CONCLUSION: CONSIDERING THE UNDESERVING, POOR AND RICH

Contemporary forms of organized politics have their origin in the struggle against capitalism and the particular tyranny of money. And surely in the United States today it is the tyranny of money that most clearly invites resistance: property/power rather than power itself. But it is the common argument that without property/power, power itself is too dangerous. State officials will be tyrants, we are told, whenever their power is not balanced by the power of money. It follows, then, that capitalists will be tyrants whenever wealth is not balanced by a strong government.

MICHAEL WALZER, Spheres of Justice

The fiftieth anniversary of President Lyndon B. Johnson’s declaration of a War on Poverty sparked a debate on the effectiveness of federal programs in reducing poverty. Conservatives, like U.S. Representative Paul D. Ryan (R-WI), believe that the persistence of the poverty rate at around 15 percent of the population means that government programs not only have not worked but have prevented that rate from falling. This critique serves the political purpose of forcing proponents of the governmental safety net to expend their energy defending it rather than working for fundamental reform. Meanwhile, the most vehement critics of antipoverty and redistributive programs...
advance the interests of the wealthy and powerful ("property/power") in public policy without hesitation, much less compunction.

**ANTIPOVERTY PROGRAMS: EFFECTIVE?**

Supporters of antipoverty efforts point out that LBJ’s “war” reduced those afflicted by poverty from 19 percent of the population in 1964 to about 11 percent by the mid-1970s. They add that the rate would have been much higher without public assistance, and that the U.S. Census Bureau’s ongoing (and arbitrary) measure of what is poverty leaves out benefits from programs that help the poor, such as SNAP and the Earned Income Tax Credit, with the latter program alone reducing the number of people living in poverty by about 5.5 million people.¹

Those in Congress who argue that antipoverty programs are ineffective engage in a self-fulfilling prophecy by cutting programs that do make a difference. The real debate should not be about the effectiveness of public assistance, but instead center on the fact that the government’s poverty index remains too low. Historian Michael B. Katz has described the haphazard way in which this measure came into being in 1963 (and was regarded as insufficient by the official who originally devised it) and then was revised—but not updated—through the years, instead resting “on unrealistic assumptions about the relationship of food to income.” Economist Angus Deaton lamented the U.S. government’s failure since 1963 to recalculate the poverty line; had that been done, the “poverty rate would have risen more rapidly than actually happened.” Deaton described the American poverty line as “absolute.” But in a wealthy country like the United States, he adds, “it is very hard to justify anything other than a relative poverty line. And a relative poverty line means that, compared with 1963, both the level and the rate of growth of poverty are being understated.”²

The term “poverty” itself, as David A. Shipler observed in *The Working Poor*, is unsatisfying because it “is not a category that can be delineated by the government’s dollar limits on annual income. In real life, it is an unmarked area along a continuum, a broader region of hardship than the society usually recognizes. More people
than those officially designated as ‘poor’ are, in fact, weighted down with the troubles associated with poverty.”

Thus the arbitrary line between poor and nonpoor underestimates what low-income people need to get by.

Moreover, the increase in inequality since the 1970s—with the flow of income shifting upward, and stagnant or declining wages dominating elsewhere—is partly responsible for keeping the “official” rate at about 15 percent, with one out of five American children living in poverty. This flow of income to the top has made the United States the most unequal in wealth and income among twenty-seven peer countries. At the same time, the United States has one of the weakest safety nets among developed nations. Pope Francis recognized that government programs to alleviate poverty, while meeting “certain urgent needs, should be considered merely temporary responses”; temporary, perhaps, but in Francis’s view, absolutely necessary. The American safety net needs to be stronger, not weaker, and a recalculation of the poverty line is long overdue. Janet Gornick, a professor of political science and sociology at the City University of New York, recommends that the United States emulate European countries, which use a relative poverty line that measures distance from the median income in a country. This defines poverty in relation to the standard of living in that country.

Gornick, as director of the Luxembourg Income Study Center, has examined poverty extensively across developed nations and observes that in comparison with Europe, the United States relies on programs “targeted on the poor, such as TANF [Temporary Assistance for Needy Families], SSI [Supplemental Security Income], Food Stamps, and Medicaid.” But in many European countries, “social policy provisions have a universal structure. So the rich, the middle class, and the poor are in the same programs.” This creates popular as well as political support. For this reason, she opposes removing the rich from those eligible for Social Security benefits, because “that would break the universality. . . . I don’t think Bill Gates needs a Social Security check, but we need him to be in the Social Security program.”

An extension of public welfare can also be a “growth strategy” that may stabilize the financial system. Monica Prasad, a Northwestern University professor of sociology, maintains that expanding the
availability of public welfare will lessen the demand for credit and “reduce financial volatility.” “A more developed [and more inclusive] welfare state will reduce the appetite for mortgage and credit that is built into the American political economy.” It will also pave the way for economic growth, because “as demand for finance lessens, rewards in the financial sector will lessen, and other, more productive and less bubble-inclined sectors will attract resources and skilled workers. For the United States, poverty reduction is a growth strategy.” More universal social policies accord with Pope Francis’s call that the poor “be fully a part of society” and for “the creation of a new mindset which thinks in terms of community and the priority of the life of all over the appropriation of goods by a few.”

But programs to combat poverty over the short term struggle to come into being against a powerful minority in American politics who remain convinced that many, if not most, of the poor are undeserving. They hold this conviction not for economic or pragmatic reasons, but on cultural and political grounds.

THE UNDESERVING POOR

In The Undeserving Poor, Katz commented: “For more than two hundred years, one theme has run through the American response to poverty. It is the idea that some poor people are undeserving of help because they brought their poverty on themselves.” The conviction among the minority believing that any poor do not deserve help goes beyond the misguided notion that government aid—namely, help from the rest of us who can afford it—creates a dependence on government among the poor that perpetuates poverty. They also make a moral judgment on the poor, regardless of whether those in poverty are working or not. While strong majorities of Americans favor government programs to help relieve poverty, even among the “undeserving,” in the echo chambers of Tea Party Republicans and Fox News there is no empathy—and much disdain—for the poor themselves and animus against a government disposed to help.

Critics who scorn those dependent on government aid believe that the needy are “moochers” who are lazy and cheat by accepting government benefits when they could work. Ironically, they
are correct about cheating—by one particular group. According to the research of Kathryn Edin and Laura Lein, many impoverished “single” mothers do cheat by hiding the fact that they are working or making money in an underground economy; and they lie about the help they get from family, friends, and even the fathers of their children to whom they may or (most likely) may not be married. They do this not because they are born cheats, but because living solely on government benefits or minimum wages is unsustainable. So they adopt “survival strategies” and cycle between being wage reliant or welfare reliant, using both whenever possible. And when these women do work, they are likely to earn about eighty cents on the dollar compared with what men earn in the same jobs.

Those eager to judge the poor as immoral need to be reminded about the changed structure of employment and the elimination of good-paying jobs for those with little education, along with a minimum wage that has lagged behind inflation. Their misplaced moralism leads to what Sasha Abramsky calls the “sticks” used against those seen as the undeserving poor, such as “requiring applicants for a host of assistance programs to undergo regular drug checks and fingerprinting.” Abramsky adds that this provision falls disproportionately “on blue-collar workers, because—with certain professions, such as airline pilots or police officers, being the exception—the higher up the pay scale one goes, the less likely it is that an employer will make you pee in a cup before being hired on.”

THE UNDESERVING RICH

Just who is required to pee in a cup tells a great deal about the double standard applied to rich and poor and most of the rest of us. The United States of Inequality is pervaded by class-based double standards, illustrated by the differential application of the term “moral hazard” (taking risks and not bearing the consequences) during and after the Great Recession. The many low-income people who bought homes they could not afford when the housing bubble was in effect received little help after it burst and became scapegoats for conservative talking heads. But little was said about moral hazard in the case of financial institutions that recklessly and fraudulently
enticed inexperienced home buyers into high-risk mortgages. The large banks that “securitized”—that is, sold a huge number of sub-prime residential mortgages to the government-sponsored mortgage enterprises Freddie Mac and Fannie Mae or to large investors (hedge funds, etc.)—had already been paid when the housing market collapsed. The financial institutions that bore heavy responsibility for the crisis received a taxpayer-funded $165 billion bailout that saved them, and their executives promptly rewarded themselves with millions in bonuses. Henry Paulson, as George W. Bush’s treasury secretary, and Timothy Geithner, while he was Obama’s treasury secretary, typified government officials from or allied with Wall Street. They blithely attached no conditions to the federal bailout provisions, while providing generously low interest rates, thus mirroring the pliant corporate boards of directors that allow CEOs to determine their own compensation.

In recent years, Americans have become well aware of how white-collar crime committed by billionaires occupies a different legal system from the rest of us. Barbara Ehrenreich has commented: “Steal $400—you get four years in prison. Steal $400 million—you get a platinum parachute.” While Ehrenreich’s figure of $400 million is impressive, it could even have been much higher. The Lehman Brothers’ executives who nearly collapsed the world economy in 2008 “ran up a $700 billion tab engaging in almost indescribably reckless and antisocial behaviors, borrowing on a grand scale to create and sell” dangerous financial products.

The financial crisis of 2008 unleashed a groundswell of outrage, calling for reform of Wall Street practices that put the entire economy at risk. In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. Since then, little evidence has surfaced to indicate that Wall Street has changed its ways. In 2012, Sheila Bair, who served as head of the Federal Deposit Insurance Corporation from 2006 to 2011 and did everything she could to rein in the reckless behavior of large banks, responded to the ongoing “greed, shortsightedness, and misbehavior” by asking “should we be surprised?” (Obama kept Bair, a moderate Republican initially appointed by President George W. Bush, in office for her competence and passion for protecting Main Street.) Our financial
system, remarked Bair, continues to exist in a rapacious culture infecting even the best institutions, one “that reflects a craven desire for personal profit that overrides any understanding or care about harm to others. . . . Small wonder that no one on Wall Street has learned a lesson given the hand slaps they received for the subprime crisis.”

To be clear, many of the very rich—the 1 percent—are productive citizens. A sizeable number of them work long hours, more (on average) than the 99 percent. They are a heterogeneous slice of people across America, in a variety of occupations, and while most are Republicans, many hold diverse social and political views. The “undeserving rich,” as described by Leslie McCall, are those who Americans see as prospering while others are engulfed in economic turmoil, and particularly those who are perceived as enriching themselves by blocking opportunity for others. Blocking opportunity are the key words here.

But why not expand that understanding of the undeserving rich to include those who cheat, game the system, break the law, or legally/illegally bribe public officials to gain or increase their wealth? A portion of the poor (and some thieves who are not so poor) manipulate the welfare system to their advantage, but they do not leave economic distress for millions in their wake, as did the undeserving rich who committed financial fraud and brought on the Great Recession. If someone gets caught illegally accepting food stamps or other welfare benefits, they usually are punished. But in the aftermath of the 2008 recession and bank bailouts, none of the high-ranking Wall Street financial executives who were involved went to jail “for any of the systemic crimes that wiped out 40 percent of the world’s wealth.”

“Even now,” wrote journalist Matt Taibbi in a book that appeared in early 2014, “after JPMorgan Chase agreed to a settlement of $13 billion for a variety of offenses and the financial press threw up its arms over the government’s supposedly aggressive approach to regulating Wall Street, the basic principle held true. Nobody went to jail. Not one person.” CEOs of the firms that collapsed—Richard Fuld of Lehman Brothers (see chapter 4), Jimmy Cayne of Bear Stearns, Stan O’Neal of Merrill Lynch, and Chuck Prince of Citigroup—all walked away not only free, but rich.

Judge Jed S. Rakoff of the Federal District Court in Manhattan
was among those wondering why no high-level executives had been prosecuted. Through his rulings in a series of high-profile cases, Judge Rakoff, who had experience as both a defense attorney and a prosecutor, had already established himself as a critic of slaps on the wrist for financial malfeasance. In 2011, he gained national attention when he rejected a settlement between Citigroup and the Securities and Exchange Commission because it did not require the company to admit wrongdoing, calling the $285 million penalty levied on the firm “pocket change.” With regard to Wall Street’s role in the events of 2008, Rakoff carefully repeated several times that he neither possessed inside information nor had an opinion regarding anyone’s guilt. But he did refer to the Financial Crisis Inquiry Report that used “variants of the word ‘fraud’ no fewer than 157 times in describing what led to the crisis.”

In a long, thoughtful essay in the *New York Review of Books*, Rakoff considered multiple reasons why no prosecutions had been brought against those involved, but he was scathing in regard to U.S. Attorney General Eric Holder’s comment that such actions “will have a negative impact on the national economy, perhaps even the world economy.” This excuse, Rakoff said, is “frankly [disturbing to a federal judge] in what it says about the [Justice] Department’s apparent disregard for equality under the law.” Holder’s rationale was irrelevant, the judge said, with regard to the prosecution of individuals. Rakoff disagreed with the trend in recent decades of the government prosecuting companies instead of individuals and suggested that “the future deterrent value of successfully prosecuting individuals far outweighs the prophylactic benefits of imposing internal compliance measures [on firms] that are often little more than window dressing.”

Two months earlier, prominent establishment figure William C. Dudley, president of the New York Federal Reserve Bank, gave a speech on potential solutions to the “too big to fail” problem and called attention to a prevailing culture in banking and finance of an “apparent lack of respect for law, regulation, and the public trust.” He found alarming “evidence of deep-seated cultural and ethical failures at many large financial institutions.” Dudley’s words amounted to polite and restrained references to what a *New York Times* reporter
bluntly called “money laundering, market rigging, tax dodging, selling faulty financial products, trampling homeowner rights, and rampant risk taking—these are some of the sins that big banks have committed in recent years.”

Any candid reports on these activities universally acknowledge that regulators and the U.S. Justice Department lack either the will or the mechanisms to prevent such abuses from continuing. Indeed, a 2014 report by the Justice Department’s inspector general indicated that the federal government’s interest in prosecuting mortgage fraud was negligible between fiscal years 2009 and 2011. In fact, wrote the New York Times’ Matt Apuzzo in an article about this report, the Obama administration “made the crime its lowest priority and has closed hundreds of cases after little or no investigation.” Ted Kaufman, a senator (D-DE) during the years covered by the report, unsuccessfully urged the Justice Department to prosecute mortgage fraud. He commented that the government’s inaction “fits a pattern that is scary for democracy, that there really are two levels of justice in this country, one for the people with power and money and one for everyone else.”

Jeff Connaughton, a Washington insider who was Kaufman’s chief of staff and a former lobbyist turned reformer, explained in a recent book why no punishment ensued: “Money is the basis of almost all relationships in D.C. And, in a nutshell, this is why our political campaign system and D.C.’s mushrooming Permanent Class—who alternate between government jobs and lawyering, influence peddling and finance—mean Wall Street always wins.” That the financial industry “always wins” may be hyperbole, but no one disputes that its influence over Congress, the executive branch, and the Supreme Court has enlarged in recent decades, even as its role in the economy has changed. Historically, big banks provided capital for important, job-creating sectors of the economy: transportation, manufacturing, scientific research, technology.

Now, however, Wall Street’s role in financing entrepreneurial business is a small part of what it does, as John Cassidy pointed out in a provocative 2010 New Yorker essay, “What Good Is Wall Street?” “Most people on Wall Street,” wrote Cassidy, “aren’t finding the next Apple or promoting a green rival to Exxon. They are buying and
selling securities that are tied to existing firms and capital projects, or to something less concrete, such as the price of a stock or the level of an exchange rate.” The revenue of many big banks now comes from trading rather than corporate finance, an activity that critics have said amounts to “rents” that do not deliver “economic value.” At the same time, compensation for work in the financial sector has risen to dizzying heights. Bright Ivy League graduates are flocking to Wall Street because, within a short time, they can be earning more than a brain surgeon with years of experience and be rewarded for working in an industry, Cassidy noted, that for the most part “doesn’t design, build, or sell a single tangible thing.”

As their earnings grow, many of those recruits catch the competitive fever of “the Street” and become addicted to making more than the next guy, according to former derivatives trader Sam Polk. Wealth addiction, Polk discovered as he made his millions, can become insatiable. More importantly for politics and society, all of that money buys government. In 2008, the financial industry had given generously to presidential candidate Obama, but by 2012, after the Dodd-Frank Act and remarks about “fat cats” by President Obama, Wall Street opened its coffers wide for the Republican presidential candidate, Mitt Romney, and spent more than ever before on lobbying and campaign contributions. In the 2014 election cycle, banks and financial services spent well over a record $1 billion to influence Washington, and they began to reap the payoff by the end of the year (see below).

Wall Street’s ability to get what it wants from government also owes much to the Capitol’s “revolving door.” Attorney General Eric Holder and Lanny A. Breuer, assistant attorney general of the Criminal Division, both worked as partners at the huge, prestigious legal-defense firm of Covington & Burling. The firm’s clients included the four largest U.S. banks—JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo & Co—along with dozens of other banks and financial institutions. In moving to the Department of Justice, Holder and Breuer were now responsible for prosecuting banks instead of defending them. On their watch the DOJ pursued a policy of penalizing firms, not individuals, because of concern for “collateral consequences,” or, harm to the whole economy.
During January 2013, the public television show *Frontline* broadcast “Untouchables,” a documentary examining Breuer’s failure to use available tools to prosecute individual criminal behavior. This followed on the heels of the DOJ’s decision the previous month not to indict any members of the international London bank HSBC for laundering drug money and helping finance terrorists. Instead, the bank, an accomplice of Mexican drug cartels and Islamic jihadists, paid penalties of almost $2 billion. “Too big to fail” had morphed into “too big to jail,” even for collaborating with murderers and sociopaths. Soon after the *Frontline* exposé, Breuer resigned from the DOJ and quickly cashed in on his government “service.” He returned to Covington & Burling (now expanding internationally) for an initial compensation of $400 million a year.21

The question here remains, should not those who accumulate wealth by favors, fraud, bribery, influence, or crime, be counted among the cohort regarded as the undeserving rich?

In a survey conducted in 2012 by Labaton Sucharow, a whistleblower law firm, 26 percent of the bankers in the United States and the United Kingdom said they had observed or had first-hand knowledge of wrongdoing; 25 percent said they believed they needed to engage in unethical or illegal behavior in order to succeed in finance; 30 percent felt pressured to commit such actions; and only 41 percent reported that members of their company had “definitely not” engaged in illegal or unethical behavior.22

Banks and other financial firms do not need to engage in illegal actions to make money, however. Successful, large-scale rent seeking (see chapter 4) can result in millions flowing into a firm’s coffers at consumers’ or taxpayers’ expense. A recent episode involving Goldman Sachs illustrates the point. Goldman Sachs profited handsomely from the economic collapse of 2007–2008 by betting against the securities it had promoted and sold to clients. In 2009, Goldman and other Wall Street firms that had been bailed out by billions of dollars in taxpayers’ money responded to a backlash of negative publicity by reducing somewhat the huge bonuses paid to their executives, but by 2010 those bonuses rebounded to Midas-level treasure. In 2012, Goldman Sachs CEO Lloyd Blankfein received $21 million in compensation, and the next year the firm’s bonus pool climbed to $26.7
billion, the largest since 2007. The close ties between Goldman Sachs and the administrations of presidents Bush and Obama have been evident for some time. Henry Paulson served as CEO of Goldman, and Timothy Geithner was a protégé of Robert Rubin, a longtime Goldman Sachs executive. The firm contributed heavily to Senator Obama’s 2008 presidential campaign, and around 15 to 20 high-level members of Obama’s first administration had worked directly or indirectly for Goldman Sachs.\(^{23}\)

A 2013 *New York Times* investigative report revealed that in 2010, Goldman Sachs bought the aluminum storage company Metro International Trade Services, along with twenty-seven industrial warehouses in Detroit, for $500 million. Goldman then exploited pricing regulations determined by the London Metal Exchange, owned by a Hong Kong company run by executives of big banks. Goldman charged rent for storing the aluminum in its newly acquired warehouses, except it was not “storing” the aluminum but holding it off the market. This chicanery poured money into Goldman’s coffers and those of allied investors by upping the cost of aluminum cans, electronics, automobiles, siding for houses, and other products. The tenth of a cent thereby added to the price of an aluminum can seems tiny, but Americans use 90 billion aluminum cans every year. For all products manufactured with aluminum, the estimated cost to consumers is $5 billion a year.

In Detroit, forklift operators at Goldman Sachs’s warehouses moved 1,500-pound bars of the metal among the various storage buildings, “a merry-go-round of metal,” one former driver called it. This tactic (reminiscent of oil tankers making U-turns from port to port during the alleged energy shortages of 1973 and 1979) delayed the delivery of aluminum from what had been six weeks to sixteen months. Goldman then profited by raising the cost of delivery and supply, even when the overall price of aluminum in the metals market fell after 2010.\(^{24}\)

Aluminum is just part of how financial firms capture basic commodities markets and infrastructure. Goldman Sachs, JPMorgan Chase, and Morgan Stanley “own oil tankers, run airports, and control huge quantities of coal, natural gas, heating oil, electric power, and precious metals. They likewise can now be found exerting direct
control over a whole galaxy of raw materials crucial to world industry and to society in general, including everything from food products to metals like zinc, copper, tin, [and] nickel."\textsuperscript{25}

Their running up the tab in these markets is entirely legal, thanks to the Financial Services Modernization Act of 1999 that allowed banks to merge with industry. The Federal Reserve spurred Wall Street to even greater commodities seizures by ruling that banks taking control of “nonfinancial businesses” could “reasonably be expected to produce benefits to the public.” Such was the rationale for the Securities and Exchange Commission allowing JPMorgan Chase, Goldman Sachs, and Black Rock (a large money-management firm) to buy up 80 percent of the copper on the market and sequester it in warehouses.\textsuperscript{26}

Thus, under cover of friendly legislation and regulations, Wall Street firms are able to engage in economic machinations that are the antithesis of free-market capitalism and reap “rents” unrelated to productive economic activity. Lord Adair Turner, a businessman, academic, and self-described technocrat, headed Britain’s regulatory agency overseeing financial services from 2001 to 2013. Perhaps something like Goldman Sachs’s aluminum shuffle was what Turner had in mind in 2009 when he commented that much of what happened in the financial centers of London and New York was “socially useless activity.”\textsuperscript{27}

The concentration of industrial market power in the financial sector also results from a thirty-five-year wave of deregulation that has permitted the formation of cartels and monopolies reminiscent of the First Gilded Age in the late nineteenth century. During the 1960s and 1970s, Congress, newly created federal regulatory agencies, and the courts limited the ability of corporate America to endanger workers’ safety and health or despoil the environment and, in general, protected the economic rights of ordinary citizens. But beginning in the Carter administration and gathering speed during the Reagan years, Republicans as well as Democrats responded to a business offensive against regulatory agencies that was both ideological and political, as well as to corporate money poured into political campaigns and lobbying. What law professor Thomas O. McGarity calls a laissez-faire revival “contributed to the growing disparities
of wealth and well-being that became painfully obvious during the last decade.”

The argument here is that wealth accumulated by individuals under cover of laws and deregulations that cheat everyone else is undeserved. People whose income is inflated by illegal actions (such as mortgage fraud) get away with it because there is one kind of unjust “justice” for them and another kind for everyone else; some of the former are not only undeserving, but have committed crimes. Surely criminals who get off scot free are undeserving.

The term “scot free” originally referred not to getting away with breaking the law, but to avoiding taxes. “Scot” comes from the Norse term “skot,” meaning tax due from a tenant, and in England from the twelfth to the eighteenth centuries, “scot” (and “lot”) applied to taxes due. Those who were exempt (usually the privileged) were “scot free.” The term nowadays can loosely be applied to sixty large corporations that, under the chaotic and rigged U.S. corporate-tax code, offshored $166 billion in profits in 2012, shielding more than 40 percent of their revenues from federal taxes. Google, “one of the world’s biggest tax avoiders,” did get off scot free. But other companies trumped that by paying nothing on their corporate federal income tax returns and instead getting tax refunds, such as General Electric (to the tune of $3 billion), Boeing, Verizon, Kraft Foods, and Dow Chemicals.

When Steve Jobs, cofounder and CEO of Apple, died in 2011, the world mourned a creative entrepreneur taken far too young. But Apple, which Jobs made into the world’s most profitable technology company, also excelled at avoiding billions of dollars in federal taxes, as well as taxes in California and twenty-one other states. Although Apple’s headquarters are in California, by setting up a small office in Reno, Nevada, Apple avoids California’s corporate 8.84 percent tax rate. By creating subsidiaries in low-tax countries like Ireland, the Netherlands, Luxembourg, and the British Virgin Islands, Apple has avoided billions in taxes that might otherwise go into the U.S. Treasury. Jobs’s net worth when he died was estimated at over $8 billion.

These corporations and their lavishly compensated executives perhaps might be said not to deserve the protection of the U.S. armed forces should an unfriendly government decide to nationalize their
resources; nor deserve the nation’s use of military might to maintain their access to resources such as Middle Eastern oil; nor deserve actions by the Federal Reserve and the U.S. Treasury Department to provide billions in taxpayer money for bailouts; nor deserve the government’s financing of scientific research from which they derive benefits. Such corporations and executives may be said not to deserve all these things (and more), but they expect them, and they get them.31

Excessively compensated CEOs of firms that have floundered, have laid off thousands of employees, and have received taxpayer bailouts (see chapter 4) also qualify as undeserving rich. Many Americans intensely resent the accumulation of wealth by these nabobs at the expense of both everyone else and the public good. But hostility to the undeserving rich does not move the political class to action and bring about remedial policy. Not even the actions of those who commit crimes seem to result in penalties that might deter such behavior—let alone sustained political backlash toward them—though the social costs are enormous.

The author of a standard textbook on white-collar crime commented on the relative disparity in the injury done to society by street thugs versus white-collar criminals:32

To most people, the muggers, murderers, and drug dealers they might encounter on a dark city street are the heart of the crime problem. But the damage such criminals do is dwarfed by the respectable criminals who wear white collars and work for our most powerful organizations. The annual losses from antitrust violations—just one of a long list of major white-collar crimes—are estimated to be ten times greater than the annual losses from all the crimes reported to the police. The toll of injuries and deaths from white-collar crime is even more shocking. The asbestos industry’s cover-up of the dangers of its products has probably cost almost as many lives as all the murders in the United States for an entire decade.

The undeserving rich include many who are not members of the criminal elite. Some do not break laws, however, merely because
laws have been written in their favor or loopholes have been created by deregulation and special exemptions. These are wealthy and (mostly) powerful men whose corporations and lobbyists have captured the government. The plutocracy’s hold over national and many state governments does not appear to be threatened, while exogenous forces in twenty-first-century capitalism seemingly reinforce politically generated policies that maintain and deepen inequality.

**PLUTOCRACY ON THE MARCH, DEMOCRACY TRAMPLED UNDERFOOT**

In early 2014, Thomas Piketty, the French economist who, with Emmanuel Saez, has done so much to raise awareness of the growth of inequality in income and wealth, published *Capital in the Twenty-First Century* (the English version came out in March, and the original appeared in France a few months earlier). Piketty argues that the global advance of inequality is perhaps all but inevitable—unless. He has assembled impressive evidence to show that until political action is taken by governments, income and wealth disparity will not stabilize and diminish, as American economic orthodoxy had it; instead, inequality will inexorably increase. The eventual result is likely to be an oligarchy of inherited wealth and privilege that will dominate global society. Piketty doubts that politicians have the will to reverse the forces creating inequality, and there is good reason to share his pessimism.3

Piketty largely attributes the enormous burgeoning of income inequality to the phenomenal increase in wage disparity, with ordinary workers getting less income from their production while top managers, who have “the power to set their own remuneration,” reap unprecedented earnings. Spectacular salaries and other compensations at the “summit of the wage hierarchy,” he asserts, are the principal cause of rising inequality in the United States. Capital in the twenty-first century is creating wealth for the owners of capital and assets at a rapid pace (especially in Europe), and what is emerging is “a new patrimonial capitalism.” Eventually, the United States, too, will be ruled by oligarchies of family dynasties of inherited wealth.34
Although Piketty puts far less weight on technological change, other social scientists who forecast continuing socioeconomic stratification point to the digital revolution as destroying middle-class jobs while expanding low-income occupations and creating far fewer highly skilled and highly paid positions. Those who see digital technology as “driving an unprecedented reallocation of wealth and income” also predict that such forces will continue to foster inequality, even as technology creates “bounty for society and wealth for innovators” In a similar vein, economist Angus Deaton argues that the growth of inequality has accompanied progress in material well-being, both among and within nations. “Inequality is often a consequence of progress,” but it can result in improvement as well as harm to people around the globe.55

But progress, as Deaton knows well, doesn’t just happen entirely on its own. Globalization, technological change, progress, or “history” are concepts that invoke what Karl Marx referred to when he observed: “Man makes history, but not under conditions of his own choosing.” Whatever causal agency attributed to what, for the sake of argument, can be called “impersonal forces,” political decisions and policies have exacerbated inequality, and the United States, ranking among the most developed and putatively democratic nations, has done the least to reverse the growing inequality of income and wealth.

An accumulation of policy choices over several decades laid the groundwork for a political economy creating enormous disparities of income and wealth in the United States, not exogenous forces like globalization or technological change, though the latter have played a role. Ruinous asymmetrical governmental policies have influenced how those forces have taken effect. International comparisons demonstrate this again and again. There is nothing inevitable about inequality. A generation ago, economists accepted Simon Kuznets’s theory that growth in the inequality of income and wealth would later plateau and stabilize, as if the economy of a society were self-regulating. Piketty has succeeded in putting Kuznets’s prediction into the context of the period of shared prosperity from the 1940s to the 1970s, an era that Piketty and other economists describe as an anomaly.
Piketty deserves credit for making clear that the discipline of economics—aesthetic politics or political economy—cannot, by itself, explain galloping inequality. He declares that “the history of the distribution of wealth has always been deeply political” and “is shaped by the way economic, social, and political actors view what is just and what is not.” But Piketty, as some critics have observed, does not say enough about the policies of a plutocratic government, the weakening of unions, the shrinkage of progressive taxes on income, the steady decline of how much corporations pay in taxes, and the loosening of government regulations across the board that allow enormous profits to accrue to the drug, technology, and financial sectors of the economy, among others. Add to that the rise of an aggressive, corporate-financed antigovernmental movement and the promotion of a free-market ideology that is little understood by the rank and file who embrace it (and is set aside by the financial and corporate elite when profitable). The reactionary Right aims not only to keep the infrastructure of rent-seeking and privilege in place so income will still flow to the top, but also to reverse the health, financial, and regulatory reforms President Obama and the Democrats have managed to obtain against fierce Republican opposition. These right-wingers would reverse the social policies of the New Deal and the Progressive Era if they could.

Many analysts of America’s rising inequality lament its existence on both practical and moral grounds, but they believe that the correlations—such as those discussed in this book—do not provide definitive proof of the “deleterious effects of inequality.” Inequality rises, and as it does unions decline, life expectancy for low-income people is reduced, social mobility atrophies, wages for the bottom 50 percent go down, the middle class shrinks, the children of the affluent swamp elite universities and colleges, residential segregation by income expands, and on and on. But certitude in these matters, some say, is elusive.

Skeptics maintain their doubts in such areas as health and life expectancy, yet the indicators of a shorter and unhealthier life pile up in any accounting of probable causes: poverty and stress; low levels of education; lack of health insurance; nonavailability of healthy food; food insecurity; not enough work and not enough income; smoking;
obesity and lack of exercise; job loss; absence of social services in low-income localities; teenage births. In short, a stultifying web of inequality. Yet caring professionals devoted to helping society’s afflicted sometimes warn that “it is hard to prove causality with the available information,” and that aggregate data do not necessarily translate into individual behavior, a statistical red flag known as the “ecological fallacy.”

A long time ago, as a graduate student in history, I tried to learn statistics—unsuccessfully. (I became very knowledgeable about the first chapters of statistics texts, but beyond those . . .) I took comfort in the axiom that “There are lies, damned lies, and statistics.” I did understand the logic of the ecological fallacy that bedevils reform-minded social scientists concerned about inequality. I grasped all too well, as the skeptics do, that a correlation is not a cause, and this was ingrained in my would-be historian’s mind. But I am convinced, along with Richard Wilkinson and Kate Pickett in *The Spirit Level*, that the concatenation of multiple correlations associated with inequality can hardly be by chance. The American public, and their elected representatives, should also be persuaded by this. Imprinted in my memory, too, were the words of Charles Beard, a once-influential historian who got some things wrong, many things right, and shook up history writing in the early twentieth century. When it came to causes, Beard said, “we don’t need to know everything to know why.”

The plutocracy’s capture of government in the United States has made the political economy of the New Gilded Age a poker game with a stacked deck that deals out royal flushes and full houses to the corporate elite and an enabling political class, while everyone else gets hands with broken straights. Middle-class America declines; low-income families—the working poor—struggle to get by; and the poor, well, they mostly stay poor or become worse off.

Rising inequality of income and wealth could be halted—and even reversed—by a government committed to full employment, and by corrective measures to diminish the rampant inequities affecting all the areas of life that have been described in the preceding pages. Given the present state of political dysfunction and the war being waged by reactionary plutocrats to destroy the remaining unions, keep wages low, undermine economic security for tens of millions of Americans
by transferring risk and accountability away from prospering corporations and onto individuals and families, eliminate corporate taxes completely and allow giant oligopolies unregulated freedom in economic life, and generally enhance the power of the elites, it seems unrealistic indeed to hope for more than an incremental approach to the long list of needed reforms. Given the continual proliferation of inequality and its protean ability to take new guises, I have inevitably missed some dimensions. But what I have brought together in this book demonstrates inequality’s breathtaking scope and how it affects almost all Americans’ lives, except for the superrich.

Inequality does not merely maintain or increase poverty. It degrades the quality of life of society as a whole—not just the dwindling middle class, but those above it, and especially those below. All people are diminished by it. A society’s civic health declines when most of its citizens believe that their economic, political, and judicial systems are tilted against them. Fairness requires the application of universal norms, ones where Warren Buffet’s secretary would pay less income tax than he does. Fairness requires that there is one system of justice and that everyone plays by the same rules. Inequality will always exist, but in a fair society its sting lessens, and the poor have access to opportunities to change their lot.

The concept of the undeserving poor now serves as a political weapon in the arsenal of reactionary servants of the undeserving rich in the United States, and it distracts the country from how the rent-takers, the lawbreakers, and the unpunished enrich themselves and deepen inequality and its resultant social ills. Ironically, the cohort of the undeserving rich shares an important trait with the imagined character of the poor in the minds of reactionaries. The undeserving rich are dependent on the government for handouts in the form of a rigged tax system, corporate welfare, and favorable laws and regulations that increase their profits at the expense of the U.S. Treasury and add to the tax burden and social costs for everyone else. Should the media ever resurrect itself into responsible journalism, it might expose how these elites make their millions. When private-equity CEO Stephen Schwartzman complains that proposals to repeal the low tax-rate on carried interest remind him of the German invasion of Poland (he later apologized), a reporter might remind listeners/
readers that Schwartzman’s fortune of over $10 billion could not exist without a biased tax system. When venture capitalist Tom Perkins (worth over $8 billion) suggests in a letter to the Wall Street Journal that criticism of the 1 percent compares with the Nazi’s persecution of Jews, that only taxpayers should vote, and that the rich should have more votes, commentators might point out that the wealthy already possess inordinate political influence and that the United States is supposed to be a democratic republic, not the kind of corporate state Italy’s fascist dictator Benito Mussolini once envisioned.39

Only the federal and state governments can restore fairness to a tax code that creates a Schwartzman and a Perkins and ensure that the wealthy and corporations pay their fair share. The social costs of a lightly taxed—or untaxed—plutocracy have been accumulating for decades, visible in the nation’s crumbling infrastructure and the underfunding of public education at every level. Only the federal and state governments can make social-welfare programs less targeted only on the poor and more inclusive of other classes, with universality as an ultimate goal. States that raise revenue by disproportionately burdening the poor and near-poor through sales taxes while reducing or eliminating progressive income and corporate taxes need to end this inequity on practical as well as moral grounds. These states (mostly former members of the Confederacy), through regressive taxation, lower the standard of living and quality of life for all their citizens. Moreover, their public services would be worse off without the federal benefits paid to them that are well in excess of what these states contribute in tax dollars. State legislatures in all regions are cutting funds for education, especially higher education; reducing social mobility; and further squeezing the middle class. For-profit universities prey on veterans and low-income students and constitute exhibit one in the case establishing the breakdown of the American educational system. Or should that status be accorded instead to the 1,500 high school “drop-out factories”?

Only federal and state regulation can prevent the continuous expansion of the poverty industry and its predation on the poor. Information programs, sponsored by the government and private foundations, that educate and forewarn the predators’ low-income victims could help. What will prevent the undermining and raiding
Making the American educational system a cross-class meritocracy constitutes an enormous challenge, but universities are filled with smart and well-intentioned people who need to attack this problem, with help from a federal government that recently has contributed to increasing opportunity for low-income high school graduates, but also to disproportionately peopling the best institutions with the children of the affluent.

Raising the minimum wage will bump up the paychecks for those low-income workers making meager wages and lift millions of the poor and near-poor out of poverty and off of public assistance. Putting more cash into the hands of those millions will improve conditions for middle-class workers, whose pay has lagged far behind their increased productivity. In short, when the United States ceases to have one of the largest low-wage labor forces among developed nations, the salubrious effects will be experienced throughout the economy. More importantly, federal and state governments must commit themselves to a policy of full employment. The more people who are working, the fewer the unemployed; wages will rise, and a shared prosperity will reemerge.

The road ahead is steep. The nation’s workforce—having undergone repeated shocks, offshoring, mergers, automation, deunionization, and the hard knocks of the Great Recession—has deteriorated. The labor-force participation rate of prime-working-age adults (those from age twenty-five to fifty-four) is now one of the lowest among comparable nations in the OECD, and it provides a depressing insight into the unavailability of good jobs and the damaging effects of a low-wage economy. In the 1960s, only about five out of a hundred men lacked a job at any one time. That ratio has tripled, to 16 percent, and the number of women who are out of the workforce has also risen. Many reasons cause men and women in that cohort not to work, according to a recent poll by the Kaiser Family Foundation, the New York Times, and CBS News. But among the 30 million Americans on the employment sidelines, many “are eager to find work and make large sacrifices to do so.” Low-wage jobs paying $10 an hour, however, cannot improve their situation, much less restore their dignity after having lost better-paying jobs—and a sense of worth.
More American women would reenter the workforce if they enjoyed the flexibility and support provided by some European governments, though, compared with men, not working tends to be more positive for many of them. The key for women with children is to balance family and work. A poll of prime-age nonworkers, and an extensive analysis of it by writers for the New York Times, made it clear that changes in society in the past several decades have contributed in multiple ways to the decline of the workforce. The fact remains that many who want to work and would work at decent jobs cannot. In early 1941, as World War II raged in Europe and the Pacific and the United States prepared for possible involvement in it, President Franklin D. Roosevelt delivered his “Four Freedoms” speech to Congress. Alongside freedom of speech and expression, freedom of worship, and freedom from fear, he listed “freedom from want,” which, he made clear, meant economic security and “jobs for those who want them.”

“Government” will not pursue full employment or other policies to promote economic security, however, without an outcry and action from millions of ordinary citizens. These Americans are getting plenty of advice about what to do—but they must listen to it. It is past the time for what used to be an energetic, reforming middle class to awaken to what the nation has become. Minimum-wage workers staging walkouts and protests are showing more spirit and fight than most of those in the middle, who are better off. The task of books like this is to keep reminding the middle that they are getting screwed, especially by their elected representatives in Congress, whose overriding goal is to be reelected. A strong, progressive, populist voice, like that of Occupy Wall Street, needs to emerge, but it has to have specific goals that, one by one, will take apart the edifice of plutocratic government.

As the preceding chapters have shown, the consequences of inequality are multiple, and they interact with one another like hazardous chemicals. Few exist independently, while almost all merge with and reinforce one another, and thus produce further hardship for so many. Inequality in the twenty-first century is betraying the promise of America.

The mid-twentieth-century era of shared prosperity—economists call it the “Great Compression”—probably was an anomaly, as Thomas
Piketty has argued. But it resulted not from an act of God or from entirely natural forces beyond the control of government. Rather, the infrastructure underlying the growth of widespread economic security was created by government policies, strong labor unions, a high-wage labor market, investment in education (such as the G.I. bill), and the restraint of a business-corporate elite that was not obsessed with maximizing personal wealth, whatever the social costs. During the Great Compression, the financial industry did not rake in 25–30 percent of all business profits—Wall Street's share of the latter rose as high as 41 percent in the last decade. Nor had finance captured the U.S. Congress, a reality all too evident as these words are being written at the end of 2014.

At a time when Citigroup (which received $50 billion in taxpayer aid in 2009), in a bill written by its lobbyists, persuaded Congress to repeal a requirement of the Dodd-Frank law that limited the risk of derivatives trading, Walzer's words at the outset of this chapter ring true: “capitalists will be tyrants whenever wealth is not balanced by strong government.” No such government balance counteracts capital in the twenty-first-century United States. Americans' government is no longer theirs; its strength empowers capital and Wall Street at the expense of Main Street. In the United States, a burgeoning plutocracy is the thing in the saddle. Pope Francis's 2013 critique of “the new idolatry of money and the dictatorship of an impersonal economy” echoed Walzer and stripped away the mirage of a protective, just state. “While the earnings of a minority are growing exponentially,” Francis declared in Evangelii Gaudium, “so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules.”
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