: USA
Theme: Global Economy, Poverty & Social Inequality

> *"These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but the indispensable units of economic power…that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid."* **Franklin D. Roosevelt** (1882-1945), 32nd American president (1933-1945), 1932

> "Money becomes evil not when it is used to buy goods but when it is used to buy power… economic inequalities become evil when they are translated into political inequalities." **Samuel Huntington** (1927-2008), American political scientist

> *"Social and economic inequalities are to be arranged so that 'they are to be of the greatest benefit to the least-advantaged members of society' (the difference principle); offices and positions must be open to everyone under conditions of fair equality of opportunity."* **John Rawls** (1921-2002), American philosopher and moralist, (A Theory of Justice, 1971, p. 303)

On November 6, 2012, American voters chose not to entrust their central government to ultra-conservative billionaires and their candidates and they rejected their anti-government, low taxation and no regulation ideology.

One reason may be that there is a perfect storm brewing in the United States in the direction of an ever greater income and wealth inequality. However, a majority of Americans are beginning to understand that the ultra-conservative ideology and the government policies it generates play a large role in the fact that a minority of very rich people are getting richer while a majority of poor and middle income people are getting poorer.

Recent studies indicate that over the last thirty years, in the United States, the rich have been getting richer at the same time that the poor and the middle class have become poorer.

Indeed, from 1983 to 2010, the share of total wealth in the U.S. held by the richest 10 percent of American households increased from 68.2 percent to 76.7 percent, while the other 90 percent of the population got poorer. Other measurements show the same results regarding a move toward greater income and wealth inequalities. For example, in 2010, the top 20 percent of the U. S. population owned 95 percent of financial wealth, while the other 80 percent of the population owned only 5 percent of financial wealth, and some were deeply in debt. In 1983, the comparable figures were 91 percent vs 9 percent.

Consider a few other indicators of income inequality:

-In 2012, the average CEO of the Standard & Poor's 500 companies earned in compensation 380 times more than the average American worker. To keep things in perspective, consider that in 1965, (N.B.: a time when an executive used to be viewed as a worker and not as an aristocrat or a god), the average CEO earned in pay 20 times more than the average American worker. You thus have an idea of how absurd the differential has become and how rigged the market for CEOs has become.

– Similarly, the share of total U.S. income earned by the top 1 percent of Americans was around 8 percent from 1963 to 1983. Since 2000, however, this ratio has hovered around 20 percent. —Some people's greed has no limit. When they have millions $, they want billions $; when they have billions $, they yearn for trillions $.

The inevitable conclusion is that, over the last three or four decades, economic policies have favored the richest citizens while they have worked against the economic interests of the majority. This is bound to become an increasingly important issue in the coming years, economically, socially and politically.

What are the causes behind such a shift toward growing inequalities?

This is a complex question. In any given year, many factors influence an economy. Some economic policies, however, have a long-lasting effect.

Therefore, to answer such a fundamental question, we may begin by considering the implications of a recent fact finding by the central bank of Canada. Indeed, the Bank of Canada attempted to explain why American economic output is still about 6 per cent lower than its potential and why unemployment is nearly double of what it should be. It found the answer in the fact that one trillion dollars is missing from the U.S. economy.

This is money that is missing from the income stream; money that has been taken out of the income stream and not re-injected into the economy. In a word, because of government subsides to recapitalize the banks, one trillion dollars has been taken from some Americans and put into the pockets of some other Americans who have not spent it. Thus the double wammy of having very rich Americans getting richer while the majority of Americans are getting poorer. In other words, the same causes that are behind the slowdown in the U.S. economy are also the same factors that explain why the very rich are getting richer and the poor and the middle class are getting worse off.

There are five main causes that go a long way towards explaining both the relative stagnation of the U.S. economy and the widening of the gap between the very rich and the rest of the population.

1- First. The ideology of an open world market and the free movement of capital and companies

Once the principal comparative advantage that the United States used to have over other national economies was its large domestic market. An economic principle states that "economic specialization is a function of the size of the market". Indeed, when producers can mass produce, this results in economies of scale, with unit costs going down and productivity going up.

However, the U.S. government gave up a large chunk of this comparative advantage when, pressured by large banks and large corporations, it accepted free trade and free capital movements with some developing countries, including communist China.

This policy has allowed U.S. firms to out-invest and and to out-source their production to low-wage countries under the cover of the ideology of world free movement for capital. This was advantageous to the CEOs of these banks and companies, but it severely disadvantaged the American working class. What's more, out-sourcing campanies could take advantage of the U.S. tax code and not pay any tax on their foreign earnings. The U.S. central government and U.S. state governments have suffered as a consequence.

2- Second. A broken immigration policy

Not only did the U.S. government allow American companies to export their capital and technology abroad, but its immigration policy of letting in poorly trained and/or low wage foreign immigrants also has had the effect of keeping down the wages of low-skilled American workers in many industries.

3- Third. A tax code skewed in favor of the very rich

The overall fiscal crisis in the United States is the result of low economic growth, of a declining share of corporate tax revenues and of huge tax cuts for the very wealthy. Lower effective taxation for large corporations and for the very wealthy individuals who can park part or all of their financial wealth abroad, has allowed them to avoid domestic taxation. These taxation loopholes combined with huge public deficits are at the very root of the U.S. fiscal crisis.

Indeed, corporate tax revenues in the U.S. are at a 40-year low as a share of Gross Domestic Product (GDP). Presently, this ratio is close to 1 percent. In the 1950s, it was around 6 percent of GDP. This is because large American corporations have become "expert at avoiding taxes", by shifting production to low-wage countries and by shifting profits to low-tax countries.

Sycophant media sometimes point out that the U.S.'s top corporate tax rate is 35 percent. However, they fail to report that the real amount American corporations actually end up paying to the government is much lower, sometimes as low as 4 percent or less. This is the result of various deductions, write-offs, and other accounting tricks that allow corporations to legally reduce their tax burden.

As for the taxation of very high incomes, legislators should at the very least consider adopting Warren Buffett's rule for tax fairness. Indeed, according to the Buffett Rule for tax fairness, no household making over $1 million annually should pay a smaller share of their income in taxes than middle-class families pay.

4- Fourth. The Housing crisis, the Financial crisis and the Fed's policies to shore up large banks

The 2005 housing crisis and the subsequent financial crisis that unfolded after 2007 has hurt the American middle class badly. Not only millions of Americans lost their homes through bank foreclosures, but most everyone else suffered huge losses in their home equity and saw their net worth severely reduced.

Add to that the fact that savers and retirees have been crushed by a Fed policy of negative real short- and medium-term interest rates that have reduce interest income, a policy designed primarily to shore up large nearly insolvent, and close to bankruptcy, American banks.

5- Fifth. The waging of foreign wars financed with debt

The very rich in the United States are inevitably at the forefront when it comes to supporting U.S. foreign wars of aggression abroad, but they are usually most reluctant to pay for such wars with the required tax revenues. Moreover, not only do such foreign wars increase the federal fiscal deficit, they also increase the U.S. trade balance deficit and they put pressure on the U.S. dollar.

All these factors have contributed in lowering job creating investments in the United States, in squeezing the incomes of the American middle class, in reducing its wealth and in slowing down consumption spending and economic growth.

Indeed, even though the U.S. government runs huge fiscal deficits, this is not enough to compensate for the money draining out of the United States, thus leaving the U.S. economy in a state of permanent economic stagnation.

Faced with such protracted problems, what would be the best way to tackle them?

The logical approach would seem to be to simply stop and reverse the public policies that have resulted in creating the five causes behind the growing income and wealth inequalities in the United States. Saying that is also saying that the principal cause of economic stagnation in the U.S. is political. Indeed, on a practical level, only the U.S. government and its agencies can correct the bad economic and social policies of the past.

However, there is a conundrum: There is a vicious circle at play when income and wealth inequalities are growing. This comes from the fact that when wealth has become concentrated in a limited number of hands, the principle of compound interest tends naturally to make matters worse. Large fortunes tend to grow in a compound way, especially if taxes are avoided.

A second factor normally enters the picture: The more money the super rich have, the easier it becomes for them to corrupt the political process and to steer legislation and regulation in their favor. The problem may thus become intractable, and no reform may take place through normal legislation. Indeed, a government may be deadlocked for years by special interests. This is the murky world of "winners-take-all politics". As President Thomas Jefferson once observed, such political problems are very difficult to correct, short of a revolution.

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