

## Inequality

### Would you like your class war shaken or stirred, sir?

#### What widening inequality in incomes and wealth reveals about America--and the chances of it seeping into the presidential race

Dateline: WASHINGTON, DC

Follow almost any Democratic presidential candidate around, and it won't be long before you hear this statistic. In 1980, the average CEO was paid around 40 times as much as the average worker; now the multiple is above 400. George Bush's tax cuts "for the rich", say the likes of John Kerry, who formally announced his candidacy this week, must be scrapped to help those of lesser means. Meanwhile, pundits, notably Paul Krugman at the New York Times, have argued that a new "plutocracy" is rising.

The idea that America is becoming a less egalitarian place seems to worry the Republicans too. On Labour Day, the country's only official salute to the proletariat (established in 1894 to be the first Monday in September to disavow any connection with May 1st), Mr Bush donned his working-stiff outfit and baseball hat and headed off to Richfield, Ohio, to reassure his union brothers that he was appointing a new tsar for manufacturing.

Does America really have an inequality problem? Statistically, the answer is "Yes, but". Much the same applies to the question of whether the Democrats can turn this into a winning political issue.

By whatever measure you use, the richest Americans have done very well over the past few decades. According to the Census Bureau, the share of national income going to those in the top fifth of earners rose from 44% in 1973 to 50% in 2000. The share going to the top 1% rose to 15% in 1998, higher than it has ever been since the second world war, according to a recent study of tax returns by two economists, Thomas Piketty and Emmanuel Saez.

Take wealth rather than income, and America's disparity is even more startling. The wealthiest 1% of all households controls 38% of national wealth, while the bottom 80% of households holds only 17%, according to the Economic Policy Institute (EPI). Around 85% of stockmarket wealth is held by a lucky 20%.

If the rich have been doing much better than other Americans in relative terms, the poor have failed to improve their lot as they did in the 1950s and 1960s. The wage incomes of the bottom 20% of households have barely grown in real terms since the mid-1970s. As for wealth, the bottom fifth has debts that exceed its assets, making its wealth a negative number. The bottom fifth's percentage of national wealth worsened from -0.3% in 1983 to -0.6% in 1998.

These depressing statistics, though, come with two caveats. First, poorer Americans are better off than they once were. The proportion of Americans in poverty now stands at 12%; in Mr Krugman's supposedly golden 1950s, it reached 22%.

Meanwhile, although real wages appear stagnant, poor people can buy far more with them. The combination of technology and globalisation--the very thing that has depressed some

manufacturing wages--has put many more erstwhile luxuries within the grasp of poorer Americans. They now own better-quality cars and washing machines than rich ones did a generation ago; mobile phones and computers are now mass-market items.

Second, America is a remarkably mobile society. As this year's Economic Report of the President points out, 50-80% of the unfortunates in America's bottom quintile push themselves into a higher quintile after 10 years. There are worries about mobility; Chris Edwards of the Cato Institute complains that marriage patterns may now be reinforcing inequalities, since yuppies marry yuppies these days. Yet, in broad terms, the idea that America is a land of opportunity still stands.

Interestingly, Americans are usually over-optimistic about their chances of promotion. An opinion poll a couple of years ago found that 19% of American taxpayers believed themselves to be in the top 1% of earners. A further 20% thought they would end up there within their lifetimes.

Seen from an international perspective, America certainly looks an unequal country, but in a way that many of those optimistic Americans might be proud of (see chart on next page). According to the EPI, admittedly using figures from the late 1990s, the gap between the top and bottom tenth of earners in America is wider than that in almost any other rich country. Even so, America's poorest are (in real purchasing-power terms) only a tiny bit worse-off than their peers in Sweden, Finland and Denmark; and they are better-off than those in Britain and Australia.

The relative inequality in America comes from the people at the top doing unusually well. The top 10% of Americans are nearly twice as well off as the top 10% of Nordic households. They are also much further away from the mean.

How does this translate into politics? Most Americans seem to understand that inequality is not just to do with tax cuts for the rich. The introduction of new technology--ATM machines and the like--has done far more than anything else to throw Americans out of work. Inequality is also tied up with social problems, such as the rise of single-parent households (see Lexington). One reason, arguably, why real incomes for poor Americans rose at the end of the 1990s was because the welfare-reform law in 1996 forced them to find work.

Similarly, Americans, even in recessions, still tend to lack the deep-rooted class envy that still afflicts Old Europe. They tend to associate wealth with the people who make it rather than inherit it (hardly surprising in a country where the richest two people are Bill Gates and Warren Buffett, rather than the queen and the Duke of Westminster). As Mr Edwards points out, many of the visibly wealthy are self-made entertainers and sports stars.

This helps explain why Al Gore's "People v the powerful" campaign failed to catch fire in 2000. Yet, three years later, Mr Bush looks more vulnerable on two fronts. First, the current jobless recovery is hitting poor America particularly hard--and prompting comparisons with the golden years of Mr Clinton's presidency. Although the recession technically ended in November 2001, unemployment has risen from 5.6% to 6.2% since then. The EPI calls this the worst recovery for job creation since records began in 1939. For those still in work, real wages since the end of 2001 have fallen by about 1%, says the institute.

Second, the tax policies of the Bush administration will probably only exacerbate the already wide gap between rich and poor. The inheritance tax has been all but scrapped. Marginal rates on top incomes have come down. Most important may be this year's reduction in capital gains and dividends taxes which, by some estimates, will provide a windfall to just the top 20% of households.

It is these "giveaways" that the Democrats are now concentrating on. But raising marginal tax rates, the Democrats' traditional solution to inequality, usually hits many people who regard themselves as middle-class, and does nothing to reduce the vast fortune of true plutocratic families, such as, well, Mr Kerry's.

Indeed, is the Harvard-educated Mr Kerry, who is married to a Heinz heiress worth \$600m, any more an homme du peuple than George II, as some Democrats like to call Mr Bush? Howard Dean, the Democratic front-runner, may stress his occupation as a humble doctor, but he grew up in the Hamptons and Mr Bush's grandmother was a bridesmaid to his granny. As long as the presidency remains the shuttlecock of different scions of the north-eastern aristocracy, Americans may have a hard time thinking of any party as the champions of the poor.

GRAPH: The rich make the US unequal

PHOTO (COLOR)

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**Source:** The Economist, 9/6/2003, Vol. 368 Issue 8340, p28, 2p

**Item:** 10780238

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