Center for American Progress

Is Redistributing Wealth a Bad Thing? *You Betcha!*

Scott Lilly explains why he agrees with conservatives who worry about income distribution and class warfare because it's at the core of our economic crisis.

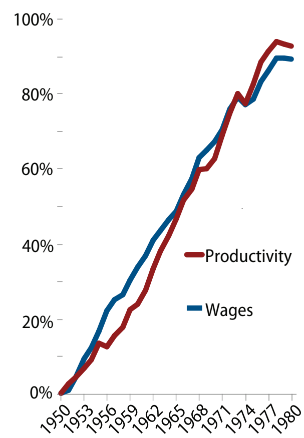
Scott Lilly

Our nation was just treated to an entire weekend of conservative commentators talking about the evils of income redistribution and class warfare. For once they are on the money! Wealth redistribution is not just a bad thing—it is at the core of the current economic crisis. Let me explain.

For many years in this country it was understood that as worker productivity rose, the benefits of that increase should be shared equally between workers and their employers. That is exactly what happened during the 30 years between 1950 and 1980. Worker productivity rose by 93 percent during that period, and wages rose by 89 percent. It wasn't that the corporate leaders of that period or Presidents Truman, Eisenhower, Kennedy, Johnson, Nixon, Ford, and Carter were socialists, or even that some of them had a particular commitment to economic equity. They simply respected one of the cardinal rules of economic growth—if you want output and profits to grow, you have to have consumers with the buying power to purchase those products.

Growth of Hourly Productivity and Hourly Wages

1950 to 1980



That is precisely what failed to happen in the years leading up to the stock market crash of 1929 and the Great Depression that followed shortly thereafter. During the 1920s, high productivity gains were accompanied by declining wages and falling income for the vast majority of American consumers. The past eight years have not been quite that bad, but they are markedly similar.

Since 2000 the productivity of American workers has increased by 20 percent, while the wages of the average worker have grown by less than 1 percent. Was the savings made by employers from paying lower wages passed on to consumers in order to strengthen the competitiveness of American produced goods and products? The answer is no. But there was a remarkable bonanza in the income of businesses and high-income individuals during this period. Between 2000 and 2006, corporate profits grew at an average rate of more than 10 percent a year—more than five times the average rate of growth in corporate profits during the previous 50 years. Corporate profits as a percentage of national income skyrocketed from around 9 percent to more than 15 percent during the same period—higher than at any point in the past half century.

Well-to-do individuals also did extremely well. Based on data prepared by the Internal Revenue Service from tax returns filed during the post-9/11 recovery (2002 to 2006), household income grew by $863 billion during the period. The 15,000 families at the top of the income scale saw their annual incomes go from about $15 million a year to nearly $30 million. They alone accounted for more than 25 percent of all of the growth in income for the entire country. The remaining 1.7 million families in the top 1 percent of households accounted for nearly another 50 percent.

The bottom 90 percent of families accounted for only 4.7 percent of that growth, which went entirely to the top 20 percent of this group. Families in the middle of the income spectrum actually lost ground.

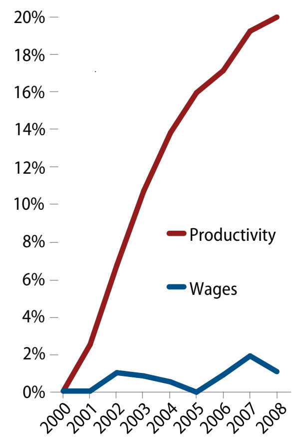
How do businesses sell that 20 percent increase in output that occurred as a result of productivity growth since 2000? Who are the buyers? How many homes and cars can people making $15 million or more each year own or maintain? The answer is that an economy that distributes its profits in such a skewed manner is in serious trouble, which explains why the Bush administration and the U.S. Federal Reserve concocted a temporary cure that felt like a free lunch in the short term but was devastating as time passed. Consumer demand could be increased even as wages were falling by expanding the availability of credit.

For much of the Bush administration, the Federal Reserve discount rate—the rate at which the Federal Reserve loans money to member banks and one mechanism it uses to guide interest rate policy—was held below the rate of inflation. That is not only a powerful stimulus in terms of encouraging people to buy things they really can't afford, but also a license for mischief for investment bankers and financiers who can be highly creative with the possibilities that present themselves when the government is willing to loan them money at negative real interest rates.

How did Bush help employers keep wages low? There are numerous levers that the president can pull to affect the ability of workers to get a higher wage. By my count the current administration used every single one to help insure that labor costs were held in check and that corporate profits soared. Actions taken by this administration during the past eight years include:

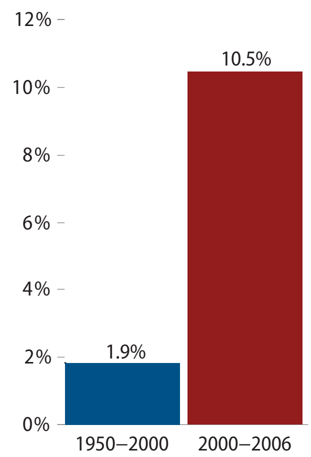
Growth of Hourly Productivity and Hourly Wages

2000 to 2008



Average Annual Rate of Growth in Real Corporate Profits

(Pretax Profits Adjusted for Inventories and Inflation)

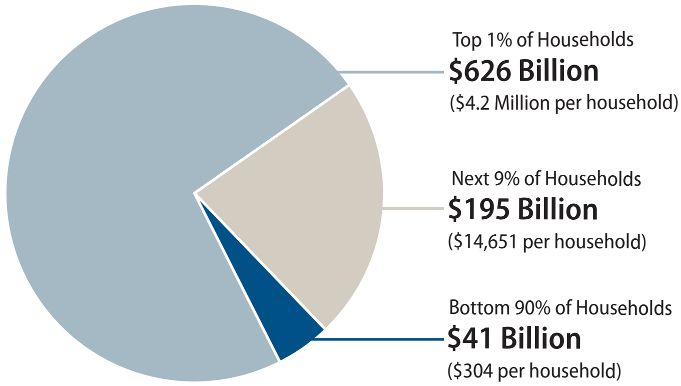


- Refusal to adjust the minimum wage for inflation for 10 years, driving it in inflation-adjusted terms to the lowest level in half a century. Studies have repeatedly shown that freezing the minimum wage affects not only those working at minimum wages but also those well up the income ladder.

- Refusal to enforce hourly wage violations so that many employers could pay less than the legal minimum and refuse to pay legally required overtime with little concern over being caught or penalized.

- Appointment of a National Labor Relations Board that constantly abridged the right of workers to organize or file just grievances, and provided employers with considerable assurance that union efforts to organize their workplaces would fail regardless of wages and working conditions.

How the $863 Billion in Household Income Growth During the First Four Years of the Bush Recovery (2002 to 2006) Was Divided by Income Group



- Use of federal regulatory powers under the Taft-Hartley Act to harass and weaken labor unions.

- Lackluster enforcement of emigration laws allowing unprecedented numbers of undocumented workers to enter the United States and assume paying positions in a wide array of industries.

- Failure to enforce U.S. trade agreements with nations such a China. As the Commerce Department notes on their website, "The Chinese Government makes no secret of its support for state-owned enterprises. Foreign companies should not expect a level playing field." Yet the United States has taken no effective action to force China to abide by our trade agreements as our annual trade deficit with China more than tripled over the past eight years.

The irony is that what was true in 1929 is true today—redistributing wealth to the already wealthy in the end punishes not just workers but also corporations, their shareholders, and their managers. The Standard and Poor's 500 stock market index stood at 1,325 when George W. Bush as inaugurated. Last Friday it closed at 940—a 30 percent decline over eight years and one of the most remarkable destructions of wealth in our lifetime.

The United States has remained one of the most capitalistic countries in the world in large part because its leaders have recognized that to protect markets government must round off some of the roughest edges of capitalism. That is why Republican progressives like Theodore Roosevelt supported the progressive income tax, why Franklin Roosevelt pushed Social Security and Unemployment through Congress in 1935, and why Richard Nixon won approval of the Supplemental Security income program and proposed a national minimum income plan. All of these proposals served to make the outcomes of ordinary Americans a little more even than they might have been if left solely to the markets. But they also served to create greater social cohesion and promote stronger economic growth within a system that remained very fundamentally free market.

What we have seen in the last eight years is an effort to use government to sharpen the rough edges of market outcomes to make the division between ordinary Americans and the elites who own and operate the nation's biggest enterprises even greater. Whether or not you view that effort to redistribute wealth as fair, you have to concede that it has been a total failure with respect to creating jobs, raising living standards, generating sustainable wealth, and maintaining fiscal discipline.

It is too bad that those who have finally risen to speak against the evils of wealth redistribution did not do so much sooner.

Scott Lilly is a Senior Fellow at the Center for American Progress. To read his columns and reports please go to the Economy page of our website.