Diary from the United States

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Diary from the United States is a critical examination of American society. It's partly a diary from long road trips in the country, the latest from the fall of 2011. But above all it's a careful examination of the American social model, the model Europeans so long have admired and imitated. We do not need to do so any more, says the author. The modern welfare state is a superior model. Europeans today live a better life in many ways. Ordinary American families with middle class incomes are nowadays worse off financially than a corresponding family in Europe, not to mention the 49 million Americans living in poverty.

Karl-Henrik Pettersson is a former banker, economist, and author. He has written several acclaimed books on the subject of economy and society. He also runs the blog:
www.karlhenrikpettersson.se

Diary from the United States

Notes on a Society in Crisis

Karl-Henrik Pettersson

Contact the author at www.karlhenrikpettersson.se

Diary from the United States – Notes on a Society in Crisis

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Preface

I don't think that this book would ever have been written if I hadn't made the long drive up the West Coast of the United States two years ago. I discovered, in a way one cannot from a distance or during a few brief visits to New York City or Los Angeles, that there were large cracks in the facade of American society, and that United States no longer was, as I unreflectively had imagined, a step ahead of Europe in almost all areas. That had been the case when I was a young researcher at Stanford University many years ago, when I lived in Pittsburgh, Pennsylvania for some time, and when I traveled back and forth across the American continent for three months in an old Ford Mercury. And this was also the case during the decades of my career when I frequently traveled to the country on business. My old image of the United States as a society that we in Europe should try to copy on point after point no longer held up. It had become quite the opposite. The European countries, and particularly the welfare states of northern Europe, appeared to be the more developed societies.

This sparked my interest. To make a long story short, I have spent two years reading about the U.S., writing about American politics and economy (on my blog, www.karlhenrikpettersson.se) and making another two long trips to the country. During the last two years, I have traveled at least 12,000 miles on U.S. roads. And I have met and talked to lots of ordinary – and extraordinary – Americans. This is the result.

The book was originally written for a Swedish audience. I had no plans to translate it to English. However, a number of people who read the book early on thought that perhaps it could be of interest to American readers to learn what a European visitor to their country thinks about what he sees. It convinced me (plus the fact that it's so easy today to publish an e-book). For my part, I like to read what foreigners think and write about Sweden; they might observe phenomena in Swedish society I find difficult to see myself because they are embedded in everyday life. It's my hope that American readers will feel the same when reading this book.

Groveda, May 1, 2012

Karl-Henrik Pettersson

Chapter 1

Dagbok

October-November 2009

The trip made in the autumn of 2009 took me through five states on the West Coast: California, Nevada, Arizona, New Mexico, and Colorado. It was not a completely random choice of route. It was also about nostalgia in the sense that parts of this trip I made many, many years ago with some other Stanford students.

The United States was particularly interesting for me during the fall of 2009. An intense, partly spiteful, political debate about the U.S. health care system was going on. For years I had read and written about, and marveled at, how bad the U.S. health care system functioned with its extremely high costs and underperformance in terms of health. To comment on what I heard and read about the health care debate during the trip became the central theme of this diary. It was not hard to get inspired. Health care reform dominated American TV and other media during these four weeks.

What follows is only an excerpt from the diary. The trivial and personal I have stripped away. Instead I have concentrated on the observations I made about American society, about the economy, and about how people live their everyday lives. Apart from minor edits to the text, it's intact as I wrote it (mostly early the "morning after"). I will pay a price for it. There are some repetitions, and perhaps some choice of language that would have been different if I have had more time.

Monterey, CA, Tuesday, October 13, 2009

It’s early in the morning. I've just had breakfast, and I’m sitting here watching Fox News. It’s quite loud as is often the case with American TV debates, especially when Fox is involved. The main question in the debate is whether the Senate, or rather the Senate’s Finance Committee, will agree on a reform of the U.S. health care system. The decision will be made today, and it’s hanging in the balance. Yesterday the insurance companies announced that the planned reform would raise premiums for the average family by $1,700 per year. This is surely no coincidence. The insurance companies feel trapped and want to influence Congress. Apparently, they try to play a part of the political game on Capitol Hill where the future of U.S. health care now is entering a crucial phase. The debate is heating up.

The political process in the U.S. is a bit of a mystery to me. In Sweden, the government presents a bill to Parliament, which, after review in one of its committees, goes to vote. It’s a fairly straightforward and simple way for a government proposal to be decided. In the U.S., it’s more complicated. Politicians in Congress take a more active role in shaping proposals in comparison to Swedish parliamentarians. For example, it’s not just the Senate Finance Committee that worked on the bill for a new health care system. Other Senate committees and individual senators also worked on it. The same process applies to the House of Representatives. After the Finance Committee makes its decision today, the proposal will be reconciled with other proposals in the Senate. Similarly, there is a reconciliation process in the House of Representatives, and finally, some time towards the end of the year, when the two houses in turn have come to an agreement, a proposal for reforming the U.S. health care system can become a legislative reality. Will it succeed? Only time will tell.

A warning of severely bad weather was broadcast today, and it was raining heavily when I went out to the car. I had planned to continue on Highway 1 and “hug” the coast up towards San Francisco, heading east just north of Stanford to get to Palo Alto where I had booked a room for the night. I left Monterey with Santa Cruz as my next destination, estimating a one-hour drive through the dunes and farmland. Ultimately it took longer due to the heavy rain, wind, and slow traffic. By the time I got to Santa Cruz and stopped for coffee at a Starbucks, I was questioning the wisdom of using the coastal route. I knew from the trip to Monterey that there tends to be relatively little traffic en route, and that there are few exits and opportunities to get help if needed. I decided to get off Highway 1 (I’m definitely getting old!) and instead chose to take Highway 17 to San Jose instead. As the rainfall intensified and the wind blew harder, it proved to be more difficult than expected (later, I heard that there had been about 100 mm rain in the area), but eventually I arrived in Palo Alto.

I spent less time on the road today than planned, giving me time to write some more about the Senate's decision that came out today. They voted in favor of the health care proposal, 14 votes for and 9 against.

What kind of reform is it? Well, it consists of three parts. First, insurers are required to accept anyone who wants to have health insurance. To a European, it seems more than obvious that it should be that way, but that hasn’t been the case in the U.S. so far. Currently an insurance company can deny coverage to a person on the basis of his or her medical history. A softer option is to differentiate the insurance premiums according to a person’s health status. Coverage will become more expensive the worse the medical outlook is for a person. The second part is what’s

………………………………..

New York City, NY, Sunday, November 7, 2009

I'm in New York City. I started the day buying a Metro Card for the subway. I have done this many times before, this time at the W. 79th Street/Broadway station. I know that there is no cheaper and more effective way to get around in New York City than using the subway. It's a paradox that New York City has one of the world's most efficient public transportation systems, including buses that run frequently and efficiently, while in the U.S. in general there are almost no opportunities to use public transportation. During this trip, only in San Francisco and Denver did I see public transportation systems of any significance. It's almost a postulate in this country that everyone owns a car. New York City, especially Manhattan, is an exception to the rule. One can actually live here without a car. Even the taxi system in New York City functions better than it does in most big cities. Cabs are plentiful and cheap. The cab I took last night from Grand Central Station up to my hotel at 250 W. 77th Street, a trip of 15-20 minutes, cost a mere $11.

It's sometimes said that New York City is not America. There is a lot to that statement. I see it more clearly this time after a one-month tour of parts of the U.S., which both figuratively and literally are as far from New York City as one can imagine. The difference between how people reside, live, and think in some small towns in Arizona and New Mexico and how they reside, live, and think in New York City is as great as between Stockholm and, say, Romania. One cannot believe it's the same continent. New York City is at the heart of urban society, the very archetype of the big modern city. It not only has the most sophisticated cultural offerings in the U.S., and thus perhaps in the world, but also generates huge economic resources as the world's financial center. Both leave their mark on the city. Midtown Manhattan is an entertainment Mecca with theaters, cinemas, and museums. Lower Manhattan is the financial market's global center with all that goes along with it. Of course, what you see when you walk around is just the tip of the iceberg.

Obviously New York City has an abundance of Richard Florida's three “t”s–technology, talent, and tolerance, especially the latter, which causes the rest of the United States to view the city with some suspicion. It’s too liberal for the majority of Americans. For instance, in Europe, most people would consider the *New York Times* a quality newspaper with opinions that match what the average middle-class European thinks quite well. It's definitely not, I would argue, what the average middle-class person in Arizona or New Mexico thinks.

Incidentally, I read the Sunday edition of the *New York Times* at breakfast this morning – or rather parts of it because it weighs almost a kilo (and costs $5) and probably takes a whole day to read in its entirety. I had my breakfast at a Starbucks – the *New York Times* must have some sort of agreement with them because the paper is available at all their shops – and I was not alone. Many New Yorkers did what I did; they went to Starbucks and bought the *New York Times* and breakfast. Either they stayed there and read for an hour or two, or they took the newspaper and coffee with them back home.

The Upper West Side where I was staying is primarily an upscale residential area with a lot of restaurants and different kinds of services for wealthy city dwellers and not that much for tourists. The market is so large and wide with high purchasing power that you see stores you could only dream of in Sweden. One block from where I am staying there's Fairway, "Like No Other Market" according to its sign, which is one of the largest, most well stocked fresh fruit and vegetable shops I have ever seen. They also sell flowers. Another example is a store where you can get your clothing ironed, literally on the spot. Just to demonstrate this unusual service, a man stands in the shop window continually ironing shirts, blouses, and other items of clothing. Something of the sort can only exist in a place with a huge customer base that has both the need for clothing ironed while customers wait and enough money to pay for it.

What a reader needs to know to continue

The excerpt from the diary is just meant as an appetizer. For obvious reasons, it's an anecdotal, first-hand report, consisting of preliminary reflections. Only in one area, U.S. health care, I knew a little more when I made the trip as I already have mentioned. I had pretty thoroughly studied the U.S. health care system while I was working on a book, published in 2008, about the Swedish health care system.

The next three chapters are more analytical. The first section consists of a number of snapshots of the American political reality. At first glance, it may seem that the different parts of the chapter have no continuity. That's too quick a conclusion. The common thread is political shortfalls: the inability of Congress and the president to deal with the increasingly obvious problems in American society. The neglected infrastructure. The widening gap between rich and poor. The financial sector's elephantiasis with banks so large that they had to be rescued by the taxpayer during the subprime crisis because they are "too big to fail". The West's most costly health care, which has not produced the West's healthiest population. The oversized national debt. And most important, the inability to compromise and come to decisions in Congress. The scenes around the so-called debt ceiling increase in summer 2011 are a concrete example. The issue could easily have been resolved but came close to political meltdown, sending a powerful signal to the market and the world about American political paralysis. In short, it seems that American democracy is not working as it should. That's what the next chapter is about.

The articles in chapter 2, as in the two chapters thereafter, were all published on my blog (www.karlhenrikpettersson.se) sometime in 2010 and 2011, and all are researched in the sense that I have read the relevant literature. The fact that the articles were written at different times and thus were supposed to stand on their own, means that some issues and turns of phrase, perhaps even certain facts, will be repeated in the text. I have tried to edit out the repetitions, but not everywhere, because the analysis and reasoning would then have become too truncated.

The following chapters will deal with U.S. politics in a broad sense, focusing on economic issues and on other questions which are important in people's everyday life. However, I will not touch one particular area – the relationship between politics and religion. It's an important question, not least in the Unites States, which I would have liked to study and comment on, but I lack sufficient knowledge.

Chapter 2

Something is Seriously Wrong with American Politics

America's poor infrastructure – and what it suggests about the inadequacy of the political system

The American Society of Civil Engineers (ASCE) regularly publishes a review of the state of the U.S. infrastructure – roads, bridges, dams, schools, energy, water supply facilities etc. The most recent report from 2009 gives the country a D (see table). The American grading system goes from A (excellent) to F (failing) with C as average or passing. A grade of D is poor.

TABLE A ★ 2009 *Report Card for America's Infrastructure*

Aviation	D
Bridges	C
Dams	D
Drinking Water	D-
Energy	D+
Hazardous Waste	D
Inland Waterways	D-
Levees	D-
Public Parks and Recreation	C-
Rail	C-
Roads	D-
Schools	D
Solid Waste	C+
Transit	D
Wastewater	D-
AMERICA'S INFRASTRUCTURE G.P.A.	D
ESTIMATED 5 YEAR INVESTMENT NEED	$2.2 TRILLION

In a separate study from 2011, the ASCE estimates that bad roads cost the U.S. economy $130 billion a year, a substantial sum, roughly one percent of GDP. Mostly this is due to the damage to vehicles caused by bad roads. The rest is attributed to the fact that transportation on poorly maintained roads takes longer.

The ASCE is not alone in giving U. S. infrastructure a poor rating. According to *Infrastructure 2011*, a study with a global perspective conducted by the Urban Land Institute and Ernst & Young, the verdict is harsh:

> The United States notably continues to lag its global competition – laboring without a national infrastructure plan, lacking political consensus, and contending with severe federal, state, and local budget deficits that limits options ... In contrast with its global competition, the United States is lurching along a problematic course – potentially losing additional ground.

On several occasions, the World Economic Forum has published wide-ranging and well-conducted studies of the competitiveness of various countries. The latest report was published in 2010. American infrastructure ended up in fifteenth place, a good bit behind many of the main competitors in Europe and Asia (Germany is in place 2, England 8, France 4, Japan 11, and Singapore 5). As for “overall infrastructure quality”, a composite measure in the study, the U.S. is in place 23 between Spain and Chile.

The American infrastructure measured by European standards is in bad shape, as any European knows who has driven a car on U.S. roads or used U.S. trains for any amount of time. From this perspective, the ASCE’s low marks appear relevant and expected. For a long time, several decades, investments in infrastructure in the U.S. have remained at about half the European level. In Europe, we invest roughly 5% of GDP in infrastructure annually; in the U.S. today about 2.5% of GDP.

The ASCE estimates that to get U.S. infrastructure back to a passing level, or a grade of C, would cost $2,200 billion, spread over a 5-year period. This is an enormous amount, roughly 15% of U.S. GDP in 2011. It's comparable to all of Sweden's production capacity being dedicated for five years to one sector of the economy.

There is a deeper problem. If we talk about ground transportation, the focus during the past 50 years has been on the road system. In a few decades, from the 1950s onwards, America made huge investments of federal funds in roads. Most of the interstate highways came into being during this period. These gigantic investments have shaped the American transportation system on land. To put it another way, most of American ground transportation is centered on the car. Measured in terms of average number of miles per year and vehicle, Americans drive 50% more than the citizens of any other Western country; Italy comes closest. The railways have, relative to the car, been downgraded to a secondary role, especially for passenger traffic. Today, when the road systems have large unmet maintenance needs, when the environment and climate issues cry out for transportation systems other than road and air, and when competing countries in both Europe and Asia are investing heavily in high-speed trains, the infrastructure problems in the U.S. appear more fundamental. (I read somewhere that Amtrak between Washington and Boston achieves an average speed of 70 miles per hour. In comparison, the French TGV runs at an average of 130 miles per hour between Paris and Lyon.)

It's understandable that the authors of the *Infrastructure 2011* report demand a national strategic plan for U.S. infrastructure. What the ASCE is doing with its grading is to put the finger on one of the most crucial political problems in the United States. It clearly shows that the U.S. political system is in a dead end when it comes to infrastructure. For a visitor, it's beyond belief that politicians put U.S. competitiveness in jeopardy in this way, because that is what in the end this is all about. Or as Stephen E. Flynn, senior fellow at the Council on Foreign Relations, describes it when he reads the ASCE's rating: "It's the kind of report card you would have expected on the eve of the collapse of the Roman Empire."

Literature:

"America's transportation infrastructure, Life in the slow line", *Economist*, April 28th, 2011;
"Infrastructure 2011: A Strategic Priority", 2011, *Urban Land Institute / Ernst & Young*, Washington, DC;
"2009 Report Card for American Infrastructure", *American Society of Civil Engineers*, March 2009;
"The Global Competitiveness Report, 2010-2011", 2010, *Word Economic Forum*, Geneva;

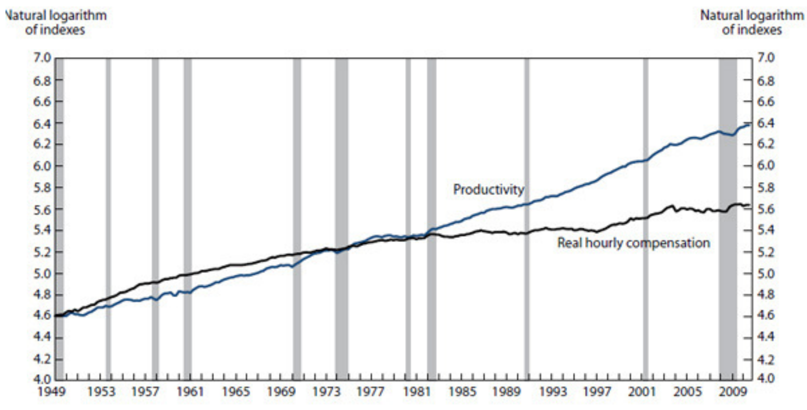
Published: September 1, 2011

Growing income inequality – a development that could end in civil unrest and political chaos

Historically, productivity and wages usually go hand in hand, not slavishly from one year to another, but over time and aggregated for an industry or an entire country's economy. In other words, if people work with higher productivity, it normally means higher real wages, and that wages will rise at about the same rate that productivity rises. By productivity is usually meant, if we use an economist's jargon, value added per hour worked (or per employee). Value added in a company is the difference between the value of what is sold and the costs of inputs. Total value added in country is the same as the country's GDP. Value added per capita, or GDP per capita, is often used as a productivity measure on an aggregate, national level.

The graph below is from an article in the January 2011 issue of the *Monthly Labor Review* (Fleck et al., 2011). It shows that the

6. Productivity and real hourly compensation, manufacturing sector, first quarter 1949–third quarter 2010



NOTE: The shaded bars denote National Bureau of Economic Research (NBER)-designated recessions.

historically close relationship between real wages and productivity in the U.S. economy (here confined to U.S. manufacturing sector) has been broken in recent decades. Judging from the graph, the two curves began to move away from each other some time in the early 1980s. The gap has widened substantially every year since.

What does this mean in practice? It's equivalent to saying that the share of value added (GDP) in U.S. manufacturing that goes to the capital owners is growing much faster than the part that goes to the wage earners. Certainly, for a shorter period it can be understandable and justifiable that we got such an outcome (for example, all else being equal, if real interest rates go up or if the risk increases for some reason). But a trend change going on for several decades as the curves in the figure show isn't normal and cannot be explained by increased costs and risks for the capital owners. The consequence is that the residual, the net profit that fully goes to the capital owner, increases. In other words, income inequality in the U.S. will grow because when capital owners take, figuratively speaking, a larger slice of the economic pie, all others get a smaller portion.

Even income from work, quite apart from income from capital, in the U.S. economy has become more skewed over the past three decades. It means in reality that economic inequalities have become even greater. At one end of the scale, there is a relatively small cluster of high-income earners, say 20% of those who have income from employment. They have increased their already high incomes sharply from 1980 until today, in part because they in general also are capital owners, usually through owning stocks. Logically enough, the stock market has had, as the curves in the chart illustrate, golden decades since the early 1980s. At the other end of the scale is a big group of wage earners who have seen their incomes drop drastically during the same period, many of whom have lost their jobs. Of these, very few own stocks. In between is the great mass of wage earners, on average with only a very modest increase in real income during the last decades. Since the 1970s until today, median salary for an American household has virtually stood still in real terms.

One can explain why we have got into this situation. This is what globalization, technological change, and a policy that does the least possible to correct a skewed income distribution, do together. (This is something that I will come back to.) What's worrying is that there's nothing in sight that can break the trend. As far as one can see, income inequalities in American society will increase with time. Will it then be possible to maintain the existing social contract? No one knows for sure. That the Tea Party movement emerged with such force in just a couple of years after 2008 might mean that the social contract is questioned by many. The zeitgeist has been described as "the Age of Outrage", The next step might be social unrest. The youth revolt in England (another country with large income gaps) in early August 2011 might be a sign of things to come even in the U.S..

P.S. Just to avoid a misunderstanding – the share of income accruing to capital owners also grew in other Western countries over the period we are talking about here. Globalization and technological advances have made an impact in all countries. It's just that today, after more than three decades, the gap between productivity and real wages is one notch wider in the U.S. than in other Western countries. Furthermore, the dominant driving forces in American society have a tendency to favor those with already high incomes. Low-wage initiative is not something that characterizes the U.S. labor market – or gets attention from U.S.

politicians. These two conditions ensure that the United States among OECD countries is a kind of “primus inter pares” in terms of injustice in the distribution of income.

Literature:
Fleck, S. et al., 2011, “The compensation-productivity gap: a visual essay”, *Monthly Labor Review*, January 2011;
Cohen, R. 2011, “The Age of Outrage”, op-ed, *The New York Times*, August 13, 2011;

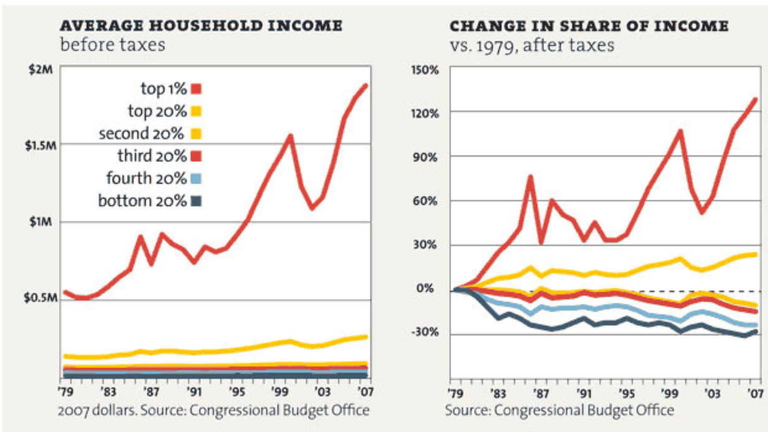
Published: September 4, 2011

The fact that the United States is getting poorer because of big income inequalities is often overlooked

If one examines only the one percentage of U.S. households with the highest income after tax ("top 1%"), it's only a slight exaggeration to speak of "Winners Take All". This group increased its share of total U.S. income by over 120% between 1980 and 2007. The group with the 20% highest income ("top 20%" which includes "top 1%") has also increased its share but only with more moderate 25%. The other four-fifths of households received a smaller proportion of the total income during this period. The following graph (from Gilson & Perot, 2011) shows that clearly.

WINNERS TAKE ALL

The superrich have grabbed the bulk of the past three decades' gains.



What a widening income gap means socially and for the social contract is one thing. It's not the issue I will address here. Instead I will discuss the skewed income distribution's adverse effects on growth. It's an often-overlooked consequence. The fact is that a reasonably even income distribution is good for growth. A country will become richer, all else being equal, if income isn't too unfairly distributed. John Kenneth Galbraith, renowned economist, in fact considered reasonable income distribution to be a prerequisite for a well functioning capitalist society. "One of the least talked about facts, and most unpleasant economic truths for the very wealthy, is that an even distribution of income in society is highly functional", as he puts it.

The basis of the argument is what is known as Say's law, after the French eighteenth century entrepreneur and philosopher, Jean-Baptiste Say, which simply states that the sale of each product creates the funds to buy the product on the market. What you pay for the item includes everything from materials costs, labor costs, interest and profits (or losses), and it's, of course in theory, exactly what it takes to buy the item. So at the aggregate level and for a closed system, Say's law prevails, provided all income is used to purchase the goods offered. It's just that this ideal state is not the real world, which for instance is affected by the times. For example, in bad times most people are cautious and wait to buy. The working of Say's law is also influenced by how income is distributed in society.

If a majority of all income earners, say 60%, feel they do not have high enough income to consume what they would like to consume, and if they do not borrow, the consequence is, ceteris paribus, that demand in the economy at large decreases and thus GDP growth goes down. The reason is that when there's so little money in the wallets of a large proportion of the population that there's only enough for the bare essentials, then – not surprisingly – fewer goods are sold, many companies have less to do, people lose their jobs and for the community at large unemployment increases. That is exactly the situation we have in the U.S. today, only with the amendment that the situation is particularly difficult since the 2008-2009 crisis radically lowered the wealth for this group, in effect the net value of their real estate, usually their homes. On average, the price of American single-family homes has dropped by more than 30% since the peak in 2006. Falling value of one's assets dampens optimism, and caution increases. For those families in this group who took out mortgages on their homes during the go-go years of the last decade – and there were many – the situation is even more serious. They shall, in addition to everything else, also find the money for servicing their debt.

Demand may also fall because those with very high incomes, those who really can afford to consume, may think they have enough and prefer to save a large portion of what they earn. It’s more or less inevitable when we talk about people with very high incomes, say the tenth of one percent who earn the most, “the super rich”. They cannot reasonably consume more than a very small part of what they earn. It’s hard to imagine that one can eat, sleep and live for more than a few million dollars a year. Still some business executives and others with super incomes earn much more than that, many tens of millions of dollars a year, even hundreds of millions of dollars. They can afford to consume a lot to say the least. However, it’s by and large not consumption in the true sense of the word. A person with super income can own real estate in all the world's large cities or buy art for hundreds of millions of dollars, but it becomes in practice investments which typically give more back when sold than what they once cost. And the money not spent is instead invested in financial assets, and quite often, as the decisions surely would be delegated to professional asset managers, denominated in foreign currencies where the expected return is higher than in the U.S. This clearly won't do much for U.S. growth.

In addition, concentrating much of the income at the top creates an economy of costly uncertainty because no one knows how the top earners will use their money. If 40% of the total income is handled by the already rich, as in the U.S., this uncertainty is a real threat to the stability of the economy. According to classical economics, high-income earners are spending their means in the same way ordinary people are spending their money at, say, the grocery store. That happens not to be the reality. High-income earners have a choice. When they decide not to spend or invest in their own national economy at a level equal to what they have done before, it gives rise to a new equilibrium due to the reduced demand. Such a situation creates volatility and uncertainty in the economy.

Robert Reich, professor of political economy at Berkeley and a former Secretary of Labor in the Clinton administration, tells a story in his new book, *Aftershock*, of Kenneth Lewis, CEO of Bank of America in 2007, which ingeniously illustrates this argument:

> Consider the nearly $100 million Kenneth Lewis earned as CEO of Bank of America in 2007, as he was leading the bank toward a subsequent bailout by the federal government. To spend it all, Lewis would have had to buy $273,972.60 worth of goods and services every day that year, including weekends. If he had devoted twelve waking hours a day to the task, he'd have had to spend $22,831 every hour, $380.52 every minute…
>
> Now suppose Ken Lewis's $100 million had instead been divided among five hundred people, each of whom took home $200,000 that year. Assume that each spent $150,000 – hardly difficult in and around New York City, or in other big cities – and saved $50,000. Total spending by those five hundred would have added up to $75 million, most of it supporting jobs in the United States. Take the logic a step further. Suppose Lewis's $100 million had

> been paid instead to two thousand people, each of whom took home $50,000 – just about what the typical American family earned in 2007. Each of those two thousand families is likely to spend all, or nearly all, of that money. The lion's share will be for services. Most of that $100 million would have gone directly into the U.S. economy, sustaining jobs.

What is the conclusion? Well, if income is distributed more fairly, so fairly that the largest group of wage earners feels that the income they receive is sufficient for their needs, it means that the economy is approaching the ideal situation that Say's law describes. The vast majority of disposable income is used to consume, and since it applies to say 80% of income earners, it will have direct positive effects on aggregate demand. The companies will sell more, they will hire more, and the economy will spin ever faster, with GDP growth rising. As a bonus, the uncertainty arising from the fact that one never really knows what the super rich are doing with their income will be reduced.

Possibly, the argument here can be misunderstood. No one is suggesting that there should be no income inequality in a society, and that some people should not have very high incomes relative to the average. Of course, it's good for the dynamics of the economy, and thus for growth. Even in the most egalitarian Western countries, there is significant income inequality. It's the extreme income differentiation – as in the U.S. – between a small group of very rich people at the top and a much bigger group with low incomes, which leads to lower GDP growth than what is possible with less income inequity. Even more important is that these income inequalities have increased over time as we have seen in the U.S. over the past three decades. This contributes to a psychological effect that is also likely to dampen growth.

Although there are economists (and of course politicians) who argue that there isn’t any relationship of this kind, between extreme income inequality and lower relative growth, they have almost all empirical evidence (and common sense) against them. There are plenty of phases in U.S. history that show that a more even income distribution may well go hand in hand with high relative growth, and there are international data showing the same thing.

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