Celebrating the One Percent: Is Inequality Really Good for the Economy?

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To paraphrase Mark Twain, everyone complains about inequality, but nobody does anything about it.

What they do is to use "inequality" as a takeoff point to project their own views on how to make society more prosperous and at the same time more equal. These views largely depend on whether they view the One Percent as innovative, smart and creative, making wealth by helping the rest of society – or whether, as the great classical economists wrote, the wealthiest layer of the population consist of*rentiers*, making their income and wealth *off* the 99 Percent as idle landlords, monopolists and predatory bankers.

Economic statistics show fairly worldwide trends in inequality. After peaking in the 1920s, the reforms of the Great Depression helped make income distribution more equitable and stable until 1980. [1]

Then, in the wake of Thatcherism in Britain and Reaganomics in the United States, inequality really took off. And it took off largely by the financial sector (especially as interest rates retreated from their high of 20 percent in 1980, creating the greatest bond market boom in history). Real estate and industry were financialized, that is, debt leveraged.

Inequality increased steadily until the global financial crash of 2008. Since then, as bankers and bondholders were saved instead of the economy, the top One Percent have pulled even more sharply ahead of the rest of the economy. Meanwhile, the bottom 25 percent of the economy has seen its net worth and relative income deteriorate.

Needless to say, the wealthy have their own public relations agents, backed by the usual phalange of academic useful idiots. Indeed, mainstream economics has become a celebration of the wealthy*rentier* class for a century now, and as inequality is sharply widening today, celebrators of the One Percent have found a pressing need for their services.

A case in point is the Scottish economist Angus Deaton, author of *The Great Escape: Health, Wealth, and the Origins of Inequality*. (2013). Elected President of the AEA in 2010, he was given the Nobel Economics Prize in 2015 for analyzing trends in consumption, income distribution, poverty and welfare in ways that cause no offense to the wealthy, and in fact treat the increasingly inequitable status quo as perfectly natural and in its own kind of mathematical equilibrium. (This kind of circular mathematical reasoning is the criterion of good economics today.)

His book treats the movie *The Great Escape* as a metaphor. He deridingly pointed out that nobody would have called the movie "The prisoners left behind." Describing the escapers as brilliant innovators, he assumes that the wealthiest One Percent likewise have been smart and imaginative enough to break the bonds of conventional thinking to innovate. The founders of Apple, Microsoft and other IT companies are singled out for making everyone's life richer. And the economy at large has experienced a more or less steady upward climb, above all in public health extending lifespans, conquering disease and pharmaceutical innovation.

I recently was put on the same stage as Mr. Deaton in Berlin, along with my friend David Graeber. We three each have books translated into German to be published this autumn by the wonderful publisher Klett-Cotta, who organized the event at at the Berlin Literaturfestival in mid-September.

In a certain way I find Deaton's analogy with the movie *The Great Escape* appropriate. The wealthy *have* escaped. But the real issue concerns what have they escaped *from*. They have escaped from regulation, from taxation (thanks to offshore banking enclaves and a rewriting of the tax laws to shift the fiscal burden onto labor and industry). Most of all, Wall Street banksters have escaped from criminal prosecution. There is no need to escape from jail if you can avoid being captured and sentenced in the first place!

A number of recent books – echoed weekly in the *Wall Street Journal*'s editorial page – attribute the wealthiest One Percent to the assumption that they must be smarter than most other people. At least, smart enough to get into the major business schools and get MBAs to learn how to financialize corporations with *zaitech* or other debt leveraging, reaping (indeed, "earning") huge bonuses

The reality is that you don't have to be smart to make a lot of money. All you need is greed. And that can't be taught in business schools. In fact, when I went to work as a balance-of-payments analyst at Chase Manhattan in 1964, I was told that the best currency traders came from the Brooklyn or Hong Kong slums. Their entire life was devoted to making money, to rise into the class of the proverbial Babbitts of our time: *nouveau riches* lacking in real culture or intellectual curiosity.

Of course, for bankers who do venture to "stretch the envelope" (the fraudster's euphemism for breaking the law, as Citigroup did in 1999when it merged with Travelers' Insurance prior to the Clinton administration rejecting Glass-Steagall), you do need smart lawyers. But even here, Donald Trump explained the key that he learned from mob lawyer Roy Cohn: what matters is not so much the law, as what judge you have. And the U.S. courts have been privatized by electing judges whose campaign contributors back deregulators and non-prosecutors. So the wealthy escape from being subject to the law.

Although no moviegoers wanted to see the heroes of the Great Escape movie captured and put back in their prison camp, a great many people wish that the Wall Street crooks from Citigroup, Bank of America and other junk-mortgage fraudsters *would* be sent to jail, along with Angelo Mazilo of Countrywide Financial. Little love is given to their political lobbyists such as Alan Greenspan, Attorney General Eric Holder, Lanny Breuer and their hirees who refused to prosecute financial fraud.

Deaton did cite "rent seekers" – but in the sense that his predecessor Nobel prizewinner

Buchanan did, locating rent seeking within government, not real estate, monopolies such as pharmaceuticals and information technology, health insurance, cable companies and high finance. So any blame for poverty falls on either the government or on the debtors, renters, unemployed and not-wellborn who are the main victims of today's *rentier* economy.

Deaton's *Great Esca*pe sees some problems, but not in the economic system itself – not debt, not monopoly, not the junk mortgage crisis or financial fraud. He cites global warming as the main problem, but not the political power of the oil industry. He singles out education as the way to raise the 99 Percent – but says nothing about the student loan problem, the travesty of for-profit universities funding junk education with government-guaranteed bank loans.

He measures the great improvement in well-being by GDP (gross domestic product). Lloyd Blankfein of Goldman Sachs notoriously described his investment bank's managers and partners of being the most productive individuals in the United States for earning $20 million annually (not including bonuses) – all of which is recorded as adding to the financial sector's "output" of GDP. There is no concept at all that this is what economists call a zero-sum activity – that is, that Goldman Sachs's salaries may be unproductive, parasitic, predatory, and the rest of the economy's loss or overhead.

Such thoughts do not occur in the happy-face views promoted by the One Percent. Deaton's praise-hymn to the elites assumes that everyone earns what they get, by playing a productive role, not an extractive one.

An even more blatant denial of rent-seeking is a new book by one of the founders of Bain Capital (Mitt Romney's firm), Edward Conard,*The Upside of Inequality* attacking the "demagogues" and "propagandists" who claim that the winnings of the One Percent are largely unearned. Curiously, he does not include Adam Smith, David Ricardo or John Stuart Mill as such "propagandists." Yet that is what classical free market economics was all about: freeing economies from the unearned rental income and rising land prices that landlords make "in their sleep," as John Stuart Mill put it. This propaganda book thus misrepresents the program that the major founders of economics urged: public ownership or collection of land rent, natural resource rent, and pubic operation of natural monopolies, headed by the financial sector.

For Conard, the reason for the soaring wealth of the One Percent is not financial, real estate or other monopolistic rent seeking, but the wonders of the information economy. It is Josef Schumpeter's "creative destruction" of less productive technology, by hard working and dedicated innovators whose creativity raises the level of everyone. So the wealth of the One Percent is a measure of society's forward march, not a predatory overhead extracted from the economy at large.

Conard's policy conclusion is that regulation and taxation slows this march of economies toward prosperity as led by the One Percent. As a laudatory *Wall Street Journal* review of his book summarized his message: "Redistribution – whether achieved through taxation, regulatory restrictions, or social norms – appears," he asserts, "to have large detrimental effects on risk-taking, innovation, productivity, and growth over the long run, especially in an economy where innovation produced by the entrepreneurial risk-taking of properly trained talent increasingly drives growth."[2] His solution is to lower taxes on the rich!

My friend Dave Kelley notes the policy message that is being repeated*ad nauseum* these days: the assertion that "progressive moves like taxation end up hurting the economy rather than helping it. This 'I would feed you but you might become dependent on food' theory is central in showing how consumer societies like ours are returning to feudal distributions of wealth." This seems to be the policy proposal of the three leading candidates for U.S. President – in our modern post-Citizens United world where elections are bought in much the way that consulships were back in the closing days of the Roman Republic.

Notes

[1] Anthony B. Atkinson, author of *Inequality: What Can Be Done?*coined the phrase "Inequality Turn" to describe when economic inequality began to widen around 1980. He was a mentor of Thomas Piketty, and together they worked with Saez to create an historical database on top incomes.

[2] Richard Epstein, "The Necessity of the Rich," *Wall Street Journal*, September 15, 2016. The libertarian reviewer's only criticism is hilarious: "Mr. Conard overlooks vast numbers of possible reforms. He never, for instance, discusses the weakening of patent law (a real inhibitor of innovation), or the arduous compliance culture that has grown up in the wake of Dodd-Frank and ObamaCare, or how zoning, rent stabilization and affordable-housing laws strangle the housing market. By ignoring the threat that regulation increasingly poses to the economy, his case for the upside of inequality is far weaker than it should be."

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