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Extreme Economic Inequality in America

Business leaders, economic policy makers, and economists are pondering over the very slow, almost non-existent, recovery of the nation from the Great Recession and now shudder at the thought of a "double-dip," second, recession that may extend the economic slowdown for years into the future.

For some observers of the American economy, the very slow recovery and ongoing stagnation in job creation that has saddled us with close to double digit unemployment rates, is not surprising. They point out that residential housing is the most broadly shared form of wealth in the United States. For many families it is the only substantial asset they own. Since housing prices peaked in 2006, the value of those home assets has fallen by almost a third. One housing market analyst estimated that this represented the loss of about nine **trillion** dollars across all American households. A more conservative estimate would put it at seven to eight **trillion** dollars in household losses.

Simply put, this decline in household assets leaves us significantly poorer than we had been.

Then there is the significant reduction in average household income because of high unemployment and underemployment which makes us poorer still. Finally there is the uncertainty faced by those with jobs about how secure their employment really is and whether more plunges in housing prices and stock values are yet to come.

Given these massive actual losses of wealth and income and potential future ones, it is not surprising that people either do not have the ability to spend at previous levels or are fearful of doing so because of the uncertainty about their future wealth and income. With declines in consumer spending, there is little motivation for firms to hire new workers and expand production. So we sit in a self-reinforcing economic trap.

Lavishing tax cuts on the rich, who Republicans have relabeled “job creators,” will do little to boost production or jobs. Someone has to be able to buy what firms can produce before jobs can be created.

This problem of reduced consumption expenditures appears to have been building long before the financial collapse in late 2008. For quite some time household consumption has <u>not</u> been supported by real wage increases. First it was supported by sending more and more household members into the workforce. This masked the stagnation or decline in real wages and allowed household income to rise because we were working harder outside the home. But even that was not enough. We took advantage of the rising value of our homes to take out home equity loans to support our consumption expenditures. We also borrowed on our credit cards at outrageous interest rates. Finally, the fly up in housing prices stimulated the construction industry, creating millions of high paid blue collar jobs to replace those being lost in manufacturing. In that sense the housing boom hid the full extent of the deterioration of the blue collar path to a middle class lifestyle. Those often unionized and well-paid jobs available to workers with just a high school education have been evaporating for decades. The impact of the loss of those well-paid jobs on the size and breadth of the middle class was temporarily hidden by the construction boom of the 2000s. But that bubble has burst and the fortunes of less educated workers, especially male workers, may not be the same again.

That has profound social and cultural implications. As we saw decades ago when our Black ghettos lost most of their jobs, women will not marry men who cannot provide reliable economic support. That does not mean that they will not have children. They will, but those children will be raised in single-parent families. That is now the pattern among less educated and lower income whites too. More and more children are being born into single-parent households. More and more young males face limited job prospects at relatively low wages. They respond with very casual commitments to those dead end jobs, coming and going, showing the same lack of commitment that employers show to them.

The result is that the middle class in the United States is narrowing as the bottom falls out for less educated households, especially for men. Meanwhile an incredibly tiny sliver of the professional middle class is seeping into the miniscule elite of the super-rich. A mere one-tenth of one percent of the population, one out of every thousand, has seen their share of national income rise by ten percentage point. That tiny elite has largely corralled almost all of the real increase in personal income generated by the American economy over the last several decades. If we expand our category of the "rich" to include the top one percent of the population, it receives more income than the bottom 60 percent and owns more wealth than the bottom 90 percent. As Warren Buffet has put it, "Yes, there's been a class war in the United States, and my class, namely the super-rich people, have won."

This shrinking of the middle class, the growth in a multi-racial underclass of disaffected citizens, and the ongoing concentration of purchasing power in the hands of a tiny class of the super-rich does not bode well for either social or economic stability. It depresses the productivity of the economy by casting off ever larger portions of our workers. It depresses consumer spending undermining the broad middle class that supported the multi-decade post-World War economic expansion. It undermines our ability to provide crucial basic public services and maintain basic infrastructure, both of which are central to a productive economy.

This is the complex set of economic problems we actually face. The contemporary bumper-sticker political mantras about cutting taxes and government spending and insulating the rich from paying a fair share of the costs of maintaining a sophisticated and prosperous society and economy are just so much recycling of empty political hot air that not only does not offer solutions to the real problems we face but actually undermine any chance of a real economic recovery.