Survival of the Richest

Nomi Prins tracks the acute worsening of inequality since the 2008 financial crisis.

By Nomi Prins
TomDispatch.com

Like a gilded coating that makes the dullest things glitter, today's thin veneer of political populism covers a grotesque underbelly of growing inequality that's hiding in plain sight. And this phenomenon of ever more concentrated wealth and power has both Newtonian and Darwinian components to it.

In terms of Newton's first law of motion: those in power will remain in power unless acted upon by an external force. Those who are wealthy will only gain in wealth as long as nothing deflects them from their present course. As for Darwin, in the world of financial evolution, those with wealth or power will do what's in their best interest to protect that wealth, even if it's in no one else's interest at all.

In George Orwell's iconic 1945 novel, "Animal Farm," the pigs who gain control in a rebellion against a human farmer eventually impose a dictatorship on the other animals on the basis of a single commandment: "All animals are equal, but some animals are more equal than others." In terms of the American republic, the modern equivalent would be: "All citizens are equal, but the wealthy are so much more equal than anyone else (and plan to remain that way)."

Certainly, inequality is the economic great wall between those with power and those without it.

As the animals of Orwell's farm grew ever less equal, so in the present moment in a country that still claims equal opportunity for its citizens, one in which three Americans now have as much wealth as the bottom half of society (160 million people), you could certainly say that we live in an increasingly Orwellian society. Or perhaps an increasingly Twainian one.

After all, Mark Twain and Charles Dudley Warner wrote a classic 1873 novel that put an unforgettable label on their moment and could do the same for ours. "The Gilded Age: A Tale of Today" depicted the greed and political corruption of post-Civil War America. Its title caught the spirit of what proved to be a long moment when the uber-rich came to dominate Washington and the rest of America. It was a period saturated with robber barons, professional grifters and incomprehensibly wealthy banking magnates. (Anything sound familiar?) The main difference between that last century's gilded moment and this one was that those robber barons built tangible things like railroads. Today's equivalent crew of the mega-wealthy build remarkably intangible things like tech and electronic platforms, while a grifter of a president opts for the only new infrastructure in sight, a great wall to nowhere.

Twain's Gilded Age

In Twain's epoch, the U.S. was emerging from the Civil War. Opportunists were rising from the ashes of the nation's battered soul. Land speculation, government lobbying, and shady deals soon converged to create an unequal society of the first order (at least until now). Soon after their novel came out, a series of recessions ravaged the country, followed by a 1907 financial panic in New York City caused by a speculator-led copper-market scam.

From the late 1890s on, the most powerful banker on the planet, J.P. Morgan, was called upon multiple times to bail out a country on the economic edge. In 1907, Treasury Secretary George Cortelyou provided him with $25 million in bailout money at the request of President Theodore Roosevelt to stabilize Wall Street and calm frantic citizens trying to withdraw their deposits from banks around the country. And this Morgan did – by helping his friends and their companies, while skimming money off the top himself. As for the most troubled banks holding the savings of ordinary people? Well, they folded. (Shades of the 2007-2008 meltdown and bailout anyone?)

The leading bankers who had received that bounty from the government went on to cause the crash of 1929. Not surprisingly, much speculation and fraud preceded it. In those years, the novelist F. Scott Fitzgerald caught the era's spirit of grotesque inequality in "The Great Gatsby" when one of his characters comments: "Let me tell you about the very rich. They are different from you and me." The same could certainly be said of today when it comes to the gaping maw between the have-nots and have-a-lots.

Income vs. Wealth

To fully grasp the nature of inequality in our 21st-century gilded age, it's important to understand the difference between wealth and income and what kinds of inequality stem from each. Simply put, income is how much money you make in terms of paid work or any return on investments or assets (or other things you own that have the potential to change in value). Wealth is simply the gross accumulation of those very assets *and* any return or appreciation on them. The more wealth you have, the easier it is to have a higher annual income.

Let's break that down. If you earn $31,000 a year, the median salary for an individual in the United States today, your income would be that amount minus associated taxes (including federal, state, Social Security and Medicare). On average, that means you would be left with about $26,000 before other expenses kicked in.

If your wealth is $1,000,000, however, and you put that into a savings account paying 2.25 percent interest, you could receive about $22,500 and, after taxes, be left with about $19,000, for doing nothing whatsoever.

To put all this in perspective, the top 1 percent of Americans now take home, on average, more than 40 times the incomes of the bottom 90 percent. And if you head for the top 0.1 percent, those figures only radically worsen. That tiny crew takes home more than 198 times the income of the bottom 90 percent. They also possess as much wealth as the nation's bottom 90 percent. "Wealth is power," as Adam Smith so classically noted almost two-and-a-half-centuries ago in "The Wealth of Nations." Sadly, the adage seldom seems outdated.

Inequality and the Federal Reserve

Obviously, if you inherit wealth in this country, you're instantly ahead of the game. In America, a third to nearly a half of all wealth is inherited rather than self-made. According to a *New York Times* investigation, for instance, President Donald Trump, from birth, received an estimated $413 million (in today's dollars, that is) from his dear old dad and another $140 million (in today's dollars) in loans. Not a bad way for a "businessman" to begin building the empire (of bankruptcies) that became the platform for a presidential campaign that oozed into actually running the country. Trump did it, in other words, the old-fashioned way — through inheritance.

In his megalomaniacal zeal to declare a national emergency at the southern border, that gilded millionaire-turned-billionaire-turned-president provides but one of many examples of a long record of abusing power. Unfortunately, in this country, few people consider record inequality (which is still growing) as another kind of abuse of power, another kind of great wall, in this case keeping not Central Americans but most U.S. citizens out.

The Federal Reserve, the country's central bank that dictates the cost of money and that sustained Wall Street in the wake of the financial crisis of 2007-2008 (and since), has finally pointed out that such extreme levels of inequality are bad news for the rest of the country. As Fed Chairman Jerome Powell said at a town hall in Washington in early February, "We want prosperity to be widely shared. We need policies to make that happen." Sadly, the Fed has largely contributed to increasing the systemic inequality now engrained in the financial and, by extension, political system. In a recent research paper, the Fed did, at least, underscore the consequences of inequality to the economy, showing that "income inequality can generate low aggregate demand, deflation pressure, excessive credit growth, and financial instability."

In the wake of the global economic meltdown, however, the Fed took it upon itself to reduce the cost of money for big banks by chopping interest rates to zero (before eventually raising them to 2.5 percent) and buying $4.5 trillion in Treasury and mortgage bonds to lower it further. All this so that banks could ostensibly lend money more easily to Main Street and stimulate the economy. As Sen. Bernie Sanders noted though, "The Federal Reserve provided more than $16 trillion in total financial assistance to some of the largest financial institutions and corporations in the United States and throughout the world… a clear case of socialism for the rich and rugged, you're-on-your-own individualism for everyone else."

The economy has been treading water ever since (especially compared to the stock market). Annual gross domestic product growth has not surpassed 3 percent in any year since the financial crisis, even as the level of the stock market tripled, grotesquely increasing the country's inequality gap. None of this should have been surprising, since much of the excess money went straight to big banks, rich investors and speculators. They then used it to invest in the stock and bond markets, but not in things that would matter to all the Americans outside that great wall of wealth.

The question is: Why are inequality and a flawed economic system mutually reinforcing? As a starting point, those able to invest in a stock market buoyed by the Fed's policies only increased their wealth exponentially. In contrast, those relying on the economy to sustain them via wages and other income got shafted. Most people aren't, of course, invested in the stock market, or really in anything. They can't afford to be. It's important to remember that nearly 80 percent of the population lives paycheck to paycheck.

The net result: an acute post-financial-crisis increase in wealth inequality — on top of the income inequality that was global but especially true in the United States. The crew in the top 1percent that doesn't rely on salaries to increase their wealth prospered fabulously. They, after all, now own more than half of all national wealth invested in stocks and mutual funds, so a soaring stock market disproportionately helps them. It's also why the Federal Reserve subsidy policies to Wall Street banks have only added to the extreme wealth of those extreme few.

The Ramifications of Inequality

The list of negatives resulting from such inequality is long indeed. As a start, the only thing the majority of Americans possess a greater proportion of than that top 1percent is a mountain of debt.

The bottom 90 percent are the lucky owners of about three-quarters of the country's household debt. Mortgages, auto loans, student loans, and credit-card debt are cumulatively at a record-high $13.5 trillion.

And that's just to start down a slippery slope. As Inequality.org reports, wealth and income inequality impact “everything from life expectancy to infant mortality and obesity.” High economic inequality and poor health, for instance, go hand and hand, or put another way, inequality compromises the overall health of the country. According to academic findings, income inequality is, in the most literal sense, making Americans sick. As one study put it, “Diseased and impoverished economic infrastructures [help] lead to diseased or impoverished or unbalanced bodies or minds.”

Then there’s Social Security, established in 1935 as a federal supplement for those in need who have also paid into the system through a tax on their wages. Today, all workers contribute 6.2 percent of their annual earnings and employers pay the other 6.2 percent (up to a cap of $132,900) into the Social Security system. Those making far more than that, specifically millionaires and billionaires, don’t have to pay a dime more on a proportional basis. In practice, that means about 94 percent of American workers and their employers paid the full 12.4 percent of their annual earnings toward Social Security, while the other 6 percent paid an often significantly smaller fraction of their earnings.

According to his own claims about his 2016 income, for instance, Trump “contributed a mere 0.002 percent of his income to Social Security in 2016.” That means it would take nearly 22,000 additional workers earning the median U.S. salary to make up for what he doesn’t have to pay. And the greater the income inequality in this country, the more money those who make less have to put into the Social Security system on a proportional basis. In recent years, a staggering $1.4 trillion could have gone into that system, if there were no arbitrary payroll cap favoring the wealthy.

Global Implications

America is great at minting millionaires. It has the highest concentration of them, globally speaking, at 41 percent. (Another 24 percent of that millionaires' club can be found in Europe.) And the top 1 percent of U.S. citizens earn 40 times the national average and own about 38.6 percent of the country's total wealth. The highest figure in any other developed country is "only" 28 percent.

However, while the U.S. boasts of epic levels of inequality, it's also a global trend. Consider this: the world's richest 1 percent own 45 percent of total wealth on this planet. In contrast, 64 percent of the population (with an average of $10,000 in wealth to their name) holds less than 2 percent. And to widen the inequality picture a bit more, the world's richest 10 percent, those having at least $100,000 in assets, own 84 percent of total global wealth.

The billionaires' club is where it's really at, though. According to Oxfam, the richest 42 billionaires have a combined wealth equal to that of the poorest 50 percent of humanity. Rest assured, however, that in this gilded century there's inequality even among billionaires. After all, the 10 richest among them possess $745 billion in total global wealth. The next 10 down the list possess a mere $451.5 billion, and why even bother tallying the next 10 when you get the picture?

Oxfam also recently reported that "the number of billionaires has almost doubled, with a new billionaire created every two days between 2017 and 2018. They have now more wealth than ever before while almost half of humanity have barely escaped extreme poverty, living on less than $5.50 a day."

The rich are only getting richer and it's happening at a historic rate. Worse yet, over the past decade, there was an extra perk for the truly wealthy. They could bulk up on assets that had been devalued due to the financial crisis, while so many of their peers on the other side of that great wall of wealth were economically decimated by the 2007-2008 meltdown and have yet to fully recover.

What we've seen ever since is how money just keeps flowing upward through banks and massive speculation, while the economic lives of those not at the top of the financial food chain have largely remained stagnant or worse. The result is, of course, sweeping inequality of a kind that, in much of the last century, might have seemed inconceivable.

Eventually, we will all have to face the black cloud this throws over the entire economy. Real people in the real world, those not at the top, have experienced a decade of ever greater instability, while the inequality gap of this beyond-gilded age is sure to shape a truly messy world ahead. In other words, this can't end well.

Nomi Prins, a former Wall Street executive, is a TomDispatch regular. Her latest book is "Collusion: How Central Bankers Rigged the World" (Nation Books). She is also the author of "All the Presidents' Bankers: The Hidden Alliances That Drive American Power" and five other books. Special thanks go to researcher Craig Wilson for his superb work on this piece.

Wall Street, Banks and Angry Citizens

The post-Great Recession economic “recovery” was largely reserved for participants in financial markets, not the majority working longer hours and multiple jobs, writes Nomi Prins.

Inequality Worsens Around the Planet

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As we head into 2019, a major question remains about the state of Main Street, not just in the U.S. but across the planet. If the global economy really is booming, as many politicians claim, why are leaders and their parties around the world continuing to get booted out of office in such a sweeping fashion?

One obvious answer: the post-Great Recession economic “recovery” was largely reserved for the few who could participate in the rising financial markets of those years, not the majority who continued to work longer hours, sometimes at multiple jobs, to stay afloat. In other words, the good times have left out so many people, like those struggling to keep even a few hundred dollars in their bank accounts to cover an emergency or the 80 percent of U.S.

workers who live paycheck to paycheck.

In today's global economy, financial security is increasingly the property of the 1 percent. No surprise, then, that, as a sense of economic instability continued to grow over the past decade, angst turned to anger, a transition that—from the U.S. to the Philippines, Hungary to Brazil, Poland to Mexico—has provoked a plethora of voter upheavals. In the process, a 1930s-style brew of rising nationalism and blaming the "other" — whether that other was an immigrant, a religious group, a country, or the rest of the world—emerged.

This phenomenon offered a series of Trumpian figures, including of course The Donald himself, an opening to ride a wave of "populism" to the heights of the political system. That the backgrounds and records of none of them—whether you're talking about Donald Trump, Viktor Orbán, Rodrigo Duterte, or Jair Bolsonaro (among others)—reflected the daily concerns of the "common people," as the classic definition of populism might have it, hardly mattered. Even a billionaire could, it turned out, exploit economic insecurity effectively and use it to rise to ultimate power.

Ironically, as that American master at evoking the fears of apprentices everywhere showed, to assume the highest office in the land was only to begin a process of creating yet more fear and insecurity. Trump's trade wars, for instance, have typically infused the world with increased anxiety and distrust toward the U.S., even as they thwarted the ability of domestic business leaders and ordinary people to plan for the future. Meanwhile, just under the surface of the reputed good times, the damage to that future only intensified. In other words, the groundwork has already been laid for what could be a frightening transformation, both domestically and globally.

That Old Financial Crisis

To understand how we got here, let's take a step back. Only a decade ago, the world experienced a genuine global financial crisis, a meltdown of the first order. Economic growth ended; shrinking economies threatened to collapse; countless jobs were cut; homes were foreclosed upon and lives wrecked. For regular people, access to credit suddenly disappeared. No wonder fears rose. No wonder for so many a brighter tomorrow ceased to exist.

The details of just why the Great Recession happened have since been glossed over by time and partisan spin. This September, when the 10th anniversary of the collapse of the global financial services firm Lehman Brothers came around, major business news channels considered whether the world might be at risk of another such crisis. However, coverage of such fears, like so many other topics, was quickly tossed aside in favor of paying yet more attention to Donald Trump's latest tweets, complaints, insults, and lies. Why? Because such a crisis was so 2008 in a year in which, it was claimed, we were enjoying a first class economic high and edging toward the longest bull-market in Wall Street history. When it came to "boom versus gloom," boom won hands down.

None of that changed one thing, though: most people still feel left behind both in the U.S. and globally. Thanks to the massive accumulation of wealth by a 1 percent skilled at gaming the system, the roots of a crisis that didn't end with the end of the Great Recession have spread across the planet, while the dividing line between the "have-nots" and the "have-a-lots" only sharpened and widened.

Though the media hasn't been paying much attention to the resulting inequality, the statistics (when you see them) on that ever-widening wealth gap are mind-boggling. According to Inequality.org, for instance, those with at least $30 million in wealth globally had the fastest growth rate of any group between 2016 and 2017. The size of that club rose by more than 25 percent during those years, to 174,800 members. Or if you really want to grasp what's been happening, consider that, between 2009 and 2017, the number of billionaires whose combined wealth was greater than that of the world's poorest 50 percent fell from 380 to just eight. And by the way, despite claims by the president that every other country is screwing America, the U.S. leads the pack when it comes to the growth of inequality. As Inequality.org notes, it has "much greater shares of national wealth and income going to the richest 1 percent than any other country."

That, in part, is due to an institution many in the U.S. normally pay little attention to: the U.S. central bank, the Federal Reserve. It helped spark that increase in wealth disparity domestically and globally by adopting a post-crisis monetary policy in which electronically fabricated money (via a program called quantitative easing) was offered to banks and corporations at significantly cheaper rates than to ordinary Americans.

Pumped into financial markets, that money sent stock prices soaring, which naturally ballooned the wealth of the small percentage of the population that actually owned stocks. According to economist Stephen Roach, considering the Fed's Survey of Consumer Finances, "It is hardly a stretch to conclude that [quantitative easing] exacerbated America's already severe income disparities."

Wall Street, Central Banks, and Everyday People

What has since taken place around the world seems right out of the 1930s. At that time, as the world was emerging from the Great Depression, a sense of broad economic security was slow to return. Instead, fascism and other forms of nationalism gained steam as people turned on the usual cast of politicians, on other countries, and on each other. (If that sounds faintly Trumpian to you, it should.)

In our post-2008 era, people have witnessed trillions of dollars flowing into bank bailouts and other financial subsidies, not just from governments but from the world's major central banks. Theoretically, private banks, as a result, would have more money and pay less interest to get it. They would then lend that money to Main Street. Businesses, big and small, would tap into those funds and, in turn, produce real economic growth through expansion, hiring sprees, and wage increases. People would then have more dollars in their pockets and, feeling more financially secure, would spend that money driving the economy to new heights—and all, of course, would then be well.

That fairy tale was pitched around the globe. In fact, cheap money also pushed debt to epic levels, while the share prices of banks rose, as did those of all sorts of other firms, to record-shattering heights.

Even in the U.S., however, where a magnificent recovery was supposed to have been in place for years, actual economic growth simply didn't materialize at the levels promised. At 2 percent per year, the average growth of the American gross domestic product over the past decade, for instance, has been half the average of 4 percent before the 2008 crisis. Similar numbers were repeated throughout the developed world and most emerging markets. In the meantime, total global debt hit $247 trillion in the first quarter of 2018. As the Institute of International Finance found, countries were, on average, borrowing about three dollars for every dollar of goods or services created.

Global Consequences

What the Fed (along with central banks from Europe to Japan) ignited, in fact, was a disproportionate rise in the stock and bond markets with the money they created. That capital sought higher and faster returns than could be achieved in crucial infrastructure or social strengthening projects like building roads, high-speed railways, hospitals, or schools.

What followed was anything but fair. As former Federal Reserve Chair Janet Yellen noted four years ago, "It is no secret that the past few decades of widening inequality can be summed up as significant income and wealth gains for those at the very top and stagnant living standards for the majority." And, of course, continuing to pour money into the highest levels of the private banking system was anything but a formula for walking that back.

Instead, as more citizens fell behind, a sense of disenfranchisement and bitterness with existing governments only grew. In the U.S., that meant Donald Trump. In the United Kingdom, similar discontent was reflected in the June 2016 Brexit vote to leave the European Union, which those who felt economically squeezed to death clearly meant as a slap at both the establishment domestically and EU leaders abroad.

Since then, multiple governments in the European Union, too, have shifted toward the populist right. In Germany, recent elections swung both right and left just six years after, in July 2012, European Central Bank head Mario Draghi exuded optimism over the ability of such banks to protect the financial system, the Euro, and generally hold things together.

Like the Fed in the U.S., the ECB went on to manufacture money, adding another $3 trillion to its books that would be deployed to buy bonds from favored countries and companies. That artificial stimulus, too, only increased inequality within and between countries in Europe. Meanwhile, Brexit negotiations remain ruinously divisive, threatening to rip Great Britain apart.

Nor was such a story the captive of the North Atlantic. In Brazil, where left-wing president Dilma Rouseff was ousted from power in 2016, her successor Michel Temer oversaw plummeting economic growth and escalating unemployment. That, in turn, led to the election of that country's own Donald Trump, nationalistic far-right candidate Jair Bolsonaro who won a striking 55.2 percent of the vote against a backdrop of popular discontent. In true Trumpian style, he is disposed against both the very idea of climate change and multilateral trade agreements.

In Mexico, dissatisfied voters similarly rejected the political known, but by swinging left for the first time in 70 years. New president Andrés Manuel López Obrador, popularly known by his initials AMLO, promised to put the needs of ordinary Mexicans first. However, he has the U.S.—and the whims of Donald Trump and his "great wall" —to contend with, which could hamper those efforts.

As AMLO took office on Dec. 1, the G20 summit of world leaders was unfolding in Argentina. There, amid a glittering backdrop of power and influence, the trade war between the U.S. and the world's rising superpower, China, came even more clearly into focus. While its president, Xi Jinping, having fully consolidated power amid a wave of Chinese nationalism, could become his country's longest serving leader, he faces an international landscape that would have amazed and befuddled Mao Zedong.

Though Trump declared his meeting with Xi a success because the two sides agreed on a 90-day tariff truce, his prompt appointment of an anti-Chinese hardliner, Robert Lighthizer, to head negotiations, a tweet in which he referred to himself in superhero fashion as a "Tariff Man," and news that the U.S. had requested that Canada arrest and extradite an executive of a key Chinese tech company, caused the Dow to take its fourth largest plunge in history and then fluctuate wildly as economic fears of a future "Great Something" rose. More uncertainty and distrust were the true product of that meeting.

In fact, we are now in a world whose key leaders, especially the president of the United States, remain willfully oblivious to its long-term problems, putting policies like deregulation, fake nationalist solutions, and profits for the already grotesquely wealthy ahead of the future lives of the mass of citizens. Consider the yellow-vest protests that have broken out in France, where protestors identifying with left and right political parties are calling for the resignation of neoliberal French President Emmanuel Macron. Many of them, from financially starved provincial towns, are angry that their purchasing power has dropped so low they can barely make ends meet.

Ultimately, what transcends geography and geopolitics is an underlying level of economic discontent sparked by twenty-first-century economics and a resulting Grand Canyon-sized global inequality gap that is still widening. Whether the protests go left or right, what continues to lie at the heart of the matter is the way failed policies and stop-gap measures put in place around the world are no longer working, not when it comes to the non-1 percent anyway. People from Washington to Paris, London to Beijing, increasingly grasp that their economic circumstances are not getting better and are not likely to in any presently imaginable future, given those now in power.

A Dangerous Recipe

The financial crisis of 2008 initially fostered a policy of bailing out banks with cheap money that went not into Main Street economies but into markets enriching the few. As a result, large numbers of people increasingly felt that they were being left behind and so turned against their leaders and sometimes each other as well.

This situation was then exploited by a set of self-appointed politicians of the people, including a billionaire TV personality who capitalized on an increasingly widespread fear of a future at risk. Their promises of economic prosperity were wrapped in populist platitudes, normally (but not always) of a right-wing sort. Lost in this shift away from previously dominant political parties and the systems that went with them was a true form of populism, which would genuinely put the needs of the majority of people over the elite few, build real things including infrastructure, foster organic wealth distribution, and stabilize economies above financial markets.

In the meantime, what we have is, of course, a recipe for an increasingly unstable and vicious world.

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