Life is Great … But Only If You Are Already Mega-Wealthy

By Washington's Blog
Global Research, March 14, 2010
Washington's Blog 12 March 2010
Region: USA
Theme: Global Economy

As I pointed out in November:

> A report by University of California, Berkeley economics professor Emmanuel Saez concludes that income inequality in the United States is at an all-time high, surpassing even levels seen during the Great Depression.
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> The report shows that:
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> > Income inequality is worse than it has been since at least 1917
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> > "The top 1 percent incomes captured half of the overall economic growth over the period 1993-2007"
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> > "In the economic expansion of 2002-2007, the top 1 percent capturedtwo thirds of income growth."
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> As others have pointed out, the average wage of Americans, adjusting for inflation, is lower than it was in the 1970s. The minimum wage, adjusting for inflation, is lower than it was in the 1950s. See this.
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> On the other hand, billionaires have never had it better (and see this).

Now, state-run Russian news service RIA Novosti notes that the number of billionaires has soared during the economic crisis:

The current global financial and economic crisis once again confirms the fact that during economic upheavals the rich get richer and the poor become even more destitute.

> On Thursday, Forbes Magazine carried an updated list of the world's wealthiest people.
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> As of late 2009, the number of billionaires soared from 793 to 1,011 and their total fortunes from $2.4 trillion to $3.6 trillion. The number of Russian billionaires almost doubled, from 32 to 62.
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> Despite the crisis, the list of billionaires has grown by 200 people and their

> aggregate capital has expanded by 50%. This may seem paradoxical but only at first glance. This result was predictable, if we recall how governments all over the world have dealt with the economic crisis.
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> Anti-crisis measures essentially implied massive infusion of money into the economy. The United States alone spent over $10 trillion. Against the backdrop of a global recession, the funding could only be put to good use on stock and raw materials markets, leading to the creation of new financial bubbles.
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> The volume of federal allocations injected by the Russian government into the economy was much higher than in Europe and the U.S. Forbes tactfully referred to this as the government's cooperation with big business, primarily raw materials companies.
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> However, even high-ranking Russian officials have repeatedly complained that anti-crisis allocations were either used for stock market operations or deposited in foreign bank accounts.

Life is good … but only if you are already mega-wealthy.

Even Alan Greenspan recently [called](#) the recovery "extremely unbalanced," driven largely by high earners benefiting from recovering stock markets and large corporations.

As economics professor and former Secretary of Labor Robert Reich [writes](#) today in an outstanding piece:

> Are we finally in a recovery? Who's "we," kemosabe? Big global companies, Wall Street, and high-income Americans who hold their savings in financial instruments are clearly doing better. As to the rest of us — small businesses along Main Streets, and middle and lower-income Americans — forget it.
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> Business cheerleaders naturally want to emphasize the positive. They assume the economy runs on optimism and that if average consumers think the economy is getting better, they'll empty their wallets more readily and — presto! — the economy will get better. The cheerleaders fail to understand that regardless of how people feel, they won't spend if they don't have the money.
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> The US economy grew at a 5.9 percent annual rate in the fourth quarter of 2009. That sounds good until you realize GDP figures are badly distorted by structural changes in the economy. For example, part of the increase is due to rising health care costs. When WellPoint ratchets up premiums, that enlarges the GDP. But you'd have to be out of your mind to consider this evidence of a recovery.
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> Part of the perceived growth in GDP is due to rising government expenditures. But this is smoke and mirrors. The stimulus is reaching its peak and will be smaller in months to come. And a bigger federal debt eventually has to be repaid.
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> So when you hear some economists say the current recovery is following the traditional path, don't believe a word. The path itself is being used to construct the GDP data.
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> Look more closely and the only ones doing better are the people and private-

sector institutions at the top … Companies in the Standard&Poor 500 stock index had sales of $2.18 trillion in the fourth quarter, up from $2.02 trillion last year, and their earnings tripled. Why? Mainly because they're global, and selling into fast-growing markets in places like India, China, and Brazil.

America's biggest companies are also showing fat profits and productivity gains because they continue to slash payrolls and cut expenditures…

Firms in S&P 500 … can borrow money cheaply. Corporate bond sales are brisk. So far in 2010, big U.S. corporations have issued $195.2 billion of debt, excluding government-guaranteed bonds. Does this spell a recovery? It all depends on what the big companies are doing with all this cash. In fact, they're doing two things that don't help at all.

First, they're buying other companies… This buying doesn't create new jobs. One of the first things companies do when they buy other companies is fire lots of people who are considered "redundant." That's where the so-called merger efficiencies and synergies come from, after all. [My note: As I pointed out a year ago: "The Treasury Department encouraged banks to use the bailout money to buy their competitors, and pushed through an amendment to the tax laws which rewards mergers in the banking industry (this has caused a lot of companies to bite off more than they can chew, destabilizing the acquiring companies)"]

The second thing big companies are doing with all their cash is buying back their own stock, in order to boost their share prices. There were 62 such share buy-backs in February, valued at $40.1 billion. We're witnessing the biggest share buyback spree since Sept 2008. The major beneficiaries are current shareholders, including top executives, whose pay is linked to share prices. The buy-backs do absolutely nothing for most Americans.

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The picture on Main Street is quite the opposite. Small businesses aren't selling much because they have to rely on American — rather than foreign — consumers, and Americans still aren't buying much.

Small businesses are also finding it difficult to get credit. In the credit survey conducted in February by the National Federation of Independent Businesses, only 34 percent of small businesses reported normal and adequate access to credit. Not incidentally, the NFIB's "Small Business Optimism Index" fell 1.3 points last month, just about where it's been since April.

That's a problem for most Americans. Small businesses are where the jobs are. In fact, small businesses are responsible for almost all job growth in a typical recovery. So if small businesses are hurting, we're not going to see much job growth any time soon.

The Federal Reserve reported Thursday that American consumers are shedding their debts like mad. Total US household debt, including mortgages and credit card balances, fell 1.7 percent last year – the first drop since the government began recording consumer debt in 1945. Much of the debt-shedding has been through default — consumers simply not repaying and walking away from homes and big-ticket purchases.

This is hardly good news. But here's the Wall Street Journal's take on it: "the defaults are leaving many people with more cash to spend and save, jump-starting the financial rehabilitiation" of the economy.

Baloney. As of end of 2009, debt averaged $43, 874 per American, or about

122 percent of annual disposable income. Most economic analysts think a sustainable debt load is around 100 percent of disposable income — assuming a normal level of employment and normal access to credit. But unemployment is still sky-high and it's becoming harder for most people to get new mortgages and credit cards. And with housing prices still in the doldrums, they can't refinance their homes or take out new loans on them…

Some cheerleaders say rising stock prices make consumers feel wealthier and therefore readier to spend. But to the extent most Americans have any assets at all their net worth is mostly in their homes, and those homes are still worth less than they were in 2007. The "wealth effect" is relevant mainly to the richest 10 percent of Americans, most of whose net worth is in stocks and bonds. The top 10 percent accounted for about half of total national income in 2007. But they were only about 40 percent of total spending, and a sustainable recovery can't be based on the top ten percent.

Add to all this the joblessness or fear of it that continues to haunt a large portion of the American population. Add in the trauma of what most of us have been through over the past year and a half. Consider also the extra need to save as tens of millions of boomers see retirement on the horizon. Bottom line: Thrifty consumers are doing the right and sensible thing by holding back from the malls. They saved a little over 4 percent of their disposable income in fourth quarter of 2009. In the months or years ahead they may save more.

Right and sensible for each household but a disaster for the economy as a whole. American consumers accounted for 70 percent of the total demand for goods and services in the American economy before the Great Recession, and a sizable chunk of world demand.

So what happens when the stimulus is over and the Fed begins to tighten again? Where will demand come from to get Main Street back, create jobs, raise middle class wages? Not from big businesses. Certainly not from Wall Street. Not from exports. Not from government.

So, where? That question is the big unknown hanging over the U.S. economy. Until there's an answer, an economic "recovery" for anyone other than big corporations, Wall Street, and the wealthy is a mirage.