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The Rich get Richer

Neo-liberalism and Soaring Inequality in the United States*

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A Spanish language version of this paper will appear in a forthcoming issue of *Revista de Economia Critica.*

Introduction

These are hard times in the United States. One in seven workers who would like to work full time cannot find a full time job. The income of the median US household has fallen by six percent since 2000; those in the bottom 20% have seen steeper declines (Mishel et al., 2012). Millions have lost their homes to foreclosure; millions more are at risk. Nearly one in six US residents is officially poor -- the highest rate in 50 years. 22% of US children live in poverty. This economic crisis has hurt nearly every US household in some way; some have been hit especially hard. The income of the median African American household has fallen by 15% since 2000 (Mishel et al., 2012). The unemployment rate for Black workers is twice that of white workers. Between 2007 and 2010, the wealth of the median Black and Latino household fell by more than 50%.

But the US story is not just about a "weak economy" -- stagnation, unemployment and declining incomes. In the midst of all of this suffering and insecurity, the wealthiest in the US have enjoyed a robust recovery. Corporate profits in the US are at an all-time high, and the stock market's value has doubled since early 2009. In 2010 – the first year of anemic recovery in the US -- 93% of income growth ended up in the pockets of the richest 1%. (Saez, 2012).

The four years since the financial meltdown of 2008 have been unusually difficult. But in some essential ways, this is not a new story. The US has been suffering from a crisis of inequality for more than three decades.

Over the past three decades, the distribution of income and wealth in the US has become dramatically more unequal, and efforts by the state to address this rising inequality and its consequences have become less aggressive, less generous, and less effective. The US is, by every reasonable measure, the most unequal of the world's rich countries. When it comes to economic mobility – the likelihood that a poor kid will improve his or her economic status -- the US is also near the bottom of the list, despite its reputation as the "land of opportunity." And further, this dramatic increase in *economic* inequality has been reflected in and reinforced by unsettling levels of political and social inequality.

Rising income inequality in the US has taken a very particular form. Over the past few decades, the benefits of economic growth in the US have gone overwhelming to those at the very top of the income distribution. The Occupy Wall Street Movement is correct to draw a distinction between the "one percent" and the "99 percent." It is only a slight exaggeration to say that the US has become a "winner-take-all society" (Frank and Cook, 1995; Hacker and Pierson, 2011).

Evidence of extreme and rising economic inequality in the US is quite overwhelming. For thirty years, the incomes of the richest 1% have soared. In 1979, the top 1% earned about 9% of all income; by 2007, this share had more than doubled, to 24% -- a share not seen in the US since the late 1920s (Atkinson, et al., 2011). Since 1976, 58% of income growth has ended up in the pockets of the top 1% (Atkinson, et al., 2011). Meanwhile, the incomes of the "middle class" have stagnated. The wages of those with a high school education or less (more than half of the labor force) have fallen substantially (Mishel et al., 2012).

This article is an effort to describe, deconstruct and analyze this stunning transformation of the US economy. I argue here that this troubling transformation of the US economy – rising inequality, and the US economy's increasing failure to meet the needs of the human beings it ought to serve – is in large part the consequence of thirty years of neo-liberal economic policy. Indeed, rising inequality in the US is one measure of neo-liberalism's failure. These policies have failed to promote strong, reliable growth and they have failed to enhance the well-being of most Americans. They have, on the other hand, brought enormous benefits to the economic elite.

These crucial changes in the US economy are not essentially the result of the market's invisible hand. They are the result of conscious policy choices. Class struggle is alive and well in the USA and, for three decades, the bourgeoisie has been winning.

The next five sections of this article chronicle the excessive and growing inequality that has come to characterize the US economy. Individual sections of the text are devoted to the rising incomes of the rich since the late 1970s; rising inequality among "the rest" (the bottom 90%); the increasingly unequal distribution of *wealth* in the US; the weak, insufficient response of the US government to all of this and, declining class and income mobility in the US. The sixth section contrasts this recent experience with the shared prosperity of the early post World War II era in the US. The seventh section asks why inequality should concern us; the answer: inequality is unfair, inefficient, undemocratic and social corrosive. The final section links these stunning increases in inequality to 30 years of neo-liberal policy.

The Rich get Richer

Inequality can be measured in a variety of ways. Perhaps the most commonly cited measure of income inequality is the Gini coefficient, an index which can take on any value from zero to one. A Gini coefficient of zero indicates "perfect equality" (every household has the same income as the next). A Gini coefficient of 1 indicates "perfect inequality" (all income goes to one individual). A higher Gini coefficient indicates greater inequality.

The Gini coefficient for the US is about .45 – the highest among the world's rich countries, and comparable to those of Mexico, Nigeria and Iran (OECD, 2011).[1] If we account for the effects of taxes and government transfers on the distribution of income, the Gini coefficient for the US falls to .38 – again, the highest among the world's rich countries. The Gini coefficients of other rich countries range from .23 (Denmark) to .35 (Portugal).[2] For every wealthy country, including the US, taxes and transfers have at least a modest "equalizing" effect on the distribution of income. This equalizing effect (as measured by the Gini coefficient) is smaller for the US than for any other rich country (OECD, 2011, 36).

Income inequality has, on average, increased across the world's rich countries over the past thirty years. Between the mid-1980s and the late 2000s, the Gini coefficient increased in 17 of 22 OECD countries for which continuous data are available. The average Gini coefficient of these 22 countries increased from .29 to .316 (OECD, 2011).[3] Since 1980, the US Gini coefficient has risen steadily from .37 to .45 – the most substantial increase among the 22 OECD countries for which continues data are available (OECD, 2011).

We can also measure inequality by looking at a country's "90-10 ratio," which compares the income of a household in the 90th income percentile to that of a household in the 10th income percentile. By this measure, the US is again "Number 1" -- and by a substantial margin. The 90-10 ratio for the US is 5.9 (that is, a family in the 90th percentile earns 5.9 times the income of a family in the 10th percentile). Japan's 90-10 ratio, 4.8, is second among the world's rich countries. The lowest is 2.8 (Denmark and Sweden are tied). In the US, a family in the

[1] While the US has the highest Gini coefficient among the world's rich, industrialized countries, many "poor" countries and several oil exporting countries have higher Gini coefficients than the US

[2] Spain's Gini coefficient in 2009 was about .32 (OECD, 2011, p. 25).

[3] This is the Gini coefficient after taxes and government transfers.

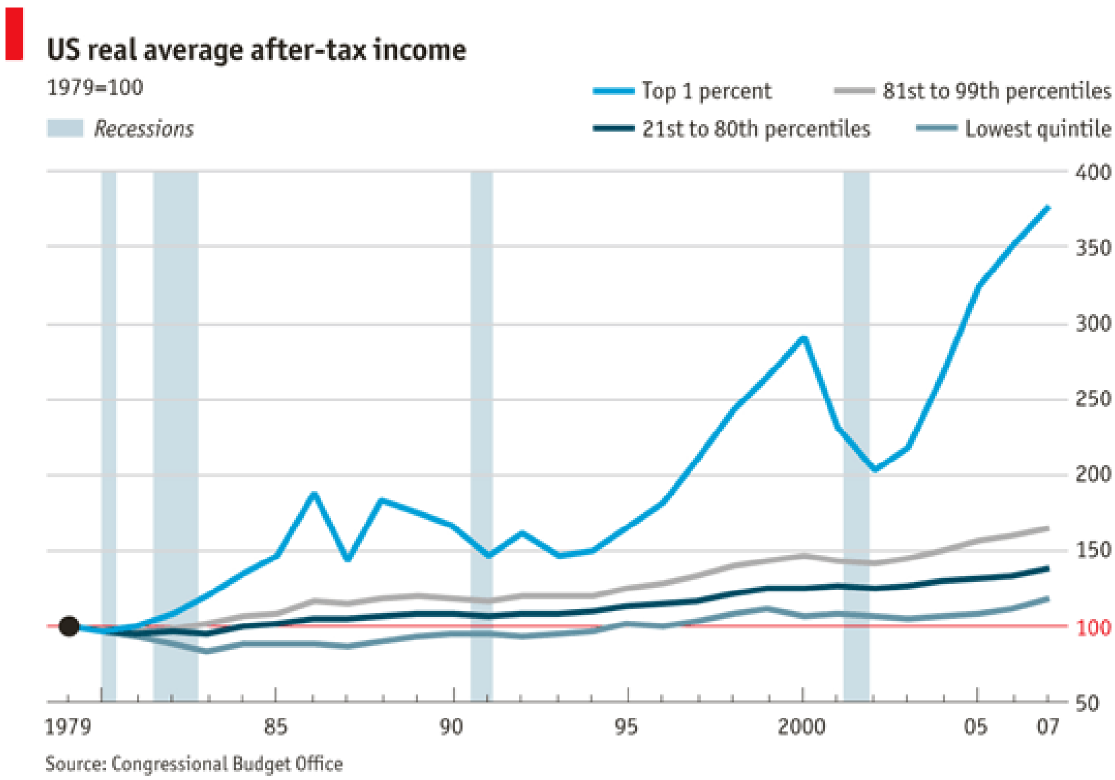
10th percentile earns 47% of median family income – again, the worst among the world's rich countries (Mishel, et al., 2012, Fig. 7U).

Each of these measures obscures the most striking change in the distribution of income in the US: the soaring incomes of the very rich. The rich in the US have gotten richer at a remarkable rate since the late 1970s. Meanwhile the vast majority of US families have experienced anemic or negative income growth. In 1979, the top 10% earned about one third of all income in the US. In 2007, the share of this top 10% had grown to 50%, a higher share than at any time since 1928. Most of these gains went to those at the *very* top. In 1979, the top 1% earned 9% of all income; in 2007, they pocketed nearly 24% – again, the highest share since the late 1920s. And most of the gains of the top 1% went those at the very top. The top 0.1% gathered about 3% of all income in 1979. In 2007, the share of the top 0.1% had soared to 12% of all income; that is, the income share of the super-rich quadrupled! (Atkinson, et al, 2011) Notice that virtually all of the gains of the top 10% -- a 17 percentage point increase – went to the top 1%, who enjoyed a 15 percentage point increase. And more than half of the gains of the top 10% went to the top 0.1% -- the richest of the rich.

Between 1976 and 2007 – an entire generation! -- 58% of total economic growth ended up in the pockets of the top 1% (Atkinson, et al., 2011). Over this period, the incomes of the top 1% quadrupled (Atkinson, et al., 2011).

The incomes and the income shares of the very rich have increased in many rich countries, but no elites have done as well as the super-rich in the US. The super-rich of the US – the top 1% and the top 0.1% -- receive a higher share of national income than their counterparts in every other rich country. In fact, the share going to the top 0.1% in the US is

Figure 1



This figure is reproduced from “The 99 Percent,” *The Economist* on line, 10/26/12.

larger than the share going to the top 0.1% in most rich countries *by a factor of two or more*; it is larger than the share going to the top 0.1% in the Netherlands by a factor of seven! (Atkinson, et al., 2011, Table 6).

Relative to the recent past, and relative to other rich countries, the prosperity of the super-rich in the US is extraordinary.

Inequality and the Rest

There has also been an increase in inequality within the "bottom 90%" in the US, although this shift has been much less dramatic than the growing gap between the top 1% and everybody else. Between 1979 and 2010, the incomes of households which fall between the 80th and 90th percentiles grew by 40.6%. (Mishel, et al., 2012, Fig. 2M). Median income grew by just 10% over this period. The average income of the bottom 20 percent *declined* by 10.7%. (Mishel, et al., 2012, Chart 2.1).

This lopsided story shows up in data on US wages, compensation and labor productivity as well. Between 1973 and 2008, labor productivity in the US nearly doubled; that is, the typical US worker now produces nearly twice as much per hour as her/his counterpart in 1973. Over this time period, the average hourly wage and average hourly compensation of production and non-supervisory workers in the US has grown by less than ten percent. Workers are producing much more per hour, but they are not earning more. In contrast, CEO pay has grown at an incredible rate. In 1973, the average US CEO's income was about 22 times the income of the median wage earner. In 2011, he earned nearly 231 times more. (Mishel et al., Table 4.33)[4] As

[4] My gendered language is intentional: the vast majority of US CEOs are men.

we have seen above, the spoils of productivity growth – rising income – have benefitted those at the top.[5]

African American workers continue to earn much less than their White counterparts. In 2010, Black median family income was just 61 percent that of Whites, while Hispanic median family income was 62.6 percent that of whites (Michel, et al., 2012). For male workers, this racial income gap did not change between 1975 and 2010. In 1975, Black male earnings were 74.3% those of White men. In 2010, this ratio was 74.5%.[6] The official unemployment rate for African Americans in the US is currently 14.1% -- about twice that of White workers. This ratio – two to one -- has been remarkably steady over the post-World War II period. In 2011, 27.6% of African Americans lived in poverty, as compared with 9.8% of Whites (Mishel et al., 2012, Table 7C). 39% of Black children live in poor households, as compared with 12.5% of White children (Mishel et al., 2012, Table 7D).

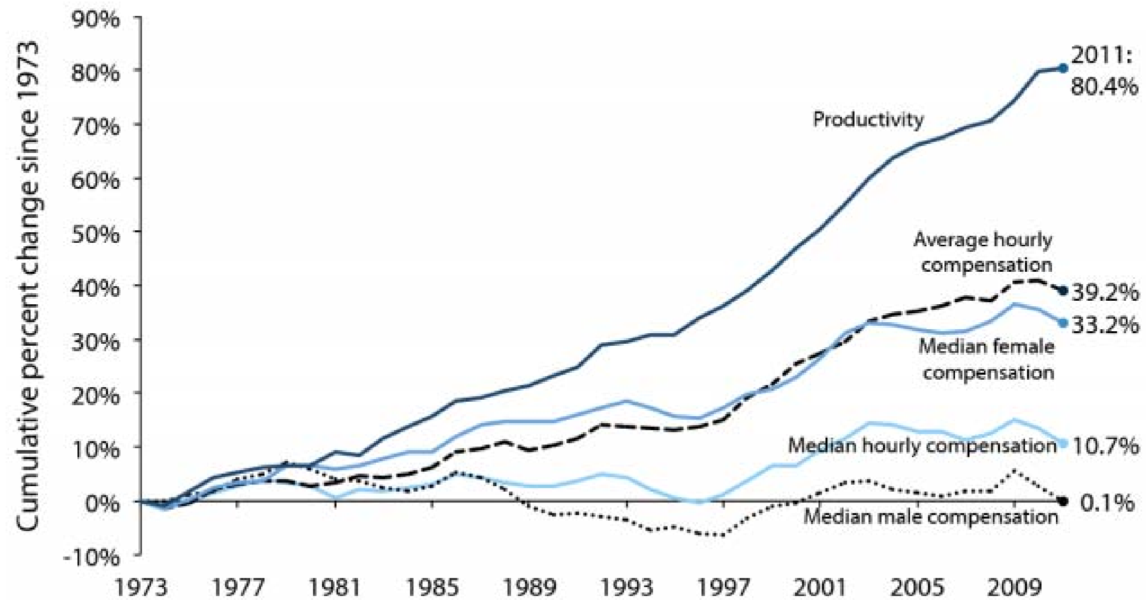
Male workers in the US continue to earn more, on average, than their female counterparts, but women workers in the US have managed to make more substantial (if still meager) gains over the past three decades. Between 1976 and 2010, the median compensation of female workers grew by about 30% -- again, far short of their productivity gains, and far short of the gains of the previous generation. Median male compensation grew by just a few percentage points (Mishel et al., 2012). In 1975, the earnings of white women were about 58% those of white men. In 2010, White women's earnings were 80.5% those of White men (source). The earnings of Black and Hispanic women have also grown relative to those of Black and Hispanic

[5] For an enlightening analysis on wages and productivity in the US, see: Lawrence Mishel (2012), "Jobs Wages and Living Standards: The wedges between productivity and median compensation growth" EPI, Washington, DC. April 26, 2012

[6] For more detailed data on earnings by race and gender, see "The Wage Gap by Gender & Race Timeline History (White, Black, Hispanic, Men & Women)" http://www.infoplease.com/ipa/A0882775.html#ixzz25zctHwl8

Figure 2

Cumulative change in hourly productivity, real average hourly compensation, and median compensation, 1973–2011



Note: Data are for compensation of production/nonsupervisory workers in the private sector and productivity of the total economy.
Source: Authors' analysis of unpublished Total Economy Productivity data from the Bureau of Labor Statistics Labor Productivity and Costs program, data from the Bureau of Economic Analysis National Income and Product Accounts, and Current Population Survey Outgoing Rotation Group microdata.
This figure is from Mishel et al. (2012). See Figure 4v.

men (respectively), although less dramatically.[7] Women in the US are about 20% more likely to be poor than men. In 2011, 40% of female-headed households were poor. (Mishel, et al., 2012, Fig. 7E).

In addition to lagging wages, US workers have also experienced an erosion of employer-provided benefits over time. In 1979, 51% of private sector workers in the US were covered by employer provided pension plans.[8] In 2009, just 45% were covered. This trend has been even more dramatic for African American and Latino workers. Between 1979 and 2009, the share of Black workers with employer-provided pension plans fell from 46% to 38%. For Latino workers, the share plummeted from 38% in 1979 to 23% in 2009. The number of workers covered by employer provided health insurance has also declined, for workers in every income class. Those at the bottom have been especially hard hit. In 2000, 29% of workers in the bottom fifth of the income scale enjoyed some employer provided health benefits. In 2009, the share had fallen to 16.3% It is also notable that the "health insurance gap" between well paid employees and low pay employees has grown substantially over the past decade.

The US is the only rich country in the world without universal health coverage. Fifty million Americans (one in six) have no health insurance (US Bureau of the Census, 2010). Between 1999 and 2010, the share of Americans without health insurance increased from 13% to 16.3%. 21% of African Americans are uninsured; 31% of "Hispanics" have no health insurance. (US Census, 2010, Fig. 2). It is perhaps no surprise that recent gains in life expectancy in the US have been much greater for those in the top half of the income distribution than for those in the

[7] These raw percentages do not, of course, indicate that gender, race, or discrimination are the sole causes of these income gaps. Educational attainment, sectoral changes in the economy, and worker choice each play a role as well.
[8] Wage and salary workers, private sector, who work 20 hours or more.

bottom half. In 1972, life expectancy for those in the top half of the income distribution was two years longer than life expectancy for those in the bottom half (79.6 years vs. 77.7 years). In 2001, the gap had grown to more than six years (85.5 to 78.9) (US Census, 2010). A recent study shows that the life expectancy of White Americans with less than a high school education has *declined* by 4 years since 1990 (Tavernise, 2012).

Wealth Inequality

Wealth inequality in the USA is even more extreme than income inequality and – like income -- it has become more unequal over time. In 1962, the wealthiest 1 percent had 125 times the wealth of a median household (Mishel et al., 2012, fig 6C). By 2010, this ratio had ballooned to 288-to-1. Between 1983 and 2010, the top 5% of wealth holders saw their wealth grow by 83%. The bottom 80% saw their wealth *decline* by 3.2% (Mishel et al., 2012)

In 2007, the top 1% of US wealth holders owned 35% of wealth (up from 20% in 1971). The top 10% (including, of course, the top 1%) owned 73%. The bottom 40% of all US households owned just 4.2% of all wealth. The top 1% owns 60.6% of financial securities; the richest 10% owns 98.5% of financial securities, with the "bottom 90%" holding a me 1.5 percent.

The crash of the US housing market after 2007 – millions of foreclosures and declining home prices – has eroded the wealth of nearly every household, especially those in the "bottom 90%," for whom a home is likely to be the most valuable asset.[9] The wealth of the median US household has fallen by 47.1 percent.

[9] The median housing price fell from $230,000 to $185,500 between 2005 and 2008 (National Association of Realtors, 2010).

As with income, Black and Latino Americans have much less wealth their White neighbors. In 2010, median wealth was $4,900 for black households and $1,300 for Latino households. The median wealth for white households was $97,000. (Mishel, et. al, Table 6.3)

Policy and the Social Safety Net

The US government has done less than any other rich country to address inequality and poverty, especially over the past 35 years. Among the world's rich countries, the US devotes a smaller share of its GDP to social expenditure than any rich country but Australia (Mishel, et al., Table 7aa). After accounting for the effects of taxes and transfers, the US has the highest poverty rate (Mishel et al., figure 7W) and the highest Gini coefficient of any rich country (OECD, 2011). Taxes and transfers do less to reduce poverty and inequality in the US than in any other rich country (Mishel et al., 2012, Fig.7Z)

Since 1996, when President Bill Clinton reached a compromise with a hostile legislature on "welfare reform," government aid to poor families has declined dramatically. (Before 1996, poor families were aided by AFDC – Aid to Families with Dependent Children. After 1996, cash assistance to poor families came from TANF – Temporary Aid for Needy Families). The number of individuals receiving benefits under TANF fell from 12.3 million in 1996 to 4.4 million in 2010. The average cash payment per recipient fell by about a third (in real terms) between 1979 and 2006.[10]

Another indicator of the weakening of the social safety net is the erosion of the minimum wage. Between 1968 and 2006, the real value of the minimum wage has fallen by more than a third (US Bureau of Labor Statistics, 2011).

[10] For an excellent critical assessment of welfare reform see Albelda and Withorn, (2002).

On the other hand, the US government has been very generous to the rich. Over the past 50 years – and especially the past 35 years – official and effective tax rates on the super-rich have declined considerably. President Ronald Reagan (1981-89) and President George W. Bush (2001-2009) were especially aggressive about reducing the tax burdens of the richest Americans. Since 1980, the top marginal tax rate on earned income (wages and salaries) has been cut from 70% to 35%. Since 2003, capital gains – most of which are earned by the rich -- have been taxed at just 15%. The inheritance tax rate (which applies only to estates over $1 million – fewer than 2% of all estates) has been cut from 50% to 0%. All told, President Bush presided over $2.1 trillion in tax cuts (2001-2010). 30% percent of these cuts went to the top 1%. Half went to the top 5% (Citizens for Tax Justice, 2009). Between 1970 and 2005, the effective tax rate on the top 1% of income earners fell by nearly half (Piketty and Saez, 2007). The super-rich in the US pay a lower tax rate than their counterparts in other rich countries. Corporate taxes as a share of GDP declined from 4% in 1960 to 2.5% in 2008 (Citizens for Tax Justice, 2010). The effective tax rate on corporate income in the US is lower than that of every rich country but Germany, Austria and Iceland (Citizens for Tax Justice, 2010)..

Note that this regressive “tax reform” was undertaken as the pre-tax incomes of the richest 1% soared. Piketty and Saez (2007), in their splendid study of the effects of US taxes on the distribution of income, conclude that “the progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s” (Picketty and Saez, 2007, p. 22).

Nobel laureate Joseph Stiglitz concludes in most recent book, *The Price of Inequality*, that “inequality is, to a very large extent, the result of government policies…” (Stiglitz, 2012, p 82). Paul Krugman – also a Nobel Prize winner -- concurs with Stiglitz. Writing about the

George W. Bush administration in 2004, Krugman concludes: “Our political leaders are doing everything they can to fortify class inequality” (Krugman, 2004b).

Class Mobility

The yawning gap between the rich and everyone else in the US is undeniable. But so what? What about the popular sense that the USA is a meritocracy, “The Land of Opportunity”; a society in which workers and creative entrepreneurs are rewarded primarily on the basis of their effort and talent; a society in which privilege, status and class position matter little? The USA, the argument goes, is distinctive in that it provides each citizen with the *opportunity* to succeed.

Is this a reasonable characterization of the US? Sadly, no. In fact, the truth is very much the opposite. Among the world’s rich countries, the US is virtually last in class mobility; an American’s economic success is highly correlated with his/her parents’ wealth and status. And this is truer in 2012 than it was in 1960 or 1980.[11] Aaronson and Mazumder (2007) find that between 1950 and 1980, the elasticity between parental income and the income of a 44 year old son declined by about a fifth -- an indication that the economic destiny of young man in the US depended less and less on his family background. Between 1980 and 2000, this elasticity nearly doubled, that is, a young man’s prospects have come to depend increasingly on his family background.[12] Fox et al. (2005) find that students from high income US families (the top 25%) with low test scores are *more* likely to graduate from college than poor students (the bottom 25%) with high test scores. It is increasingly difficult for a poor or middle class American kid to

[11] For excellent discussions of immobility in the US economy, see Krugman (2004), Bowles and Gintis (2002), Bowles, Gintis and Groves (2005) and Noah (2012).
[12] These results are summarized nicely in Mishel et al. (2012) Fig. 3U.

climb the “ladder of success,” and it is increasingly unlikely that an unproductive rich kid will fall into the middle class.

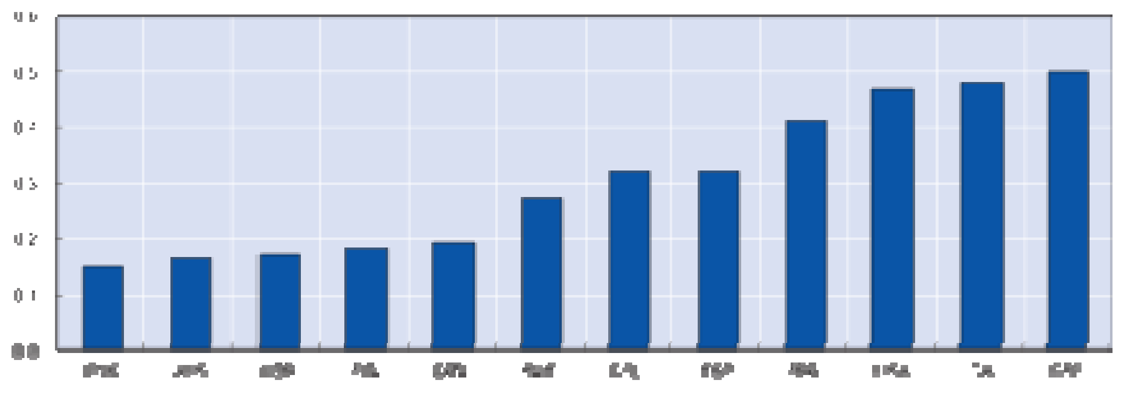
A study by Anna Cristina D’Addio of the OECD (2007) measures the correlation between the earnings of fathers and sons in 12 rich countries. D’Addio finds that the correlation between the incomes of fathers and sons in the USA is .48. Only the UK and Italy are higher (.50). In five of the 12 countries in D’Addio’s study (Canada, Norway, Finland, Australia and Denmark) the correlation is below .2. Miles Corak (2011) reaches very similar conclusions for a slightly larger group of countries. An OECD study of 30 countries concludes that educational achievement in the US is more strongly correlated with parental background than in any of the other 29 countries (OECD, 2010).

Isabel V. Sawhill, an economist at the Brookings Institution who studies mobility comments that “(i)t has become conventional wisdom that the US does not have as much mobility as most other advance countries. I don’t think you’ll find too many people who will argue with that” (DeParle, 2012). Richard Wilkerson, co-author of *The Spirit Level*, an influential book on inequality, notes the irony of these data: “If you want the American Dream, you’ll have to go to Denmark.”

Figure 3

The strength of the link between individual and parental earnings varies across OECD countries[1]

Intergenerational earnings elasticity: estimates from various studies



1. The height of each bar measures the extent to which sons' earnings levels reflect those of their fathers. The estimates are the best point estimate of the intergenerational earnings elasticity resulting from an extensive meta-analysis carried out by Corak (2006) and supplemented with additional countries from d'Addio (2007). The choice of empirical estimates in this meta-analysis is motivated by the fact that they are based on studies that are similar in their estimation technique, sample and variable definitions. The higher the value, the greater is the persistence of earnings across generations, thus the lower is the intergenerational earnings mobility.

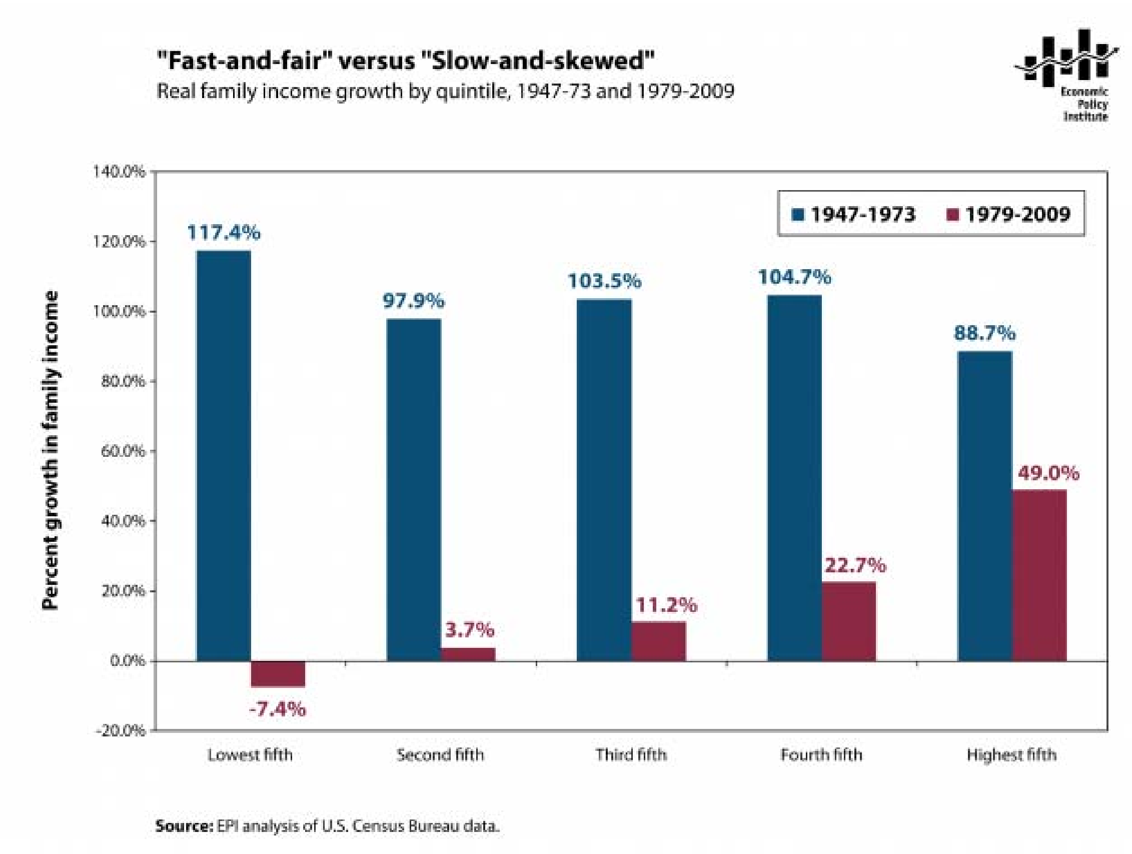
Source: D'Addio (2007). This figure is from OECD (2011), p. 5.

It has not always been this way

In 1962, US President John F. Kennedy famously asserted that "a rising tide lifts all boats," that is, economic growth tends to benefit all. In 1962, this characterization of the US economy was as accurate as it had ever been. During the three decades following World War II, the US economy grew rapidly, and this prosperity benefited every group of Americans – rich and poor, Black and White, men and women. The income of the median US household more than doubled over this period, and so too did the income of those in the bottom 20%. In fact, the incomes of those in the lowest fifth of the income distribution actually grew a little faster (117%) than those in the top fifth (88%). The distribution of US income in 1977 was barely distinguishable from the distribution of income in 1947 – everyone had more in nearly equal proportions (Mishel, et al., 2012).

During the 1930s and 1940s, inequality in the US declined markedly. Economic historians Claudia Goldin and Robert Margo (1992) have called this period "the Great Convergence." The income shares of the rich declined substantially. In 1928, 49% of all income went to the top 10%; the top 1% pocketed nearly a quarter of all income. Between 1938 and 1982, in contrast, the top 10% claimed just 34% of all income; the share of the top 1% averaged about 10% over this period (Atkinson, et al., 2011). The middle class grew. Workers became homeowners and consumers in growing numbers; many working class families sent their children to well-funded public universities. Millions of North Americans began to enjoy a measure of economic security: employment security, steadily growing incomes, pensions,

Figure 4



This figure is from Mishel et al. (2012)

employer-provided health insurance, and – by historical standards – a much wider and more reliable social safety net. This relative equality, shared prosperity and rising economic security, Goldin and Margo argue, was the result of a new set of institutional arrangements, many of them embodied in President Franklin Roosevelt's "New Deal": an activist state, strong unions (by US standards), taxes on inherited wealth and profits; social security and unemployment benefits, and a shared agreement that corporate behavior needed to be monitored and regulated. During the 1930s and 1940s, the stage was set for the shared prosperity that followed.

Racial, gender and economic inequalities continued to be essential aspects of US capitalism during this period, for sure. Relative to the other "industrial democracies," the US in the decades after World War II was more unequal than most, and its welfare state was less generous. But there had been a meaningful historical shift. The US economy and US society at large were less unequal than they had been. There was a meaningful social commitment to promoting some measure of equality; and the spoils of economic growth were shared proportionately.[13]

This, as we have seen, would not last. Between 1977 and 2007, the incomes of those in the top 1% grew by 275%, while the income of the median US family grew only slightly, and the income of the typical family in the bottom 20% declined. Contrast this with the "Golden Age" of US capitalism – the three decades of shared prosperity enjoyed by the Post WWII generation – and the soaring inequality that followed is all the more stunning.

[13] This detailed presentation of this very rich and important history is beyond the scope of this paper. For more detail, see Goldin and Margo (1992), Bowles, Gordon and Weisskopf (1983), Edwards, Reich and Gordon's *Segmented Work, Divided Workers* (1982) and Andrew Glyn's *Capialism Unleashed* (2006)

Why is Inequality a Problem?

Some economists and many on the Right argue that, in a wealthy society, inequality is not an important issue. Even the poorest people in the US are, by global and historical standards, quite well off. Why is inequality *per se* a problem?

For several reasons.

The most obvious answer, perhaps, is that it is unfair, and most Americans appear to agree. In a recent study, Michael Norton and Dan Aierly (2011) asked a representative sample of 5,522 US residents a series of questions about the distribution of wealth in the United States to uncover (a) their beliefs about what the distribution of wealth in the US looks like, in fact, and (b) their beliefs about what a "fair" distribution of wealth would look like. Norton and Aierly's findings suggest that Americans find inequality in the US to be excessive and unfair.

> First, respondents dramatically underestimated the current level of wealth inequality. Second, respondents constructed ideal wealth distributions that were far more equitable than even their erroneously low estimates of the actual distribution. Most important from a policy perspective, we observed a surprising level of consensus: All demographic groups—even those not usually associated with wealth redistribution such as Republicans and the wealthy—desired a more equal distribution of wealth than the status quo.

Norton and Aierly also asked respondents to indicate their preference between two specific wealth distributions (represented by pie charts). Unbeknownst to respondents, one pie chart showed the distribution of wealth in the US, the other showed the (much more equitable) distribution of wealth in Sweden. 92% chose Sweden.

There is also compelling evidence that inequality is socially corrosive. In their magnificent book, *The Spirit Level*, Richard Wilkinson and Kate Pickett show that unequal societies suffer from higher rates of violent crime, incarceration, obesity, infant mortality, mental illness and alcoholism. Inequality is also associated with lower life expectancy, lower levels of educational performance and lower levels of trust (Wilkinson and Pickett, 2009). Inequality is bad for all of us.[14] "The problems in rich countries," the authors conclude, "are not caused by the society not being rich enough (or even by being too rich!) but by the scale of material differences between people within each society being too big" (Wilkinson and Pickett, 2009, p. 25).

Excessive inequality and declining class mobility are also inefficient. Barriers to mobility impede talented poor people from realizing their full potential. This is a loss to these individuals, of course; it is also a loss to the rest of us, who would benefit from their enhanced productivity. The extraordinary earnings of those at the top – higher by far in the US than in any other country – is also a waste of resources. Some economists – and many corporate apologists – have argued that the stunning pay checks earned by US CEOs are efficient, a necessary incentive to retain rare talent. The fact that top earners in the US earn so much more than their counterparts in other countries, and so much more than top US earners a generation ago casts considerable doubt on this line of reasoning. A recent study by Elson and Ferrere (2012) makes this case very powerfully. The payments to big earners, they argue, generally do not reflect extraordinary talent; nor are these oversized pay checks "required" to "retain this talent." They are, in large part, economic rents. Highly paid corporate executives are less valuable and less mobile than they would like us to believe. The overcompensation of the super-

[14] See, also, Layard (2010) and Frank (1999) for excellent discussions of the corrosive effects of inequality, and the diminishing benefits of economic growth in rich countries.

rich diverts resources away from more productive uses, like schools, infrastructure and alternative energy.

The soaring incomes for the super-rich – and the stifled wages of workers -- have not promoted economic growth, despite the enduring insistence of supply-side economists. From 1948-1973 – a period during which tax rates were relatively high and the state became increasingly active in economic life -- the US economy enjoyed an average annual rate of growth of 3.9% and, as we have seen, the incomes of those in the middle and the bottom doubled. From 1979-2008 – the "neoliberal era" of corporate tax cuts and deregulation -- the US economy grew at not quite 3% per year. The income of the median family grew by just 10%. A brand new study by Thomas Hungerford for the Congressional Research Office reaches a familiar conclusion: "the reduction in the top tax rates have had little association with saving, investment, or productivity growth. However, the top tax rate reductions appear to be associated with the increasing concentration of income at the top of the income distribution…" (Hungerford, 2012).[15] Trickle down economics doesn't work.

Richard Wolff (2011), Joseph Stiglitz (2010) and many others have argued that growing economic inequality in the US was a crucial determinant of the financial crash of 2008. A generation of US consumers – encouraged by banks, mortgage brokers, credit card companies and low interest rates – sought to maintain their living standards by borrowing. From 1975-2007, real household debt grew by a factor of 4.5. When housing prices began to decline in 2006 -- and later, when unemployment began to rise – millions of households did not have the

[15] Pollin (2003), Krugman (2012), Stiglitz (2002, 2010) and Glyn (2006) provide excellent critical assessments of the neo-liberal era.

financial flexibility to manage. Foreclosures and personal bankruptcies soared, fueling the collapse of the financial system.

Finally, economic inequality inevitably means political inequality. The right-wing Koch brothers – the billionaire owners of Koch Industries -- plan to spend hundreds of millions of dollars to defeat President Obama and the Democrats this fall. When Republican Presidential candidate Mitt Romney selected Representative Paul Ryan as his vice-presidential running mate, Ryan's first assignment was a trip to Las Vegas, to pay homage to billionaire casino owner Sheldon Adelson and a gathering rich right-wing campaign donors. As of this writing, Mr. Adelson has spent $70 million to support Republican candidates in this election cycle (New York Times).

Increasingly, legislation is literally being written by corporate lobbyists.

Political Scientists Larry Bartels (2008) and Martin Gilens (2005) have, in separate research, found that US politicians are much more likely to vote for policies supported by constituents at the top of the income scale, and both scholars find that the views of the relatively poor have virtually no influence on the voting behavior of their representatives in the US Congress. In their terrific book, *Winner Take All Politics*, Jacob S. Hacker and Paul Pierson (2011) provide a compelling and detailed account of the ways in which US business interests have used their economic power to steer US economic policy and restructure the economy over the past four decades.

Excessive inequality is, in brief, unfair, inefficient, undemocratic and socially corrosive.

Neoliberalism and Inequality

The distribution of income in any capitalist economy depends on many factors, and it is notoriously difficult to tease out the importance of specific factors. Government policy, education, technological change, globalization, and changes in a country's industrial structure can each play a role. This said, it is clear that one cannot understand the dramatic changes in the US economy over the past 35 years without granting a central role to neoliberal theory and policy, and their underlying class content.[16] The soaring incomes of the super-rich in the US have been facilitated by conscious policy choices which have reflected and reinforced the growing political and economic power of the capitalist class in the US. The shift in income in the US was not an inevitable result of "market forces."

Most transparently, the super-rich in the US have benefited from changes in tax policy. As we have seen above, effective tax rates on the richest Americans have fallen by nearly third since 1970. Official and effective tax rates have fallen by more than half. Corporate taxes as a share of GDP have fallen by about a third (Piketty and Saez, 2007). US corporations and the super-rich enjoy a lower tax burden than capitalists in all but a few rich countries (Citizens for Tax Justice, 2010).

Rising inequality has also been facilitated by a relentless – and very effective – assault on the US welfare state. In his 1981 inaugural address, President Ronald Reagan declared that "government is not the solution to our problem; government *is* the problem." This was to be the central theme of his eight years in office.

[16] I share Robert Pollin's understanding of neoliberalism. Neoliberal "policy makers are committed to free market policies when they support the interests of big business… But these same policy makers become far less insistent on free market principles when invoking such principles might damage big business interests" (Pollin, 2003. P.8)

Paul Krugman (2004b) argues that Right Wing think tanks, lobbyists and legislators have, for over thirty years, used tax cuts as an insidious way to undermine the welfare state. Round after round of tax cuts, Krugman argues, have helped to create periodic "fiscal crises," which have left legislators with "no choice" but to cut social spending – despite the fact that taxation in the US as a share of GDP is lower than that of any rich country (Citizens for Tax Justice, 2010). "The astonishing success of the antitax crusade," Krugman writes, "has, more or less deliberately, set the United States up for a fiscal crisis" (Krugman, 2004).

Hacker and Pierson (2011) show that, since the 1970s, business has been increasingly effective at advancing a pro-business policy agenda. Hacker and Pierson tell a particularly compelling story about business's aggressive (and very successful) assault on organized labor. In the late 1970s, business lobbyists and their allies in Congress expanded the battle, demanding broad-based "de-regulation" – that is, the paring back of corporate accountability. In Hacker and Pierson's words:

> Tax cuts weren't the only way in which Republicans improved the fortunes of the winner-take-all economy's winners. The party also became relentlessly hostile to the idea that corporate managers – the biggest of the big winners – might require oversight.

Perhaps the most consequential victory was the progressive de-regulation of the financial sector, beginning in the late 1970s.[17] Banks and other financiers, since the late 1930s, had been constrained by an array of New Deal regulations, designed to limit excessive financial interconnectedness and reckless financial speculation and, ultimately, another Great Depression.

[17] See Sherman (2009) for an excellent concise history of financial deregulation.

This deregulation of finance culminated with the Financial Services Modernization Act of 1999. By 1999, business – which had long relied on the Republican Party to do its bidding -- had plenty of friends in the Democratic Party as well. Robert Rubin, President Clinton's secretary of the Treasury (after a 26 year career at Goldman Sachs) acknowledged that the rich "are running the economy and make the decisions about the economy" (Pollin, 2003, p.22). Robert Pollin captures the scene well: "The Clinton Administration and the Fed presented a united front in advancing across-the-board deregulation in the name of market efficiency" (Pollin, 2003, p. 33). This wave of deregulation set the stage the remarkable growth of finance in the US economy – its share in GDP more than doubled between 1980 and 2005. In 2004, financiers made up nearly a fifth of the top 0.1% of income earners (Hacker and Pierson, 46). This wave of financial deregulation also set the stage for the terrible crash of 2008.

Hacker and Pierson also point to the importance of what they call "policy drift," that is, "the deliberate failure to adapt policies to the shifting realities of a dynamic economy" (Hacker and Pierson, 2011, 53). Hacker and Pierson cite the erosion of the real value of the minimum wage as an example.

In sum, capitalists in the US, with the cooperation of their friends in government, created a political, institutional and economic environment that allowed the super-rich to grab a growing share of national income -- in part by disempowering workers and most other Americans. Class struggle takes place on the "shop floor." It also takes place on the floor – and in the backrooms – of the legislature.

As noted above, the distribution of income – in the US, and every other capitalist society – has an array of determinants. This said, it is important to recognize that many commonly cited causes of growing inequality in the US are influenced by the pro-business, neo-liberal agenda – and the associated disregard for working people. Globalization as-we-have-come-to-know-it is not "natural," it is, in part, the result of conscious policy choices. The US government – in collaboration with other powerful states, the International Monetary Fund, the World Trade Organization and others – has aggressively promoted free trade and unrestrained capital flows. The US tax code has encouraged the globalization of production. The facilitation of capital mobility has accelerated the deindustrialization of the US and undermined the bargaining power of workers in the US and elsewhere. Globalization does not provide an "alternative" explanation of inequality; it is part of the neoliberal restructuring of the US economy.

Some have cited the growing importance of education in an increasingly "knowledge based" economy as an important determinant of growing inequality in the US. It is widely acknowledged that the "income premium" for a college education has grown in the US over the past few decades. It is also true that the assault on the welfare state has reinforced educational inequalities, while raising tuitions at public colleges and universities. It is also worth noting that while the "premium" for a college education surely explains some of the growing gap within the "bottom" 99%, it does not explain why the top 1% have seen their incomes soar.

Neoliberalism in the US has failed to promote shared prosperity. But it does not follow that it was a "mistake." The neoliberal agenda has gone a long way toward achieving the objectives of its most influential advocates. Ha Joon Chang captures this very well in his terrific *23 Things they Don't Tell You about Capitalism*: "Once you realize that trickle-down economics does not work, you will see the excessive tax cuts for the rich as what they are -- a simple upward redistribution of income, rather than a way to make all of us richer, as we were told" Chang (2010).

The neoliberal narrative is alive and well in the US. The Republican economic plan – embodied in the "Ryan Plan," a budget proposal supported by virtually every Republican legislator, endorsed by Presidential candidate Mitt Romney, and authored the Party's Vice Presidential nominee, Paul Ryan -- calls for still deeper cuts in taxes for corporations and the top 1%. In addition, the Republicans propose a reduction in the "regulatory burden." Under the Ryan Plan, corporations and the top 1% would enjoy tax cuts of nearly $3 trillion over the next decade. The plan also calls for deep cuts in spending on education, environmental protection, Social Security, Medicare and Medicaid – the defining social programs of the US welfare state. The Republicans have concluded – yet again -- that the super-rich are getting too little, while children, the elderly, the middle class and the poor are getting too much.

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Over the past 30 years, the US economy has quietly undergone a dramatic transformation, and it has left the economy much weaker than it could be. The data tell a disturbing story. The distribution of income and wealth in the US is more unequal than that of any other rich country. The impediments to upward mobility in the US are appallingly high, and they have been getting higher over time. The US government does relatively little to address these inequalities. This is unfair and wasteful.

All of this notwithstanding, the US remains a very rich country. It has the capacity to do much better; it has the capacity to produce equitable, sustainable growth. A detailed discussion of how this might go is beyond the scope of this paper, but this process would surely include higher taxes on the wealthy; a more serious effort to regulate the financial sector, great corporate accountability, and increases in public investment.[18] It will also require a shift in priorities - a political transformation. It will require a discourse and a policy agenda that prioritizes the needs of working class and poor people: affordable education and health care, enhanced worker bargaining power, and a commitment to full employment.

[18] For discussions of progressive agendas see Krugman (2012), Pollin (2010) and Koechlin (2011).

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