THE UNPRECEDENTED INCOME INEQUALITY IN AMERICA

By

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ABSTRACT

Income inequality in America has reached an unprecedented, historic level, and American workers are experiencing an uncertain and worrisome future. The gap between the rich and poor is now at an all-time high, and the middle class is collapsing to the verge of extinction. Working men and women have witnessed their wages fall rapidly and savings wither away. Productivity has reached a pinnacle, but workers are unable to share in the prosperity they have toiled to create. A tiny 0.1% of the American population now has over 90% of the country's wealth, which we have not seen since before World War II. Faced with high costs for education, health care, food, insurance, and necessary expenses, plus a multitude of loans and a weak economy plagued with low-skilled and low-wage jobs, America's working people are now greatly suffering. The American Dream of home ownership, good wages, and leisure has rapidly become unsustainable; in fact, experts say the American Dream has ceased to exist. A variety of factors have contributed to this downward spiral, and this paper analyzes some critically important ones: (a) the effects of a trickle-down economic policy vis-à-vis the New Deal–inspired bubble-up system; (b) the global aggression of a neoliberal economic program put forth by the International Monetary Fund (IMF), the World Bank, and their sponsor countries; (c) domestic politics and tax structures in America that create ever-widening wage and wealth discrepancies; and (d) a relentless onslaught against the working class and especially against organized labor by pro-1% politicians, conservative think tanks, anti-union groups and personalities, and big media owned by corporate America. Our hope is that American workers, with a clear understanding of some of the most important factors leading to this historic extreme

in income and wealth inequality, will be able to see through the lies, propaganda, and illusions created by the elite ruling class and find solidarity across race, gender, immigration status, and other walls that the people in power have built and perpetuated to keep working people divided.

Key Words: American Dream, American workers, corporate media, deregulation, globalization, Heritage Foundation, income inequality, International Monetary Fund, Keynesian economics, Koch Brothers, labor unions, media distortion, neoliberal economics, New Deal, productivity and wage gap, Reaganomics, structural adjustment program, tax cuts, trickle-down economics, wage disparity, World Bank, working class.

> *It goes without saying that part of this great effort is the creation and distribution of wealth. The right use of natural resources, the proper application of technology and the harnessing of the spirit of enterprise are essential elements of an economy which seeks to be modern, inclusive and sustainable.*
>
> —Pope Francis, address to the U.S. Congress, Washington, DC, September 24, 2015

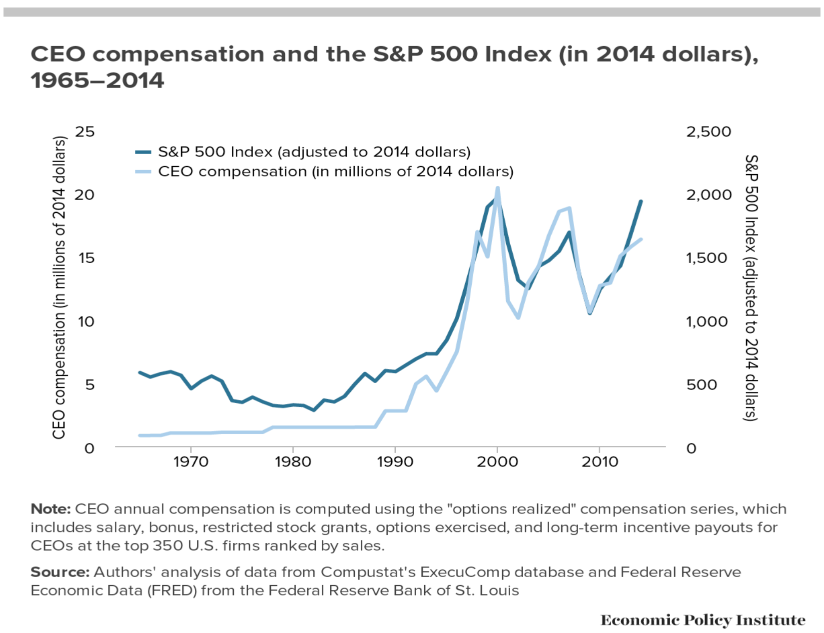
INTRODUCTION

Wages in America have been stagnant, especially since the Reagan era. Deregulation of major industries and curbing of pro-labor laws have boosted productivity and profits for the rich, while leaving wages for the working class lagging. Reaganomics, associated with President Ronald Reagan's reduction of taxes and promotion of unrestrained free-market activity, promised a trickle-down effect on the economy that failed to manifest, proving disastrous for the American working class. It began to destroy the pro-people, New Deal economic system that President Franklin Delano Roosevelt implemented with conceptual help from John Maynard Keynes.[1] The post-Reagan period saw a new, globalized era where a virtually borderless market was open to the Bill Clinton, George W. Bush, and Barack Obama administrations. These administrations chose to implement the neoliberal economic policy promoted by the International Monetary Fund (IMF) and World Bank, exacerbating the crisis for working people everywhere.

Over the last three decades, especially since the advent of the trickle-down era in the United States (coupled with a parallel anti-poor economy in Prime Minister Margaret Thatcher's Britain), income inequality has grown in three significant ways: (1) rising inequality of labor income, (2) rising inequality of capital income, and (3) an increasing share of income going to capital income rather than labor income. As a consequence, the top 1% of households have secured a massive 60% share of all of the income gains, while only 8.6% of income gains have gone to the bottom 90%.[2] Worse, the gap between productivity and compensation growth for the typical worker has been larger in the "lost decade" since the early 2000s than at any point in the post–World War II period.[3]

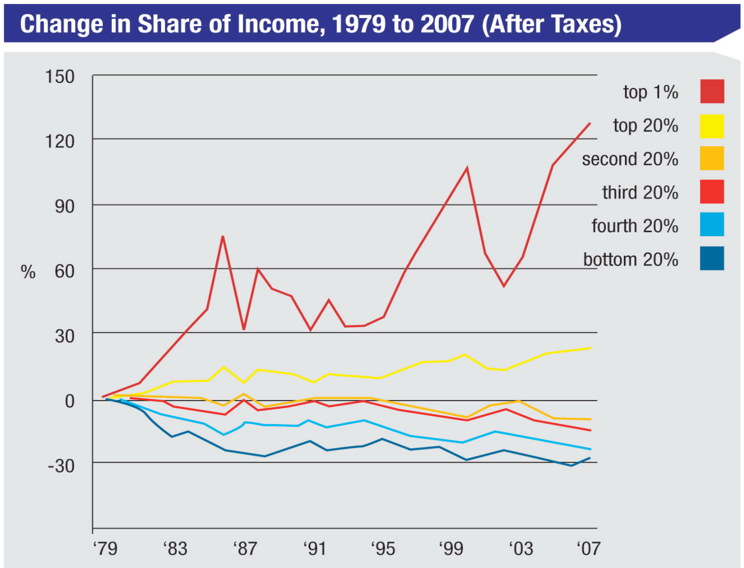
For almost fifty years the ratio of CEO to worker compensation has steadily increased, from 20 in 1965 to 303 in 2014 (see Figure 1).[4] Figure 2 shows how real average after-tax income rose in a dramatic way for the richest Americans, even as all other wages stagnated.[5] During the Bush years, from 2002 to 2007, the top 1% wage earners captured 65% of the total wage increases (see Figure 3 and Figure 4).

Figure 1. **Executive Compensation**



Source: Lawrence M. and Alyssa D., (June 21, 2015)

Figure 2. **Real Average After-Tax Income**



Source: Stone C. and Sherman A., (June 25, 2015)

Up until the early 1970s, company executives generally did not have an hourly paycheck or a salary; their income share came in the form of dividends and was reported as capital gains. Since 1970, there has been an escalating increase in the number of the wealthiest people who have come onto payrolls as employees. As a prominent report on trends in executive compensation reported,

> While high tax rates help to explain why executive compensation was relatively low in the past, changes in tax policy can account for only about 30 percent of the growth in compensation from 1946 to the present. Thus, a number of other factors also have influenced changes in the compensation arrangements of top officers over time. Among other explanations, corporate governance, social norms, the market for corporate control, and the labor market for executives, may have contributed to the evolution of executive compensation.[6]

Why are corporate chief executive officers (CEOs) so highly paid? The media-promoted image is that Fortune 500 CEOs have incredibly demanding jobs leading large, complex organizations, and that they have to take big risks and at any minute face dismissal for underperformance. However, a more accurate picture is that the average CEO stays in office about six years and then retires, according to research published by the National Bureau of Economic Research and the *Economist* magazine.[7] Only about 20% to 25% of CEOs are fired. The rest leave either through planned retirements or as the result of mergers and acquisitions—in which departing CEOs usually receive handsome "golden parachutes."[8]

Executives involved in many of the largest corporate collapses in American history were extraordinarily well paid. Richard Fuld (Lehman Brothers), Bernie Ebbers (Worldcom), Kerry Killinger (Washington Mutual), Kenneth Lay (Enron), and Stanley O'Neal (Merrill Lynch) all had seven-digit annual pay packages.[9]

Figure 3. Real Annual Income Growth

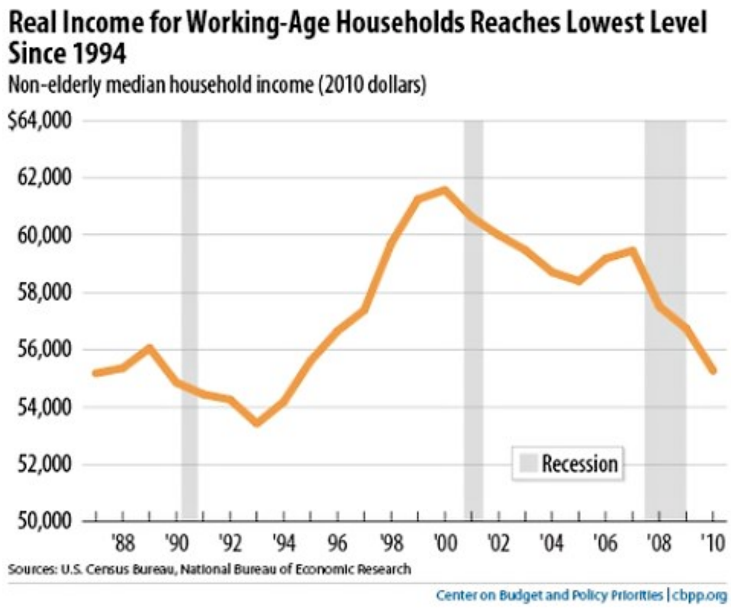
Table 1. Real Annual Income Growth by Groups, 1993-2007

	Average Income Real Annual Growth (1)	Top 1% Incomes Real Annual Growth (2)	Bottom 99% Incomes Real Annual Growth (3)	Fraction of total growth captured by top 1% (4)
Full period 1993-2007	2.2%	5.9%	1.3%	50%
Clinton Expansion 1993-2000	4.0%	10.3%	2.7%	45%
Bush Expansion 2002-2007	3.0%	10.1%	1.3%	65%

Computations based on family market income including realized capital gains (before individual taxes).
Incomes are deflated using the Consumer Price Index.
Column (4) reports the fraction of total real family income growth captured by the top 1%.
For example, from 2002 to 2007, average real family incomes grew by 3.0% annually but 65% of that growth accrued to the top 1% while only 35% of that growth accrued to the bottom 99% of US families.
Source: Piketty and Saez (2003), series updated to 2007 in August 2009 using final IRS tax statistics.

Source: Saez E., (2009)

Figure 4. Real Income in USA Declined Through Clinton, Bush, and Obama Years



Source: Trisi D., Sherman A., Broaddus, (September 14, 2011)

These unprecedented increases in payroll generated demands to lower labor costs and led to the closing of U.S. factories. Jobs were first shipped from unionized to nonunionized places within the United States, then from the United States to Mexico at the behest of the North American Free Trade Agreement (NAFTA), which President Clinton passed with help from Republicans. Finally, jobs moved to countries such as China, India, Bangladesh, Bolivia, and Haiti—taking advantage of a globalized, dissolved-border era to employ cheaper labor, and enabling further increases in both company profits and executive compensation and bonuses.

Here is an example. The Center for American Progress reports that the global electronic contracts manufacturing industry attained a staggering $360 billion of revenue in 2011 and is expected to expand this figure to $426 billion by 2015.[10] This revenue comes from companies—many of them American—contracting outside firms, largely in Third World countries, with cheaper labor costs to manufacture their products. Large corporations lead this trend: Apple, for example, carries out all of its manufacturing in foreign countries, and Nike subcontracts all of its footwear production to independently owned and operated foreign companies.[11]

The real, manufacturing-based economy that made the American middle class strong in the New Deal era was eventually replaced by a service-based economy, and more recently dominated by a speculation-based, virtual Wall Street economy. This paid off huge dividends for big banks, stock market brokers, and hedge fund managers and spiraled middle-class American workers into poverty and debt.

The landmark Glass-Stegall Act was repealed in 1999, obliterating the sacred barrier between commercial and investment banking. The home mortgage crisis, coupled with a speculative economy that gave rise to a huge stock market bubble, eventually unraveled and crashed the market in 2007. Millions of people lost their lifelong savings. According to the Economic Policy Institute, “a wave of deregulation and the belief that financial markets can ‘self-regulate’ played a major role in the housing bubble and the financial and economic crisis that ensued when the bubble burst.”[12]

After the historic global market crash of 2007 and 2008, some countries, such as Iceland, managed to recover from the great shock. However, the U.S. economy is still lagging, with big banks and financial institutions savoring over 1.2 trillion dollars of bailout money, throwing big bonuses and executive compensations to each other and sharing none of their wealth with the common people. There is practically no pressure from the Obama White House and a Republican Congress to do so.

Joseph Stiglitz, former chief economist of the World Bank, blasts Reaganomics for its role in the current economic situation. Stiglitz explained,

> The median income of a full time male worker is lower than it was 40 years ago, so we've had a generation of stagnation. We've seen World Bank figures show that between 1988 and 2008, we saw that the top 1% saw their income grow by 60%, and the bottom 5% didn't see anything at all. Between 2009 and 2012, 95% of all the gains in the US went to the top 1%. Even if you don't see it from a moral point of view, it means our economic system is not working, and it contributes to the poor economic performance. This should be viewed as totally unacceptable![13]

Nelson Schwartz, an economic reporter for the *New York Times*, wrote:

> With the Dow Jones industrial average flirting with a record high, the split between American workers and companies that employ them is widening and could worsen in the next few months as federal budget cuts take hold. That gulf helps explain why stock markets are thriving even as the economy is barely growing and unemployment remains stubbornly high. With millions still out of work, companies face little pressure to raise salaries, while productivity gains allow them to increase sales without adding workers.[14]

The article continues:

> The result has been a golden age for corporate profits, especially among multinational giants that are also benefiting from faster growth in emerging economies like China and India. These factors, along with the Federal Reserve's efforts to keep interest rates ultralow and encourage investors to put more money into riskier assets, prompted traders to send the Dow to within … a record high last week. While buoyant earnings are rewarded by investors and make American companies more competitive globally, they have not translated into additional jobs at home.[15]

The IMF and World Bank, with financial and political support and sponsorship from G-8 and G-20 countries, have promulgated their structural adjustment program for countries all over the world, under the guise of helping them with economic development and prosperity through massive loan programs (e.g., structural adjustment programs, the

World Health Organization [WHO]).[16] The fundamental conditions for the recipient countries to obtain the loans are as follows:

1. *deregulation* of the *economy* will be enacted;

2. a so-called "austerity" will be implemented, in which working-class benefits and poor *welfare* measures are *slashed and abolished*;

3. *taxes* will be drastically *reduced for rich individuals* and *corporations*;

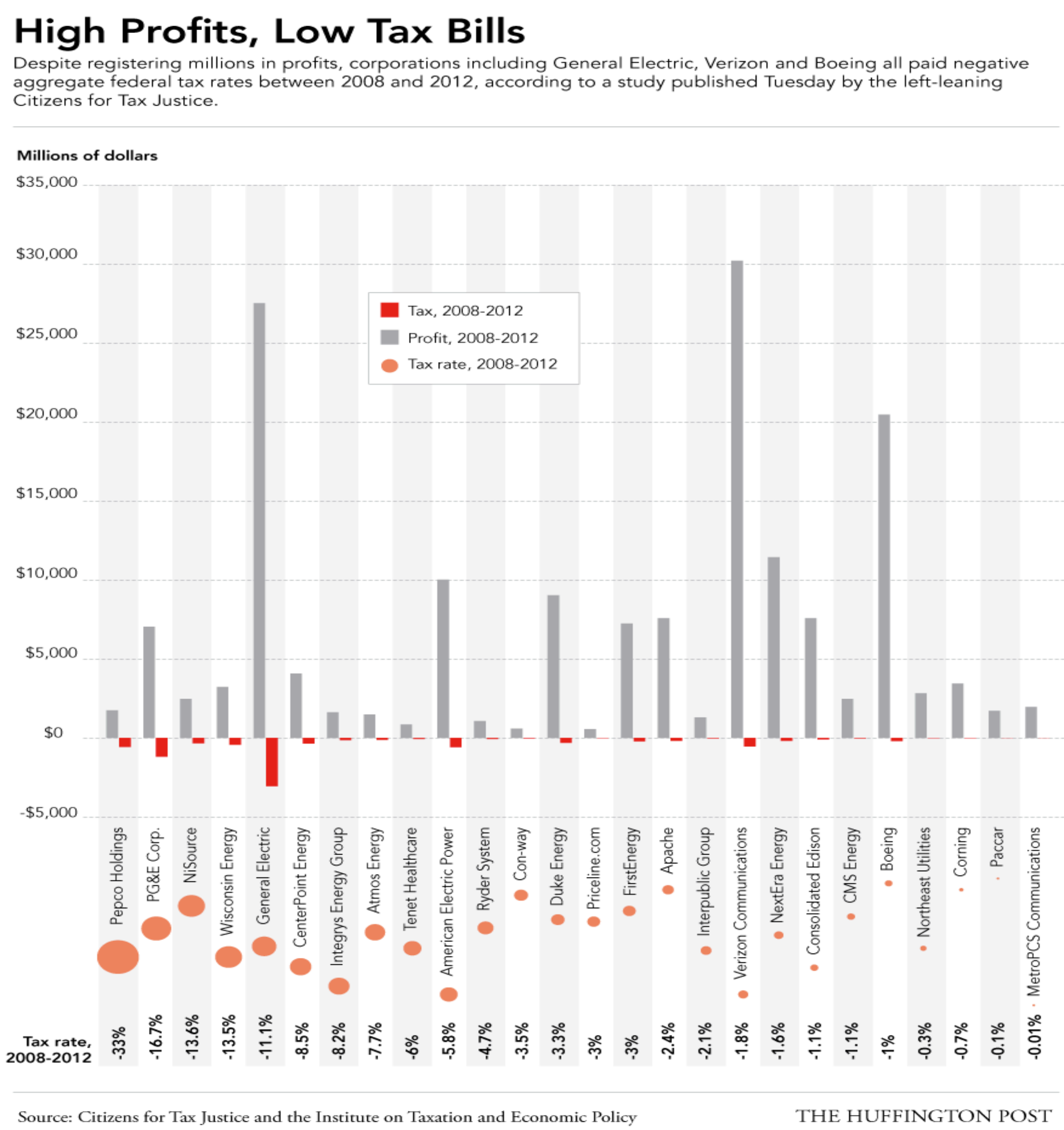
4. more *restrictive anti-union laws* will be implemented, stripping away collective bargaining rights for organized labor; and

5. the *value of currency* will be drastically *reduced*.

A combination of these strict, mandatory guidelines has devastated economies of Third World countries from Argentina to Bolivia, India to the Philippines. Most recently, it has affected European countries such as Greece, Italy, Ireland, Portugal, and Spain. People's lifelong savings and pensions have been wiped out, and huge anti-austerity protests and demonstrations have taken place across Europe. Greece has recently seen the country exploding with people's unrest. Banks crashed, the currency value dropped precipitously, and people lost their entire savings.[17] Some experts believe a larger, global economic crisis is looming.

Practically all U.S. administrations since Reagan—both Democrats and Republicans—have followed a policy of tax cuts for the rich, with brief periods of exception. The two parties' economic policies have not been much different from each other.[18] Major loopholes in the tax structures, left unaddressed by these administrations, have resulted in some of the richest American corporations, enjoying ready access to global markets, not paying any income taxes. Figure 5 shows the income, profit, and amount of unpaid taxes for some of these companies.

Figure 5. Corporations That Did Not Pay Income Taxes in 2014



Source: http: Strachan M., (February 26, 2014)

According to Stiglitz, a majority of Americans believe that our tax system is unfair. In 2009, almost a third of the top 400 earners paid less than 15% of their income in taxes. In the 30 years since Reagan was president, the top tax rate for the super-wealthy dropped from 70% down to 39.6%, where it is now.[19]

Multinational American corporations call upon our government to spend billions of taxpayer dollars to protect their interests overseas and negotiate their entry into foreign markets so they can reap wider profits. They then use their overseas offices to pay almost no taxes at all. For instance, General Electric paid less than an average 2% corporate tax rate from 2002 to 2012.[20] All of that unpaid money was then added to the growing mountain of excessive executive compensation, lavish executive offices, "golden parachute" severance packages,[21] and extreme executive bonuses. It was neither passed down to the consumer nor fairly shared as incremental wage increases among the general workforce.

According to a study by Citizens for Tax Justice, practically all of the companies listed in Figure 5 received federal tax rebates in 2013 and 2014.[22] And almost all paid exceedingly low effective tax rates over five years. Their report says: "While recent policy discourse has focused on multinational corporations that use offshore tax havens to minimize their tax liability, the companies profiled here appear to be using a diverse array of other tax breaks to zero out their federal income taxes."[23] Sen. Bernie Sanders (D-VT), ranking member of the Senate Budget Committee, praised the Citizens for Tax Justice report for "revealing the unfairness of our tax system and the fact that a number of the biggest and most well-known corporations in America continue to pay little or nothing in taxes."[24]

While other developed, capitalist nations have passed new laws to rein in corporate profits and wage and wealth disparity, U.S. governments have instead made even more concessions to corporations, making the country's income gap between a CEO and an average worker the widest in the world. Business Insider reported that the top 10 corporations—including McDonald's, Starbucks, Wal-Mart, and AT&T—now have an unthinkable 1,000:1 CEO-to-workers pay ratio (see Figure 6). The average CEO-to-worker pay ratio in U.S. companies is now 354:1, compared to 84:1 in the United Kingdom, 76:1 in Israel, 48:1 in Denmark, and 36:1 in Austria (see Figure 7).

Figure 6. CEO-to-Average Worker Pay Ratio in Top U.S. Corporations

		CEO Hourly Compensation[1]	Average Worker Hourly Wage[2]	CEO Pay Multiple	Months of Worker Overtime To Equal CEO Pay[3]
1	McDonald's	$9,247 [4]	$7.73	1,196	3.86
2	Starbucks	$9,637	$8.79	1,096	3.49
3	Dollar General	$7,720	$7.67	1,007	3.15
4	Gap	$8,209	$8.67	947	2.92
5	TJ Maxx	$7,256	$7.85	924	2.83
6	Target	$6,882	$8.35	824	2.46
7	Walmart	$6,898	$8.86	779	2.28
8	CVS Caremark	$6,777	$8.81	769	2.25
9	Best Buy	$6,517	$9.78	666	1.86
10	AT&T Wireless	$7,412	$13.28 [5]	558	1.45
	Median	$7,334	$8.73	874	2.65

[1] Calculated by dividing CEO's total compensation from the company's annual proxy statement by 60 hours a week times 50 weeks per year.
[2] Equals the average non-executive employee wage as obtained from www.glassdoor.com.
[3] Calculated based on hourly overtime rate equal to 1.5 times the average hourly wage, an eight-hour workday and 22 working days per month.
[4] Compensation is for the former CEO who retired June 30, 2012 as detailed in most recent proxy.
[5] Hourly wage is for the retail sales consultant position.

Source: *Peterson H. (December 10, 2013)*

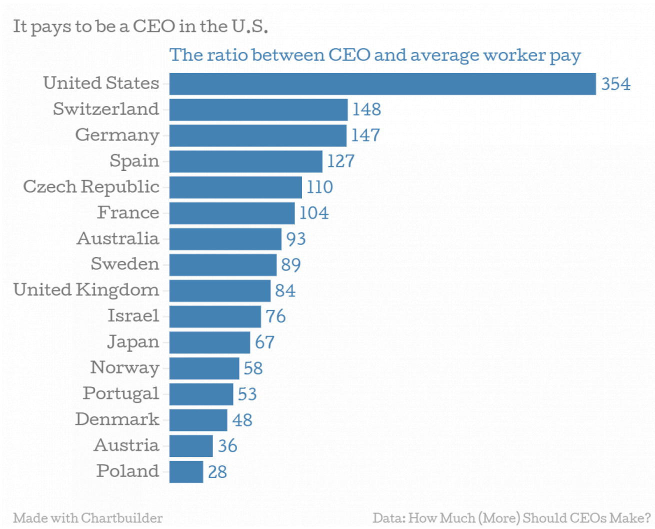
Table 1. S&P 500 Companies with the Highest Ratio of CEO Pay to Worker Pay[25]

RANK	EMPLOYER	2014 CEO	CEO PAY	MEDIAN WORKER PAY	RATIO
1	Discovery Comm.	David M. Zaslav	$156,077,912	$80,000	1,951
2	Chipotle	Steve Ells	$28,924,270	$19,000	1,522
3	CVS Health	Larry J. Merlo	$32,350,733	$27,139	1,192
4	Walmart	C. Douglas McMillon	$25,592,938	$22,591	1,133
5	Target	Brian C. Cornell	$28,164,024	$30,000	939
6	CBS Corp.	Leslie Moonves	$57,175,645	$66,365	862
7	Bed Bath & Beyond	Steven H. Temares	$19,116,040	$26,047	734
8	Macy’s	Terry Lundgren	$16,497,220	$22,800	724
9	Gap	Glenn Murphy	$16,064,312	$22,800	705
10	Starbucks	Howard D. Schultz	$21,466,454	$32,080	669

Notes: CEOs' total compensation is drawn from SEC proxy filing statements as of August 14, 2015. CEOs were those listed as of 2014 or 2013, whichever was the most recent year available from SEC filings. Median worker total compensation is from Glassdoor salary reports for U.S. workers from January 1, 2009, through August 17, 2015. Only companies with 30 or more Glassdoor salary reports are included. Total compensation includes base pay, tips, commissions, bonuses, and all other forms of income reported. Salaries are for full- and part-time employees and are in 2014 dollars.

Source: Chamberlain A, (August 25, 2015)

Figure 7. CEO-to-Average Worker Pay Ratio in Developed, Capitalist Nations



Source: Ferdman R., (September 25, 2014)

Mother Jones, in its study of the financial crisis of 2007, reported:

> After Goldman Sachs, JPMorgan Chase, and Morgan Stanley announced hefty profits last fall, the Obama administration's pay czar said that he'd cap pay at Citigroup, Bank of America, and five other bailed-out companies. The move was largely symbolic: It capped salaries for only 25 executives, kept big stock bonuses in place, and did nothing to address the culture of rewarding folks who sowed our economic destruction.[26]

Instead of incriminating the big corporations and their executives' scandalous gambling with the American economy, the people in power, with help from their media, have used other victims as scapegoats. Labor unions have become the primary target for corporations, conservative think tanks, billionaire personalities such as the Koch Brothers, and right-wing media such as Fox and radio talk shows. And many so-called centrist, liberal media and politicians have been strangely silent when it comes to defending justice for American labor. It seems as if these individuals and organizations are working together, whether directly or indirectly, to suppress the voice of the workers and take away the precious rights labor fought for many decades to win. Since the watershed moment when Ronald Reagan fired the Port Authority Transit Corporation (PATCO) air traffic controllers to send a strong, anti-union message to America, mass media, either directly owned by global corporations or left toothless by advertisement dollars, have taken up an anti-union crusade to undermine or exclude from the American mind the many historic contributions of the labor movement—contributions that benefited all working men, women, and families, irrespective of their union affiliation. As a result of the relentless anti-union propaganda and distortion of historical facts, younger Americans, especially those with no union background, fail to understand the importance and relevance of organized labor.[27] A study supported by Cornell University found the following:

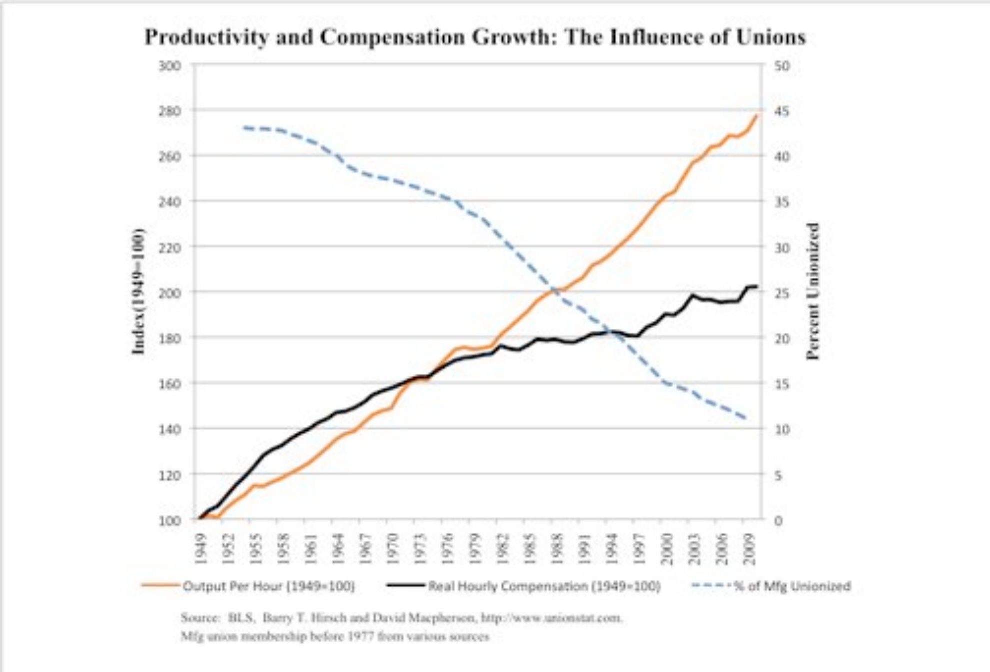
> There are many challenges to organizing and involving young workers including:
>
> (1) Young workers often do not view their current jobs as a career so when faced with objectionable working conditions they are more likely to find a new job than organize.
>
> (2) Young workers tend to work in industries and jobs with high turnover rates making organizing more difficult.
>
> (3) Some unions using older organizers and traditional methods of communication are not able to effectively connect with younger workers.
>
> (4) Younger union members are more likely to experience union give-backs and two tier systems at the same time as older union members unsuccessfully try to get their younger peers to appreciate the union struggles of the past.
>
> (5) Union cultures reflect the tastes and experiences of older members and these often don't appeal to younger members.[28]

Conservative think tanks that churn out their research reports to corporations, media, and their brand of politicians often vilify labor unions. As one Heritage Foundation article suggests:

> Unions function as labor cartels. A labor cartel restricts the number of workers in a company or industry to drive up the remaining workers' wages, just as the Organization of Petroleum Exporting Countries (OPEC) attempts to cut the supply of oil to raise its price. Companies pass on those higher wages to consumers through higher prices, and often they also earn lower profits. Economic research finds that unions benefit their members but hurt consumers generally, and especially workers who are denied job opportunities.[29]

This type of report fails to mention several important points. First, corporations that ship jobs away from unionized American workers and get their products manufactured by nonunion workers, either in the United States or overseas, do not sacrifice any of their profits, as they do not necessarily reduce the price of their cheaper-labor products brought back into the U.S. market (that is, a pair of Nike or Air Jordan sports shoes would still carry an exorbitant price tag). Second, corporations employing nonunion workers in the United States are refusing them collective bargaining rights. For workers in, for example, China or Bangladesh, corporations are denying them safety and environmental protections even as they require long hours and pay slave wages, thus completely violating global human rights treaties. Grotesque examples of such human rights violations are the recent, devastating fires and building collapses that killed hundreds of garment workers in Bangladesh,[30] Apple worker suicides in China,[31] and Monsanto farmer suicides in India.[32] Third, during the four decades after World War II, when the labor movement was at its peak in the United States, the American middle class—both workers and consumers—enjoyed maximum economic prosperity. Labor union density rose, and worker compensation rose (see Figure 8).

Figure 8. Labor Union Density and Compensation Growth in America



Source: Morris D. (March 31, 2011)

The fact is, American politicians such as Scott Walker—one of the staunchest anti-union personalities on the current political scene—was funded by the billionaire Koch Brothers and intellectually supported by think tanks such as the Heritage Foundation and Cato Institute. The Kochs founded America for Prosperity, which reportedly gave $10 million to Walker during his infamous labor-busting elections in Wisconsin.[33]

A whole host of think tanks, research groups, corporate lobbies, and other so-called nongovernmental organizations—all promoting the corporate agenda and espousing conservative, anti-working-people doctrines—have formed in the past decades, and the Koch Brothers and such corporate behemoths have created continuous funding for them. Most notable of these organizations are, in addition to the Heritage Foundation and Cato Institute, the American Legislative Exchange Council (ALEC), Americans for Tax

Reform, the Manhattan Institute, the American Enterprise, the Institute for Energy Research, the Federation of American Immigration Reform (FAIR-US), the National Black Chamber of Commerce, and many other such groups with names that sound deceptively innovative and innocuous.[34]

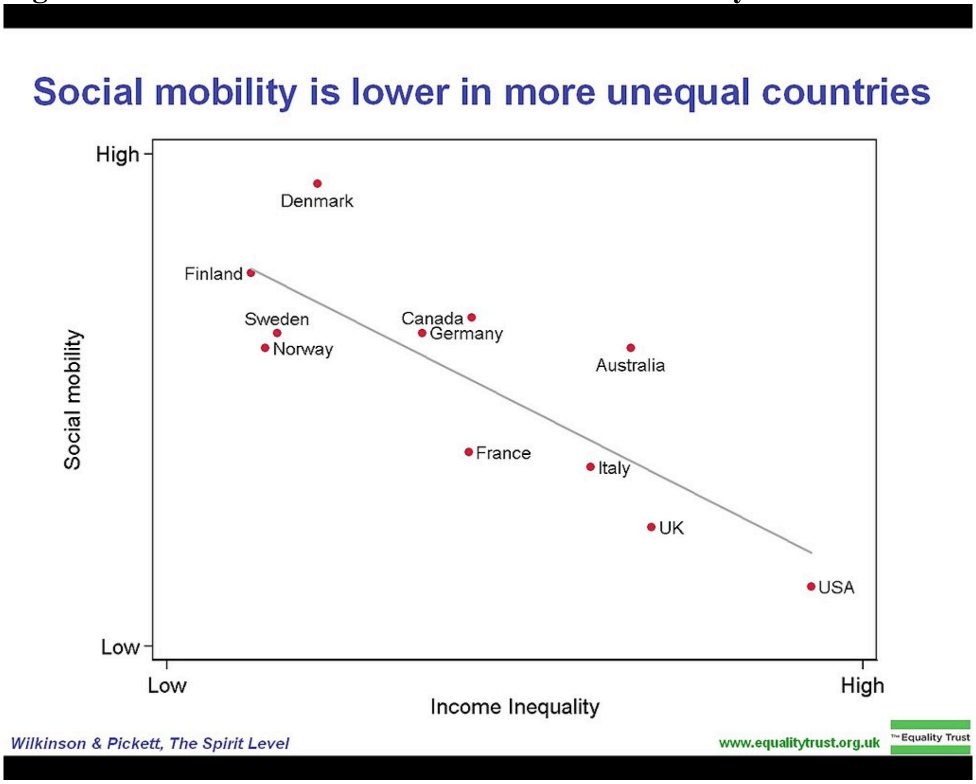
All of the above organizations have worked in the neoliberal era to promote a pro-1% political and economic agenda and have mutually supported corporate media, billionaire businesspeople, and American politicians, both Republicans and Democrats. An example of the concerted efforts to promote a pro-1% agenda is during the recent congressional debates on the Trans Pacific Partnership (TPP), elected representatives of both parties, with a few notable exceptions, supported the Obama administration for a fast-track passing of the anti-labor, anti-environment treaty. In fact, the Democratic National Committee chair, Debbie Wasserman Schultz, is one of the most notable supporters of the TPP fast-track.[35]

What connection does the labor movement have to the economy and the problems of the working people? A comparison of the labor density in developed capitalist countries and the trend of social mobility therein shows a marked correlation between the two: The stronger and more organized the labor movement, the greater the upward social mobility and economic equality. Conversely, inequality is directly linked with limited social mobility (see Figure 9). The United States now has a precariously low level of labor union participation and social mobility, which means the so-called American Dream of moving up the economic ladder has ceased to exist.

International trade deals by the two big parties, their presidents, and Congress have dealt severe blows to American workers and their ability to organize. NAFTA, passed by Clinton, and TPP, pushed by Obama, have done their best to move American manufacturing and other traditional jobs overseas. As AFL-CIO president Richard Trumka said in a recent PBS interview:

> It doesn't just hurt industrial workers. It hurts professional workers. It hurts teachers. It hurts public workers by doing away with the tax base. Look, since 2000, we have lost 60,000 factories. When a factory closes down in the community, the tax base goes away, the high-paying jobs go away. They're replaced with either low-paying jobs or no jobs at all. That means there's less revenue for government to operate on, less services for the general public, and the entire community loses.[36]

Figure 9. Direct Correlation of Lack of Social Mobility with Income Inequality

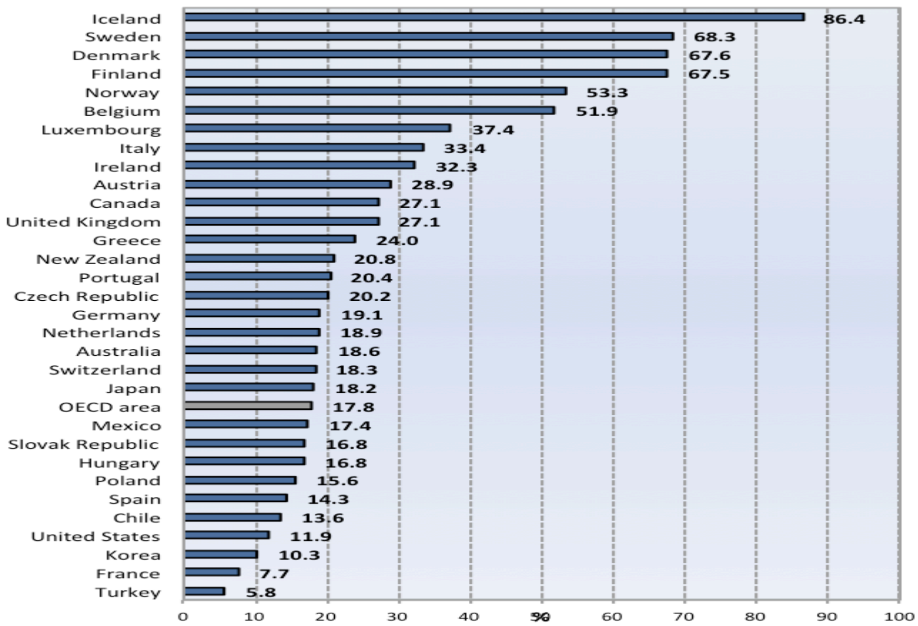


Source: Wilkinson R., & Pickett K., (April 26, 2011)

In the most unequal countries, such as the United States, social mobility rates are also the lowest. In the most equal countries, such as Denmark, upward mobility rates are the highest. Noticeable is the fact that the countries with the least mobility also have the lowest labor density, and socially mobile countries like Denmark, Finland, and Sweden have the highest level of organized labor.

Figure 10 shows the labor densities in Organization for Economic Cooperation and Development (OECD) countries.

Figure 10. Labor Density in OECD Countries



Source: Visseer J., Martin S. & Tergeist P. (2014)

One of the tools used by the OECD to measure income inequality is the Gini index. This system rates the equality of income distribution on a scale from 0 (perfect equality, with every person receiving identical income) to 100 (perfect inequality, with all income going to one person). The higher the Gini index, the less equal the income distribution. As an example, the United States, with a Gini index of 36, has about a 50% worse distribution of income than Denmark, with a Gini index of 24.5.

Table 2 uses OECD labor density data from 2009. Countries with better labor densities have lower income inequality.

Table 2. Equality of Income Distribution in Major Countries

Country	Gini Index	Labor Density %
Sweden	22.5	68.3
Denmark	24.5	67.6
Belgium	25	51.9
Finland	25.5	67.5
Norway	25.5	53.3
Germany	29.5	19.1
Netherlands	29.5	18.9
Canada	32	27.1
Italy	32.5	33.4
United States	36	11.9

Source: https://data.oecd.org/inequality/income-inequality.htm

I. EFFECTS AND CAUSES OF INCOME INEQUALITY

Income inequality in America affects a wide spectrum of workers. This gap is a direct offshoot of an unequal economic system that exploits and deprives the less powerful and more vulnerable, creating divides both between the wealthy and the workers and within the working class itself. Historically, women, immigrants, people of color, and the unorganized labor sector have borne the heaviest brunt of this inequality-driven system. Later we will discuss some of the underlying causes of this inequality, including how a trickle-down (or supply-side) economic policy has replaced somewhat of a pro-people system with a blatantly pro-profit system, rewarding the rich and punishing the middle class and poor. We compare this destructive policy with the erstwhile bubble-up (or demand-side) policy that made America's middle class strong for 40 years after the Great Depression. Finally, we talk about the current era of economic globalization, in which a pro-1%, neoliberal economic policy set forth by U.S.-supported global financial organizations such as the IMF and World Bank has created worldwide economic colonization and widened the rich-poor divide.

I(a). Wage Discrimination and Labor Unions

Every person has the right to be compensated for work performed, regardless of gender, age, race, and/or family circumstances. Since profits are generated from the efforts of employees by properly executing a planned objective, or profits per employee,[37] it would be logical to presume wage discrimination would be nonexistent in a profit-focused economy. However, the empirical evidence suggests that issues remain with wage discrimination. Governments and social justice groups have long attempted to resolve this issue through a variety of means, and while progress has been made, the challenges are still ongoing. The Equal Pay Act of 1963, for example, requires men and women in the same work environment to be given the same pay earned for the same work performed.[38] Employment duties, not occupation titles, dictate whether occupations are equal in the eyes of the law. All types of pay are protected by this law, including compensation, overtime pay, bonuses, benefit sharing, life insurance coverage, vacation pay, reimbursements of business-related expenses, and other fringe benefits. Managers may not lessen the wages of either men or women to even out their pay when there is a wage disparity between them. Indeed, the adoption of the Equal Pay Act had an impact on the job market because it reduced wage discrimination and established the framework for all workers to enjoy the opportunity to receive the same salary for performing the same work. The act laid a firm foundation to further build upon efforts to eradicate unfair pay practices.

Researchers have shown the benefits of equal pay and accepting diversity as they directly improve the long-term health of businesses.[39] Firms that use heterogeneous employment practices will likely extend contracts to candidates from diverse backgrounds, thus gaining vital insight into various market demographics. Inversely, firms hiring a focused segment of the population lose the competitive advantage of having equality and diversity on their teams, and markets will respond with less demand for products and services.

On June 10, 1963, Americans celebrated the acceptance of the Equal Pay Act, signed into law by President John F. Kennedy. Despite both the signing of the 1963 legislation and the continued active role of women in the labor market, the wages of women are not nearly close to those of men.[40] Studies have shown that women who work full time earn 77 cents for every dollar a man would get for the same work. This equates to about $11,084 less annually than is made by the average man in a similar position.[41] This sort of discrimination leaves hardworking women and their families short-changed.

It is clearly evident that the wage gap primarily occurs at different education levels.[42] Additionally, when corresponding work experience is considered, women's career longevity is undervalued.[43] Due to the wage gap phenomena, women lose, on average, $434,000 over the course of their careers, with women with a college degree or higher losing $713,000 versus women with less than a high school diploma losing $270,000 over the course of 40 years.[44] In almost every occupation and workplace, for the same amount of work, women are paid less than men. Frank Bass of *Bloomberg Businessweek* examined wage gaps within occupations and discovered that out of 265 major occupations, women's median salary exceeded men's in only two sectors: personal care and service workers.[45]

In order to understand the situation, it is important to point out several significant factors that contribute to and incite wage-gap issues. Among them are discrimination; occupational segregation; racial disparities; women's limited access to jobs that are better paid, including those that are not traditional for women; and devaluation of the work performed by women.[46] The economic discrimination against women waged by dogmatic ideologues clinging onto thoughts of yesteryear puts pressure not just on women but on the entire middle class. Many families depend on two sources of income to make ends meet. When a woman earns less, working families are put in a losing position. Despite this, many politicians—particularly those from the Republican Party—have blocked bills to support equal pay for women's work.[47] This demonstrates that equal pay is a marketable idea for politicians; however, it manifests in policies that are difficult to enforce on an individual basis. Many pundits criticized the 2009 Lilly Ledbetter Fair Pay Act as an "additional payment to lawyers in the courts."[48] This is because a victim must spend time, effort, and money to challenge a wrongful business act in court under the policy, as it is only enforceable in this manner. Unfortunately, many victims of discrimination cannot secure adequate legal representation to win a favorable court settlement, and so in practice, wage discrimination is an ongoing social dilemma.

Seven years after President Obama signed the Lilly Ledbetter Fair Pay Act, wage discrimination continues. In the White House itself, men and women work almost equally but are paid differently. Male representatives receive an average of $88,600 per year, and women employees of the administration earn $78,422, which is 13% less. The most highly paid position, with a salary of $172,000, is occupied by 10 men and only 4 women.[49] Obama stated on CNS News, "The establishment of equal pay for men and women is my top priority."[50] However, this is only a declaration of equality—it is not reflected in practice.

Several states have passed laws to limit discrimination in the workplace, such as the Employment Anti-Discrimination Act, the Equal Pay Act of 1963, the Civil Rights

Acts from 1866 to 1991, the Americans with Disabilities Act of 1990, and many others. Nevertheless, the overall wage gap conundrum persists among segments of the population despite existing legislation and a developed democracy. Women of all major racial and ethnic groups earn less than men of the same group, as well as white men.[51] The wage disparity even reaches the highest levels of the corporate hierarchy, as female CEOs in major companies receive 80% of their male colleagues' salaries.[52]

I(b). Discrimination

One study found that when looking at the unified effect of workplace, work sphere, work experience, union membership, educational background, and race, as much as 41% of factors contributing to the wage gap remain unexplained. This is a clear indication of wage discrimination playing a significant role in the issue.[53] Another study concluded that in a comparison of equally capable and apt women applying for the same position, those rearing children were recommended for salaries that were significantly lower than those of women who were not.[54] But, when comparing men, fathers were more likely to get a higher-paying job, as they were viewed as more committed and responsible candidates.[55]

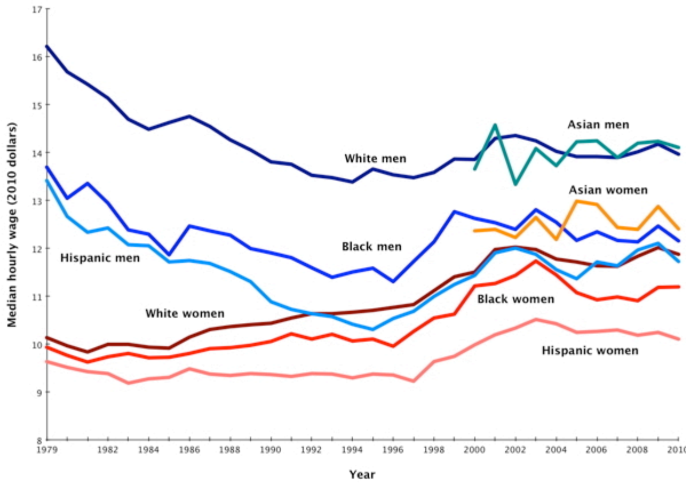
Other studies conducted on employment discrimination have demonstrated the general influence of this phenomenon. An experiment studied blind auditions of an orchestra presentation and showed that from 1970 until 1996, the rate of women hired increased by 30%, to 55%.[56] A different study researched restaurant hiring and showed that out of men and women with almost identical CVs, men were more likely to get the job. This is widespread, but it is most evident for high-end restaurants, where the rate of women receiving a job is 40% lower than that of men.[57]

There have been many cases of company policies that encourage salary discrimination. A most vivid example is the case of *Velez v. Novartis* (2010), which was prompted by Novartis Pharmaceuticals's unfair treatment of female sales representatives in pay and career and advancement opportunities, as well as pregnancy discrimination. The class action case of 5,600 women who were employed by the company was the largest gender discrimination suit ever to go to trial. In a unanimous jury decision, the defendant was ordered to pay $175 million in claims.

I(c). Racial Disparities

Women of color are more adversely affected by employers' discrimination, which brings up issues of both racism and sexism. As a result, they earn less in comparison with any other group in the demographic list. Those who are of color—men or women—are exposed to an even greater wage gap than their white counterparts (see Figure 11).[58] As an example, for every dollar earned by a non-Hispanic white male, the typical woman of African-American descent working full time receives 64 cents and the average Hispanic woman receives 55 cents.[59]

Figure 11. Wage Disparity in America, Through 2010



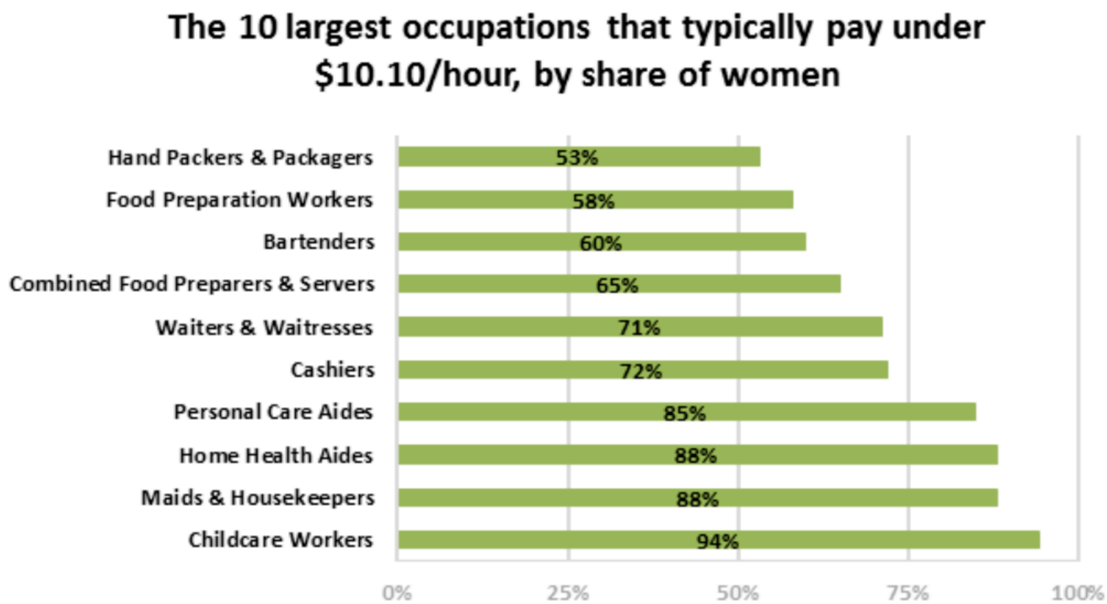
Source: Mathews D., (September 30, 2012)

I(d). Occupational Segregation

The term *occupational segregation* describes men and women being concentrated in different fields of occupation, another immense contribution to the wage gap. About two-thirds of the total number of workers whose wages are lowest—that is, those who earn the federal minimum wage or even less, as specified by their employment contract—are women.[60] The federal minimum wage is just $7.25 per hour, and the rate for tipped employees is a third of the federal minimum wage, or $2.13 per hour; this has been left unchanged for more than 20 years.[61]

The occupations that pay just slightly higher than the federally mandated minimum are also dominated by women. Women constitute the majority in the 10 largest occupations from the list where the salary is less than $10.10 per hour, and 66% in the seven largest occupations (see Figure 12).[62]

Figure 12. The Largest Occupations That Typically Pay Under $10.00 per Hour, by Share of Women



Source: Vogtman J., (March 5, 2013)

As for high-paying skilled jobs, women make up only a small share of the overall workforce. On a broad scale, women occupy only 1.1% of all pipe layers, plumbers, steam and pipe fitters jobs, with a median hourly rate of $23.72. Women constitute 1.8% of the automotive body and repairers business, with earnings at $18.45 per hour, and 1.8% of electricians, with an hourly wage of $23.96.[63]

Considering these low percentages, it should be noted that women's access to such jobs is also rather sparse in recent history. In most nontraditional, male-dominated jobs, women are incorrectly and unlawfully profiled, and their access is therefore restricted. For this reason, women are mostly concentrated in training for lower-paying jobs and careers. A survey by the National Coalition for Women and Girls in Education and the National Coalition on Women, Jobs and Job Training found that over 70% of students at the secondary level and more than 80% at the postsecondary level are women. Most of them are enrolled in training for "human services" occupations, including such low-paying jobs as child care provider and cosmetologist. In contrast, the percentages of women enrolled in "architecture and construction" training, which opens the way to occupations such as electrician and energy technician, are only 15% at the secondary level and 10% at the postsecondary level.[64] The same study concluded that this occupational segregation has negative effects in that it leads to women receiving lower wages.[65]

I(e). Women's Caregiving Responsibilities

It has to be considered that a great deal of unpaid work, such as caring for children, is done by women, and most often in the after-job hours.[66] The role of women in the family is also reflected in the existing wage gap.[67] In households with two working adults, for every hour spent by the father on child care, the mother spends on average 1 hour and 43 minutes.[68] Nor are the caregiving "chores" of women limited to parenting: Sick, elderly, and disabled family members also have to be tended to.[69] Two-thirds of working women have claimed that they were in dire need of time off, and every fifth woman has claimed she took a leave of absence to deal with these dilemmas.[70] In the event that a caregiver takes time off, it is natural that she will experience financial hardships due to lack of incoming wages. More than 40% of privately hired workers lack paid sick days that ought to be used for caring for oneself or others.[71] Only 59% of the general workforce has job-protected leave.[72]

Every time a parent needs to take time off work due to the sickness of a child or in the event of a new baby, he or she loses money. A 2008 survey concluded that 48% of mothers who were working claimed that the only way to take off work was when their children got sick. Among those 48%, 47% claimed they lost money in the case of such events.[73] Another dilemma is quality and affordable child care, which working women are constantly struggling to find.

I(f). Workers' Unions Influencing the Wage Gap

The total percentage of the U.S. workforce covered by the trade union movement now stands at only 11.1%; this is about 37% of the public sector workforce and 9% of the private sector. However, the influence of trade unions on wage policy is quite noticeable.

Some of the main reasons for employees' interest in belonging to a trade union are dissatisfaction with wages in terms of disparity and discrimination, harsh work environments, long work hours, a lack of breaks and holidays, and a lack of safety on the job site. The goal of the trade union is to act as an intermediary between the employer and the employees to address the above issues, as well as to bargain collectively to improve work, wages, and benefits. Unions often agree to terms and contract human resource policy to ensure all stakeholders are treated fairly. In terms of wages, unions have the overarching goal of encouraging wage equality among all employees. While many employers have good employee relations and are socially responsible, there are other businesses that take advantage of employees, and wage discrimination prevails. Therefore, unions are the most beneficial when they are implemented in a business with highly questionable human resource practices, including wage equality issues.

In those organizations where unions exist, they actively influence the general level of wages and benefits and the structure of payments, as well as indirectly affect policies on wages and related, competing organizations. The efficacy of trade unions on overall wages and benefits can be assessed using data from the U.S. Bureau of Labor Statistics (BLS). In 2014, the average weekly wage for a union member was $970, compared with $763 for workers who were not union members. At the same time, this difference is more significant in sectors with a traditionally strong influence of trade unions compared to industries with a mild influence—for example, in the construction industry, the difference is 31.6%, whereas in the service sector, the difference is only 13.3%.[74]

In periods of rising unemployment and economic strife, the positive impact of trade unions becomes more pronounced. This phenomenon can be explained by the fact that during recessions, unions actively resist the reduction of wages, while during recovery periods, unions actively pursue increasing wages through the establishment of a multiyear collective labor agreement.

I(g). Policy and General Solutions to Implement to Diminish the Wage Gap

For society to rectify the wage imbalance, many fair pay laws must be reviewed, strengthened, and enforced to keep wage scales equal while at the same time prohibiting any persecution of employees who discuss their wages. We must increase the minimum wage and create equal opportunities for women to train and study in order to receive high-paying jobs in the nontraditional sector. Child care has to be affordable and of high quality. Individual, family, and medical leave must be paid by all companies, which in turn means that caregivers will not be penalized for taking care of their family and relatives. Finally, we need to expand the scope and reach of the U.S. Equal Employment Opportunity Commission (EEOC).

I(h). Fair Pay Laws

Labor laws outline the rights and obligations of employers with respect to job-related benefits for employees. Wages, overtime, workers' welfare, workplace safety, and other work-related benefits are some of the areas covered by fair pay laws. The Department of Labor is the chief government agency in charge of overseeing U.S. labor laws. However, some other, smaller agencies also take an active part in managing labor laws. For example, the Office of Workers' Compensation Programs administers disability compensation plans. These compensational programs cover workers and their dependents, vocational rehabilitation, and replacement benefits. Similarly, the Wage and Hour Division (WHD) guides employers to comply with the federal wage and hour laws. It enforces the Fair Labor Standards Act, which in turn oversees overtime pay, the minimum wage, youth employment standards, and record-keeping requisites, among other details.[75] The Equal Pay Act of 1963 prohibits employers from paying unequal wages to males and females who execute equal tasks.[76] However, as previously described, women earn less than their male counterparts. As a result, strengthening the Paycheck Fairness Act would revitalize and strengthen the Equal Pay Act of 1963 by improving solutions for pay inequity and barring employer reprisal, among other strategies. Protesting and discussing employees' wages are legally protected activities. For this reason, employers should by no means prohibit equal-pay campaigns. Section 7 of the National Labor Relations Act grants employees the right to engage in campaign activities aimed at their mutual protection or aid. Section 8(a) of the National Labor Relations Act further makes it unlawful for an employer to prevent or obstruct employees who are executing their Section 7 rights.[77]

I(i). Minimum Wage

Raising the minimum wage is an imperative panacea in efforts to combat poverty. Calls for an increase in the minimum wage at the federal, state, or local level are based on the assumption that doing so can improve the economic standpoint of low-paid employees. Additionally, increasing the minimum wage is likely to have a ripple effect on the earnings of other workers near the minimum wage threshold, likely resulting in pay increases for these workers as well.[78] Increasing the minimum wage will increase the earnings of low-skilled workers more than the average gains, therefore reducing wage inequality.[79]

However, a larger increase in the minimum wage has been observed to magnify the inequality impact because it may produce employment losses for low-skilled workers, who could lose their current jobs and also face limited chances of finding new ones. A sensible approach must be taken to account for negative economic impacts caused by an increase in labor costs.

Raising the minimum wage has been associated with a cutback in the poverty level, as the minimum wage is directly correlated with the distribution of national family income. Therefore, increasing the minimum wage can reduce the number of people living in poverty. In 2014, Democrats proposed that raising the minimum wage to $10.10 an hour would reduce poverty cases by 4.6 million. Raising the minimum wage would also enhance the incomes of individuals at the 10th percentile by about $1,700.[80]

II. BUBBLE-UP ECONOMICS

Two main theories have dominated Western economics since World War II: Keynesian (also known as bubble-up or demand-side) economics and trickle-down economics (also known as supply-side economics). Keynesian economics argues that rising incomes produce increasing amounts of disposable income, thereby raising demand for products and services. This spending will eventually rise up to the upper-income class as profits from their businesses, benefiting them as well. Further, creating a greater demand will result in more goods being made, which will result in more jobs and greater wealth for businesses, and this wealth will, again, bubble up to the top. This theory is based on the coordination of a monetary policy of reduced interest rates and a fiscal policy of government investment in infrastructure.[81] It is called demand-side economics based on the idea that increased demand from consumers and businesses will stimulate the economy.[82]

Keynesian economics is largely based on the theories of English economist John Maynard Keynes. In *The General Theory of Employment, Interest, and Money*, published in 1936, Keynes explains how wealth and income, when distributed evenly, build a more stable and sustainable economy that nearly eliminates the boom-and-bust cycles that occur in a pure capitalist economy with little government control.[83]

Keynes's interest in even economic distribution sprang from his involvement in creating the Treaty of Versailles at the end of the First World War.[84] As the British Treasury's representative at the Versailles negotiations, Keynes recoiled from what he considered dangerously unbalanced and harsh financial punishment for Germany.[85] He feared a German uprising in response to the famine and privation that he believed would result. Keynes resigned from the Treasury after failing to change the tenor of the Versailles agreement. After the treaty was approved, Germany, in an attempt to meet its financial obligations to the Allies, began printing large amounts of currency, causing inflation to spiral out of control. Scholars described the effects of this policy: "On April 25, 1923, a family of four needed 463,000 marks to buy the necessities of life for four weeks. By June 6, it needed 981,000 marks; by August 14, 84,000,000."[86]

The postwar job market was slow to recover, leaving over a million Germans unemployed until 1928, when the number fell to 650,000.[87] The number of civilian deaths in the fall of 1918, compared to 1913 figures, reveals that 3,500 Germans were dying each day from hunger and malnutrition.[88] In this climate, various political factions began to struggle for power, leading to demonstrations, riots, and attempted coups, bringing Keynes's fears to fruition.[89]

Keynes's theories were further developed by his careful observation of British unemployment in the interwar years.[90] He came to believe that unemployment was not just a facet of the labor market, but the product of an economy as a whole, taking into account interest rates, government-sponsored projects, and other factors.[91] Keynes advocated for an increase in government expenditures to stimulate the aggregated demand in the product market, resulting in monetary income that positively affects individual consumption and investment.

By contrast, trickle-down economics is the theory that allowing more money to be made by high-income earners via tax breaks, business subsidies to the rich, and so on will lead to these earners using their extra income to invest in their businesses and spend more money creating jobs, thus increasing earnings for those of lower income. According to this theory, creating a greater supply of money at the top will result in a greater supply of goods and services, as well as higher rates of capital investment. This will result in cheaper goods and services, whose benefits will trickle down to the bottom.[92]

Trickle-down economics is based on the theories of Canadian economist Robert Mundell, who argued that unemployment and inflation are two separate problems.[93] In the 1970s, Mundell advocated for reducing corporate taxes to a level commensurate with Canada's at the time, 40%, and for reducing the number of dollars produced.

Mundell developed his theories in reaction to the international outbreak of failure to respect the balance of payment during the 1960s and early 1970s, which triggered wild inflation. Mundell's student Arthur Laffer went on to serve on Reagan's Economic Policy Advisory Board during both terms of the Reagan administration.[94]

Trickle-down economics was shaped further by the work of Milton Friedman and Friedrich Hayek while they taught at the University of Chicago. Friedman and Hayek espoused lending money at a higher rate of interest to curb inflation and reducing marginal tax rates to stimulate growth.[95]

II(a). A Preamble to the Great Depression of 1929

A discussion of how these two theories have impacted income inequality requires some historical perspective. The American economy of the 1920s was predicated upon the nation's exponential economic growth during World War I. U.S. exports to Europe rose from $1.479 billion in 1913 to $4.062 billion in 1917.[96] With no battles on U.S. soil to recover from and no domestic rebuilding to do, the United States had a distinct advantage over its wartime allies. Our now-high-functioning factories went on to serve not only a desperate international market but a changing domestic market. The nation's total wealth more than doubled between 1920 and 1929, giving many Americans their first opportunity to buy factory-made goods instead of making their own.[97]

In the 1920s, women and African-Americans began participating in consumer culture in increasing numbers. The war brought millions of women into white-collar jobs like stenography,[98] so they could now afford to buy goods independent of their households. Likewise, the northern factories' need for wartime workers in the nineteen-teens, coupled with many people's desire to live free of the racially segregating Jim Crow laws,[99] kicked off the Great Migration: Between 1916 and 1919 alone, 1 million African-Americans moved from the rural South to the industrial North.[100]

Despite the country having a seemingly robust economy and a larger, increasingly diverse workforce, the harbinger for American economic collapse was already present in the form of income inequality. According to one study, "In 1928, a year before the US economy nose-dived into depression, the top one-hundredth of 1 percent of US families averaged 892 times more income than families in the bottom 90 percent."[101]

It will come as no surprise that the same vast inequality was present just before our more recent economic disruption, the Great Recession of 2007 and 2008. In fact, "in 2006 the top 0.01 percent averaged 976 times more income than America's bottom 90 percent."[102] Further:

> In 2007, the top 1 percent share of national income peaked at 23.5 percent. The only other year since 1913 that the wealthy had claimed such a large share of national income: 1928, when the top 1 percent share was 23.9 percent. The following year, the stock market crashed, and the Great Depression began. After peaking again in 2007, the U.S. stock market crashed in 2008, leading to what some have called the "Great Recession." During this period (from 2007 to 2009), the share of after tax income going to the top 1 percent decreased by 36 percent. However, their share rebounded by 15 percent in 2010, foreshadowing a continued upward trend throughout the economic recovery.[103]

When a tiny part of the population can have a magnified effect on the economy during hard times, the result is always disastrous for the rest of the population.

II(b). Remediation of the Great Depression by Keynesian (Demand-Side) Policies

After the 1929 stock market crash and the resulting Great Depression, the New Deal economic plan implemented by President Roosevelt dominated Western economic policy through the 1950s and 1960s. This plan was based on the Keynesian economic model. Its fundamental principle was putting people to work with sustainable wages that would free up money for people to spend, thus restarting the failed system of unfettered capitalism that brought on the Great Depression. The New Deal is considered by many economists to be the greatest example of the proven success of bubble-up economic policy in creating a more equitable distribution, or democratization, of income and wealth.

The New Deal encompassed innovative banking laws and work recovery acts such as the Tennessee Valley Authority Act (TVAA) and the National Industrial Recovery Act (NIRA). The TVAA demonstrated the worth of government stewardship of infrastructure. Its initial projects in navigation, flood control, agriculture, manufacturing, and power production rose to a wartime high of 28,000 jobs throughout the seven participating states.[104] A second job peak occurred in 1980, when work on 17 nuclear reactors brought the total workforce to 51,704.[105] Despite fluctuations in the number of jobs provided, the TVAA's long-term focus on energy production has enriched and improved a historically problematic area of the United States. The NIRA provided the right for workers to organize unions, with the added provision that workers could collectively bargain for improved wages, benefits, and workplace rights.[106]

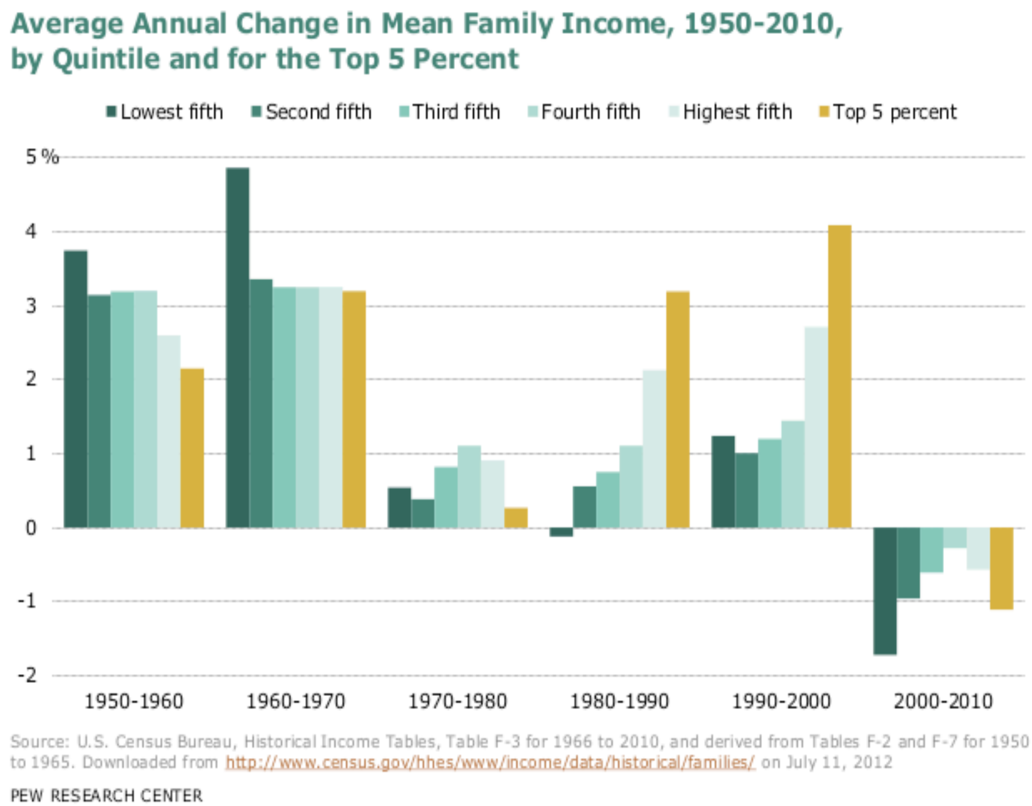
Roosevelt's enactment of the Works Progress Administration (WPA) in 1935 exercised greater government intervention in its responsibility to protect citizens and workers. Sometimes called the "make-work program," the WPA put the federal government in charge of the nation's infrastructure by building airports, schools, cultural centers, highways, roads, and bridges.[107] The WPA directly encouraged culture and the arts by employing artists to paint murals and musicians to fill concert halls. Between 1935 and its dissolution in 1943, the WPA employed more than 8.5 million people and paid out millions in desperately needed wages.[108] An opinion piece in the *New York Times* observed,

> Widespread support for liberal social and economic policy was so strong that even a Republican president who won easily twice, Dwight D. Eisenhower, recognized that an assault on the New Deal would be futile. In Eisenhower's words, "Should any political party attempt to abolish Social Security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear from that party again in our political history."[109]

World War II also had an enormous impact on the U.S. economy. Soldiers returned home with G.I. bills that allowed them to get better educations, creating a highly skilled workforce. Almost $200 billion in war bonds matured, resulting in an influx of funds.[110] Factories that were built for the war effort were retrofitted for domestic use. For example, factories that built military planes switched to making commercial planes, resulting in a great expanse in air travel.[111] The Eisenhower administration of the 1950s also launched a huge expansion of the U.S. interstate highway system. Cross-country travel became much easier, facilitating the movement of goods and services.[112] Technological advancements improved both production methods and agricultural yields.[113,114] Goods became cheaper and more readily available. Combined with the increased purchasing power of the lower and middle classes, a hyperconsumer, demand-driven economy was created.[115]

As illustrated in Figure 13, the income inequality gap has now grown even wider than it was in the Great Depression era. The average family income and growth across wealth levels were more equitable in the period of 1950 to 1970 than in the last three decades of the 20th century and into the millennium. The imbalance for the rich happened, when supply-side economics again became the dominant economic theory.[116]

Figure 13. Average Annual Change in Mean Family Income, 1950–2010



Source: Pew Research Center (August 22, 2012)

Of particular note are income tax rates between 1950 and 2010. The wealthy were taxed at rates that far exceeded both what came before and modern standards. Beginning with the Revenue Act of 1932, income tax for the top earners went from 28% to 63%, and it would go up to as high as 94% in the last years of World War II.[117] This tax was on the super-wealthy, meaning those making $1 million or more.[118] The average person made under $5,000 and was taxed at only 4%.[119] From 1946 until 1963, years of great prosperity in the United States, the tax rates were simplified, and households making over $200,000 were taxed at 90%.[120] This was reduced to 70% in the 1960s—still high by current standards—and remained at this rate through 1981.[121]

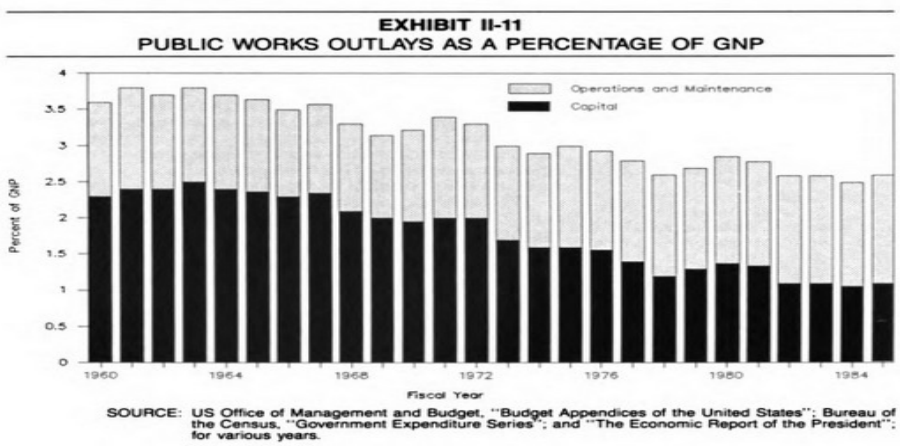
The country experienced a major recession in the 1970s due to a variety of issues, including the oil crisis in 1973. Inflation and unemployment rose, and the federal government, on the advice of economists, began to move away from Keynesian theories.[122] The government started to deregulate several industries, including the banking industry. The Reagan administration of the 1980s, guided by Arthur Laffer on the economic front and Ronald Reagan on the political front, brought major change to tax policy, adopting trickle-down economic theories and greatly reducing tax rates.[123] In particular, tax rates on the wealthy were severely reduced, first to 50% and eventually to as low as 28%.[124] These rates were increased a bit during the 1990s (up to 39.6%) but then were reduced again during the George W. Bush administration.[125]

At the end of the 1980s, after two Reagan administrations had focused on trickle-down economics, the National Council on Public Works Improvement presented a report to the president and Congress on the consequences to infrastructure from these policies:

> Council research shows that while America's infrastructure is not in ruins, it is inadequate to sustain future economic growth. There is cause for serious concern. The Council encourages renewed attention at every level of government to maintaining our current assets to optimum standards. Maintenance is perhaps the single most important element of government's stewardship obligation. It also is the element that is easiest to defer, and the one most likely to be cut from the current expense budget.[126]

Figure 14 shows public works outlays as a percentage of gross national product (GNP) from 1960 through 1985. During these years, the percentage of the GNP put toward public works generally decreased. Additionally, a greater proportion of the monies put toward public works went only to maintenance rather than capital projects.[127]

Figure 14. Public Works Outlays as a Percentage of GNP



Source: U.S. Congress, Office of Technology Assessment (March, 1990)

In contrast to the WPA's creation of infrastructure jobs—jobs that improved the quality of the U.S. infrastructure and bubbled money up through the most needy levels of our society—trickle-down economic policies both eroded our infrastructure and denied stable work opportunities to struggling Americans.

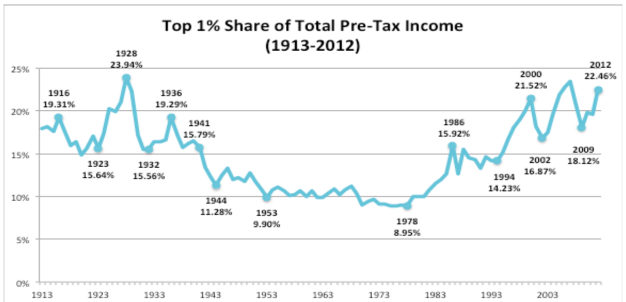
II(c). Preamble to the Great Recession of 2007

In a similar vein, the years preceding the Great Recession were prosperous for the affluent and plagued with rapidly rising inequality. Taxes on the extremely wealthy were low after 2000. The contrast between eras is stark:

> In 1944 the top marginal tax rate—the rate on income in the highest tax bracket—hit 94 percent. In that year, taxpayers making more than $1 million, in 2005 inflation-adjusted dollars, paid Uncle Sam 65 percent of their total income in tax …. In 2005 taxpayers making more than $1 million faced a top marginal rate of 35 percent. These deep pockets paid just 23 percent of their income in federal tax.[128]

As Figure 15 shows, "data from tax returns show that the top 1 percent of households received 8.9 percent of all pre-tax income in 1976. In 2012, the top 1 percent share had more than doubled to 22.46 percent."[129]

Figure 15. Pre-Tax Income of Top 1% in America



Source: Piketty T. & Saez E. (2003)

Average households did not see any resulting benefit from tax breaks at the top. In fact, "the median U.S. household income in 2012 totaled $51,017, according to the Census data. Median household income declined 8.1 percent between 2007 and 2012. Adjusted for inflation, incomes are at their lowest point since 1996."[130]

While wages have risen slightly over the last 40 years, the gains have been roughly one-eighth of the preceding 30 years' increases. According to one assessment, "after rising steadily during the three decades following World War II, wages have stagnated since the early 1970s. Between 1947 and 1972, the average hourly wage, adjusted for inflation, rose 76 percent. Since 1972, by contrast, the average hourly wage has risen only 9 percent."[131]

II(d). Failure of Trickle-Down Policies to Remediate the Great Recession

Emerging from the Great Recession proved difficult, despite it having happened against the backdrop of a two-term presidency. At one end of the spectrum, CEOs not only made more money than at any other time in American history, they made the *most* money if they cut jobs in their companies. A look back at Figure 2 will illustrate this issue. According to one report:

> After adjusting for inflation, CEO pay in 2009 more than doubled the CEO pay average for the decade of the 1990s, more than quadrupled the CEO pay average for the 1980s, and ran approximately eight times the CEO average for all the decades of the mid-20th century.[132]

Further, “In 2009 . . . CEOs of major U.S. corporations averaged 263 times the average compensation of American workers.”[133] CEOs who cut jobs the most cashed in the greatest: “In 2009, the CEOs who slashed their payrolls the deepest took home 42 percent more compensation than the year’s chief executive pay average for S&P 500 companies.”[134]

In this economic climate, there was a strong disincentive, at least in the private sector, to create the jobs that would start money bubbling up from the bottom again. In addition, President Obama did not create jobs in government like the New Deal jobs that were critical to the country’s recovery from the Great Depression. Obama’s new jobs have been largely in health care, food service, and temporary services,[135] while the jobs Roosevelt created were in infrastructure, generating additional and enduring value for our country.

II(e). Consideration of Two Economic Policies

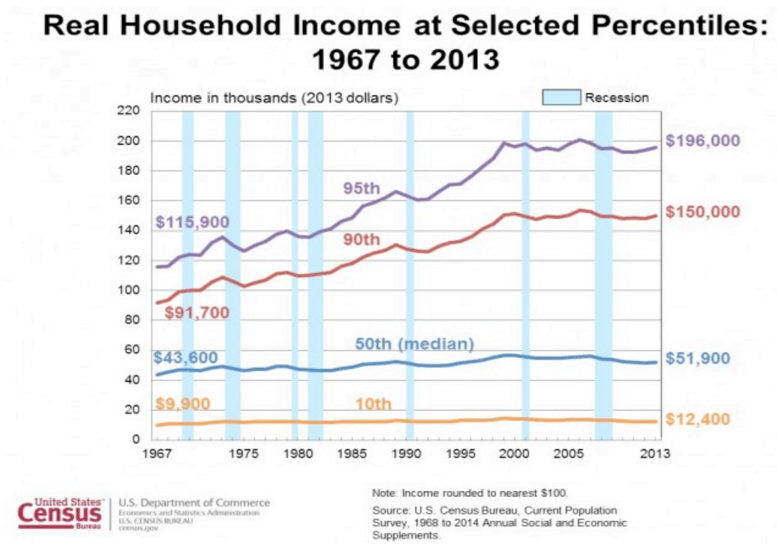
The debate between Keynesian (bubble-up or demand-side) economic policy and supply-side (trickle-down) economic policy has become more contentious over the last 40 years since U.S. President Ronald Reagan and British Prime Minister Margret Thatcher began the shift from demand-side policies to supply-side policies. A brief look at supply-side policies entrenched in international trade deals, specifically those in the United States over the last 25 years following NAFTA, exposes the result of concentrated wealth not resulting in trickle-down promises.[136]

II(f). Impact in the United States

This economic history and tax policy had a direct and measurable impact on the United States. Figures 13 and 15 show how income changed in the United States in the decades following World War II. Clearly, the 1950s and 1960s, when Keynesian economics was at its peak, showed the most equal growth; the economy was benefitting all. Middle and, in particular, lower incomes grew at a faster rate than the highest incomes. Once trickle-down policies were implemented as part of Reaganomics in the 1980s, the wealthy saw their fortunes improve at much greater rates than other groups did.

Figure 16 looks at the rise of income inequality in the United States in 2013 dollars. This shows the mean income of each fifth percentile of households from 1967 until 2013, adjusted for inflation in 2013 dollars, with the top fifth being broken out further to show the top 5% of households. Additionally, the figure shows the average tax rate for the top 5%, as described earlier. As can be seen, the wealth of the top 20% and especially the top 5% started to rise dramatically with the drops in the tax rate on the wealthy. Meanwhile, the bottom 80% saw little change. Even when the tax rate on the wealthy was raised to 40% during the Clinton administration, income for the top 5% continued to grow. From 1979 to 2007, a period termed the "Great Divergence" due to the extreme growth in income inequality, the top-earning 1% of households saw increases of about 275%, while the bottom 18% grew only 20%.[137]

Figure 16. Real Household Income in America, 1967–2013



Source: Rosenberg Y., (September 12, 2012)

It can clearly be seen that the U.S. income disparity was not as large when Keynesian economic theories were followed in the 1950s and 1960s and a much stronger progressive tax was used. Incomes grew steadily, and the United States had the greatest economy in the world. At its peak in 1960, the U.S. economy represented more than a third of the economy of the entire world.[138]

The growing economic instability of the 1970s drove American entrepreneurs and investors to buy into trickle-down economic policies. These policies put a patriotic gloss on profit margins by calling for high-income earners to save the national economy and protect economic freedom by accepting tax breaks and business subsidies. Once President Reagan began reducing the tax rates for wealthy individuals and businesses, they accrued additional wealth at an exponential rate, enabling them to lobby for even more tax cuts.

The quality of life of ordinary working people is contingent upon factors that reduce income inequality: a steady increase in average wages over time, with higher rates of increase for low- and middle-income earners; increased marginal tax rates at the top tier; confining CEO pay to a set ratio relative to worker pay; and the creation of stable jobs that preserve our infrastructure. These measures should constitute the platform for all candidates running in our upcoming elections, and should be monitored by voters after the elections to make sure they have been put into place.

III. TRICKLE-DOWN ECONOMICS

As we search for answers to explain the rise in income inequality, a look in the rearview mirror will show a period in our nation's history when demand-side economics, also known as Keynesian economics, was the policy of the land. The results of the New Deal, implemented under President Roosevelt following WWII, provide evidence that that set of policies led to a prosperity shared by a vast majority of American workers.[139] The New Deal helped the economy from the bottom up. Rising to prominence during the Great Depression that hit in the 1930s, Keynesian economics held the view that the "government should promote consumer demand by adjusting monetary policies (interest rates or amount of money circulating) and fiscal policies (government spending and taxes)."[140] Generally, Keynesian economic theory argues that demand for goods and services alone will drive the economy. Among the beliefs promoted by the Keynesians are these: (a) budget deficits stimulate economic growth; (b) the means by which the government raises revenue is of less importance; (c) government spending and tax cuts affect the economy in exactly the same way through their impact on aggregate spending; (d) personal savings are bad for economic growth; (e) monetary policy is impotent; and (f) inflation is spurred by low unemployment, among other things.[141]

Keynes advocated increasing taxes on the rich and reducing taxes on the poor. This school of thought took hold and continued for decades in the United States as the leading economic theory. Studies documenting this period of economic growth show that the income of Americans during the postwar years of 1950 through 1980 doubled, and income inequality significantly lessened. From 1980 through 2001, however, those progressive income trends came to a halt, and even reversed; inequality worsened sharply.[142]

During the economic expansionary period (1947–1979), the economic strength and muscle of the United States was a force to be reckoned with. The roar of the U.S. economic engine was felt worldwide. Large government infrastructure projects (roads, bridges, schools, hospitals) provided plentiful and well-paid jobs in manufacturing and construction. And, government spending on these much-needed projects fostered a cycle that grew the economy, produced a greater tax base, and created good jobs. It was a period in which income growth was enjoyed by all, regardless of social or economic standing. Income inequality, while existent, was not as pronounced as what we are experiencing today.[143]

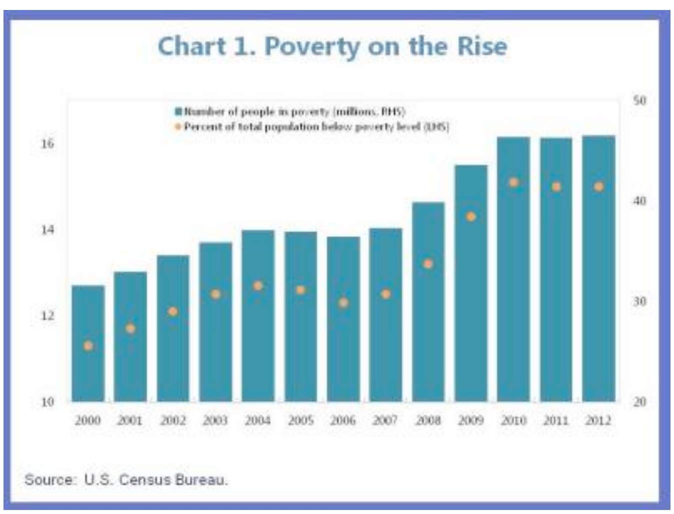
The rise in income inequality over the past three decades is clearly noticeable, and its roots can be traced to the presidencies of Ronald Reagan and George H. W. Bush. The Clinton and Obama presidencies did little to change the course from trickle-down to bubble-up. Strong adherents of trickle-down economics, all recent presidents have unabashedly pushed forward its associated fiscal and governmental policies that benefit the very wealthy at the expense of the middle class and poor working class. The effects of their failed economic policies are still being felt today as the accumulation of wealth in the United States over the last three decades has disproportionately gone to the wealthy.

III(a). Tenets of Trickle-Down Economics Unveiled

Trickle-down theorists posit that cutting taxes and other government fiscal policies (adjusting income tax and capital gains tax rates) help businesses grow and the wealthy prosper. This prosperity, they argue, will inevitably trickle down the economic chain and benefit the economy as a whole. Proponents believe that cutting the top marginal tax rate would lead to job creation, higher wages, and economic growth (a rise in gross domestic product, or GDP).

History has shown this not to be the case. In fact, trickle-down economics failed miserably in all three areas. In the last 35 years, since Reagan took office, the opposite has occurred: There has been insignificant income growth for the middle class and no growth whatsoever for the poor. Moreover, as Figure 17 shows, the percentage of American people living in poverty has increased.

Figure 17. Poverty on the Rise in America



Source: Igan D., (October 28, 2014)

In 2007, the top 1% of America's households had incomes 220 times larger than the average of the bottom 90%. The median household income was actually lower in 2010 ($49,445) than it was in 1997, adjusted for inflation ($50,123 in 2010 dollars).[144]

For over three decades, extensive research and numerous studies have documented the failure of supply-side economics, or "voodoo economics," as it was called by George H. W. Bush. And, although some Keynesians have advocated for tax rate reductions, this was not based on supply-side economics. For example, Secretary of the Treasury Andrew Mellon (1921–1932) supported the tax rate reductions that were enacted by Congress in the 1920s. However, Mellon's advocacy had nothing to do with a trickle-down theory. Mellon pointed out that under the high income tax rates at the end of the Woodrow Wilson administration in 1921, huge amounts of money had been put into tax shelters, such as tax-exempt municipal bonds, instead of being invested in the private economy, where this money would create more output, incomes, and jobs. Wealthy Americans generally kept money out of reach of tax collectors through tax-exempt securities, shifting the high tax burden to the nonwealthy taxpayer. Mellon called it an "almost grotesque" result to have "higher taxes on all the rest in order to make up the resulting deficiency in the revenues."[145]

Economist Thomas Piketty challenges the conservative economic theory of trickle-down economics. He declares that "the typical outcome of unfettered capitalism is rising income inequality."[146] The government has a critical role in curbing this inequality: It can implement policies that result in the fair distribution of wealth. Through progressive taxation, wage protection legislation, and access to affordable public education, the gap between the wealthiest and the poorest can be monitored and managed.

Government intervention is incessantly condemned by the right wing when it concerns protecting the social safety net that makes life bearable to most American workers. Cuts in vital programs like unemployment benefits, health care, and welfare often lead to financial and emotional hardship to countless hardworking American families who have seen their savings and wealth eviscerated in no small part by governmental policies that have disproportionately benefited the wealthiest class. Conversely, lowering the marginal tax rate for the very rich and giving tax breaks to corporations are often heralded by the same right wing as critical and necessary for economic growth. Government intervention is acceptable to these proponents of small government when it benefits primarily the purses of the richest among us.

Things are spiraling out of control; American workers are seeing their wages cut and their ability to save severely curtailed. Whether they are white collar or blue collar workers, their standard of living is getting worse, not better. Income inequality has been steadily rising since the fiscal and governmental policies introduced during the Reagan years and has been continued by adherents of trickle-down economics.

III(b). Influence of Wall Street Lobbyists

The rise in income inequality is not attributable only to economic drivers; there is an element of political motivation as well. Critics of trickle-down or supply-side economics such as Paul Krugman claim that this philosophy was always a smoke screen for politically motivated tax cuts.[147] They point to Reagan-era Director of the Office of

Management and Budget David Levinson's admission that the supply-side doctrine of across-the-board tax cuts embodied in centerpiece legislation commonly known as the Kemp-Roth Tax Cut was always a Trojan horse to bring down the top marginal income tax rate.[148] The critics' claim is underscored by the vast number of lobbyists who spend hundreds of millions of dollars each year influencing legislation in Washington, DC. In 2007, the financial sector employed a staggering 2,996 lobbyists to influence federal policy making, more than five for each member of Congress.[149] During the 2013–2014 election cycle, Wall Street banks, companies, and trade associations spent $1.4 billion to influence policy making in Washington. That amounts to $1.9 million a day, or $3,600 per day for each member of Congress.[150]

III(c). Effect of Lowering the Marginal Tax Rate on Shared Prosperity

Proponents of trickle-down economics argue that lowering the marginal tax rate for the wealthy will lead to shared prosperity. Who would argue against such egalitarian outcomes? Unfortunately, this has not been the reality, as revealed by numerous studies. For example, a study by the National Bureau of Economic Research found that tax cuts more or less pay for themselves, but not to a great extent.[151] The study concludes that in the long run, only about 17% of a cut in labor taxes is recouped through higher economic growth. Comparatively, the figure for a cut in capital taxes is about 50%. This means that the true revenue cost of a cut in capital taxes is only half of the cost estimated.

In an interview addressing income inequality in the United States, Nobel Prize–winning economist Joseph Stiglitz said,

> I trace the inequality to a particular set of decisions that we took when we lowered the tax rate from ninety one percent down to very low levels at the top, where we stripped away regulations. So the result of that was not a more dynamic economy, but more unequal society. We tried the experiment of trickle-down. A third of a century later, we can say fairly definitively that it was a failure.[152]

IV. IMF, WORLD BANK, AND THE GLOBAL ECONOMIC COLONIZATION

During the 1980s, the global economy experienced a major shift, a change called neoliberalism, which worked to alter the philosophy for economic development. Neoliberalism is an economic viewpoint that favors free-market capitalism—a system where there is little government intervention in economic affairs.[153] Neoliberals propose that in a free-market economy, people will make economic decisions that are in their best interests, prices for goods and services will reflect people's preferences, and only the most efficient businesses will survive competition. Under this theory, government intervention in labor laws, trade barriers, and other regulations interferes with the natural activity of the market, distorting outcomes.

However, critics of neoliberalism point to the continuously increasing global inequality as evidence of neoliberalism's failure. The 30 years of the neoliberal market-based global economy have disproportionately affected the working class. The concerted effort of the neoliberal elite to change the rules of development in their favor has worked. Change has occurred under false pretenses, and proponents for neoliberalism have used catchy words, like *liberty*, *development*, and *progress*, to blind the world into supporting their agenda. This section of the paper analyzes key elements of neoliberal structural adjustment loans, the real impact of these loans on the vast majority of people, and the extent to which human rights have been violated during their implementation.

IV(a). Background

In July of 1944, delegates from 44 nations began working together in Bretton Woods, New Hampshire, to design a framework for a post–World War II global economy. Out of these discussions, the IMF and World Bank, known collectively as the Bretton Woods Institutions, were created, with their theoretical foundation the Keynesian economic model.[154] The IMF and World Bank, both headquartered in Washington, DC, have complementary missions to support international economic growth and reduce world poverty, respectively. Individual countries become members of the IMF by making regular payments to the fund, and they then may join the World Bank through their existing IMF membership.[155] The countries that make the largest payments to the IMF—namely, the United States—have the greatest decision-making power.

Despite sharing the same origins, the IMF and World Bank have very distinct lending practices. The World Bank lends only to developing economies, whereas the IMF provides loans to all countries. Loans from the IMF are intended to address short-term economic problems; they provide general support for loan payments and encourage policy changes and institutional reforms, or structural adjustments, to address economies' difficulties. Originally, the IMF was meant to focus on both macroeconomic performance and financial sector policy, and the World Bank was to mediate long-term issues, integrate countries into a wider world economy, and promote the economic growth that reduces poverty. The World Bank's focus is extending development in specific sectors of a country's economy, and its work includes both specific development projects and broader policy issues.[156]

During the late 1970s, both the World Bank's and the IMF's development programs shifted because of what U.S. Senator Bernie Sanders has called an "echo chamber"[157] of change within the U.S. economy. According to Sanders, an echo chamber is the result of a multilayered and concerted attack by think tank organizations (and their pundits), academics (and their position papers), the media, and politicians on regulated markets in conjunction with the promotion of neoliberalism.

Three factors played into this echo chamber for the World Bank and IMF. It started with a challenge of the institutions' economic principles, evinced in a move away from Keynesians' belief in state-controlled economics and toward Hayekian principles of unfettered trust in markets, or neoliberalism. This change was supported by academics such as University of Chicago professor Milton Friedman.[158,159] Friedman is widely known for his monetarist theories and his claims that state involvement in the market is inefficient.

The second element in the echo chamber was a right-wing shift in political opinion, marked by the election of U.K. Prime Minister Margaret Thatcher in 1979 and U.S. President Ronald Reagan in 1981. Both leaders used their political influence and appointment powers to promote a right-wing ideology in the IMF and World Bank, threatening to withdraw funding if their policies were not supported.[160]

At an annual meeting of the World Bank, President Reagan said:

> The societies that achieved the most spectacular, broad-based economic

> progress in the shortest period of time have not been the biggest in size, nor the richest in resources and certainly not the most rigidly controlled. What has united them all was their belief in the magic of the marketplace. Millions of individuals making their own decision in the marketplace will always allocate resources better than any centralized government planned process.[161]

This statement, which is properly aligned with the intellectual outlooks of Hayek and Friedman, served to give the World Bank direction against state-led development.

Lastly, the conservative media jumped in and openly criticized the World Bank for not imposing conservative lending practices on loan recipients. In May 1980, *Forbes* magazine launched an attack on the World Bank, calling its loans "welfare projects."[162] The Heritage Foundation think tank continued the attacks, denigrating the leadership of former World Bank president Robert McNamara. In June 1980, McNamara announced his abrupt retirement, a move that World Bank historian Jochen Kraske has attributed partly to the conservative climate in the country.[163] With McNamara's retirement, the echo chamber pushing the neoliberal framework within the two global lending institutions was complete.

IV(b). Structural Adjustment Loans and Programs

On February 5, 1980, the World Bank's board approved its first structural adjustment loan (SAL), totaling $200 million, for Turkey. Early World Bank and IMF documents describe SALs as being intended to facilitate balance of payment, promote growth, and end after a period of several years of adjustment. Simply put, structural lending is "an association with a borrower [the World Bank and/or IMF] in a program of structural change over a time of 3 to 5 years."[164] The World Bank hoped the adjustment loans would prevent "current accounts deficits … [and would] not become so large as to jeopardize seriously the implementation of current investment programs."[165] SALs were not new for the IMF, but during the 1980s, it expanded the number and maturity. Subsequent reports supported the initial purpose of these loans; 1980 and 1981 annual reports for the World Bank, for example, highlight the loans as mechanisms to "reduce [the] current account deficit to more manageable proportions by supporting program adjustment, [and] strengthen the balance of payments, while maintaining their growth and development momentum."[166] A 1997 joint IMF and World Bank publication titled *Growth Orientated Adjustment Programs* discusses the "fundamental complementary" nature of these loans as adjustments that promote "economic growth."[167]

As the World Bank began to include structural adjustment requirements in its loan packages, it started to mirror the IMF. Like the IMF, it increased its emphasis on balance payments and macro-policy reform. The integration of traditional IMF concerns for macroeconomic stability (expressed in anti-inflation and anti-deficit policies) and the World Bank's agenda of efficiency-enhancing reform (supporting openness, competition, deregulation, and privatization) came to be known as the Washington Consensus (see Table 3). This development approach advocates for a comprehensive restructuring of the state and its role in the economy, and it underpinned both IMF and World Bank operations in developing and transitional economies in the 1980s and 1990s.

Table 3. Principles of the Washington Consensus

1. Fiscal Discipline	11. Corporate Governance
2. Reorientation of public expenditures	12. Anti-corruption
3. Tax Reform	13. Flexible Labor Market
4. Fiscal Liberalizing	14. World Trade Organization Agreements
5. Unified and Competitive exchange rates	15. Financial code of standards
6. Trade Liberalization	16. Prudent capital accounts
7. Openness to Foreign Investment	17. Nonintegrated exchange rates regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10. Property Rights	20. Targeted Poverty reduction

Source: Rodrik, (2002)

The following describes an early SAL package (1981), the first of what would turn out to be 26 structural adjustment loans to Cote d'Ivoire:

> The loans would be in support of the Government's programs of structural adjustment. The reforms envisioned by the program are designed to improve the level of public saving and the efficiency in the use of public resources; restructure the agricultural planning system and associated development institution so that an expanded, well designed investment program yielding high returns can be mounted in the sector; reflect the cost of providing public service to the sector; assure the rational prices and world markets conditions would guide decisions to invest and produce; restructure public enterprise, management, financing and accountability to ensure efficient market orientated operations; and restructure incentives, to promote efficient export-orientated industrial investments.[168]

This statement reflects typical aid package requirements of IMF stabilization and World Bank adjustment: fiscal and monetary austerity, devaluation, trade liberalization, financial liberalization and restructuring of banking systems, prices liberalization, privatization, labor market deregulation, tax reform, and subsidy cuts.

According to early IMF and World Bank statements, the success of SALs would be demonstrated by their manageability in the proportion and promotion of economic growth.[169] The stage was set and the global economic slowdown of the late 1970s—prompted largely by the decrease in the global production of oil known as the Oil Shock of 1979—would serve as a great opportunity for the newly restructured neoliberal IMF and World Bank to promote their style of development. The Oil Shock of 1979 resulted in high oil prices, lowered global demand for exports, high interest rates, and an overall high rate of inflation globally.[170] Developing nations were eager to mitigate the economic slowdown, and their leaders were willing both to accept the structural adjustment mandates needed to secure an IMF and World Bank loan and to undertake the development formula under the Washington Consensus. Countries like Bolivia and Argentina quickly adopted such policies and subsequently stabilized their economies for a brief period of time. The World Bank and IMF claimed credit for the success, arguing that the case for the Washington Consensus had been made. But the regional stability was not sustainable, and the economic gains experienced at this time were short lived.[171]

IV(c). IMF and World Bank Structural Adjustment Loans

Advocates of structural adjustment policies under the Washington Consensus have faced a wide range of criticism. Former chief economist for the World Bank Joseph Stiglitz maintains that the "fervent faith in the Washington Consensus and its policies, which supporters believe will ultimately yield optimal outcomes for society completely ignores key factors in economic growth."[172] Stiglitz insists the free market alone will never make adequate investments in global economies.[173] As previously observed, there are two leading (and conflicting) schools of thought regarding economic development, one with the support of Milton Friedman and the other backed by Stiglitz. The debate over which economic model is best is endless. However, the economic and social outcomes of countries that embrace IMF and World Bank mandates are standalone testaments to the true impact of neoliberal economic models.

IV(d). Analysis: Structural Adjustment Loans and Positive Growth

Among the top 20 adjustment loan recipients, there are extreme cases, such as Ghana, which received 26, and Argentina, which received 30, between 1980 and 1999. It seems reasonable to expect that it might take more than one loan to accomplish growth, but it is hard to envision such large numbers would be needed to achieve economic stability. Contrary to the proposed recommendations of the Washington Consensus, high-volume recipients of adjustment loans had the same near-zero per capita growth rate, and most countries experienced high inflation rates.[174] Clearly, there is no strong correlation between the number of loans given and economic growth.

1. Latin America

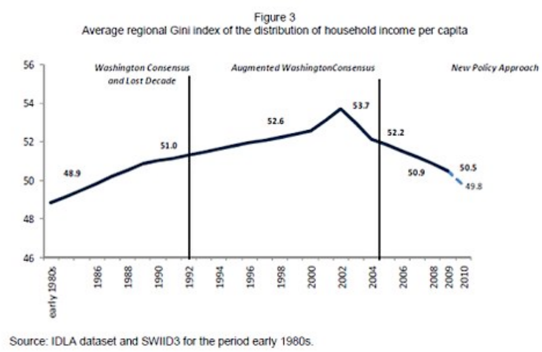
In earlier decades, Latin America had notable success with a planned economy. Countries in the region used an economic strategy called import substitution industrialization (ISI), which imposed high tariffs on imports to encourage industrialization. However, in the 1980s, high inflation rates hit the region during the abovementioned oil crisis. Mexico, Argentina, Brazil, Costa Rica, and a host of other countries defaulted on their debts. Global lending institutions preached an economic formula centered on the market—and expressed a willingness to give billions of dollars to host countries that would make such structural adjustments to their economies. Many countries quickly accepted the conditions for the loans and adopted the development formula, and the region found itself in a small, brief period of growth. But, as the economy once again turned around, countries found themselves with huge debts, and heavy privatization had left them with no real assets. Data from the International Labor Office (ILO) show that the gross domestic product (GDP) in Latin America from 1950 to 1980 was approximately 5.1%, plummeting to 2.6% from 1980 to 2004.[175] The growth of the 1990s was only half of what it had been in the decades before the 1980s, and the little growth that did occur went disproportionately to the region's elite.[176]

2. Africa

Like most regions, Africa fell into hard times during the 1980s. But unlike other regions, Africa's economic issues were multiplied by corruption and dictatorships. Many countries in the region turned to the World Bank and IMF for help, willing to accept the strict structural adjustment policies needed to secure a loan. As a whole, African nations received more loans than any other region and were subject to some of the longest loan cycles. Similar to Latin America, African nations witnessed minimal per capita growth and negative trade growth. Nevertheless, they followed the loans' structural adjustment conditions by opening their markets and bountiful natural resources to the private sector. The imposed loan constraints prevented the borrowing countries from making good use of the limited amounts of foreign assistance they received[177] and restricted the amount of state assets available to fight the growing inequity in the region.

Another way to analyze SALs under the Washington Consensus is by analyzing the Gini index (see Figure 18),[178] or income distribution, of regions that received these loans. The United Nations recently published a working paper, *Inequity Trends and Their Determinants: Latin America over 1990–2010*, that shows a post-1980 Latin America having some of the world's highest levels of inequity.[179] Figure 18 shows a progressive increase in regional inequity from 1980 to 2002. According to the United Nations working paper, the 2002 reversal in inequity was due to a regional political shift to the left and a partial turning away from the Washington Consensus policies.

Figure 18. Gini Index in Latin America Between Early 1980 and 2010



Note: The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. It is the most commonly used measure of inequality. The high peaks or numbers reflect increased levels of inequity.

Source: Krugman P., (April 11, 2012)

3. Europe

More recently, countries like Spain, Ireland, and Greece have been in the midst of a debt crisis, and like the other countries discussed, they have been forced to accept structural adjustment policies to receive loans. These policies have crippled the public sector workforce, their pensions, and their social security funds.[180] *Bloomberg News* published an article called "Two Points for Austerity: Spain and Ireland" that credits Spanish and Irish policy makers for properly implementing structural adjustment policies. According to the article, the Spanish economy is expected to grow by 3.1% and Ireland's by 4%. What the article fails to highlight is that both countries have high levels of unemployment, and their inhabitants have elected candidates campaigning against structural adjustment.[181] In the case of Greece, economist Joseph Stiglitz blames previous conditional loans for the 25% decline in GDP since 2008, the unemployment rate of 25%, and a youth unemployment rate twice the national unemployment rate. He also refers to the current Greek loans as a "19th century debtor prison,"[182] in which the metaphorically imprisoned Greeks will not make the income to repay their loan. For Stiglitz, special interests, both in and out of Greece and other European countries, are using the debt crises to get what they cannot obtain by more democratic processes.[183]

IV(e). Human Right Effects (Torture, Murder, Disappearances, and Political Imprisonment) and Structural Adjustment

According to Milton Friedman, limited government reduces barriers to the functioning of the free market, allowing people to enhance their opportunities and better pursue their own interests, which are likely to be lost if human freedoms are restricted. This neoliberal argument theorizes that prosperity is feasible only via democratic governments and a free market economy. Friedman argues that societies with high levels of democracy also have high levels of respect for personal choice and human rights.[184]

While Friedman theorizes that neoliberalism and democratic principles go hand in hand, in reality, neoliberalism operated independently from government type. For many, Ronald Reagan was seen as a champion against totalitarian dictatorships, but he largely overlooked the repressive tactics of the dictatorships that reigned in Latin America. In fact, he continued the policies of former president Richard Nixon and political scientist Henry Kissinger by appointing Kissinger to his Foreign Intelligence Advisory Board. General Augusto Pinochet of Chile promoted capitalist ideals, but he also jailed at least 40,000 political prisoners, ordered the murders of 1,850 dissidents, and was responsible for the disappearance of 1,300 civilians.[185] Publicly, President Reagan threatened Pinochet's regime with financial consequences if he continued his reign of oppression, but no policies of economic consequence against Chile ever materialized. In fact, Reagan referred to Pinochet as "a friend of the U.S."[186] and a "friendly dictator."[187]

Reagan's foreign policy demonstrated that his main concern was ensuring the widespread practice of free market principles, regardless of government type. Friedman himself frequently advised Pinochet, acting in contradiction to his own philosophy that democracy is a prerequisite to prosperity. During Friedman's 1975 visit to Chile, he "hammered at a single theme: the *junta* was off to a good start, but it needed to embrace the free market with greater ambition."[188] He made no critique or even mention of General Pinochet's well-known human rights violations. Echoing Friedman's contradictory behavior, the IMF and World Bank approved of SALs to Chile during General Pinochet's rule.[189]

The sad reality is that structural adjustment policies tend to cause hardships for the poorest people in a society, partly because SALs necessitate some combination of reductions in public employment, elimination of price subsidies for essential commodities or services, and cuts in expenditures for health, education, and welfare programs. This, in turn, often causes increased levels of civil and social conflict. Some governments have responded to these challenges by strengthening the grips of their dictatorships, as in Chile. Others have become less democratic, as in the case of Morocco in 1981, where austerity measures recommended by the World Bank and IMF caused rioting across the country.[190] The uprising started when farmers reacted to the IMF-imposed removal of food price subsidies, followed by students protesting education cuts. Next, organized labor responded to the removal of price controls. The Moroccan Trade Union Confederation called for a strike, which turned out to be successful but with a high cost—approximately 400 dead. As a general rule, increased civil conflict and decreased democracy are associated with higher levels of repression.[191]

Table 4 highlights the impact SALs have on human rights.[192] These statistics show the unease related to the level and timeliness of human rights abuses—specifically, increased rates of torture and extrajudicial killings—after the implementation of SALs in most host countries. As noted, authoritarian regimes have not been more likely to enter into agreements with the World Bank and IMF, and the factors that affected the likelihood of entering into a structural adjustment agreement did not change much when the Cold War ended. However, if our examination had focused on the volume, or amounts, of loans rather than the number of loans made to developing countries, we may have reached a different conclusion—namely, that there was a greater probability that large SALs were made to dictatorial regimes such as those of Mobutu (Zaire), Suharto (Indonesia), Ferdinand Marcos (Philippines), and Pinochet (Chile).[193]

In some cases, the argument against structural adjustment reforms forms part of a larger grievance against the regime in power, as is the case for the Muslim Brotherhood and its efforts to displace the Hosni Mubarak–led regime in Egypt.[194] In other cases, there is a democratic movement to undo an era of structural adjustment policies, such as is seen in the democracy movement in Bolivia. The Bolivian people worked together to oppose structural adjustment policies, and this very movement helped elect former union leader Evo Morales as president of the country. The successful election campaigns of left-party candidates in Brazil, Chile, Mexico, and Venezuela are due to decades of neoliberal policies recommended by both the IMF and the World Bank. The theory advocated by Ronald Reagan and Milton Friedman fails to address the inconsistences in the application of neoliberal ideology and forgets to mention that the true victims of SALs are global democratic principles.

Table 4. Impact of World Bank SAAs on Respect for Physical Integrity Rights

Single-Stage Probit: The Impact of World Bank Structural Adjustment Agreements (SAAs) on Respect for Physical Integrity Rights 1981–2000

Respect for Physical Integrity Rights†	*Negotiation of SAA*	*Robust Standard Error*	*Implementation of SAA*	*Robust Standard Error*
Torture	0.028	0.114	– 0.218**	0.092
Political imprisonment	0.075	0.1	0.051	0.08
Extra judicial killing	0.175*	0.086	– 0.126*	0.07
Disappearance	0.204*	0.092	0.069	0.076

*$p > |z$ .05, **.01, ***.001. One-tailed test (splines to control for temporal dependence).
†For each of the human rights dependent variables a value of "1" indicates no violations of that right during the year, a value of "0" indicates at least one recorded violation of that right.

Source: Abouharb & Cingranelli, (2006)

IV(f). How Market Economics Became Embedded in U.S. Policy

In both the World Bank and IMF, the United States is the only member country with more than 16.% voting power;[195] this gives the United States a blocking majority for any loan conditions (as in SALs) as well as changes within both institutions. In this way, the United States has been able to examine and manage the viability of structural adjustment programs from afar. However, Ronald Reagan, along with Margaret Thatcher, began to implement many of the reforms included in the Washington Consensus domestically. Reagan was a strong advocate for the liberalization, privatization, and deregulation of the U.S. economy. For example, he tried to balance the federal budget by weakening social services, reducing public services, and attacking organized labor. He also pushed for the downsizing of many federal agencies, including the following (with the proposed percentage reduction shown in parentheses):[196]

1. Department of Housing and Urban Development (-40%),
2. Department of Transportation (-18%),
3. Department of Education (-19%),
4. Department of Commerce (-32%), and
5. Department of Agriculture (-24%).

Reagan believed oversized agencies limited the markets' ability to function and sought to restrict what he called a widespread "freeloading" plague of both welfare and social programs.[197] The results of these reforms and measures were later called Reaganomics.

Harvard University professor Jeffrey Frankel has said that Reagan's presidency marks a point in time when both parties (Democrats and Republicans) converged on many political and economic development views. When Bill Clinton ran for the presidency, he labeled himself a "New Democrat," one who would be tough on crime, promote fiscal responsibility, and support welfare reform. Once in office, Clinton worked to decrease the number of federal employees; restructured welfare policy (through the Personal Responsibility and Work Opportunity Reconciliation Act); eliminated many North American protectionist policies (through NAFTA); and deregulated both the telecommunication and finance sectors (through the Telecommunication Act of 1996 and the Gramm-Leach-Bliley Act, respectively). Political scientist Jack Godwin wrote a book called *Clintonomics*, in which he describes Clinton as being publicly critical of Reaganomics, while in reality his governing philosophy was the logical corollary to the so-called Reagan Revolution, the conservative political realignment that started under Reagan. To many, Clinton succeeded where Reagan failed, and he has been credited with successfully completing the Reagan Revolution.

1. Effect of Cabinet Personnel Changes

The enduring changes made to U.S. policy are not only made by presidents. As the U.S. governor to the IMF, the secretary of the Treasury is exposed to a great deal of IMF ideology that can then be passed along with the secretary when he or she gets a new posting in the cabinet. Cabinet members in the U.S. government are very likely to hold other posts either during the same administration or in a subsequent one. In this way, a particular theoretical bent of one person can be propagated throughout many areas of U.S. policy. For example, George P. Schultz was a senior staff economist on President Eisenhower's Council of Economic Advisers in 1955, secretary of labor under President

Nixon in 1969, director of management and budget in 1970, secretary of the Treasury in 1972, chairman of President Reagan's Economic Policy Advisory Board in 1981–82, and then secretary of state under Reagan from 1982 through 1989.[198] While Shultz is an extreme example of one thinker moving through the U.S. cabinet, it's easy to see how policy ideas could be propagated by staff members long after the president who originally appointed them is out of office.

2. Flexible Labor Market

Signatories to an SAL agree to produce or convert to a "flexible labor market"—that is, a labor market with fewer rules and oversight, which tends to reduce the ability of labor unions to operate in that nation. The shifting attitude of the U.S. government toward organized labor is encapsulated by President Reagan's response to the PATCO strike:

> On Aug. 3, 1981, the Professional Air Traffic Controllers Organization [PATCO] launched a nationwide walkout after years of conflict with the Federal Aviation Administration. President Ronald Reagan, a onetime Hollywood union leader, gave the strikers 48 hours to return to work. When 11,345 ignored his ultimatum, he fired them all. Meanwhile, the FAA kept air traffic flowing, at greatly reduced volume, with the help of supervisors, non-strikers, and military controllers.[199]

Many of the PATCO strikers were barred from working for the federal government for over a decade, until they were pardoned by President Clinton. Since that strike, U.S. union density decreased from 22% in 1980 to 16% in 1989,[200] and to 11.1% in 2014.[201]

3. Liberalization: Trade

The presidential administrations of Reagan, George H. Bush, and Clinton all pursued regional and multilateral liberalization. The Reagan administration initiated the Uruguay Round, a formal meeting pre–World Trade Organization (WTO), and negotiated the U.S.-Canada and U.S.-Israel Free Trade Agreements. The Bush administration initiated NAFTA, and the Clinton administration concluded negotiations and achieved legislative passage of both NAFTA and the Uruguay Round. It also finalized WTO agreements on telecommunication, financial services, and information technology. Clinton launched negotiations toward the Free Trade Area of the Americas (FTAA) and free trade with Chile, negotiated free trade with Jordan, and secured legislative approval for trade presences with Caribbean and African countries. Finally, Clinton won legislative approval for China to be a member state of the WTO.[202]

4. Privatization

Secretary of Defense Donald Rumsfeld, while serving under President George W. Bush, sought to privatize "the military, police, fire departments, prisons, border control, covert intelligence, disease control, the public school system and the administering of government bureaucracies."[203] While he did not fully succeed, his efforts did reduce the number of good-paying, unionized government jobs and funneled money to the executives of the private companies running these programs, making our national income inequality even more pronounced. A prime example of this is Halliburton, the defense contractor headed by then–vice president Dick Cheney, which was able to expand at an exponential rate due to its loosely worded contract to provide "logistical support."[204]

After the attacks on 9/11, money flowed out of our government into the pockets of private contractors, and crucial operations began to be performed by people who did not work for the U.S. government, despite rulings forbidding the outsourcing of "inherently governmental" work.[205] As measured by the Congressional Budget Office (CBO), federal spending on contracts for services went up 90% between 2000 and 2012 alone. Outsourced services spanned a wide spectrum: administrative, professional, management, facilities, construction, information and communications, medical, and equipment.

The outsourcing of public service work, a strongly favored tenet of the Washington Consensus, has skyrocketed from $136.5 billion in 2000 to a staggering $259.0 billion in 2012. In addition, the director of the CBO noted, "Regrettably, CBO is unaware of any comprehensive information about the size of the federal government's contracted workforce."[206] The mismanagement of independent contractors has cast serious doubt on their effectiveness.

> The most successful contractors are not necessarily those doing the best work, but those who have mastered the special skill of selling to Uncle Sam. The top 20 service contractors have spent nearly $300 million since 2000 on lobbying and have donated $23 million to political campaigns. "We've created huge behemoths that are doing 90 or 95 percent of their business with the government," said Peter W. Singer, who wrote a book on military outsourcing. "They're not really companies, they're quasi agencies." Indeed, the biggest federal contractor, Lockheed Martin, which has spent $53 million on lobbying and $6 million on donations since 2000, gets more federal money each year than the Departments of Justice or Energy.[207]

Yet, market-driven thinkers like the Washington-based Cato Institute continue to propose tenets such as those used in structural adjustment programs as improvements for the U.S. economy. In a recent report, the Cato Institute recommended the following:

> Federal policymakers should:
> - end subsidies to passenger rail and privatize Amtrak...;
> - privatize the U.S. Postal Service and repeal restrictions on competitive mail delivery;
> - privatize the air traffic control system;
> - help privatize the nation's airports, while ending federal subsidies;
> - help privatize the nation's seaports;

- privatize federal electricity utilities, including the Tennessee Valley Authority and Power Marketing Administrations;
- privatize parts of the Army Corps of Engineers, such as hydroelectric dams...; and
- sell excess federal assets, including buildings, land, and inventory.[208]

The report adds, "Another part of the solution is to scrap the Davis-Bacon rules, which require that artificially high wages be paid on federal contracts, including maintenance contracts."[209]

The Cato policy recommendations are almost identical to those mandated to IMF and World Bank borrower nations. Sadly, they fail to address the almost negative growth countries experience under structural adjustment programs. There is no reason to think that following these suggestions will lead to different results in the United States than anywhere else on Earth.

A stark example is Mexico, a country with inequality great enough that the wealthy live separate from the rest of the population, in gated communities with their own police. The privatization of utilities at the prompting of the IMF has only worsened this situation. Carlos Slim Helu, a Mexican entrepreneur and the second-richest man in the world in 2015, built his telecom monopoly by buying up telecom utilities at less than market value when they were privatized.[210]

Privatizing utilities and federal assets leads to more inequality because only the wealthy can afford to buy them. Further, they buy them for far less than they are worth and proceed to create monopolies that cost the average person more while providing fewer social benefits.

5. Deregulation: Tax Policy

Tax reform is a key component of the structural adjustment recommendations that were made under the Washington Consensus. The neoliberal shifts in American tax policy during the Reagan and Clinton administrations have had repercussions that are still felt today.

The federal Economic Recovery Tax Act of 1981 (also known as ERTA or the Kemp-Roth Tax Cut) cut all marginal income tax rates in the United States by 23% over three years, reducing the top rate from 70% to 50% and the bottom rate from 14% to 11%. It also decreased estate taxes and lowered taxes paid by corporations by $150 billion over a five-year period. ERTA was amended somewhat by the Tax Equity and Fiscal Responsibility Act of 1982, which closed some tax loopholes and introduced more aggressive enforcement of tax rules in lieu of changing the marginal income tax rates.[211]

The Tax Reform Act of 1986 (TRA) was intended to simplify the income tax code, broaden the tax base, and eliminate many tax shelters. Instead, it created disincentives to paying corporate-level taxes and encouraged corporations to change their status to S-corporations, which both lowers the taxes they pay and limits the financial liability of the owners.[212] Under TRA, the top tax rate for individuals was lowered from 50% to 28%, while the bottom rate was raised from 11% to 15%. Tax brackets were consolidated from 15 levels of income to 4 levels. This was the first time in the history of the U.S. income tax that the top rate was reduced and the bottom rate increased at the same time. In addition, capital gains became taxed at the same rate as ordinary income.[213]

Building upon all of these changes, the Gram-Leach-Bliley Act of 1999 served to remove market barriers for banks, security companies, and insurance companies. This has been the single most important means for redistributing wealth—in favor of the big financial institutions.

CONCLUSION

The United States is a democracy—a government of the people, by the people, and for the people, now ruled by the majority.[214] The U.S. Constitution in its opening statement purports to "promote the general welfare."[215] The laws that follow that statement sound more socialistic, literally for the good of the many, than plutocratic, for the good of the wealthy few. In fact, when President Roosevelt put his New Deal in action, he was called a socialist, and even a communist, by his opposition. In 1934, the *Chicago Daily Tribune* reported:

> "The New Deal is now undisguised state socialism," declared Senator Simeon D. Fess (R-Ohio) today as he pictured President Roosevelt as the New Deal's leading socialist…. "The president's recent statements," Fess said, "remove any doubt of his policy of state socialism, which necessitates increased activities of the government in either ownership or operation of industry, or both."[216]

Calling a president who even remotely talks about taxing the super-rich and benefiting the poor a socialist is nothing new in U.S. politics. Barack Obama, in spite of heavily favoring big banks and financial institutions and upholding the tax structure for rich individuals and corporations during his two terms of presidency, has been called a socialist by his detractors. Texas governor Rick Perry said, "When you talk about printing money and spending government money, and trying to spend it out. That conversation he had with Joe the Plumber—kind of redistribute the wealth—the best I can tell, that's socialism."[217]

The socialism canard has also been used by the Republican Party throughout the debate on Obamacare. A vast section of the U.S. media has echoed the conservative politicians and think tanks. Bill O'Reilly of Fox News said, "Obamacare is a pure income redistribution play. Income redistribution is a hallmark of socialism and we in America are now moving in that direction."[218]

The corporate agenda has carefully made out any idea of socialism to be toxic, rewriting its meaning to be the same as communism, and thus anti-American. Frank Llewellyn, the national director of Democratic Socialists in America, wrote:

> When the Republicans lost the election and the Obama administration filled its Treasury positions with former Goldman Sachs executives, we socialists thought that was the end of these baseless charges. But when the Republicans found themselves with nothing to say about how to shore-up an economy in free-fall, they deemed the stimulus bill socialist—even though the architect of such policies, John Maynard Keynes, advocated a capitalist economic system.[219]

The U.S. media, particularly since the Reagan era, have become blatantly biased in favor of private enterprises and corporations. Unlike in state-controlled countries or dictatorships, they have self-censored news and views to promote the unregulated free market and have blasted any concepts of government regulation and equality.

In *Manufacturing Consent: The Political Economy of the Mass Media*, Herman and Chomsky proposed that the mass communication media of the U.S. "are effective and powerful ideological institutions that carry out a system-supportive propaganda function, by reliance on market forces, internalized assumptions, and self-censorship, and without overt coercion."[220] Chomsky, one of the most important living intellectuals in the world, has been ostracized by the corporate media for his outspoken critiques of U.S. economic and foreign policy.

U.S. Corporate Media: Necessary Illusion

In *Necessary Illusions: Thought Controls in Democratic Societies*, Chomsky said:

> The major media—particularly, the elite media that set the agenda that others generally follow—are corporations "selling" privileged audiences to other businesses. It would hardly come as a surprise if the picture of the world they present were to reflect the perspectives and interests of the sellers, the buyers, and the product. Concentration of ownership of the media is high and increasing. Furthermore, those who occupy managerial positions in the media, or gain status within them as commentators, belong to the same privileged elites, and might be expected to share the perceptions, aspirations, and attitudes of their associates, reflecting their own class interests as well. Journalists entering the system are unlikely to make their way unless they conform to these ideological pressures, generally by internalizing the values; it is not easy to say one thing and believe another, and those who fail to conform will tend to be weeded out by familiar mechanisms.[221]

Thus, the word *socialism* has been made negative and unacceptable by many years of media propaganda, and as a concept it has become almost synonymous with communism and government-controlled dictatorships—a taboo in American households. Yet, socialism by definition is "any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods."[222] In simpler terms, "socialism is taxpayer funds being used collectively to benefit society as a whole, despite income, contribution, or ability."[223] The United States has had a long-term and very successful relationship with government-regulated, tax-funded public enterprises. Some examples are shown in Table 5.[224]

Table 5. Existing Government Institutions in the United States

The military	Highways and roads	Public libraries
The police	Fire departments	The Postal Service

Student loans and grants	Government scholarships	Bridges
Garbage collection	Public landfills	War funding
Farm subsidies	The CIA	The FBI
Congressional health care	Vaccinations	The EPA
Social security	Public museums	The public school system
The prison system	Corporate and business subsidies	Veteran's health care
Public and national parks	The salaries of all elected officials	Food stamps
The sewer system	Medicare	The court system
GI bill	State and city zoos	The IRS
School free lunch programs	The Pentagon	Medicaid
The FDA	Disability insurance	Corporate bailouts
Unemployment insurance	Public transportation systems	The WIC program
Snow removal	PBS	NPR
The CDC	Welfare	Public street lighting
FEMA	Public defender attorneys	Homeland Security
OSHA	State and national monuments and cemeteries	USDA
The Census Bureau	The Department of Energy	US Customs and Border Protection
The Secret Service	The Peace Corps	The Department of Justice
The National Weather Service	The White House	Government in general

The super-wealthy have gone to great extremes to plant seeds of the unreasonable fear that if we do not pour every penny we have into extreme capitalism, communism will take over.[225] They play upon the lingering echo of McCarthyism to prevent the general public from taking any organized action to defend itself.[226]

The Heritage Foundation, with help from lobbying organizations such as the American Legislative Exchange Council (ALEC) and funders such as the Koch Brothers, has assumed a major role in promoting an anti-government, anti-equality, and anti-labor right-wing agenda, and they have found their spokespersons in both conservative and liberal media in the post–Cold War era. The Heritage Foundation and its political and financial operatives have moved far to the right in recent years. Documents and interviews unearthed by Brave New Foundation researchers illustrate a $28.4 million Koch business that has manufactured 297 commentaries, 200 reports, 56 studies, and 6 books distorting Social Security's effectiveness and purpose. Together, the publications reveal a vast cottage industry comprising the Koch Brothers' spokespeople, front groups, think tanks, academics, and elected officials, who together have built a self-sustaining echo chamber to transform fringe ideas into popular, mainstream public policy arguments.[227]

The *New York Times* reported in early 2014 that under the Heritage Foundation presidency of Jim DeMint, "Heritage has shifted. Long known as an incubator for policy ideas and the embodiment of the party establishment, it has become more of a political organization feeding off the rising populism of the Tea Party movement."[228]

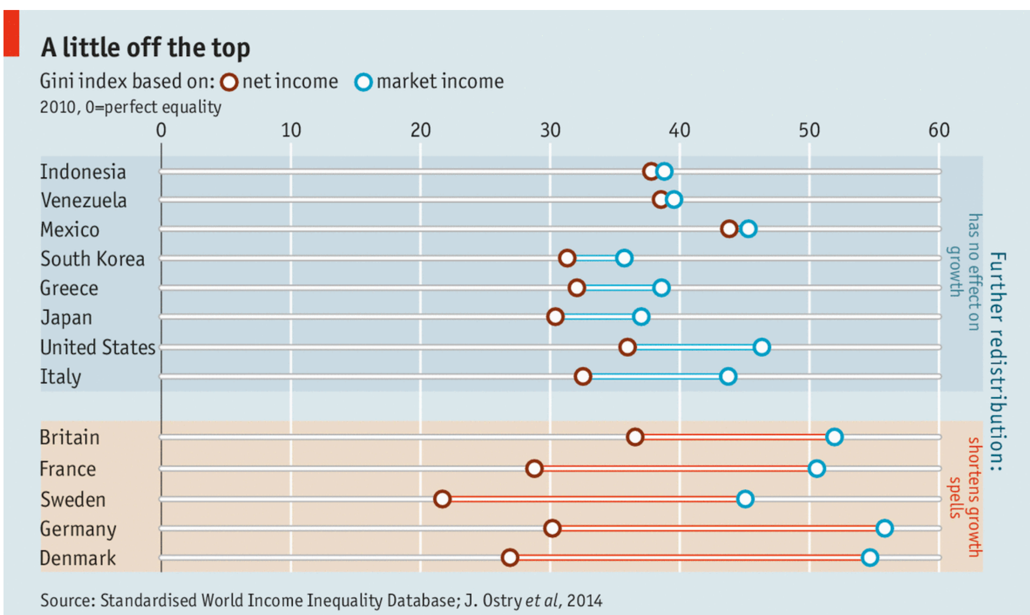
In its four-decade history, the Heritage Foundation has had significant effects on U.S. domestic and foreign policy. According to *The Atlantic*,

> Heritage has shaped American public policy in major ways, from Reagan's missile-defense initiative to Clinton's welfare reform: Both originated as Heritage proposals. So, too, did the idea of a universal health-care system based on a mandate that individuals buy insurance. Though Heritage subsequently abandoned it, the individual mandate famously became the basis of health-care reforms proposed by Massachusetts Governor Mitt Romney and President Barack Obama.[229]

The Heritage Foundation has also received money from overseas special interests and governments.[230]

Other capitalist, industrialized countries have had more success in maintaining sanity in their economic systems. Redistribution of wealth through taxation (such as raising the tax rates on the super-wealthy), government regulation, enforcing import tariffs, and prevailing wage laws has effectively lowered inequality in many capitalist countries. For instance, Germany and Denmark were more unequal than Britain before redistribution, and much less so after (see Figure 19).[231] Sweden has exercised a moderated approach using a mix of social democracy, communitarianism, and advanced capitalism to form one of the most consistently robust economies in the world, whose banks, teetering in 1993, are now rated by the European Union as among the strongest.[232]

Figure 19. Gini Index Based on Net Income Versus Market Income



Source: Ostry J. D., Berg A. & Tsagarides C. (2014)

In spite of the media propaganda, most Americans still believe our tax policy is biased in favor of the rich. According to Joseph Stiglitz, about 6 in 10 Americans believe that our tax system is unfair.[233] The richest 400 individual taxpayers in the United States earn an average of more than $200 million a year and pay less than 20% of their income in taxes. In 2009, almost a third of those top 400 earners paid less than 15% of their income in taxes. Millionaires pay around 25% of their income in taxes, which is about the same as those earning $200,000 to $500,000. In the 30 years since Reagan was president, the top tax rate for the super-wealthy dropped from 70% to 39.6%, where it remains now.[234]

The same multinational American corporations that call upon our government to spend billions of taxpayer dollars to protect their interests overseas and negotiate their lucrative entry into foreign markets also use their overseas offices to pay almost no taxes at all. For example, General Electric paid less than an average 2% corporate tax rate from 2002 to 2012.[235] All of that unpaid money was then added to the growing mountain of excessive executive compensation, lavish executive offices, "golden parachute" severance pay, and extreme executive bonuses. The earnings were neither passed down to the consumer nor fairly shared as incremental wage increases among the general workforce.

Carly Fiorina, one of the former Republican presidential candidates in 2015, is an example of the recipients of golden parachutes. When Fiorina was the chairman and CEO of technology giant Hewlett-Packard (HP), the company saw a significant decline in its value and instigated massive layoffs. Fiorina led a largely unsuccessful merger with Compaq in 2002, going against the wishes of HP company founder Walter Hewlett. Asked by the board of directors to step down in 2005, Fiorina left with $21 million in cash, plus stock and pension benefits worth another $19 million. According to HP executive compensation rules, departing executives are entitled to no more than 2.99 times their base salary; anything more requires stockholder approval. Fiorina's parachute was much more than that, so the stockholders filed a class action suit. A federal judge dismissed it in April 2008.[236]

The 2008 global market crash was precipitated by the people in power—the 1% and their corporations and cronies. The crash, often dubbed the Great Recession, was a direct by-product of a for-profit-only trickle-down economic system. Big banks, financial institutions, and Wall Street executives worked with their chosen politicians in the government at the federal and state levels and got themselves bailed out with trillions of dollars of public money. Both the Republicans and Democrats, except for a few, were directly or indirectly complicit in that now-disgraced game.[237] Not a single perpetrator was held criminally responsible for the disastrous market crash that ruined the lives of millions of Americans and many more overseas since 2008.

Our economy is currently in an unsustainable position. Redistribution of some of the unfair and extreme wealth accumulation through fair taxation will allow wages to keep pace with the increases in production and the cost of living, as well as promote, restore, and invigorate social and educational programs to keep America at the forefront of civilization. A fair profit is not the same as a maximal profit, and the difference between the two should not be viewed as a corporate loss.

America needs fair taxation restored upon the super-wealthy. We need traditional American jobs—manufacturing and construction jobs in particular—brought back here on

American soil, instead of letting Wal-Mart, Apple, GE, Disney, Gap, Children's Place, Nike, and other mega-corporations outsource them overseas. We need governmental regulation of excessive executive compensation, executive responsibility for poor or immoral corporate performance, a fair minimum wage that a family can actually live on, and stricter regulation of the banking industry. We need affordable housing and education. And we need to revive the American Dream for working men, women, and families.

Organized labor has played a historic role in mobilizing on the ground to make these sorts of reforms happen. Recently, fast-food workers in New York City have stood up to corporations and effected a change for the better for workers in their classification across the country.[238] Examples such as this, as well as lessons learned from the Occupy Wall Street movement, need to be used to build bridges, to force Wall Street and corporate executives to share their profit with the people who actually make the products that generate record-breaking profits, rather than lining their own already excessively swollen pockets. The obscene and unprecedented income inequality in America is now the highest it has been since 1928.[239] It must go.

Building a broad-based coalition across the 99% will bring the country back to addressing the needs of ordinary working people and their families. As the economist Robert Reich said, "We are at an amazing moment in American economic and political history,"[240] one where there is an unprecedented level of organizing against the current establishment.

Millions of Americans are becoming engaged in the 2016 presidential election. The growing desire of the American people, especially the younger generation, for changes in economic disparity is driving labor unions, environmental protection advocates, social justice activists, women, students and youth, immigrant rights groups, and the recently formed Black Lives Matter, among many other groups, to form alliances across the country. In fact, such broad-based bridge building is taking place across the world. The global 99% is joining hands to fight back against the tyranny of the global 1%.

As Bob Marley said, “You can fool some people sometimes, but you can’t fool all the people all the time.”

Together, the working people will emerge victorious.

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