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US Income Inequality Continues to Grow

By Don Monkerud

July 18, 2009 " Capital Times" -- In June 2009, the U.S. economy saw its second steepest decline in 27 years. New jobless claims increased, business inventories fell and exports plunged as bad economic news persisted.

Will the once high-flying American wealth machine continue to produce the vast inequalities of the past?

Only two years ago, Steve Forbes, CEO of Forbes magazine, declared 2007 "the richest year ever in human history." During eight years of the Bush administration, the 400 richest Americans, who now own more than the bottom 150 million Americans, increased their net worth by $700 billion. In 2005, the top 1 percent claimed 22 percent of the national income, while the top 10 percent took half of the total income, the largest share since 1928.

In June 2009, the Merrill Lynch Global Wealth Report estimated the number of the world's wealthiest people declined by 15 percent, the steepest decline in the report's 13-year history. The number of millionaires in the U.S. fell by 19 percent to 2.5 million people.

Analysts tell us the economy is being restructured, but how will the disparities in wealth between the rich and the poor play out?

"The source of wealth has changed over the past 30 years; corporations have become the engine of inequality in the U.S.," says Sam Pizzigati, associate fellow at the Institute for Policy Studies in Washington D.C. "In the past, wealth came from ownership: Today it comes increasingly from income."

The highest incomes come from executive pay at top corporations. In 2007, the ratio of CEO pay to the average paycheck was 344 to 1, lower than the record 525 to 1 ratio set in 2001, but substantial.

This year's ratio is estimated to decrease to 317 to 1. In the '60s, '70s and '80s, the average ratio fluctuated between 30 and 40 to 1.

Over 40 percent of GNP comes from Fortune 500 companies. According to the World Institute for Development Economics Research, the 500 largest conglomerates in the U.S. "control over two-thirds of the business resources, employ two-thirds of the industrial workers, account for 60 percent of the sales, and collect over 70 percent of the profits."

Corporations systematically created a wealth gap over the last 30 years. In 1955, IRS records indicated the 400 richest people in the country were worth an average $12.6 million, adjusted for inflation.

In 2006, the 400 richest increased their average to $263 million, representing an epochal shift of wealth upward in the U.S.
In 1955, the richest tier paid an average 51.2 percent of their income in taxes under a progressive federal income tax that included loopholes. By 2006, the richest paid only 17.2 percent of their income in taxes. In 1955, the proportion of federal income from corporate taxes was 33 percent; by 2003, it decreased to 7.4 percent. Today, the top taxpayers pay the same percentage of their incomes in taxes as those making $50,000 to $75,000, although they doubled their share of total U.S. income.

"Over the past 30 years, the income of the top 1 percent, adjusted for inflation, doubled: the top one-tenth of 1 percent tripled, and the top one-one-hundredth quadrupled," says Pizzigati. "Meanwhile, the average income of the bottom 90 percent has gone down slightly. This is a stunning transformation."

Meanwhile, wages for most Americans didn't improve from 1979 to 1998, and the median male wage in 2000 was below the 1979 level, despite productivity increases of 44.5 percent. Between 2002 and 2004, inflation-adjusted median household income declined $1,669 a year. To make up for lost income, credit card debt soared 315 percent between 1989 and 2006, representing 138 percent of disposable income in 2007.

According to Pizzigati, the wealth disparity is the result of corporations squeezing more profits from workers.

"In the past corporations laid off workers because business was bad," Pizzigati says. "But over the past few decades, downsizing has been a corporate wealth generating strategy. Today, CEOs don't spend their time trying to make better products: they maneuver to take over other companies, steal their customers and fire their workers."

Progressive taxation used to prevent the rich from capturing a disproportionate share of national compensation, and the labor movement, which represented 35 percent of private sector employees and today represents 8 percent, once served as a political force to limit excessive executive pay. The Reagan backlash cut the top income tax rates, and saw the creation of right-wing think tanks that spent $30 billion over the past 30 years propagandizing for deregulation, privatization and wealth worship.

Bubble economies over the past 30 years helped CEOs pump up their income, and efforts to corral their pay are weak and ineffective. CEO pay may fall during these economic hard times, but disparity isn't going away. Without a strong movement for change, the wealth gap will only increase in this downturn.

"There won't be a restructuring of the economy unless we take on executive compensation," concludes Pizzigati. "Outrageously large rewards give executives an incentive to behave outrageously. If we allow these incentives to continue, we will just see more of the reckless behavior that has driven the global economy into the ditch."

Don Monkerud is a California-based writer who follows cultural, social and political issues. This column was provided by PeaceVoice.

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