

We are engaged in a distasteful and ideologically warped national debate. All throughout this great land voices are raised against the ruinous generosity extended to people of limited means. We are angered by regulations, taxations and debts. The problems we have largely flow from angry policy- like that being suggested. Our predicaments are traceable to penny-wise and pound- foolish years of policy.

What does that mean?

We are angry about our generous welfare state. We are incensed by the levels of social program spending. The problem is that we live in a harder, harsher and less assisted America than the world has seen since the Great Depression.

If today's tax cutting and deregulatory suggestions worked, we would already be fine. They don't work and we are not fine. We need major investments in opportunity, infrastructure, health and education. We are systemically and massively failing the young. This is creating a loosening of social bonds and collective action at the hour of greatest need.

The percentage of national income, gross domestic income or GDI, allocated to wages and salaries, is down. The percentage of national income that goes to corporate profits is up. The percentage of these profits that find their way to tax revenues is down. The chart below, Figure 1, looks at shares in Gross Domestic Income, GDI from 1929-2010.

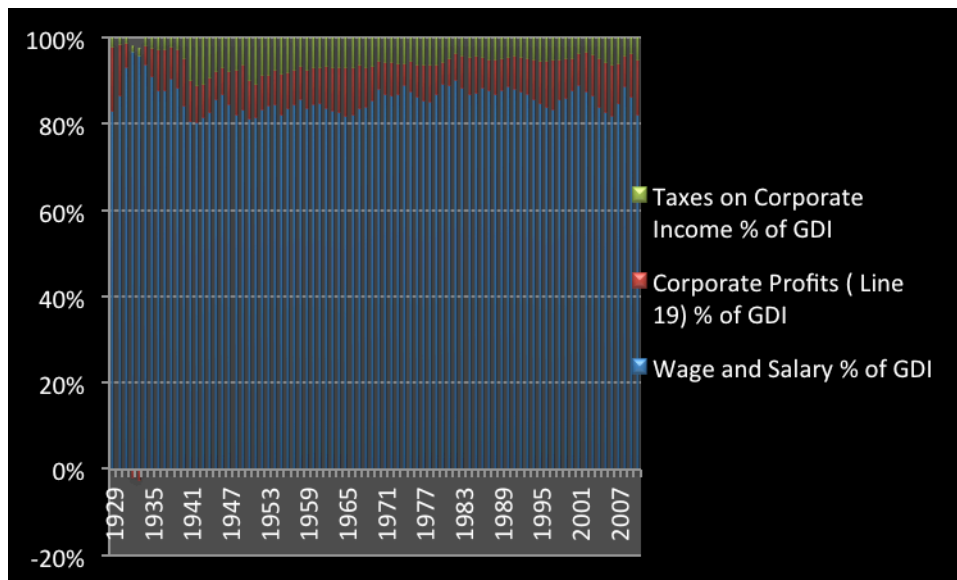


Figure 1 BEA Data Table 1.11 Gross Domestic Income Shares

We have seen a steady and merciless decline in the share of national wealth that goes to wages and social programs. At the same time, we have seen profits rise. This was less obvious during better economic times.

A shrinking portion of a growing pie is far easier to accept than a shrinking portion of a stagnant pie. The very low growth of the last few years has made the long trend far more visible. It has also made life harder and harsher for struggling groups, individuals and regions.

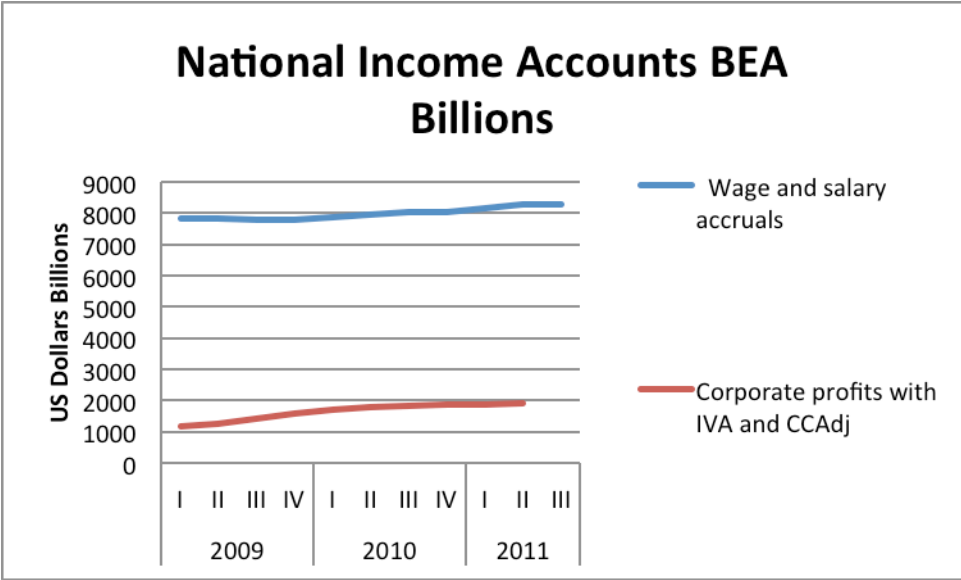


Figure 2 BEA Data Table 1.12

Figure 2 offers a closer more recent look at the trends displayed across the last 80 years in Figure 1. Across the last 2 years, we have seen a meaningful rebound in corporate profits and stagnancy in wages. The numbers above are not adjusted for inflation. Thus, real wages have actually either been flat, or outright declining, across the Great Recession. This is of central import in framing today’s political landscape and increasingly angry reaction.

Real wages take account of the rising cost of what we buy. If we take home the same number of dollars, or slightly more, in our paychecks, any increases in prices will erode what our incomes buy. Flat money wages nearly always mean falling real wages. The last few years were no different. Profits have nearly doubled from their recession lows. Wages have gone nowhere.

Rising profits and stagnant to diminished wages create rising inequality. Greater wealth is concentrated in fewer hands. This usually leads to concentrations of political and social power. Political processes get corrupted, influence is purchased and laws evolve to favor those whose money guides the evolutionary process.

Just as species evolve based upon their environment, so, too, political arrangements mutate with the legal and funding sources that define the environment. This results in declining taxation of the powerful and increasing disregard for the growing mass of people left behind by economic and political development. Thus, we expect to see rising poverty, political disenchantment and seething pockets of individuals fenced off from opportunity and affluence. Low and behold, this is just what we find in 2012 America.

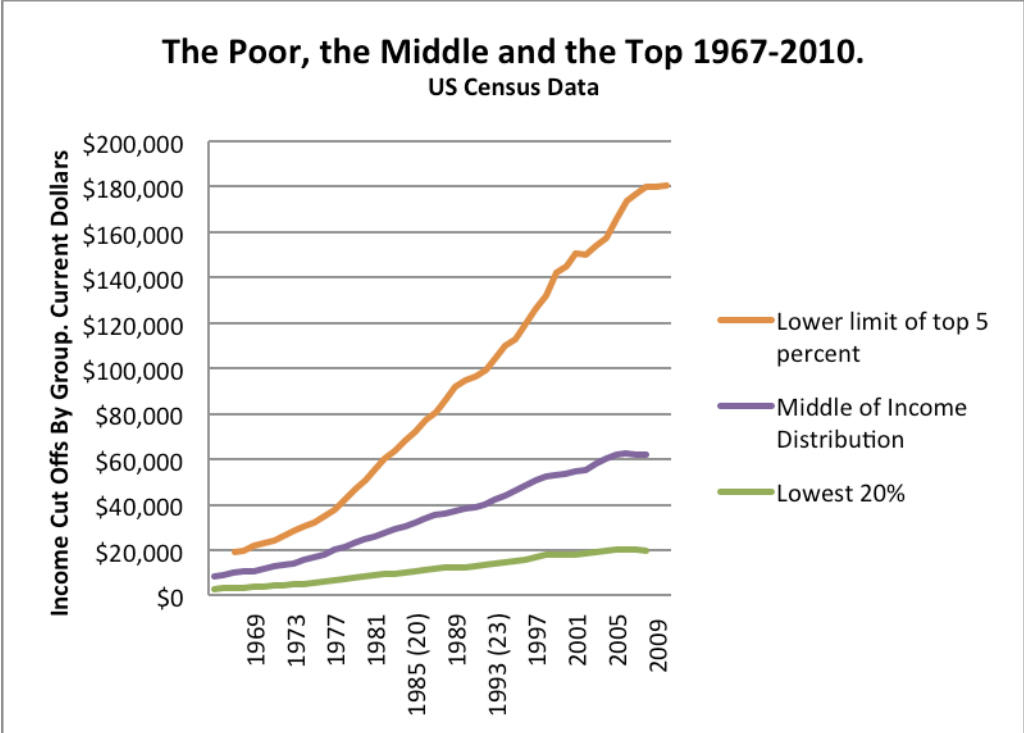
Inequality

Below is a chart depicting the actual numbers that describe what has been happening. I think this explains the level of anger and frustration that the American public is screaming out. This is not a

partisan rant. Try, as many of you might, to castigate it as such. Please, please, please. Look at the numbers. Consider what they convey and let the data influence your thoughts.

Whatever your political leanings on the issues, don't we all need to start with a taking of stock?

The rising anger takes many forms. For some, it inspires Tea Party activism. For others, Occupy Wall Street beckons. For many, personal relationships bear extra burdens, sometimes exploding. Many turn to substances, despair or hobbies. Sadly, some turn on each other. Many have been left behind by the way our economy and polity have grown and changed.



The graph above displays the relative performances of different quintiles of the US public. A quintile is a group of 20% of the public.

The top income group depicted above is the top 5% of income earners. The above graph charts the performances of different 20% or 5% groups. We are looking at how the wealthiest, poorest and middle groups did in terms of income over the last four decades.

This one little picture shows how different groups have done across most, all, or more than all of our lifetimes. We are looking at income here and it is always worth remembering that income is more evenly distributed than wealth.

It is plain to see, just above, that the richer you are, the better you have done and the poorer you are, the less well you have done. The top, wealthiest 5 percent saw their income go from \$20,000 per year to \$180,000 per year. This is an increase of 9 times.

The true middle, with exactly 40% of the country earning more income than them and exactly 40% of the country earning less than them, saw incomes go from \$10,000 to \$60,000. This is an increase of

nearly 6 times, which means the middle started out half as wealthy as the top and ended up one third as wealthy. Thus, the middle fell relative to the top.

The poorest 20%, by income, started out with about \$4000 in annual income and increased to \$20,000 in annual income. This group saw its incomes increase by about 5 times. The poorest started out one fifth as rich as the top and ended up one-ninth as rich. The top increased the most and gained a lot of ground against the middle and bottom.

Stop and let this sink in.

America is a profoundly less equal place today than she was at nearly any point in the last 43 years.

All this change in relative fortunes changes everything. Today we have fantastic luxury and grinding poverty. We have tens of millions receiving food stamps and tens of millions of dollars buying previously unthinkable - not to mention illegal - political influence. The biggest spenders are freely giving millions to candidates Super PACs.

One man from Nevada gave Newt Gingrich 250 times as much as the bottom 20% of Americans earn in a year. This donation was just to buy advertisements in the South Carolina Republican Primary of 2012.

Stories like these are anecdotal but pose difficult questions about how our inequality affects our political processes. A rival trying to raise money from small donors, at the \$50 level, would need 100,000 people to donate \$50. Great inequalities of income and wealth find their way into our politics.

Our shifting wealth distribution has changed who we are, how we eat, when we die, where we live and whom we know. It has also changed who is in power and how we conduct debates. Of course, who and how we tax has shifted. Much is made of the notion that wealthy individuals and big corporations pay too much in the way of taxes.

We know that the wealthy have done very well. Thus, the taxes being faced have not kept the wealthy from doing much better than everyone else. What many don't know is that the government, the Federal Government, has taken less from large corporations and wealthy people. Even less well known is that social spending has not run away. Our tax and spending systems has actively contributed to growing inequality. Take a look below.

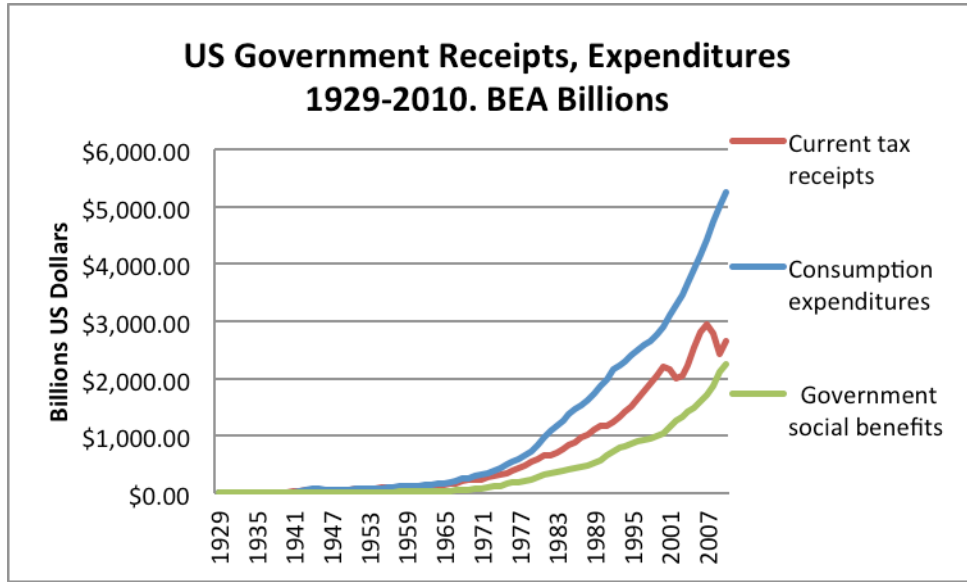


Figure 3 BEA Data Table 3.1

We see that tax revenues and spending have not particularly spiraled out of control. We can also see that social spending has not particularly outpaced tax revenue. What has increased, more than tax revenues, is spending. The rise in spending, without an offsetting increase in tax revenue, has been consistent with constantly rising inequality. Governments are in bad shape. This is true at the federal, state, county and local levels. The wealthy and corporations have not suffered.

This begs several questions.

- If social spending is costing less and government is spending more, how do we improve today's economy?
- Where are tax revenues coming from?
- Where is the spending going?

Let's take a look.

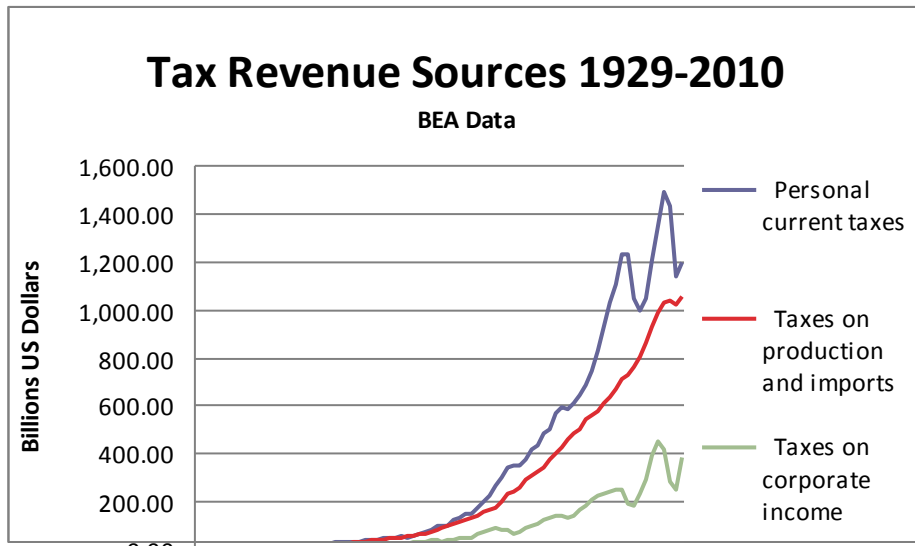


Figure 4 BEA Data. Table 3.1 Government Current Receipts and Expenditures.

It is fairly clear that taxes on corporations have been cut deeply and consistently. This helps explain a lot of the difficulty that the federal, state and local governments are in.

As the rising incomes of affluent Americans and large corporations have been less aggressively taxed, these folks have taken home more. This has left government with less money. The response has been to borrow more and look for cuts. All that borrowing is coming home to roost.

One way we can measure this is by looking at the total spending the government does on debt service. Below, we chart the rising interest payments made by the federal government on the national debt. Past years' missing tax revenues have become present and future interest payments.

Governments borrow from wealthy individuals, corporations and foreign entities. They then pay back this money with interest. This worsens inequality as the wealthiest groups get more than 100% of the taxes they didn't pay back in interest and principle on the loans they make to government.

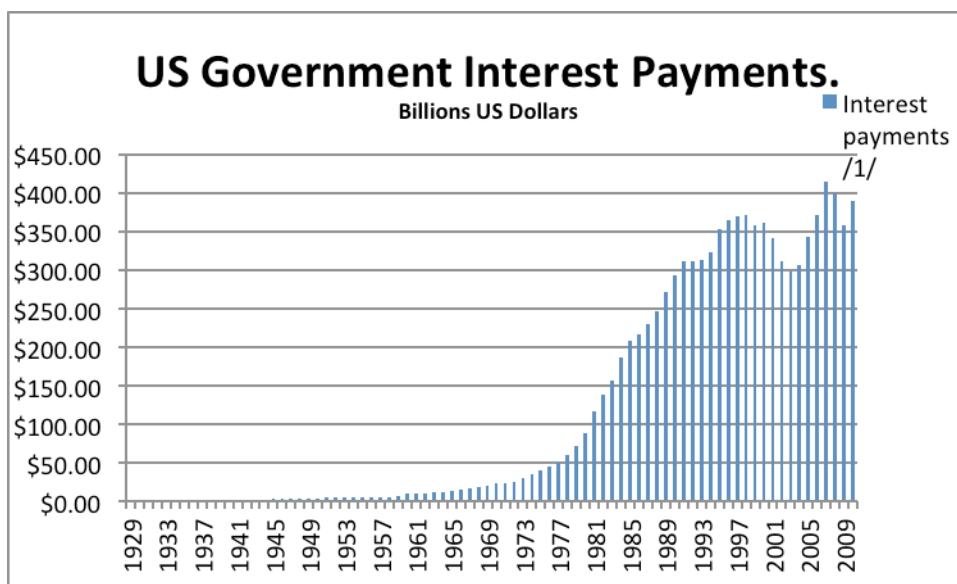


Figure 5 BEA Data Table 3.1 US Government Interest Payments

Who Pays the Price?

Unfortunately, the poor, the young and historically marginalized groups have suffered. Declining opportunity and rising inequality are particularly hard on the young and the poor. Often this is one group, not two groups. The poorest Americans are young.

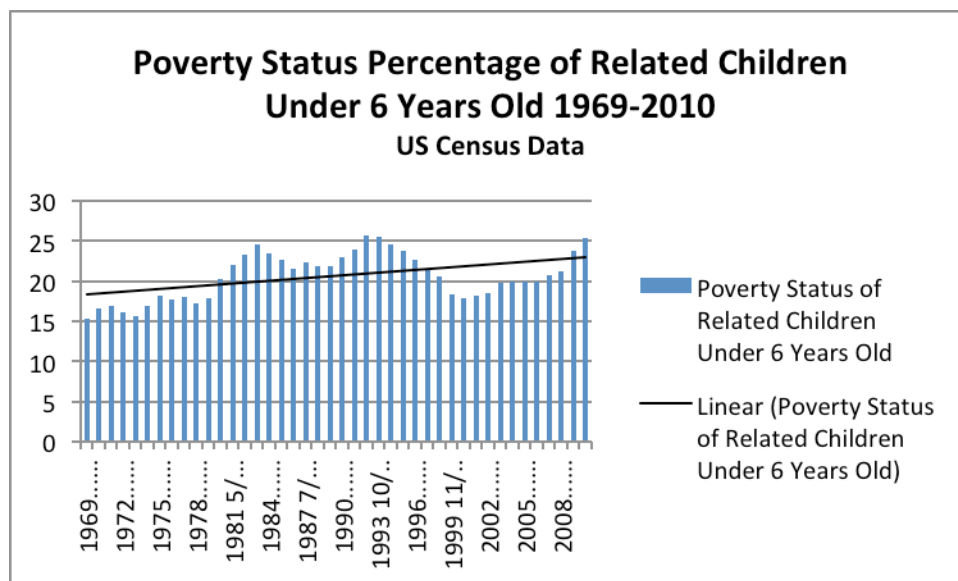
One of the most disturbing and least reported elements of the recent downturn has been the brutal damage it has done to younger Americans. The young are disproportionately bearing the brunt of bad ideas, failed policies, proud indifference to suffering and the lessons of history.

Our history and the world's history offer many lessons. With growing bravado, we are ignoring these lessons. We are following anger, fear and hunting for magic bullets and scapegoats. This never works and it always worsens tough choices and hard times.

There simply is no disputing that the wealthier you are the better you have been doing - on average. The mirror image is that the poorer you are the worse you are doing. Sadly the younger you are, the worse you have been doing.

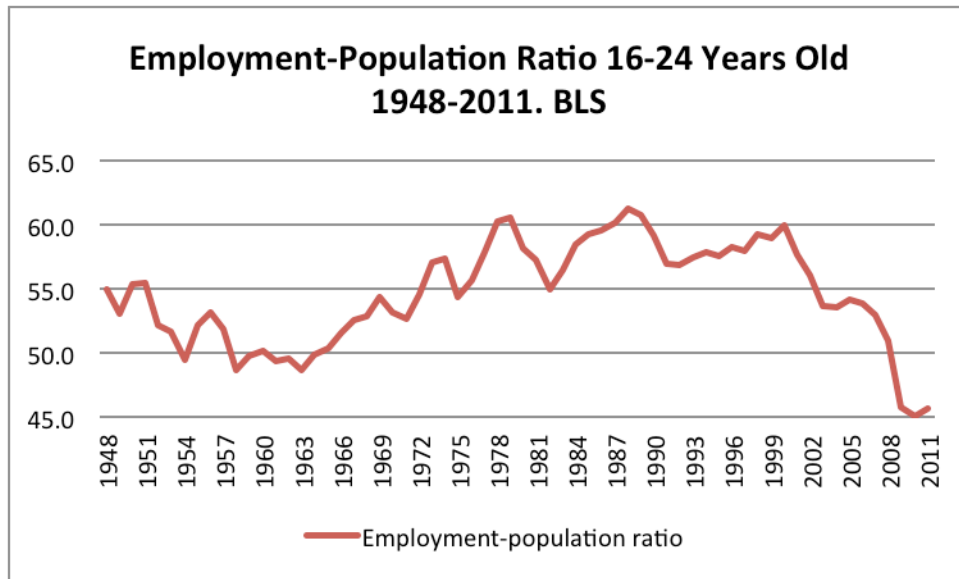
Poverty among young children has risen rapidly over the last few years. We have now lost many of the gains made during the War on Poverty programs begun during the later 1960s and early 1970s. The chart below uses US Census data on child poverty to examine the fall and rise of child poverty.

We see that 25% of young children are living in poverty. This means we are back up at the highest levels of the last 40 years.



These numbers speak to an everyday tragedy that traps millions. This is the untold underbelly of the American economy.

The young are our future. One in four parts of our future presently lives in poverty.



Another under-reported disaster of the Great Recession involves declining labor force participation among young Americans. The US Census, where the data in the above chart is found, classifies people 16-24-years-old as young. Younger people have been unable to find work. This has resulted in large declines in the percentage of young people who are employed.

The Employment-Population ratio measures how many people are in the labor force, employed or unemployed. Look at the dramatic drop in the employment ratio for young people across the past few years. We are at frightening historical lows. These lows illustrate that young people are being left out of our labor force. Those who can not get their hands on the first rungs of the ladder will have unique difficulty in climbing up into our fading middle class.

It is worth pausing a moment and looking at where we rank internationally. Many think we have lower unemployment than other developed nations. Figure 6 below makes clear that we rank near the top of developed nations in unemployment rate. The results of this are particularly difficult for many in the US.

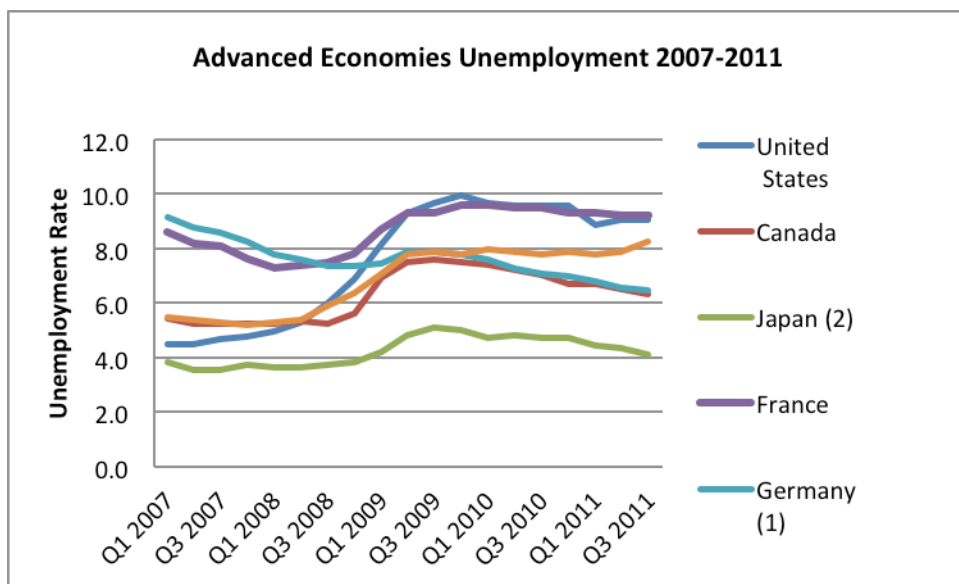


Figure 6 BLS International Comparison Research

We have among the least generous and shortest duration unemployment insurance programs in the US. This was always problematic for those affected. For the last several years, this has hit particularly hard as our levels of unemployment went from near the bottom of the developed nation's pack to near the top. Thus, we have high unemployment and little in the way of benefits.

Communities of Color

Communities of color have been massively hurt by the direction of economic change. This is true since the early 1980s and has become urgent and accelerated since 2008.

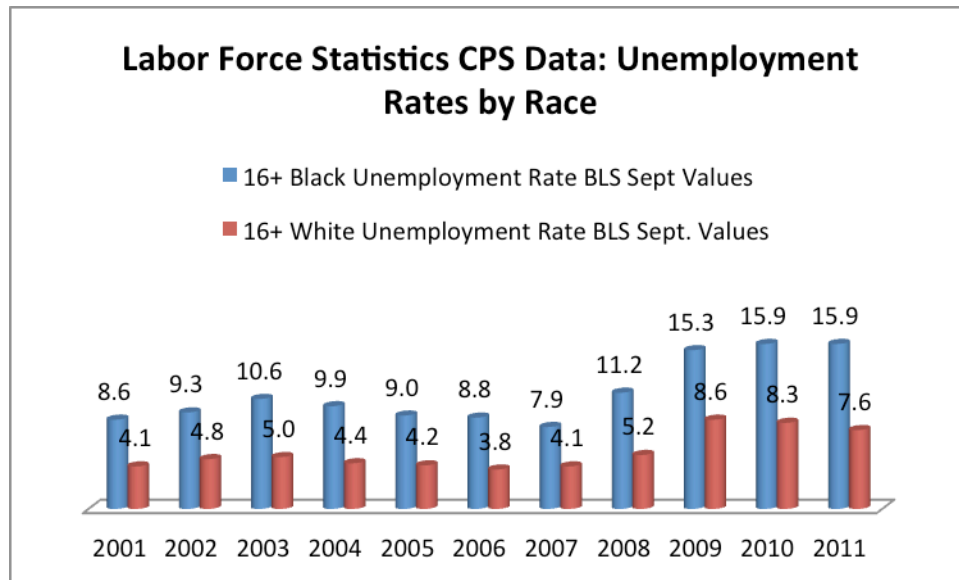


Figure 7 BLS Data

Figure 7 looks at black versus white levels of unemployment across the last decade. There is a clear and consistent pattern of significantly higher black unemployment. Across the last decade black unemployment has been consistently in the neighborhood of twice as high as white unemployment.

Long standing patterns of discrimination and marginalization often combine with generalized economic weakness to produce heavy suffering during downturns. The unusually long and deep nature of the present downturn has carved a deep scar through communities of color in the US.

Unemployment levels are clearly closely correlated. When unemployment rises for white it also rises for blacks. Likewise, when unemployment falls for whites it also falls for blacks. Like the young, communities of color shoulder a disproportional burden from the recent economic downturn. When we combine this with our historically and internationally stingy social safety net, we get a recipe for real suffering in communities of color.

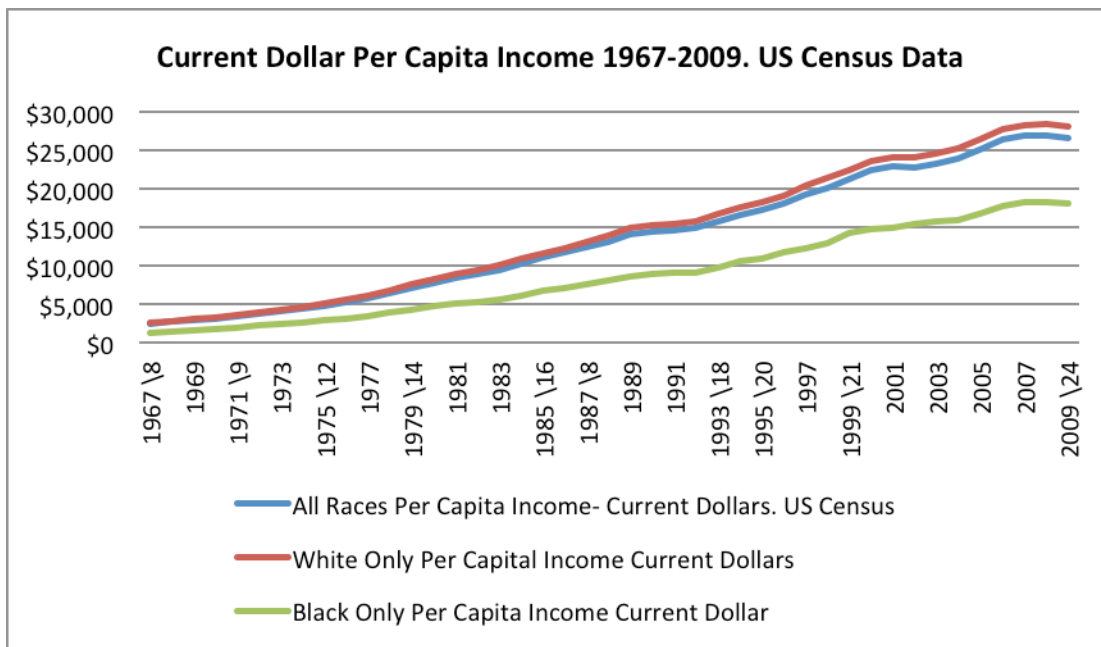


Figure 8. US Census Data

As with employment, so, too, it is with income. Black Americans have and continue to lag behind national averages and white Americans in regard to income. Figure 8 details the lower per capita- per person- income received by race. As inequality has generally grown across recent decades, we have seen a widening of the race gap in income per capita.

Growing inequality and poverty have contributed to large and rising differentials in income by race and ethnicity. Rising inequality, and falling opportunity, hit the most vulnerable groups the hardest. Unemployment and per capita income measure clearly display this pattern for communities of color.

Higher levels of unemployment and lower levels of earnings are problematic on many fronts. Lower employment and earnings levels contribute to higher poverty rates and lower levels of household wealth.

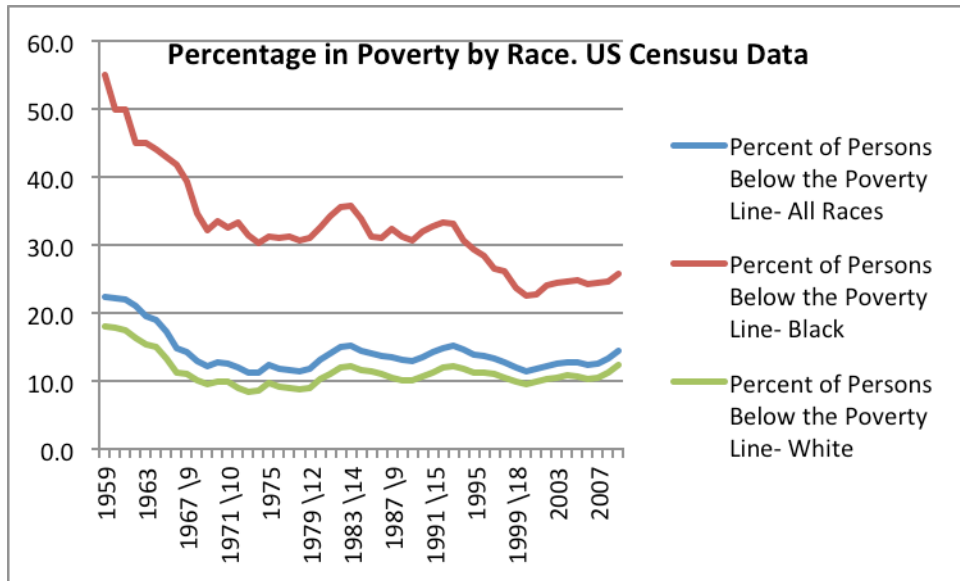


Figure 9 US Census Data

Figure 9 details a half century of poverty rates by race. We can clearly see the civil rights movement and great society programs of the late 1950s through the 1960s achieved great strides in reducing poverty for all Americans. It is also clear that civil rights and social spending programs were able to significantly reduce the much higher poverty rates historically prevalent in communities of color.

It is very troubling that across the last decade, all poverty rates have risen and reversed a long term positive trend toward falling poverty rates in the US. The rise in poverty rate in the black community is particularly problematic. We now have historically and internationally elevated poverty rates overall and for black Americans. We can see this as resultant from lower employment and income earnings. Clearly there are structural and particular issues as well. The flip side of higher poverty rates are lower wealth levels.

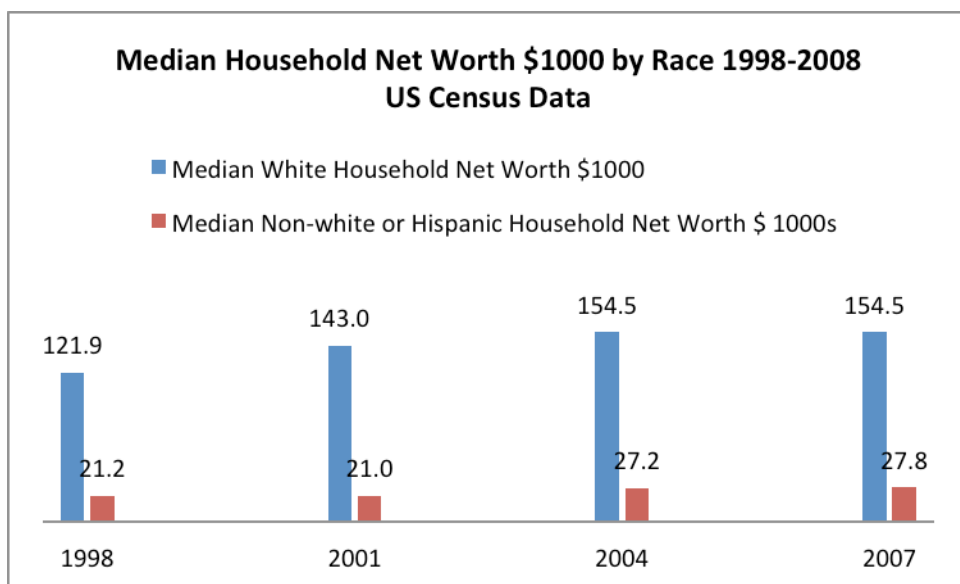


Figure 10 US Census Data

The wealth gap between the affluent and the majority has swollen over recent decades. Another wealth gap, between whites and non-whites has also increased dramatically. Using the US Census surveys of the last few available surveys, we find that wealth is persistently and unevenly distributed by race in the US.

Communities of color have significantly lower levels of median household net worth.

Figure 10 details the truly stark differences in median household wealth by race over the last decade. This dramatic graph seriously understates rising inequality. The period since 2008 has seen plummeting net wealth for all groups. Communities of color have been particularly hard hit by joblessness and home foreclosure.

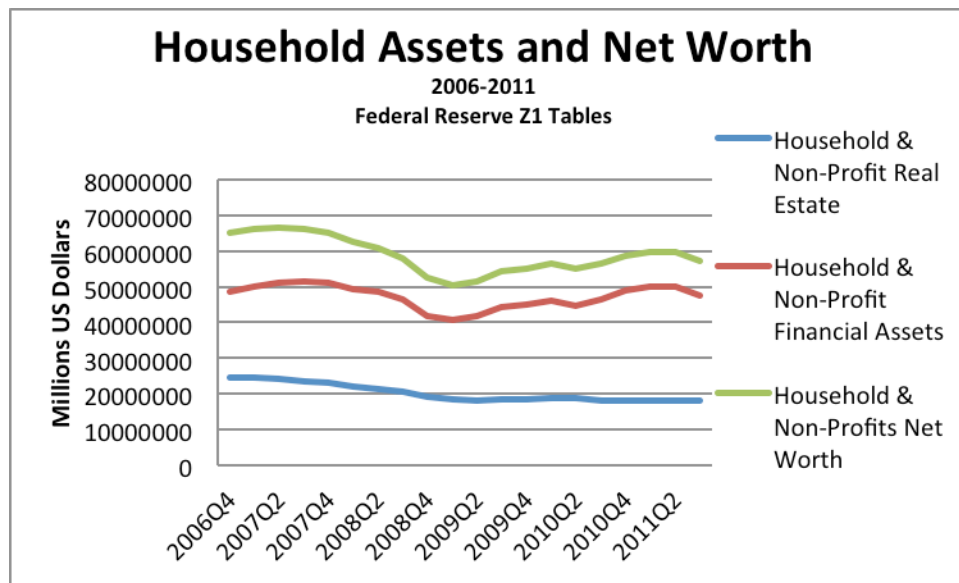


Figure 11 Federal Reserve Z1 Table.

Lower income households have homes, residential real estate, as their only significant asset. Figure 11 shows us that homes have fallen further in value than financial assets. This means that the present downturn hits lower middle income communities much harder than more affluent communities.

In addition, we see that net worth for American households has come down significantly over the last few years. Black and Hispanic households have been disproportionately affected by the foreclosure crisis. This chart makes very clear that lower income people, particularly lower income communities of color, are in the midst of a very severe economic downturn.

Lessons Learned

This short work attempts an examination of the conventional “wisdoms” based on a whirlwind tour of publically available statistical data on the US economy. The hope is to motivate a different kind of discussion about where we are as a nation and where we need to focus resources and attention.

Our tour reveals a state of rising inequality and declining opportunity. We are leaving behind more people than we are making room for as the economic flood waters rise.

Patterns of vital intellectual and policy importance begin to emerge as we survey the historical statistics. We know that bad economic times hit us all very hard. It is increasingly clear that rising inequality of

wealth and income have framed the economic experience of the vast majority of Americans for several decades. We can that this is shaping our politics and our lives.

It is plain to see that lower income Americans, the young and communities of color have been particularly hard hit. Our responses to crises and political debates are frighteningly unhinged from the data presented in this short survey, which begs several very basic questions.

- Why are we not discussing and focusing on these issues?
- What happened to our political process?
- How can we leave so many behind?