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#451 - The Big Problems, Part 2: Positive Feedback
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This week Congress is expected to finish dismantling 25 years worth of environmental laws (though they have reserved the right to come back later to undo more). Precisely what form the outcome will take is unclear, though it will almost certainly be a serious setback for environmental protection. In any case the visible process is what seems most important. As the NEW YORK TIMES said, "All over the Capitol, legislators are considering changes to the principal laws that govern mining, grazing, logging, toxic wastes, water quality, endangered species, and pesticides, in each case considering proposals to make the laws more favorable to industry."[1] It seems clear that industry (the word the TIMES uses for "corporations") has firm control of Congress.

This is not a partisan attack on the environment; both political parties are participating to the best of their ability. The TIMES reports that "Congressional Republicans, aided by many conservative Democrats, intend to limit sharply actions by the E.P.A. (U.S. Environmental Protection Agency), the Interior Department, the Energy Department and any other agency involved in environmental programs."

For example the House Appropriations Committee has recommended cutting $2.3 billion (or 32%) from the EPA's budget. The TIMES gives the flavor of the coming changes: "The subcommittee removed money for the agency to enforce air pollution permits, to regulate toxic air pollution from oil refineries, to encourage tough state automobile inspections, to require accident prevention plans in the chemical industry, to limit pollution from cement kilns, to encourage state car-pooling plans, to gather and publish data on chemical use, to protect wetlands, to set water quality guidelines for the Great Lakes, to write new industrial water pollution regulations, to issue stormwater runoff rules, to control sewage overflows into rivers, and much more." As the TIMES said, "Some of the proposals are breathtaking in their potential effect."

How can the two major political parties go down this road without fear that the public will throw them out of office? Ask yourself, what alternatives does the public have? To put it bluntly, none.

In truth, the election process in the U.S. has fallen under the control of a small corporate elite. Regardless of party affiliation, this small group of people now provides roughly 75% of the funds needed for most federal and state election campaigns, thus giving a tiny fraction of the American people the power to elect a Congress that then fulfills the wishes and needs of the few.

What is known about the financial power of this corporate elite? The TIMES recently described it this way: "Federal Reserve figures from 1989, the most recent available, show that the wealthiest 1 percent of American households... owns nearly 40 percent of the nation's wealth."[2] "Further down the scale, the top 20 percent of Americans... have more than 80 percent of the country's wealth, a figure higher than in other industrial nations."

So 40% of all privately-held assets in the U.S. are held by only 2.5 million people. These are the truly wealthy. Eighty percent of all U.S. assets are held by 50 million people, the well-to-do. And the remaining 20% of U.S. assets are shared among the remaining 200 million Americans.

If the total net worth of the U.S. is 23 trillion dollars[3] and if it is divided as the TIMES describes it, then it breaks down like this: 2.5 million people each have average (mean) net worth of $3.7 million; another 47.5 million people each have an average net worth of $368,000; and the remaining 200 million Americans each have an average net worth of $23,000. (Net worth is assets that remain after debt has been subtracted.) Within the bottom 80% of the population, net worth is further skewed by race. In 1988, whites had an average (median) net worth of $43,280, Hispanics had an average net worth of $5520, and African- Americans had an average net worth of $4170.[4]

If America were the land of opportunity that most Americans like to think it is, these figures might not be cause for concern because many people might work their way out of a bad situation. But in actual fact, as time passes the rich are getting richer and the poor are getting poorer, and there seems to be nothing to prevent the gap from continuing to widen. For example, in 1969, 12.1 percent of Americans lived in poverty; by 1992 the figure had risen to 14.5 percent, despite the fact that average per-person income (adjusted for inflation) had increased 65% during those years.[5] During 1993, a bountiful year for the economy, the top 40% of Americans saw their incomes increase, but the other 60% lost ground: "While incomes rose for the most affluent two-fifths of the nation's households as the economy expanded in 1993, the rest of the country suffered from falling incomes, after adjusting for inflation," the NEW YORK TIMES reported.[6] Furthermore, during 1993 an additional one million Americans fell below the poverty line (defined as an income of $14,763 or less for a family of 4).[7]

There are at least 7 trends driving the nation toward greater inequality:

1) Automation is reducing the number of high-wage blue-collar jobs. The better-paying jobs are increasingly held by better-educated people. For example, machine tools guided by microprocessors have reduced the need for blue-collar workers on the shop floor, but have increased the demand for skilled programmers. As economist Paul Krugman points out, in 1979 a young man with a college degree earned only 30 percent more than one with a high school diploma; by 1989 the premium had jumped to 74 percent.[8] Thus the wage gap between highly-educated workers and less-educated workers is growing.

2) Corporations are moving jobs overseas because they can hire 47 workers in Bangladesh, India or Vietnam for the price of one U.S. worker.[9] Even the threat of such moves is sufficient to exert strong downward pressure on U.S. wages. As a result of automating, and moving jobs overseas, corporations are creating jobs in the U.S. that are temporary, part-time, and without benefits (pension plans and health- care).

3) Taxes on the rich and on corporations dropped dramatically in 1986, [10] rose slightly in 1993, and are now dropping again as the present Congress rewards those who paid to put them into office. The greatest cuts are expected in inheritance taxes[11] (the main tax on wealth in the U.S.) and in the capital gains tax (a tax cut which will benefit only the wealthiest 7% of all taxpayers; 93% of taxpayers have no capital gains income at all).[12]

4) Trade unions, which exerted strong upward pressure on wages from the 1890s through the 1960s, have declined in numerical strength and bargaining power. Partly this has resulted from American firms opening plants overseas. For example, if U.S. workers strike for better wages or conditions at a Caterpillar tractor plant in Illinois, Caterpillar can ramp up production overseas and wait out the strike, depriving U.S. workers of their work-stopping power, and ultimately resisting their demands.

5) The present low minimum wage, which is $4.25 an hour. If it remains at this level in 1996, it will be at a 40-year low in terms of purchasing power.[13] President Clinton says he wants to raise it 90 cents over 2 years, but Congress has vowed to stop him.

6) The share of national income that goes to workers has begun to decline, relative to income received by owners of capital (from dividends and investments). For 150 years, workers have consistently taken home 2/3rds of the nation's economic output in the form of wages, salaries and benefits. Owners of capital (like stocks or bonds, or small businesses) have received the other third in the form of dividends, profits, and investment gains. Now even this time-honored relationship is changing, as the share of national income shifts from workers to the owners of capital. "The strongest evidence so far that workers are receiving less of the fruits of their

labors came last week, when the Labor Department revised its estimates of wage and compensation growth. After adjusting for inflation, average wages and salaries apparently fell 2.3 percent over the 12-month period that ended in March. Productivity rose 2.1 percent during the same period," the NEW YORK TIMES reported June 25, 1995.[14]

"Include fringe benefits, and the current numbers look even worse for the wage-earners. Overall compensation fell 3 percent in the 12-month period through March, as companies and state and local governments provided fewer health care benefits," the TIMES reported.

7) Elections are costing more each year, and they already cost so much that only individuals with serious money, or with access to serious money, can run. This means the political system is for the most part closed to people with ideas different from the majority of Republicans and Democrats in Congress today.

What we seem to have is positive feedback --public and private policies are pumping money upward in the population, providing a fortunate few people with a fabulous reward but leaving the majority poorer each passing year. Sufficient monies are sent back down from the top to guarantee the re-election of officials dedicated to keeping the big pump running, pushing benefits ever upward.

Stanford University economist Paul Krugman says, "There is no purely economic reason why these growing disparities cannot go on for decades. But they may eventually trigger a social crisis... The ultimate effect [s] of growing economic disparities on our social and political health may be hard to predict, but they are unlikely to be pleasant."[15]

--Peter Montague

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[1] John H. Cushman, Jr., "G.O.P.'s Plan for Environment Is Facing a Big Test in Congress," NEW YORK TIMES July 17, 1995, pgs. A1, A11.

[2] Keith Bradsher, "Gap in Wealth in U.S. Called Widest in West," NEW YORK TIMES April 17, 1995, pgs. A1, D4.

[3] William Proxmire, "How Rich We Are! And Yet How Poor [Letter to the Editor]," NEW YORK TIMES October 22, 1994, pg. A22, gives the $23 trillion figure.

[4] The median net worth figures by race are 1988 figures; see Robert Pear, "Rich Got Richer in 80's; Others Held Even," NEW YORK TIMES January 11, 1991, pgs. A1, A20.

[5] Proxmire, cited above, says per-capita income (adjusted for inflation) grew 3-fold during the last 50 years; this means it grew an average rate of 2.2% per year. From this we can calculate that during the period 1969 to 1992, per-capita income grew 65%; see REHW #199.

[6] Bradsher, cited above in note 2, pg. D4.

[7] Jason DeParle, "Census Sees Falling Income and More Poor," NEW YORK TIMES October 7, 1994, pg. A16.

[8] Paul Krugman, "Long-Term Riches, Short-Term Pain," NEW YORK TIMES September 25, 1994, pg. F9.

[9] Sir James Goldsmith, THE TRAP (New York: Carroll & Graf Publishers, 1994), pgs. 25-52.

[10] Donald L. Barlett and James B. Steele, AMERICA: WHO REALLY PAYS THE TAXES (New York: Simon and Schuster, 1994).

[11] Bradsher, cited above in note 2, pg. D4, reports, "As part of the contract with America tax provisions, the House on April 5 approved an increase in individuals' exemptions from the estate tax, which is the main federal tax on wealth. By the Treasury's estimate, this would cut in half the number of people subject to the tax, to one-half of 1 percent of the estates of those dying each year."

[12] Barlett and Steele, cited above in note 10, pg. 30.

[13] "Clinton Proposes Minimum Wage Hike," FACTS ON FILE WORLD NEWS DIGEST, February 9, 1995, p. 87.

[14] Keith Bradsher, "Productivity Is All, But It Doesn't Pay Well," NEW YORK TIMES June 25, 1995, pg. E4.

[15] Paul Krugman, cited above in note 8, pg. F9.

Descriptor terms: congress; legislation; contract with america; epa; republicans; democrats; income; wealth; poverty; taxation; corporations; environmental policy; inequality; free trade; labor unions; minimum wage; money in politics;