The Impact of the Concentration of Wealth on Democracy

James Madison, the Father of our Constitution, wrote, "*All men with power should be distrusted to a certain degree*." He also wrote, "*Ambition must be made to counter ambition*." Given these strongly held ideas, it is no wonder that there are checks and balances in our government.

The staggering increase in the concentration of wealth in the United States since 1980 has had a corrosive effect on our democracy by further concentrating political power in the hands of the wealthy. Great disparities of income, regardless of the type of government, create instability and movements worldwide, from our domestic *"Occupy"* movements to the Arab Spring are evidence of the desire of the majority of citizens to be better served by their governments.

Neiman Marcus sold out of pewter-color Ferraris (luggage set matching the interior included) at $395,000 each within 50 minutes of making 10 of them available through its "fantasy" holiday catalogue late last month…."We are now into a less promotional environment than we were before the recession," said Stephen I. Sadove, Chairman and Chief Executive of Saks…"Those in the more modest income situation are the people who are going to the Walmarts and the Best Buys and the Targets at 8,9,10,11 p.m. with little kids in tow because they can't afford a babysitter," said Craig Johnson, president of Consumer Growth Partners. (NYT, November 24, 2011, P.1, "Opening Day For Shoppers Shows Divide")

Income inequality has been a concern since the founding of our nation. James Madison believed that, *"Reducing extreme wealth toward a state of mediocrity [moderateness] and raising extreme indigence [poverty] toward a state of comfort are the proper goals of democratic government*."

Between 1975 and 2005 the inflation adjusted, after tax income of Americans in the middle of income distribution rose 2 percent. The equivalent increase for the richest 0.1 percent was 400 percent. (Most recent Congressional Budget Office Report)

The weakened state of our democracy is what now compels us to confront extreme income inequality. A steep slope of inequality in itself has been shown to be the basis of many social ills. It results in the loss of voice, the loss of *"community"* feeling and the lack of concern for the common good, so that our democracy is in a critically compromised condition. Furthermore, the concentration of wealth essentially creates an isolated elite that feels entitled to determine "*the way things are and should be*." This strikes at the core of the American experiment.

A recent and pernicious development has been the notion that money equals speech and that corporations can be considered "*persons*" with the right to spend "*their*" money without limit with respect to elections. Strictly speaking this is not economic policy, but it is the consequence of putting corporations before people and of thinking that what is good for them is always good for the nation. Thus, in our democracy we have moved from one propertied man, one vote; to one man, one vote; to one person, one vote; to "corporations/persons" purchasing many votes and many legislators. Along with the disproportionate distribution of money, we now have a situation where huge amounts of money of unknowable origin are destroying the ability of elected officials to do their job for the public welfare, and where such money purchases access to legislators, it corrupts the entire democratic process.

Thirty large American corporations spent more money on lobbying than they paid in federal taxes from 2008 to 2010. In 1998, money spent on lobbying was $1.44 billion. It went to a high of $3.51 billion in 2010. The number of lobbyist went from 10,406 in 1998 to 14,861 in 2007. The current number is 12,220. The same firms spent an additional $22 million on donations to federal campaigns. The biggest contributors were defense contractors: Honeywell International (more than $5 million) and Boeing ($3.85 million). GE contributed $3.64 million. Twenty nine out of the 30 companies, through legal tax-dodging measures, did not pay federal income taxes from 2008 through 2010. They received tax rebates over those three years, "ranging from $4 million for Corning (GLW) to nearly $5 billion for General Electric (GE)." The total value of the rebates received was nearly $11 billion; combined profits during the same period were $164 billion. Daily Finance, The Tax Center, Dec. 17, 2011.

Today we face a deep national recession and the uncomfortable truth that there also exists a deeply embedded political "*inequality of access*" that is a consequence of poorly thought out economic policies. These policies have focused primarily on the short-term needs of large economic entities for purposes of market competitiveness at the expense of the nation's need for a viable middle class worker and consumer. The nation has put too many economic eggs in the basket of "*trickle down economics*" and financial services profitability, ignoring the long term cultivation of a productive working and middle class.

At Walmart, shoppers cutback on staples like milk and meat that had price increases of a few cents. At Saks Fifth Avenue, they paid full price for shoes and designer fashions at a rate higher than before the recession. As several big chains reported third-quarter results on Tuesday, the divide between hard-pressed and prosperous Americans remained a defining characteristic of the retail economy. NYT, Business Section, Retailers See a Split In Behavior of Shoppers, November 16, 2011.)

Misguided Ideas Lead to Income Stratification

The huge increase in economic inequality is not due simply to global competition or a neweconomy.

It is also the result of shifting economic ideas and policies since 1980 that promote a more laissez faire, free market philosophy. Sadly, these misguided ideas are often promoted through the use of scapegoating of some individuals, government agencies and organized labor.

Right wing economists misinterpret the reality of capitalism while romanticizing it at the same time. For example, a wholly "*free*" market exists only in the abstract or on a very localized or small scale. Furthermore, market forces alone cannot satisfy long term societal needs, especially those that address the general welfare, for example: environmental protection, infrastructure building and maintenance, education, national defense, social security, health care, etc. as they are the proper province of government.

"*Trickle Down*" economics suggests that if the wealthiest keep much of their income they will necessarily create jobs with their greater wealth. But the results from over 30 years of employing this philosophy to determine tax policy, especially the last 10 years, proves it to be a false notion and poor economic policy. In both the short and the long term, few jobs can be shown to be the product of allowing the super rich to keep proportionately more of their income than the middle class. On the other hand, tax cuts for the working and middle class are virtually always stimulative of consumer spending, and increased demand creates more jobs. Furthermore, current tax policy with its accelerated movement of wealth upward, away from the average citizen, makes her less able to purchase goods and services and thereby to generate economic activity within our borders.

In addition, this shift in economic philosophy has resulted in a steady stream of changes to the rules government has adopted – changes that have exacerbated the vast shift of wealth upwards and the resultant slowing down of economic growth nationally. These rule changes include the following:

- Cutting back on anti-trust enforcement and financial regulation and oversight. The big have become "*too-big-to-fail*" requiring tax-payer bailouts to prevent bringing down the entire global financial market.
- Supreme Court rulings establishing "*money as speech*." (Citizens United v. FEC-2010 and Buckley v. Valero – 1977) [The rulings denoting "*corporations as people*" are much older, starting in the late 1800's.]
- De-Regulation: Repeal of the Glass-Steagall Act that separated commercial and investment banking.
- Non-regulation: New financial instruments (derivatives, CDOs, CDSs, etc.) are exempt from regulation.
- Faux-regulation: Many government appointees are former executives of the industries they are meant to monitor and control -- and vice-versa in a revolving door between government and big business.
- The hollowing out of the *McCain-Feingold* Campaign Finance Reform Law applying reasonable constraints on election spending.
- Tax policy which is insufficient to support reasonable government spending and debt reduction.

The House passed H.R. 822, The Right to Carry Reciprocity Arms Bill, sponsored by Cliff Stearns (R-Fla.) and Heath Shuler (D-N.C.). This bill would allow gun owners, permitted to carry concealed weapons in their state to carry them to any state, even those where it is prohibited by law. The NRA has donated to both of these campaigns. According to law.jrank.org, the NRA has supplanted the AARP as Washington's most powerful lobbying group (Fortune Magazine study) with an annual budget of over $200 million - $35 million specifically devoted to the NRA Institute for legislative action. Additional large sums are also directed to support their agenda through PACs, individuals and the gun industry itself. The gun manufacturing industry itself has its own lobbying and political contribution network. Center for Responsive Politics.

Proposals for Addressing the Issue

Politics has always been dominated by the privileged - those with the means and ability to promote their ideas and interests. For example, the Founders, brilliant progressives that they were, were all wealthy white men. While it might be impossible to entirely cleanse the democratic process of the outsize influence of great wealth, it is S.I.D.A.'s position that this power be checked. Toward this end we suggest the following:

- Restoration of *Glass-Steagall* – separating commercial from investment banking
- Stronger support for increased anti-trust enforcement and the re-examination of corporate governance rules.
- Substantial strengthening of oversight of the financial industry (i.e. *Dodd-Frank* and support of a strong Consumer Financial Protection Bureau to counter balance the economic power of corporations as envisioned by Elizabeth Warren).
- Overturning the Citizens United decision of the Supreme Court through legislation, legal challenge or Constitutional Amendment, if necessary.
- At the very least, restoration of Clinton-era tax policies, i.e. allowing the Bush tax cuts to lapse.
- Increased investment in infrastructure and public education.
- Reduction of military expenditures.
- Restoration and improvement of the McCain – Feingold campaign finance law to reduce the cost of elections and reduce the impact of "*soft-money*".
- Continued support of small business development.
- Continued development and strengthening of the Affordable Health Care Act to eventually include truly universal coverage.
- Breaking up of banks that are "too big to fail" – just as AT&T was broken up. These banks are now bigger than before the economy today.
- Allow Courts to adjust mortgages on underwater homes in order to facilitate the prompt stabilization of individual families and communities.

Progressives want to see capitalism succeed for everyone and democracy requires that it does. We appreciate that the incentives, opportunities, creativity and rewards for productivity in our system produce the most robust of economies. But history has shown again and again that unregulated, unfettered capitalism runs off the economic rails and crashes through cycles of boom and bust. In addition, continually increasing wealth inequality threatens to create a politically and economically disenfranchised majority. This is difficult in most societies and intolerable in those that consider themselves democratic. Preventing society from becoming overly stratified requires a thoughtful application of meaningful regulation so that power, both economic and political, is not overly concentrated in too few hands.

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Addendum - Uncle Sam: Self-inflicted Wound?

For almost 240 years our country has led the world in the promotion of commerce and of democratically elected, self governance. The dramatic collapse of the U.S. financial model in 2008 that ended with the need for a taxpayer bailout of Wall Street followed by a severe recession, has revealed deeply disturbing fissures in the financial aspect of our economy and perhaps in our democracy itself. Unhappily, we are faced today with the possibility that these two are no longer mutually supportive; indeed, we may be dealing with a situation in which one may be destroying the other. How did we get to this impasse?

From the earliest days of our nation until the 1970s, with a few exceptions, as U.S. business expanded and grew so did the paychecks and the prosperity of the middle class. With few laws overseeing the early development of industrialization, our nation experienced tremendous growth during the 19th century but also, on average, the economy suffered one recession, depression or bank panic every twenty years until the Great Depression in 1929. However, because the economy continued to grow and people could move to other areas where jobs were available these downturns were bad but tolerable. Anti-trust and food and drug legislation, and the rise of labor unions at the turn of the 20th century marked the beginning of an effort to reign in some of the less desirable problems of unrestrained economic development. Through legislation that tempered wild speculation and provided an economic floor for unemployed and aged workers, FDR's many financial reforms dramatically reduced the frequency and duration of economic downturns, and ameliorated their worst effects on individuals in the United States, for most of the remainder of the 20th century.

In 1973, the Heritage Foundation, a Conservative think tank, was established to promote the ideas of "free enterprise, limited government, individual freedom, traditional American values and a strong national defense." Proliferating over the next twenty years, such Conservative think tanks, financially supported by the large corporate and business community, reintroduced those earlier economic notions of a laissez-faire, "free market" into American political and economic discussions. Lulled by the market moderating success of Depression era legislation, these neo-Conservative ideas were adopted by economists and politicians and ultimately came to have a deeply detrimental effect on government oversight as many of the post-Great Depression reforms and financial regulations were moth balled or ignored, culminating with the repeal of the Glass-Steagall Act and ultimately with the Wall St. collapse.

But why should such quintessentially "*American*" notions have had such a disastrous effect in 2008? For one thing, there is a fundamental flaw at the heart of this neo-free market theory: In the face of globalization competitive advantage evaporates. This theory quickly loses its effectiveness at prediction when dealing with large markets and huge businesses with less and less transparency. The tendency of all markets is to move toward profits and that creates incentives for those who do the financing to take more and more risk in speculative ventures, especially when using other people's money and when there is no downside to the speculator.

As the concept of a "*self-adjusting*" free market, able to respond most quickly and efficiently to circumstances, was allowed to dominate over the reasonable restraints and regulations that were put in place following the Great Depression, then self interest alone also crept back into the U.S. economic engine. Unfortunately unrestrained, unregulated market adjustments are often violent and crude; historically, we see it in the many booms and busts that characterized early capitalism. Sadly, under the influence of "free marketers," over the past forty years we have had a return to many of those nineteenth century market circumstances in which the economy runs off the rails for lack of reasonable restraint. Today's economy is huge: financially it operates on a global and electronically interconnected scale. A glitch in New York means a complete collapse threatened to be immediate, global, and terrible. Government, the only entity with enough money, was called in to rescue the new buccaneers.

Notwithstanding those who claim excess government spending was at fault, the Wall Street collapse in 2008 had out of control speculation at its heart in a way that was essentially no different from the causes of the Great Depression and its forerunners: 19th century depressions and financial panics. It was not too much government regulation but lack of it that encouraged and preceded the massive financial speculation and collapse.

Another problem over this same time period came with the increase in global commerce and economic competition from previously "*underdeveloped nations*." Faced with this competition, American businesses moved to places with cheaper labor and also began to use robotic labor. Thus, in spite of improved efficiency and output American workers became "*surplus*" labor and suffered a loss of pay and economic power. The consequences of the nation's now more laissez faire policies over the last 30 years include:

1) economic growth here at half the rate of previous decades;

2) millions of jobs lost overseas;

3) manufacturing industries, pioneered in the U.S, destroyed;

4) wages for the bottom 90% of workers remain stagnant;

5) income at the top rising over 300%

Our difficulties today are two fold: one is an actual decrease in manufacturing jobs here in the U.S. and the other is the overgrowth of financial services, which enables business but doesn't actually "create" anything. Neo-Conservative economic ideas have favored the financialization of our economy. Financial services dominated job growth, rather than supporting it, and now represent nearly 30% of our economy.

Globalization and a lack of appropriate national policies have allowed corporations to maximize profits, keeping them overseas, paying minimum or no U.S. taxes and suppressing the wages and benefits for American workers. Today that global market includes not only manufacturing workers but intellectual workers as well: physicians, technologists, teachers etc. All jobs, not just the jobs of manufacturing workers can be outsourced to cheaper locales; so, downward income pressure exists for nearly everyone.

Businesses, especially large corporations and financial funds and banks, have prospered; their profits have increased, and a change in the income tax code in 2001 exacerbated the shift of wealth to these corporate rich. But this also means that we collect less in taxes from them for local, state and federal coffers. Ironically, as our workers lose jobs and become more dependent upon government for support there is less and less money available. Small, local businesses have faired little better than individual workers because most of the tax advantaging laws apply to large corporations.

Under the guise of their being "job creators" these new tax cutting laws allowed profits to be retained and shifted more wealth upward to a relatively small percentage of the population. The top 0.01% of earners in this country now hold 40% of its wealth. But it is now clear that these "*job creators*," both people and laws, have not created jobs here in the U.S. For the ten years preceding the Wall Street collapse private job creation was the slowest of any time since the Great Depression in spite of the lowest tax rates! Moreover, it is clear that these free market Conservative economic policies can not work nationally for the long run because workers with inadequate wages cannot sustain a functioning modern economy.

It is also not true, as Conservatives claim, that government cannot create jobs. We have seen from Depression Era programs that it is possible for government to create jobs and to improve infrastructure in a way that generates immediate income for citizens, tax revenues for local government operations, and improved circumstances for private industry into the future. It was government support that created the rail and canal system of the 19th century, the dam generated electrical system of the 1930s, the interstate road system of the 1950s, the internet system of the 1970s. None of these was the sole production of private industry: government laid the foundation. It is also true that the huge disjuncture in job opportunities and wealth today make it increasingly difficult to move upward economically in our society. This creates despair for today and tomorrow and increases the likelihood of political instability.

Worst of all, the present massive income inequality combined with a Supreme Court decision equating money with speech is now allowing corporations and super wealthy individuals to eat away at our democratic system. Their economic power (to control jobs for example) buys them lobbying access to politicians. Their money buys a tsunami of ads and television time that drowns out the voice and needs of the electorate in favor of candidates who must mirror corporate concerns because they can't finance their own elections. Barney Frank and Ben Nelson are but two individuals who chose to leave Congress partly because of the difficulty in raising the massive amounts of money to counter opponents with unlimited PAC funds. But the bedrock of democracy is that every person has a voice that can be heard and that even minorities are protected. Today that idea is under real threat, and much of what passes for political activity is generated by anger at the perception that "*no one is listening*."

So we are facing the enormous challenge of re-inventing and reinvigorating a mature, middle-aged economy that is failing to provide work for millions of citizens. Job creation is task number one. We know that trickle down economics does not work, we know that lowering taxes on corporations and the super wealthy doesn't work and yet we are told again and again that they do. We can stand by as American workers make less and less until they are "competitive" with those in China and India, or we can reinvest in our citizens and in technologies and businesses for the future – a future with a tax base that can pay down debt.

We are warned that our nation remains at risk of losing itself economically and democratically. In his column in the New York Times on Friday, December 30, 2011,Paul Krugman, the Nobel prize winner economist, notes that a program of strict austerity in the midst of a deep recession results in slowed economic activity and great social pain and is not likely to accelerate our ability to pay down debt. We should consider Santayana's said, "*Those who do not learn from history are doomed to repeat it.*"

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