

Occupy Wall Street: Poverty and Rising Social Inequality, Interrogating Democracy in America

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By highlighting rising inequality and poverty in America and asking why “the one percent” has been so successful in tilting state policy in its favour, the Occupy Wall Street Movement (OSW) is raising old and new questions about the nature and quality of the country’s democracy. It has brought into the spotlight the fact that the vast majority of the country’s citizens are unable to exercise the countervailing power needed to wrest for themselves some basic entitlement that are largely available to citizens of many social democratic countries.

Whether the Occupy Wall Street movement (OWS) can sustain its fight for a more equitable America remains to be seen. But it has succeeded in raising two critical issues. It has highlighted the issue of rising inequality and poverty in America attracting considerable attention from academics and the media. It has also interrogated the quality of American democracy, raising an old question once again. Why has “the 1 percent” been so successful in tilting state policy in its favour in a democracy that is supposed to favour the majority?

This article attempts to offer some observations that shed light on these questions. It is organized in three parts. First it briefly examines the evidence showing rising inequality and increasing deprivations of the disadvantaged classes. Second it draws on some scholarly work on comparative politics to argue that the capacity of American democracy to achieve equity-enhancing and redistributive outcomes has continued to be at a very low end in comparison with other western democracies. The decisive factor, it argues, is the absence of a social democratic state and of countervailing movements and parties of the lower classes to counter the power of the corporate elite. For unbridled capitalism, unchecked by democratic pressures from below, in fact results in monopoly capitalism and its political cousin oligarchy. In the final part it offers some comments on the ideology of individualism and anti-statism that supports laissez-faire capitalism in an attempt to shed some light on its persistence and even resurgence in the face of the evidence of the systemic nature of America’s poverty and inequality.

Rising inequality and poverty

A spate of recent studies support the truth of the movement’s core grievance about rising inequality and increasing deprivations of the country’s disadvantaged classes. The respected Economist magazine (no enemy of capitalism) stated in a recent article (October 26, 2011) that the “We Are the 99%” banner is, in fact, “underpinned by some solid economics”¹. It added that the top 1 percent “have made out like bandits over the past few decades, and that now everyone else must pick up the bill”. The article was referring to a recent study by the US Congressional Budget Office (CBO, 2011) which reported that between 1979 and 2007 the top 1 percent saw their average real after-tax household

income grow by 275 percent and that much of this increase had taken place in the past few years of the new millennium. It also noted that between 2005 and 2007, the after-tax income received by the 20 percent of the population with the highest income exceeded the after-tax income of the remaining 80 percent. Another study by Reardon and Bischoff (2011) showed that not only was income disparity increasing and the middle class shrinking, but that the increasing divide was leading to newer and greater segregation of affluent and low income neighbourhoods. According to Julius Wilson, a sociologist at Harvard who has seen the study, the “rising inequality is beginning to produce a two-tiered society in America in which the more affluent citizens live lives fundamentally different from the middle- and lower-income groups. This divide decreases a sense of community.” (New York Times, 2011)

These reports only confirmed what has already been known to many social scientists. For example, the sociologist G. William Domhoff who has studied rising inequality in America for years provides detailed data in the 6th and latest edition of his book on the subject (2010). He documents in detail how the top 1 percent has been gaining in recent years and how a decade into the new millennium this 1% held 34.6% of all wealth (2007) and 21.3% of income (2006). It is not surprising, then, that America’s Gini-coefficient of 40.8 is one of the highest (compare with Canada’s 32.6 or Norway’s 25.8) among the 47 countries listed in UNDP’s Very High Human Development category or VHHD(UNDP, 2011).

But the more shocking figures appeared in a report released by the US Census Bureau (CBO) earlier this month about the “losers” in the system. According to its *Research Supplemental Poverty Measure: 2010*, a whopping 49.1 million or 16 percent of the total population are now living in poverty. The *Supplementary Measure* attempts to provide a more reliable and comprehensive view of poverty than the earlier CBO report by factoring in benefits such as food stamps and tax credits as well as out of pocket expenses such as medical bills. It added 3 million more to the earlier official figure of 46.2 million or 15.1 of the population, already the highest proportion since 1994. Predictably, the poverty figures are much higher for vulnerable groups: 25.4 percent for African Americans and 28.2 percent for Hispanics. One of the findings especially noted in the Supplementary Report is the high poverty rate of the age group of 65 plus which stood at 15.9 compared to 9 percent in the earlier report. It turns out that the decisive factor that made the difference was out of pocket medical expenses that had not been taken into account in the earlier report.

The US health system has been in the spotlight in the aftermath of the “Obamacare” controversy. It leaves over 50 million Americans without health insurance coverage despite being the most expensive in the world (more on this below). Not surprisingly, health indicators in America compare unfavourably with those in UNDP’s VHHD group of 47 countries (UNDP, 2011); compare, for example America’s Life Expectancy of 78.5, Health Adjusted Life Expectancy of 70, and Under 5 mortality rate of 8 with Canada’s 81, 73, 6 and Japan’s 83.4, 76,3). Health indicators too vary greatly across social groups; Infant Mortality Rates (IMR), for example, range from a low of 5.7 for whites to a high of 14 for blacks (Burd-Sharps et al. 2008). Observers such as Amartya Sen have noted that life expectancy of African American males in the United States is lower than that of males in the Indian state of Kerala.

Recent reports about food insecurity in America present an even more scandalous picture of hunger amidst plenty in a country that is the world’s largest exporter of food and home to the most powerful agribusiness corporations. A recent study on food insecurity by the US department of agriculture reported that 50.2 million Americans (15% of the population) including 17.2 million children (one in four) were food insecure in 2009 (Nord et al 2010).

Another study (NCBR 2010: 2) stated that the number of people seeking emergency food assistance each year through food banks has increased 46% since 2006, from 25 million to 37 million, the highest numbers seen in the organisation's 26-year history.

Interrogating American democracy

The "occupy movement", then, is an expression of public anger (though it still may not show the intensity needed to be labelled a "movement of rage") in the face of these facts that have affected so many people's daily lives. This movement, the context of relative deprivation that triggered it and the response (or the lack there of) to the movement from the country's policy makers provide the point of departure for this section dealing with America's democracy. On the last point about response, it is pertinent to note that the recent preoccupation in Washington has been not with this movement (largely dealt with by the police) but with the proposed budget reduction of 1.2 trillion dollars needed to balance the country's budget. What is clear is that for the poor and the middle classes there will be no bail outs, only more cutbacks of their social safety nets. In the face of fierce resistance to all attempts to shift some of the burden to the rich (eg., by increasing their taxes), it appears that the proverbial Marie Antoinette will tell the poor what they should eat. The question(s) for us, then, is quite clear: what is it about American democracy that a) does so poorly in translating its wealth into general social well-being, in spreading its bounties more equitably across its population and in making better provision for social welfare and security, and b) makes it so impervious to the demands (or is it cries?) of the disadvantaged classes?

We examine these questions by drawing on the works of scholars who have explored these from American and especially cross-cultural perspectives. For example, the late American political sociologist Lipset, the leading theorist of "American exceptionalism" [2] has highlighted three elements of America's outlier status (among Western democracies) that are important for our discussion. First, America, he says, "... combines exceptional levels of productivity, income, and wealth with exceptionally low levels of taxation and social spending and equally exceptional levels of income inequality and poverty" [iii], and that this has continued to be the case even after Europeans have moved farther to the right in the past two decades. Second, America also stands out for its weak labour unions and the absence of any strong working class movement, socialist or social democratic party. A third and related element (though not a direct target of the OWS) is the absence of even a minimally effective green movement or party, and this in a country that is the world's biggest polluter and emitter of CO2 [iv]. The nexus among these elements seems obvious, but first it would be helpful to broaden our perspective by drawing on some pertinent findings of comparative studies that include the newer democracies in the global south (including India). This is of particular relevance at a time when America leads the western project to export democracy and good governance across the world. Note that our interest here is on "degrees of democracy" in terms of not only their formal and procedural dimensions, but more importantly their substantive and effective dimensions [5].

A general conclusion offered by these studies, cogently stated by Heller (2000, 490), is that effective (vibrant, deep, high-energy) democracies give rise to redistributive pressures.

Heller quotes Przeworsky in explaining the logic underlying this generalization: "If the median voter is decisive, and if the market-generated distribution of income is skewed toward lower incomes (as it always is) then majority rule will call for an equality of incomes". While Przeworsky's focus here is on voting (a critical aspect of democracies), these studies

also examine democratic processes beyond voting by which mobilized social groups and political parties – robust, rational legal organizations such as unions and farmers and students organizations- engage with and exert organized pressure on the state to produce greater equity-enhancing and redistributive outcomes. These may range from strikes and demonstrations to lobbying through unions and political parties. Holding up the social democracies of Scandinavia and western Europe as their standards, they have, nevertheless, found successful models of “social democracies in the global south” (eg., Sanbrook et al, 2007, Heller, 2000, Tharamangalam,2010). One of the most significant findings from the success stories of the global south is that there is a substantial difference in quality of life and social well-being (measured as social or human development) between countries or regions with comparable economic growth or per capita incomes, and the decisive factor here is the quality of its pattern of democracy (governance, politics) which determines the degree to which the historically disadvantaged classes have been able to exert pressure on the state or even to re-constitute the state to act on their behalf[6]. Well known examples of these are Costa Rica, Chile, Mauritius, and the state of Kerala in India. Kerala, the last considered to be decades ahead of India (especially the socially backward North Indian states) in human development, achieved its gains mostly at a time it was actually below the Indian average in economic growth and per capita incomes[7]. Furthermore, Kerala has also shown far greater capacity to translate its growth into poverty reduction; growth elasticity of poverty here has been four times that of north Indian states such Bihar.

India, the world’s largest democracy, is perhaps as interesting a case as America since its poor record in reducing poverty and inequality and in the provision of social security among the developing countries is, in many ways comparable to America’s poor record among the developed countries. One of the best accounts of this failure has been provided by Atul Kohli, whose investigations of the Indian case has also benefited from his considerable comparative work on the subject. According to him the redistributive capacity of the Indian state, always low, declined even further in the past two decades. This latter period, he says, has been marked by a shift in the Indian state from “a reluctant pro-capitalist state with a socialist ideology to an enthusiastic pro-capitalist state with some commitment to inclusive growth”. He then asks if and how democratic politics can counter class power and if “democracy and activism of the poor (can) modify this dominant pattern of development“(2010,182)[8]. In the end he seems to be cautiously optimistic as he sees some promising signs of such democratic activism and pro-poor policies (eg., the National Rural Employment Guarantee Policy, the Right to food campaign). Kohli concludes his study with some policy prescriptions for more inclusive growth (asset re-distribution, more investment in human capital, some welfare), and this final remark: “Policy regimes that have succeeded in pursuing such a program have more often than not been social democratic” (2010, 282).

Kohli’s observation underscores the well documented fact that on measures of equality, human development and poverty alleviation social democratic and socialist countries have had a much better record. It may be noted that on the whole the former socialist countries, despite many changes and even some reversals in achievements, continue to have high HD indicators, several of them still ranking among the VHHD group (UNDP, 2011). Cuba, still sustaining its socialist system, ranks 51 in the HDI with a non-income HDI value (0.904) on par with the top few in the VHHD group. Behind these achievements is a history of democratic struggles. Social democracies (of the European and Canadian vintage), founded on a historical class compromise and social contract, have systems of social distribution and

public provisioning for social security, and for public goods such as education and health and guarantee what Amartya Sen calls citizen's *entitlements*.

But America is *exceptional* as noted by Lipset above. There is no social democratic party of the European vintage (earlier such movements never having taken deep roots), but political actors ranging from the Tea Party and the Christian right to the mainstream republican party react with a certain visceral rage to social programmes that they label "socialist". A case in point is "Obamacare", in effect a rather modest medicare system in comparison with what is available to citizens of democracies in western Europe and Canada. Anxiety about cost cannot be the cause of this rage because, in fact, the US spends a far higher proportion of its GDP per capita to keep the current inequitable system than any other country in the world. The figure for 2008 (WHO, 2011) was 15.2 (\$7164 in PPP); by contrast Canada spent 9.8 of its GDP and Japan 8.3 percent with better and certainly more equitable health outcomes. The political right is outraged because it sees any system of universally accessible medicare as *socialist*, inimical to the American ethos of self reliance that keeps the state out of people's lives. There is a cruel irony here in that the 1 percent super-rich (and the next 19 percent of privileged professionals such as lawyers and doctors), through their electoral contributions and lobbyists and monopolistic guilds, have successfully used the state to sustain and enhance their privilege and have increasingly become rent-seeking classes. In David Harvey's words (2005) much of the transfer of wealth to the upper classes during the neoliberal period has been the result of "accumulation by dispossession", a far cry from the ideal of a creative laissez-faire capitalism, held up by the political right for its unique ability to reward innovators and wealth creators. It appears that the laissez-faire concept contains its opposite: free-market capitalism, unchecked by democratic pressures, leads to monopoly capitalism and its political cousin, oligarchy, as indeed well recognized by classical theorists from Lenin to Baran and Sweezy (1966).

A Note on ideology

Why did socialist and social democratic movements, critical in shaping the *effective* democracies discussed above, fail to take any deep root in America? A recent article about Obama's supposed plan to foist social democracy upon Americans was interestingly titled: "It Can't Happen Here: Why Obama won't bring European social democracy to America" (Weisberg, 2009). The author argues that European style social democracy "can't happen here" because "Americans are defined by a history of immigration in pursuit of freedom and opportunity" and an ethos (of laissez-faire) "too ingrained in culture and tradition to imagine trading places". That history, of course, is a complex one, and the immigrants who shaped it were of classes ranging from slave traders and slave masters, cow boys and robber barons, speculators, fortune makers and adventurers to slaves, wage labourers, traders and independent farmers on the other. The historical weakness of lower class movements and parties has many causes, institutional and cultural. Scholars such as Lipset have especially noted the highly differentiated and heterogeneous (ethnic, religious, linguistic, etc) character of America's lower classes and the ingrained ideology that Weisberg refers to. The following observations about this ideology, it is hoped, will shed some light on the kind of political debate in America and the fierce opposition from the right to the provisioning of health care and other public goods that they see as *socialist*.

This ideology has many strands, and a benign side as well as a not-so benign one. Its benign side is underscored by the ideal of attracting and rewarding innovators and inventors and the story, both real and legendary (eg., Horatio Alger), of the many who have followed the call to the "land of opportunity" for the pursuit of excellence in so many business, academic,

scientific and artistic fields. This idea was best described to me by the late Indian philosopher and writer A.K Ramanujam at a private lunch I was privileged to have with him in the mid 1970s. There was no country like America, he said, where a bright, ambitious and enterprising researcher and scholar (like himself) could find the best opportunity to pursue his scholarly work with practically unlimited resources and encouragement and with almost complete freedom and non-interference from jealous superiors in the bureaucratic hierarchy, a pattern he knew very well from his Indian past.

The other, not so benign side of this ideology also has different strands. One of these celebrates the pursuit of self-interest (in less charitable terms, greed) as the necessary engine of development with a paradoxical promise that this will eventually converge in the common good (by the invisible hand , but also through the trickling down effect). As Lipset (2000) aptly puts it, “at best, it holds out the promise of a lottery, but like all such awards, the jackpots go to a relatively small minority of players”. Another, more invidious strand of this ideology legitimises the deprivations of the disadvantaged classes as their due. It may have historical roots in the Social Darwinism that was widely prevalent among the robber barons of the 19th century, an ideology that sees the world as an arena in which each person must fend for herself, a world in which the fittest survive and the winner takes it all. Social Darwinism was also closely linked to a religious ethos that Max Weber labelled the *protestant ethic*. The latter not only promoted the ethic of hard work, thrift and asceticism among the entrepreneurial and working classes, but in a more insidious manner also disparaged the “do-gooders and bleeding hearts” who sympathised with the plight of the deprived classes. Compassion for the poor was seen as both futile and counterproductive as their suffering was seen as natural and inevitable. As noted by Weber, such an ethos may have been linked to the Calvinist doctrine of predestination, which, though unintended by Calvin, nevertheless contributed to the belief that the suffering of the poor is their desert (much like the way the theory of *karma* legitimized the social disabilities of India’s low castes). It devalued the earlier Christian virtue of charity as well as the ethical ideal that the state (sovereign) must look after the public good. Admittedly, this is an oversimplification since ideologies are always contested, and since there were counter movements and the ideal of philanthropy by the rich (who, for example, contributed much to the promotion of education). But I believe it helps to make some sense of the otherwise bewildering beliefs held by the Christian right in America.

Ideologies, as masks obscuring and mystifying social reality, take on the garb of science or of religious dogma. The current dogma that bankers get bail-out (too big to fail) while the poor get cutbacks of their social safety nets is also presented in the garb of an immutable scientific law governing the health of a country’s economy. That the scientists (in this case neoliberal economists) who propound these laws enjoy certain credibility among the policy makers and chattering classes shows the dominant (if not hegemonic) status of this ideology in today’s capitalist societies. But the very fact that the OWS movement has spontaneously spread across America and across the world and may even be sustained, albeit in mutated forms , (just as the public enthusiasm generated by the promise of change held out earlier by Obama’s “yes we can” campaign) is evidence that the current form of capitalism and the ideology that buttresses it are not uncontested, and that both social criticism and oppositional movements are alive. The extent to which these have the ability to exert greater redistributive pressures on the system is still an open question.

Notes:

[1] Striking a slightly different note, the Time magazine devoted a recent issue (Nov.14, 2011) to the issue with a cover package titled “Can you still move up in America?”. It argues that upward mobility in the US is now well below that in most European countries and highlights the nexus between social mobility and income inequality.

[2] Note that this concept has been used to mean different things by different people, for example by some sections of the Christian right to refer to their belief that America is the “Promised Land” or the “New Jerusalem”. For Lipset the critical elements here are the absence of left movements and an American “creed” behind this.

[3] The quotation is from Lipset 2000,p3. See also Lipset, 1997 for his more detailed and scholarly work on the subject.

[4] According to the WWF (Living Planet Report, 2010), 4.5 Earths would be required to support a global population living like an average resident of the US. Note also that the link between “Sustainability and Equity” is the main theme of HDR, 2011.

[5] For a small selected sample, selected to include material on India, see Heller, 2000, 2007; Kohli, 2009,2010; Sandbrook *et al*, 2007, Tharamangalam, 2010.

[6] I have dealt with this issue elsewhere more extensively while discussing the findings of our own comparative study of the Indian state of Kerala and Cuba, both considered success stories in terms of their relatively high Human Development (HD) indicators at their levels of economic development and income. See for example, Tharamangalam, 2009, and 2010). Sandbrook *et al* deal with a number of similar success stories, but exclude Cuba apparently because they do not regard it a “social democracy”.

[7] Today Kerala’s growth rate is higher than the Indian average. Indeed, it is ahead of every other Indian state in the measure of monthly Per Capita Consumer Expenditure (MPCE). Perhaps Kerala’s record proves the argument made by scholars such as Amartya Sen that early investments in education, health and social security are not only good for human development, but have instrumental value in creating human capital and triggering economic growth.

[8] On the subject of Indian democracy even the venerable liberal Indian economists, Jean Dreze and Amartya Sen have come to the conclusion that if the poor in India (who also form the world’s largest pool of poor, hungry, malnourished, and multiply deprived people according to such international research reports as the Global Hunger Index, the Multi-dimensional; poverty index and UNDP’s Human Development Index) are to achieve any improvements in their appalling condition they need “ *to build countervailing power through better political organization of underprivileged groups*” (Dreze and Sen, 2002,339-40, emphasis added).

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