The Danger of Wealth at the Top

For years, Mitt Romney has advocated tax breaks tilted toward the rich in a classic “supply-side” strategy, but is now trying to obscure that position. His shift comes as even conservative economists say the concentration of wealth at the top is hurting economic progress, as ex-CIA analyst Paul R. Pillar notes.

By Paul R. Pillar

You know we have a serious problem with inequality when that paragon of right-of-center political economy, *The Economist*, puts as much emphasis on it as it does in its current issue.

A major “Special Report on the World Economy”is all about the causes and ramifications of what the magazine calls “a dramatic concentration of incomes over the past 30 years.” It is a concentration that has occurred in many parts of the world but by no means uniformly. The pattern of inequality is especially glaring in the United States, in terms of both absolute inequality and recent trends.

The magazine’s report lays out some of the relevant statistics about the United States that ought to be familiar by now but nonetheless still shock. The share of national income going to the wealthiest one percent of Americans has doubled since 1980, from 10 percent to 20 percent. The share going to the highest one hundredth of one percent, a mere 16,000 families, has quadrupled during the same time from just over one percent to, astoundingly, nearly five percent.

Some of the growing inequality is connected with processes that are on balance economically good, in particular, globalization, which has changed the demand for different sorts of skills. But much of it is associated with processes that are economically bad.

One of those processes is the upward redistributive effect of government policy. *The Economist* notes that when taxes and entitlements in the United States are all taken into account, “the government lavishes more dollars overall on the top fifth of the income distribution than the bottom fifth.”

That last pattern should not be surprising in view of the crony capitalism in which “America’s growing inequality has political roots.” The finance industry has more lobbyists in Washington than almost anyone else: about four for each member of Congress. Accordingly, financiers have been allowed “to tilt rules in their favor” and have been “among the biggest winners from changes to America’s tax code.”

It is conventional wisdom that there is a tension between efforts to alleviate inequality and efforts to expand the national economic pie. There is some truth in the conventional wisdom: the hope of moving ahead of the crowd in wealth and material well-being can be a powerful incentive to apply more work or more ingenuity to a productive endeavor.

But that incentive would be gone only in an entirely flat society, and does not explain or justify the glaring and growing inequality that is today's reality. *The Economist*'s report explains the several respects in which that inequality undermines, rather than promotes, economic growth and prosperity.

There is, first of all, the crony capitalism, which is less about fostering the free markets that are essential for competition and growth than about preserving the privileged positions of those who have already made it.

Then there is the huge waste of human capital entailed in inequality of opportunity. That type of inequality correlates with overall economic inequality. Again, the United States displays some of the worst of it.

Its social mobility, i.e., how much any one individual's income is unchained from a tight correlation with the income of the same individual's parents, is lower than in most other advanced Western countries.

The Economist sums up the implications for growth and prosperity this way: "High and growing levels of income inequality can translate into growing inequality of opportunity for the next generation and hence declining social mobility. … Bigger gaps in opportunity, in turn, mean fewer people with skills and hence slower growth in the future."

Finally, but not least important, much of skewed income at the upper levels has come from rents rather than productivity, as illustrated by how much of the very rich have, *The Economist* notes, "made their money in Wall Street rather than Main Street."

"Rents" is the technical and somewhat polite economic term that refers to extracting a profit from merely owning or controlling something, or being in an advantageous position, rather than actually producing something. A blunter and more descriptive term is "parasitic." Economies grow and prosper from productivity; they do not from rents.

All of this should be disturbing even if we looked no further than our nation's borders. It is more disturbing still when considering another pattern that the magazine's report notes in passing: that while inequality within countries and especially in the United States has greatly increased in recent years, inequality between nations has decreased as poorer countries catch up with richer ones.

America’s growth-inhibiting inequality is making it less able to compete, and less able to serve as an exemplar for others, in the global arena.

Ideologically driven myopia, which mistakenly cherishes anything in the private sector status quo, even when it is destructive of free markets and vigorous competition, and disdains anything government does, even when it is necessary for economic growth and the fullest use of human capital, is needlessly weakening the relative as well as absolute position of the United States.

Another example of this myopia is the disgraceful state into which the nation’s physical infrastructure has been allowed to fall (as Arnaud de Borchgrave has recently observed). Repair of that infrastructure is essential for economic growth, but repair of much of it requires action and expenditure by government.

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Selling the ‘Supply-Side’ Myth

Exclusive: Any rational assessment of America’s economic troubles would identify Ronald Reagan’s reckless “supply-side” economics as a chief culprit, but that hasn’t stopped Republican presidential hopefuls, led by Newt Gingrich, from selling this discredited theory to a gullible GOP base, reports Robert Parry.

By Robert Parry

Despite Newt Gingrich’s claim that “supply-side” economic theories have “worked,” the truth is that America’s three-decade experiment with low tax rates on the rich, lax regulation of corporations and “free trade” has been a catastrophic failure, creating massive federal debt, devastating the middle class and off-shoring millions of American jobs.

It has ”worked” almost exclusively for the very rich, yet the former House speaker and the three other Republican presidential hopefuls are urging the country to double-down on this losing gamble, often to the cheers of their audiences – like one Florida woman who said she had lost her job and medical insurance but still applauded the idea of more “free-market” solutions.

Gingrich even boasts of his role in pioneering these theories of massive tax cuts favoring the rich, combined with sharp reductions in the role of government. That approach, once famously mocked by George H.W. Bush as “voodoo economics,” was supposed to spur businesses to expand production (the “supply side”), thus creating jobs and boosting revenues from all the commercial activity.

“I worked with Ronald Reagan to develop supply-side economics in the late ’70s, along with Jack Kemp and Art Laffer and Jude Wanniski and others,” Gingrich declared at a recent town hall event. “We ended up passing it into law in ’81. At the time it was very bold. People called it ‘voodoo economics.’ It had one great virtue: it worked.”

But that is not what the historical record really shows.

In 1980, I was working as an Associated Press correspondent covering budget and economic issues on Capitol Hill and at the time, the “supply-siders” had two key arguments in their favor: first, the economy had stagnated in the 1970s largely due to oil price shocks, inflation and an aging industrial base.

Their second key advantage was that nobody could say for sure what the results of the “supply-side” experiment would be. There was little empirical data to assess how radical tax cuts would play out in the modern economy. One could make common-sense judgments, as George H.W. Bush had done with his “voodoo” remark, but you couldn’t see the future.

No More Mystery

Now, however, with three decades of experience with the experiment, the fallacies of “supply-side” economics are no longer a mystery. For instance, a major obstacle to today’s economic recovery has been the absence of “demand-side” consumers, not the availability of money to build more productive capacity.

And the reason that there are fewer consumers is that the Great American Middle Class, which the federal government helped build and nourish from the New Deal through the GI Bill to investments in infrastructure and technology in the Sixties and Seventies, has been savaged over the past three decades.

Though many Americans were able to cover up for their declining economic prospects with excessive borrowing for a while, the Wall Street crash of 2008 exposed the hollowing out of the middle class. So today, businesses are sitting on vast sums of cash some estimates put the amount at about $2 trillion.

And the reasons for this dilemma are now well-known: first, when companies have expanded in recent years, the modern factories have relied on robotics with few humans required; second, the companies put many manufacturing sites offshore so they can exploit cheap labor; and third, the shrinking middle class has meant fewer customers, leaving corporations little motivation to build more factories.

For Americans, this has represented a downward spiral with no end in sight. American workers, whether blue- or white-collar, know that computers and other technological advancements have made many of their old jobs obsolete. And modern communications have allowed even expert service jobs, like computer tech advice, to go to places like India.

While painful to millions of Americans who find their talents treated as surplus, these developments do not by themselves have to be negative. After all, humans have dreamed for centuries about technology freeing them from the grind of tedious work and freeing up society to invest in a higher quality of life, for today's citizens and for posterity.

The problem is that the only practical way for a democratic society to achieve that goal is to have a vibrant government using the tax structure to divert a significant amount of the super-profits from the rich into the public coffers for investments in everything from infrastructure to education to arts and sciences, including research and development for future generations, even possibly Gingrich's "big idea" of a colony on the moon.

In fact, that kind of virtuous cycle was the experience of the United States from the 1930s through the 1970s, with the federal government taxing the top tranches of wealth at up to 90 percent and using those funds to build major electrification projects like the Hoover Dam and the Tennessee Valley Authority, to educate World War II veterans through the GI Bill, to connect the nation through the Interstate Highway system, to launch the Space Program, and to create today's Internet.

Out of those efforts emerged robust economic growth as private corporations took advantage of the nation's modern infrastructure and the technological advancements. Millions of good-paying jobs were created for the world's best-trained work force, giving rise to the Great American Middle Class. The obvious answer was to keep this up, with the government investing in new productive areas, like renewable energy.

Demonizing 'Guv-mint'

Instead, facing economic headwinds in the 1970s, caused in part by rising energy costs, Americans grew anxious about their futures, making them ripe for a new right-wing propaganda campaign demonizing “guv-mint” and telling white men, in particular, that the “free market” was their friend.

Blessed with a talented pitch man named Ronald Reagan, “supply-side” became the new product to sell. After taking office, Reagan pressed for a sharp reduction in the marginal tax rates, slashing the top rates for the wealthy from around 70 percent to 28 percent. Along with the tax cuts, Reagan also initiated an aggressive military buildup.

The results were devastating to the U.S. fiscal position. The federal debt soared, quadrupling during the 12 years of Reagan and Bush Sr. As a percentage of the gross domestic product, federal debt was actually declining in the 1970s, dropping to 26 percent of GDP, before exploding under Reagan, rising to 41 percent by the end of the 1980s. The shared wealth of the country also diverged, with the rich claiming a bigger and bigger piece of the national economic pie.

The nation’s debt crisis only began to subside after tax increases were enacted under President George H.W. Bush and President Bill Clinton, with Clinton’s tax hike pushing the top marginal rate back up to 39.6 percent. At the time, Gingrich warned that the Clinton tax hike would lead to an economic catastrophe.

The actual result was a booming economy, spurred strongly by the federal government’s new “information super-highway,” the Internet. The Clinton years also saw low unemployment and a balanced budget by the late 1990s. The debt-to-GDP measure declined from about 43 percent to 33 percent and was on course toward zero within a decade.

Ironically Gingrich also claims credit for that because as House speaker he worked with Clinton on some cost-cutting measures, but Clinton credits the 1993 tax increase, which passed without a single Republican vote, as the key factor in the budget turnaround.

After George W. Bush claimed the White House in 2001, “supply-side” dogma was back in vogue. Bush pushed through more tax cuts mostly for the rich, reducing the top marginal rate to 35 percent and creating an even bigger tax break for investors, cutting the capital gains rate to 15 percent. Combined with Bush’s two wars and other policies, the surplus soon disappeared and was replaced by another yawning deficit.

Even as most Americans struggled to hold a job and pay their bills, America’s super-rich lived a life of unparalleled luxury. With this concentration of money also had come a concentration of power, as right-wing operatives were hired to build a sophisticated media apparatus and think tanks to push often with populist rhetoric the policies that were dividing the country along the lines of a pampered one percent and a pressured 99 percent.

Many Americans, especially white men, heard their personal grievances echoed in the angry voices of Rush Limbaugh, Sean Hannity, Michael Savage and Glenn Beck all well-compensated propagandists for “the one percent.”

Lesson Unlearned

Now, looking back over the economic and fiscal history of the past three decades, you might think that few Americans would be fooled again by this sucker bet on “supply-side.” But the Tea Partiers and many rank-and-file Republicans seem ready to put what’s left of their money back down on the gambling table.

All four remaining Republican hopefuls Mitt Romney, Rick Santorum, Ron Paul and Gingrich have proposed lower tax rates especially on the rich with the same enduring but fanciful faith in “supply-side” economics.

Gingrich has gone so far as to advocate eliminating the capital gains tax entirely. It’s already down to 15 percent, meaning that many super-rich, from financier Warren Buffett to Mitt Romney, can live off their investments and pay a lower tax rate than what many middle-class Americans pay on their wages and salaries. In a recent Florida debate, Romney noted he would pay virtually no federal income tax under Gingrich’s plan.

The Republicans seem to be counting on the parallel propaganda campaign of demonizing “guv-mint.” They’re pinning their hopes on an ill-informed electorate (especially white men) siding with “the one percent” over their own working- and middle-class interests.

The GOP hopes also may hinge significantly on how determined some whites are to get the country’s first black president out of the White House. Historically, demagogic U.S. politicians have had great success in exploiting racial resentments, although these days often with coded language like Gingrich calling Barack Obama “the food-stamp president.”

The Right also has worked diligently to create false narratives to convince many Americans that their hatred of a strong federal government links them to the Founders. Many Tea Partiers have bought into the historical lie that the Founders wrote the Constitution to limit the power of the federal government and to promote “states’ rights” the near opposite of what the framers actually were doing.

Led by Virginians Gen. George Washington and James Madison, the Constitutional Convention in 1787 threw out the Articles of Confederation, which had made the states supreme and the federal government a supplicant.

The Constitution reversed that situation, eliminating state “independence” and bestowing national sovereignty onto the federal Republic representing “we the people of the United States.” Contrary to the Tea Party’s false narrative, the Constitution represented the single biggest assertion of federal power in U.S. history.

When the Tea Partiers dress up in Revolutionary War costumes, they apparently don’t know that their notion of a weak central government and state “sovereignty” was anathema to the key framers of the Constitution, especially to Washington who had watched his soldiers suffer under the ineffectual Articles of Confederation.

And, when the Tea Partiers wave their “Don’t Tread on Me” flags of a coiled snake, they don’t seem to know that the warning was directed at the British Empire and that the banner aimed at fellow Americans was Benjamin Franklin’s image of a snake severed into various pieces representing the colonies/states with the admonishment “Join, or Die.”

Nevertheless, false narratives and false arguments can be as effective as real ones to a thoroughly misinformed population. Thus, many middle- and working-class Americans still cheer when Newt Gingrich references Ronald Reagan and his “supply-side” economics.

But the failure of Reagan’s economic strategy should be obvious to anyone who is not fully deluded by right-wing propaganda. Not only has the national debt skyrocketed over the past three decades, but whatever economic benefits that have been produced have gone overwhelmingly to the wealthy while the nation as a whole has suffered.

[For more on related topics, see Robert Parry’s *Lost History, Secrecy & Privilege* and *Neck Deep*, now available in a three-book set for the discount price of only $29. For details, click here.]

Robert Parry broke many of the Iran-Contra stories in the 1980s for the Associated Press and Newsweek. His latest book, *Neck Deep: The Disastrous Presidency of George W. Bush,* was written with two of his sons, Sam and Nat, and can be ordered at neckdeepbook.com. His two previous books, *Secrecy & Privilege: The Rise of the Bush Dynasty from Watergate to Iraq* and *Lost History: Contras, Cocaine, the Press & ‘Project Truth’* are also available there.