

The Progress Report

What's a Fair Distribution of Wealth?

Delusional Democracy Breeds Delusional Prosperity

Economic justice would naturally lead to less economic inequality. But meanwhile, why does the U.S. inequality profile look so much like that of a third-world dictatorship? Joel S. Hirschhorn offers some details.

by Joel S. Hirschhorn

Contrary to popular thinking, many revolutions have not occurred because of a widespread desire for freedom or democracy. They have been driven by mass hatred and rejection of economic inequality. The poor have revolted against the rich for eons. For much of human history the lack of freedom was linked to economic inequality. Those in power limited personal freedom so they could control the economy and prevent a fair distribution of wealth, allowing a relatively few to amass riches. Things change. If there is a special American capitalist genius it is maintaining a system with considerable freedom but where economic inequality is staggering. Our freedom subverts the need to revolt against the economy.

The unwritten theory seems to be that if citizens have personal freedom they will ignore economic inequality. And it seems to be working well here in the United States of Affluence. Aristocratic power-economic elites that really run the country have done more than shred the structure of our democracy under both Republican and Democratic regimes. They have engineered an economic system that is destroying the vaulted middle class, creating a simpler two-class system: the wealthy and the working poor. Americans are kept in a distractive state of consumer borrowing and spending. They never use their consumer power to challenge the system. They are continually fed economic lies. They are mostly blind to their delusional democracy and its flip side – delusional prosperity.

A new report from the Center for Economic and Policy Research: "Is the U.S. a Good Model for Reducing Social Exclusion in Europe?" by John Schmitt and Ben Zipperer is just the latest in a long march of largely ignored studies that reveal what the establishment does not want Americans to know.

What should be the talk of the town throughout the nation is rising economic inequality. Every time you hear some news report and statistic about how well the American economy is doing stop and ask yourself: But what's the story on economic inequality? Is economic prosperity being shared? Is wealth disproportionately flowing to the wealthy, not just here but also increasingly exported to

foreign super-rich?

This new report presents powerful data on net disposable household income inequality. Data on the Gini coefficient is the most common measure of income inequality. This coefficient varies from zero – perfect equality – to one – just one household having all the income. Data for 28 OECD countries over the period 1990 to 2000 showed that the U.S. had the second highest coefficient, at 0.37. Only Mexico, at 0.49, was higher; it is the simplest measure of just how completely screwed up Mexico is and why its citizens, rather than revolting, are fleeing to the U.S (though they tried for political change in their recent election). But as the American coefficient rises, where will Americans run to?

Among European nations, the United Kingdom had the next highest level of inequality at 0.35, followed by Ireland and Italy, both at 0.33. Countries with the lowest levels – the greatest equality – were Denmark at 0.24 and Belgium, Finland, Germany, the Netherlands, Norway and Sweden at 0.25.

There are other useful ways to measure economic inequality that shed more light on this issue. One is the distance between the 10th, the 50th, and the 90th percentiles of the national income distribution. Greater distance between points in the distribution signifies greater overall inequality. In the U.S, the 10th percentile household earned about 39 percent of what the median household earned, while the 90th percentile household earned about 210 percent of the median. The American 10th percentile earner was further below the median than everywhere else except Mexico (28 percent). In other words, being poor in Mexico is much worse than being poor in the U. S. That's why illegal immigrants risk so much to get here. Europeans mostly do better than us: Italy (44), Ireland (46), and the United Kingdom (47), and even better in Norway (57), Sweden (57), and the Netherlands (56). Being poor in Europe is better than being poor in the U.S.

As to the 90th percentile household, here the wealthy do very well at 210 percent of the median, with Mexico even worse at 328 percent, and the rich do slightly better in Luxembourg (215), and the United Kingdom (215), but much worse in Denmark (155), Slovakia (162), Finland (164) and the Netherlands (167).

Finally, the ratio of the 90th and 10th percentile earnings is another measure of income inequality, with Mexico at 11.55 having, by far, highest inequality. The United States (5.45) was next, well ahead of the United Kingdom (4.58), Australia (4.33), and Canada (4.13). The countries with the lowest "90-10" gap were Norway (2.80), Denmark (2.85), Slovakia (2.88), Finland (2.90), and the Netherlands (2.98). The point to remember is that there are fine democracies with far more economic equality than we have.

An American myth is terrific upward economic mobility. The report presents data on the share of low-income families (where low-income was defined as earning less than half of the national median income) that escaped from low-income status over a three-year period in the mid-1990s. The U.S. had the lowest share of low-income workers that exit their low-income status from one year to the next (29.5 percent). In contrast, rates in several European countries are greater than 50 percent: Ireland (54.6), the Netherlands (55.7), the United Kingdom (58.8), and Denmark (60.4).

What about longer-term intergenerational mobility? Researchers have investigated the degree of correlation between fathers' and sons' incomes at different points in time. Intergenerational income coefficients quantify the economic advantage conferred by parents to their children. The higher the coefficient, the more likely are children born to poor parents remaining poor later in life. One study

found the highest degree of economic mobility was in Germany (0.12), followed by Canada (0.18) and the United Kingdom (0.27). In contrast, intergenerational economic mobility was lowest, by a large margin, in the United States (0.45). Other studies also found a relatively high coefficient for the U.S., with high levels also in South Africa and the United Kingdom, but much lower levels in Canada, Finland, Germany, Norway, Denmark, and Sweden.

The report notes that “What appear to be small differences in intergenerational income coefficients actually imply substantial differences in economic mobility. Take, for example, the case of a family with earnings that are half of the national average. Other factors held constant, if a country has a correlation coefficient for parent-child earnings of 0.20, we would expect that descendants of the poor family would reach the average national earnings in less than two generations, or about 25 to 50 years. In countries with a coefficient of 0.45, a typical level in the estimates for the United States (and, in some cases, for the United Kingdom), however, descendants of the poor family would not, on average, close the income gap with the average family for more than three generations, or about 75 to 100 years.”

It's worth reading what the new report concluded:

“The U.S. economic and social model is associated with substantial levels of social exclusion, including high levels of income inequality, high relative and absolute poverty rates, poor and unequal educational outcomes, poor health outcomes, and high rates of crime and incarceration.

At the same time, the available evidence provides little support for the view that U.S.-style labor-market flexibility dramatically improves labor-market outcomes. ...The data also appear to contradict the belief that greater economic mobility in the United States can somehow compensate for greater levels of inequality and "social exclusion." Despite popular prejudices to the contrary, the U.S. economy consistently affords a lower level of economic mobility, both in the short-term (from one year to the next) and in the longer-term (across generations), than all the continental European countries for which data are available.”

The hallmark of delusional prosperity is a widespread and stubborn belief that people who work hard will prosper because of so much economic opportunity. Yet data continually show that working- and middle-class Americans are not benefiting anywhere near the extent that wealthy Americans are. We may be a nation with great personal freedom, but we no longer have an economy in which macro-prosperity is shared. Like they say, the rich really are getting richer and everyone else is getting poorer. Fixing American democracy also means fixing our economy. Otherwise we are headed towards a class struggle of monumental proportions. Voting against “establishment” politicians in both major parties is a key way for Americans to “revolt” against the political system. There is no comparable way to rebel against our cruel economy, except to leave it.

The long-term trend in American economic inequality is clear. The government has measured family or household inequality since 1947. In the post-World War II era of 1947 to 1968, the coefficient decreased. In other words, in that period of prosperity, economic inequality decreased; there was real upward economic mobility. Not coincidentally, during that period the top marginal federal income tax rate was 90 or 70 percent. The coefficient dropped from 1947 to 1969. It remained stable from 1973 to 1980. Since around 1980, the coefficient has risen pretty consistently, under President Reagan, under Bush I, under Clinton, and under Bush II. The government uses pre-tax income, making the coefficient numerically higher than disposable income; it has risen from 0.35 in 1980 to 0.46 more recently. Experts believe that a coefficient of

0.5 likely precipitates social unrest. So the national mood of political discontent and disgust with the two-party duopoly is consistent with economic reality.

When will the Second American Revolution begin? How much more economic misery will it take? Maybe just a little more will bring the American population to the tipping point. We can hope.

Joel S. Hirschhorn's new book is [Delusional Democracy – Fixing the Republic Without Overthrowing the Government](http://www.delusionaldemocracy.com); he can be reached through www.delusionaldemocracy.com; he welcomes comments on his thinking.

Also see:

[A Classic: Fair Shares](http://www.progress.org/archive/barnes24.htm)

<http://www.progress.org/archive/barnes24.htm>

[Natural Capital: Key to Economic Justice](http://www.progress.org/archive/cd19.htm)

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[Jeff Gates on Wealth Redistribution](http://www.progress.org/gates02.htm)

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