As the 1 Percent Leaves the 99 Percent in the Dust, Bush's Chief Economist is Smiling

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Perhaps you shouldn't be surprised that the chief economist during George W. Bush's presidency seems happy that economic inequality in our country is at its most extreme since the Great Depression.

After all, the Bush administration delivered huge tax breaks to the wealthy, the very people described by the former president as his political base.

N. Gregory Mankiw, chair of Bush's Council of Economic Advisers from 2003 to 2005, advisor to Republican presidential candidate Mitt Romney and now chair and professor of economics at Harvard University, created a stir with his pre-publication release of a new paper entitled, "In Defense of the One Percent."

Author of the college textbook *Principles of Economics*, Mankiw stands behind conservative political and economic policies whose success has come at a high social cost.
In his essay, Mankiw lays out his moral and technical justification for meritocracy and inequality. In so doing, he also exposes the ideology behind the agenda of our country's conservative ruling elite.

Mankiw begins with a tale about a utopian society in which everyone is equal. The egalitarian structure breaks down when an entrepreneur sells a $100 product that everyone wants. The entrepreneur, likened to Steve Jobs, Steven Spielberg and J.K. Rowling, becomes vastly richer than everyone else.

"In my view, this thought experiment captures, in an extreme and stylized way, what has happened to US society over the past several decades," writes Mankiw, suggesting that our sharp inequality is simply a reflection of how our economy works and that we can do little about it without rupturing the rules of the game.

Inequality and Public Policy

While he acknowledges that economics has limited explanatory power, Mankiw goes on to use the "dismal science" and anecdotal observations to justify the deep class division that exists in the United States, which has the most extreme inequality amongst the world's developed countries. His paper leaves the impression that inequality results from a natural process when in fact the full story is much more complicated—and ugly. No, our inequality reflects political, economic and social power.

For several decades, a ruling elite has governed the country with public policies—often the products of conservative think tanks–favoring corporations and their owners and managers. These policies include tax breaks for businesses and the rich, deregulation, weakening unions, privatization and attacking government, which from the New Deal until the 1970s served as our society's great equalizer. But government—which plays a major role in the distribution of wealth and income through its economic and social policies and taxation—is notably absent from Mankiw's utopian society.

Elitism and Meritocracy

The title of Mankiw's paper—"In Defense of the One Percent"—is unabashedly provocative. It is unsettling because inequality goes against our sense of fairness. Even many conservative Americans—blue-collar Tea Partyers come to mind–are uncomfortable with inequality.

But Mankiw believes the rich deserve their "just deserts." He's unapologetic about a miniscule percentage of our population pocketing a disproportionate share of the wealth.

"My own reading of the evidence is that most of the very wealthy get that way by making substantial economic contributions, not by gaming the system or taking advantage of some market failure or the political process," Mankiw writes. No, he argues, "…the most natural explanation of high CEO pay is that the value of a good CEO is extraordinarily high."

But the "just deserts" argument doesn't account for how government tax policies partly explain our growing inequality.

Between 1979 and 2007, about 30 percent of the increase in the rise in inequality resulted from regressive budget and tax policies, according to an Economic Policy Institute report, "Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates," released in June. "The rising share of investment income—heavily concentrated at the top of the income distribution—at the expense of labor income explains much of the rise in income inequality in recent decades. Roughly one-third of the rise in the total share of income accruing to the top 1 percent of households, which more than doubled from 9.6 percent in 1979 to 20 percent in 2007, is attributable to the shift from labor income to capital income."

But from Mankiw's "just deserts" standpoint, the wealthy are accumulating what they deserve. Moreover, inequality isn't harming our society. "If the growing incomes of the rich are to be a focus of public policy, it must be because income inequality is a problem in and of itself," he writes. We haven't reached the breaking point yet, according to Mankiw.

Too Much

But, really, how much is too much?

The Democratic staff of the U.S. House Committee on Education and the Workforce, in a report in May on the impact of Walmart's low-wage business model on the economy and taxpayers, said that, "The most recent decade proved to be a 'lost decade' for most working families—the average family's income is lower today than at any point in the last ten years. Income inequality is more extreme today than at any point since before the Great Depression, with the top 1 percent of income earners receiving 93 percent of income gains in the recovery. In the third quarter of 2012, corporate profits reached $1.75 trillion, their greatest share of GDP in history. During that same quarter, workers' wages fell to their lowest share of GDP on record."

The same report notes how much the Walton family—heirs to the founder of the retail empire—has enriched itself by paying domestic employees low wages and importing products from China. From 2007 to 2010, the wealth of six heirs of the Walton family increased from $73.3 billion to $89.5 billion, while the median family wealth fell by 38.8 percent. These six heirs own as much wealth as the 48.8 million families at the bottom of the country's wealth distribution (41.5 percent of all American families combined), the report says.

High inequality reflects how the economy isn't functioning for the poor and middle class. Class polarization in the United States increasing resembles that of Latin America. Symptoms of our broken, unequal and unfair economy:

- 46 million people, or 15 percent of the country's population, lived below the official poverty line in 2011, according to the U.S. Bureau of Labor Statistics;
- the working poor—comprised 10.4 million people, or 7.2 percent of the work force in 2011;
- the median financial net worth of all U.S. households, excluding homes and cars, is $10,890, according to Edward N. Wolff, an economics professor at New York University;
- 46.2 million people lacked health insurance coverage in 2011, according to the U.S. Census Bureau; and
- the median wealth of white households is 20 times that of African-American households and 18 times that of Latino households, according to the Pew Research Center.

You would think a country with 56 million impoverished and working poor people, half its adult population with only $10,000 in savings for retirement and nearly 50 million people without health insurance would be in trouble and cry out for the strengthening of its safety net. Apparently not for Mankiw.

Since inequality isn't a problem for Mankiw, it's only logical that he claims that the wealthy pay enough in taxes and there's little need for the government to redistribute income and wealth. He says, "the average person in the top 1 percent pays more than a quarter of income in federal taxes, and about a third if state and local taxes are included. Why isn't that enough to compensate for the value of government infrastructure?"

But our tax system is hardly progressive, especially compared to Europe. Economist Joseph Stiglitz says, "What should shock and outrage is that the top 1 percent has grown extremely rich, the tax rates they pay have markedly decreased. Our tax system is much less progressive than it was for much of the 20th century. The top marginal income tax rate peaked at 94 percent during World War II and remained at 70 percent through the 1960s and 1970s; it is now 39.6 percent. Tax fairness has gotten much worse in the 30 years since the Reagan 'revolution' of the 1980s.

Corruption and Capitalism

In justifying high executive pay, Mankiw ignores the corrupting influence of the U.S. corporate compensation model.

"Today, a top executive who pumps up his company's stock price by faking high profits can walk away with vast wealth even if the company later collapses, and the small chance he faces of going to jail isn't an effective deterrent," economist Paul Krugman wrote in a 2006 *Rolling Stone* magazine article, "The Great Wealth Transfer," in which he analyzed how the Bush tax cuts were worsening inequality in the United States. Krugman noted that statistical evidence show that "unequal societies tend to be corrupt societies." After the experience of the dot.com and housing bubbles is there any doubt that corruption is a problem in Corporate America?

While Mankiw argues that the 1 percent deserve their wealth because of their contributions to our economy, he also attributes their success to their natural superiority.

He writes, "…parents and children share genes, a fact that would lead to intergenerational persistence in income even in a world of equal opportunities. IQ, for example, has been widely studied, and it has a large degree of heritability. Smart parents are more likely to have smart children, and their greater intelligence will be reflected, on average, in higher incomes. Of course, IQ is only one dimension of talent, but it is easy to believe that other dimensions, such as self-control, ability to focus, and interpersonal skills, have a degree of genetic heritability as well."

Unequal Opportunity

Mankiw rejects the argument that unequal opportunity is a major factor accounting for income inequality. That conveniently allows him to dismiss class-based factors that prevent upward mobility. And it allows him to dismiss the important role government plays in helping individuals and businesses prosper (and, by inference, to discount the need to pay sufficient taxes to maintain an interventionist government).

Instead, Mankiw relies on anecdotal evidence to conclude that the 1 percent and the 99 percent have equal employment and educational opportunities.

"My view here is shaped by personal experience," Mankiw writes. "I was raised in a middle-class family; neither of my parents were college graduates. My own children are being raised by parents with both more money and more education. Yet I do not see my children as having significantly better opportunities than I had at their age."

Mankiw's elitism, of course, plays down or ignores social factors that influence upward mobility. Acknowledging that class background plays an important role in your educational and career success would suggest that inequality is a societal problem. As the author of a manifesto for the 1 percent, Mankiw obviously can't do that. Once you admit inequality is a problem, you should—God forgive—look to government to adopt public policies to address it.

But it is absurd to suggest that equal opportunity exists in the United States.

Children in our budget-strapped public schools are at a disadvantage when they compete with privileged children whose upbringing includes private schooling—from kindergarten through high school—in the rat race for college. Today, skyrocketing tuition effectively blocks more and more poor and middle class students from being able to enter the country's top colleges and universities. When they do make it, they become prisoners of debt after graduation.

Inequality is worsening within professions. Being a lawyer nowadays no longer guarantees you a huge salary unless you graduate from the best law schools. Blue-collar workers no longer can count on the solid middle-class salaries and workplace benefits they once could obtain before the country's manufacturing industry was destroyed and union representation dropped to a mere 7 percent in the private sector.

Technology and Inequality

While discounting the roadblocks to upward mobility, Mankiw goes on to argue that technological change has contributed to inequality as highly-paid CEOs of high-tech companies have been rightly compensated for their contributions to the economy. He writes, "…it seems that changes in technology have allowed a small number of highly educated and exceptionally talented individuals to command superstar incomes in ways that were not possible a generation ago."

So, Mankiw apparently is OK with Larry Ellison of Oracle—the highest-paid CEO in 2012—raking in $96.2 million in 2012, an increase of 24 percent from his 2011 salary of $77.6 million. Ellison's salary, however, improved more than his company did. In 2012, Oracle's income grew by 17 percent, but its stock price decreased 22 percent. More than $90 million of Ellison's 2012 compensation was in stock options.

But with technology, we enter a complicated terrain that mainstream economics, with its focus on a productive economic actor, cannot fully explain. Mankiw only mentions CEO salaries while failing to discuss technology's role in exacerbating inequality by destroying well-paying jobs and contributing to globalization, which has put downward pressure on wages at home while helping corporations find cheaper labor abroad. The smashing of unions and government trade policies that hurt domestic manufacturing (factors ignored by Mankiw in his paper) have fueled this process. The decline in unions mirrors the worsening of inequality. So does the decline in the federal minimum wage.

Ideological Indoctrination

At Harvard University, students have taken Mankiw over his neo-classical economics perspective and view on inequality. Dozens of students walked out of his Economics 10 class in 2011 in solidarity with students who face barriers to education across the country. The demonstration took place as the Occupy movement protested rising inequality and the growing concentration of power in the United States.

"We believe that Professor N. Gregory Mankiw, a former economic advisor to President Bush, played a key role in creating the policies which have exacerbated economic inequality and led to financial instability and collapse," students Gabriel H. Bayard and Rachel J. Sandalow-Ash wrote in an article titled "Tune In, Walk Out" in the university's newspaper, *The Crimson*. "We argue that it is unfair that he teaches this foundational course, which greatly impacts the attitudes of Harvard students, every year."

Unfortunately, Mankiw has also greatly impacted the minds of our country's elite.

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