American University Working Paper Series

WAGE STAGNATION, RISING INEQUALITY AND THE FINANCIAL CRISIS OF 2008

Jon D. Wisman[*]

ABSTRACT: The most widely embraced explanations of the financial crisis of 2008 have centered upon inadequate regulation stemming from laissez-faire ideology, combined with low interest rates. Although these widely-acknowledged causal factors are true, beneath them lie deeper determining forces that have received less notice: wage stagnation and a dramatic increase in inequality in the U.S. over the preceding 35 years. Wage stagnation and heightened inequality generated three dynamics that made the economy vulnerable to systemic dysfunction. The first is that they constrained consumption, reducing profitable investment potential in the real economy, and thereby encouraging an every wealthier elite to flood financial markets with credit, helping keep interest rates low, encouraging the creation of new credit instruments and greater indebtedness, and fueling speculation. The second dynamic is that consumption externalities were generated, forcing individuals to struggle harder to find ways to maintain the welfare of their families and maintain their relative social status. The consequence was that over the preceding three decades household saving rates plummeted, households took on ever-greater debt, and worked longer hours. The third dynamic is that, as the rich took larger shares of income and wealth, they gained more command over ideology and hence politics. Reducing the size of government, cutting taxes on the rich and reducing welfare for the poor, deregulating the economy, and failing to regulate newly evolving credit instruments flowed out of this ideology.

KEYWORDS: Underconsumption, deregulation, speculation, real estate boom, credit, conspicuous consumption, social respectability

JEL Classification Codes: E21; E44; G01

The dominant explanations of the current financial crisis have focused on deregulation and inadequate oversight resulting from laissez-faire ideology, low interest rates resulting from excessively loose monetary policy and a global glut of saving, "irrational exuberance" or "animal spirits," and moral hazard.[1] Although these claims are true, they represent a surface reality, beneath which lie deeper determining causes of the conditions in which such a crisis might occur. These deeper causes were wage stagnation and the dramatic increase in inequality over the preceding 35 years. Together they generated three dynamics that underlie the crisis of 2008.

---

[*] Professor of Economics at American University, Washington, D.C. Research assistance provide by Barton Baker is gratefully.

https://doi.org/10.17606/mc7a-f327

The first resulted from limited investment potential in the real economy due to weak consumer demand as those who consume most or all their incomes received proportionately much less. Seeking profitable outlets for its dramatically increased income and wealth, the elite fueled first a stock market boom, and then after the high tech bubble burst, a real estate boom. It flooded financial markets with credit, helping keep interest rates low and encouraging the creation of new high-risk credit instruments that enabled more of their increased income to be recycled as loans to workers.

The second dynamic is that wage stagnation and greater inequality created consumption externalities, requiring households to find ways both to meet family needs and to maintain their relative status, their social respectability. Pressure to do the latter was especially strong in housing, the most important asset and symbol of social status for most Americans. As a consequence, over the past three decades the household saving rate plummeted, workers worked longer hours, and households took on ever-greater debt.

The third dynamic is that as the rich took an ever-greater share of income and wealth, they and their corporate interests gained relatively more command over ideology and greater influence over politics so as to change the rules of the game. In their competition for status among themselves, they understandably supported measures that brought them yet greater shares of the nation's income and wealth. They spontaneously gravitated toward political and economic doctrines that were supportive of their self-interests. And as their command over essentially everything grew, so too did their ability to craft self-serving ideology -- especially supply-side economics, a variant of laissez faire economics – in a manner that made it be ever-more convincing to a majority of the electorate.[2] Flowing out of this ideology were tax cuts favoring

the wealthy, a weakened safety net, deregulation of the economy (especially the financial sector), and the failure to regulate newly evolving credit instruments.[3]

Given the importance Keynes assigned to inequality in accounting for inadequate aggregate demand (1936: 372-75), it is surprising that so little attention has been given to wage stagnation and inequality, much less growing inequality as a potential causal factor in crises. Moreover, causal empiricism might have been expected to draw some attention to a possible relationship. Inequality increased dramatically during the decade preceding the crash of 1929. Further, according to Reinhart and Rogoff , whereas there was only one banking crisis between 1947 and 1976, there were 31 between 1976 and 2008 (2008: 6, Appendix). In the earlier period, inequality declined slightly, whereas in the later period it exploded. Highly influential treatises on the Great Depression, e.g., Bernanke (2000), Friedman and Schwartz 1963, 1965, and Temin (1976, 1989) make no mention of a role for rising inequality in the generation or perpetuation of that crisis. Rising inequality has also received little attention within mainstream economics as a causal factor for the current crisis. A number of more heterodox economists, on the other hand, have pointed to rising inequality as a factor in setting the stage for the crisis of 2008. Palma, for instance, notes that "as good old-fashioned Keynesian economics has always emphasized…the current crisis has again shown that developments in financial markets are closely related to the distribution of income" (2009: 843). Stockhammer views the crisis as a result of degregulation and polarization of income distribution (2011. However, a systematic treatment of this relationship in the current crisis has not been found.[4]

The first dynamic resulting from wage stagnation and greater inequality – the shift of investment from the real to the financial sector -- draws upon a rich collection of mostly heterodox crisis theory. Marxian theories of financial crisis have focused on long-run trends of

aggregate profit, increasing centralization of firms, and increasing income inequality as playing the primary role in destabilizing financial markets (e.g., Kotz 2009, 2010). Minskian theories of inherent financial market instability have provided a rich framework for understanding asset price movements. Post-Keynesians (e.g., Crotty 1992; Taylor 1985, 2010) have expanded upon this theory. Beyond structural explanations, theories based in behavioral finance focus on noise traders and "animal spirits" underlying irrational market behavior (Akerloff and Shiller 2009). Yet other explanations of the 2008 crisis have focused on particular characteristics specific to this crisis, including information asymmetry (Gorton 2008), racially targeted predatory lending (Dymski 2009a, 2009b), and the unique characteristics of the housing bubble boom and bust (Baker 2008). While the focus of this paper is on the lead-up to the 2008 crash, the first dynamic in its explanatory framework largely conforms to the above structural explanations in the theoretical tradition of Marx, Keynes, Kalecki, and Minsky.

The second dynamic resulting from wage stagnation and rising inequality concerned the need for households to increase consumption. There were compelled to do so by two forces: consumption externalities required that households spend more for the basic welfare of their families; and they had to struggle to consume more to maintain their social standing and respectability. As will be seen below, Veblen's rich theory of consumer behavior provides a deep social understanding of the manner in which rising inequality affects household behavior.[5]

The third dynamic – the greater command over social ideology by the rich as inequality rises – has its roots in Marx's theory of ideology and is developed by analyzing the manner in which right wing doctrines spread and influenced public policy as the wealthy took larger shares of income and wealth.

Financial crises are complex phenomena and the variety of explanations of why they occur is a testament to this complexity. The argument explored below is that wage stagnation and rising inequality have also played important roles. However, the argument is not that all financial crises are in part due to wage stagnation and rising inequality. The more modest claim is that some are and that the financial crisis of 2008 is one of those instances.

1976-2006: Three Decades of Wage Stagnation and Exploding Inequality

Over the three decades following World War II, the U.S. became a more egalitarian society. Between 1946 and 1976, inflation-adjusted per capita income increased by about 90 percent. For the bottom 90 percent of households it increased by 83 percent, but only by 20 percent for the top one percent. However, over the following three decades of relatively stagnant wages -- between 1976 and 2006 – whereas inflation-adjusted per capita income increased by 64 percent, for the bottom 90 percent of households it increased only by 10 percent. For the top one percent of households it increased 232 percent.[6] A more detailed breakdown of this rising inequality can be seen in Table I below.

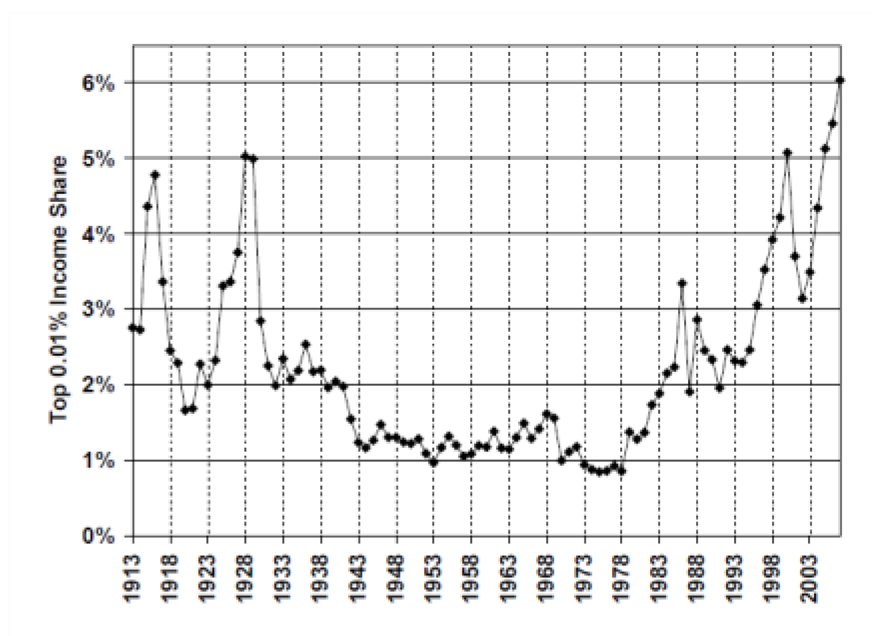
TABLE I[7]

Increases in Real income by income group: 1976 to 2005 (CBO)

Income Percentile	Rise in Real Income ($)	Percent Increase
Bottom 20	$900	6.3
Second	$4,600	15.8
Middle	$8,700	21.0
Fourth	$16,000	29.5
Top 20	$76,500	79.9
Top 1	$745,100	228.3

What is yet more striking is the dramatically larger share of income accruing to the ultra wealthy, the top one-hundredth of one percent (Figure 1). Their income shares soared from about 0.9 in the mid 1970s to 6 percent in 2005, surpassing the previous extreme level attained in 1929. Equally astonishing, the seven-year expansion of the Clinton years provided the top one percent with 45 percent of total growth in pretax income. They did even better during the four-year expansion of the Bush years, taking a full 73 percent (Palma 2009).

FIGURE 1

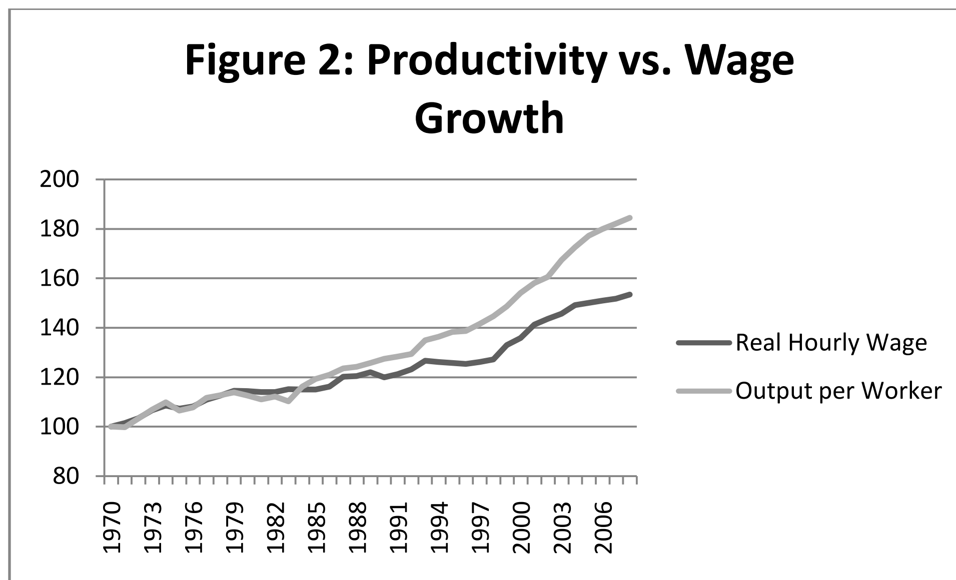


Source: Saez 2009 http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf

Inequality in wealth ownership was yet far greater, and also greatly increased during this period. Widening wealth inequality between 1983 and 2007 is revealed by the fact that mean wealth grew about twice as fast as the median (Wolff 2010: 9), due in part to the wealthy investing in assets backed by loans to the middle class and poor. Whereas the Gini coefficient for household money income in 2005 was 0.47 (DeNavas-Walt et al. 2006, 7), the Gini coefficient for household net worth was 0.81 (Kennickell 2006, 10).

Wage Stagnation, Growing Inequality, Inadequate Demand, and Parking the Surplus

In 1970, labor's share comprised 60 percent of GDP while capital received 24 percent. In 2006, labor's share was 50 percent and capital's 29 percent[8] (BEA NIPA). Whereas productivity increased by 90% between 1973 and 2008, average household pre-tax income increased by only about 15%, which for a 35 year period is not far from full wage stagnation. Consequently, the owners of capital experienced a huge windfall, according with what Long had pointed out long ago: "So large is labor's share of national income that any substantial disparity between productivity and real wages would exert great impact on the other shares – either largely expropriating them or presenting them with huge windfalls" (1960: 112). This can also be seen in the diverging growth paths of wages and productivity (Figure 2).



Source: BLS Labor Productivity and Costs (1970 indexed to 100).

This windfall of income and wealth accruing to an elite was far greater than could readily be spent, even on the most lavish consumption, leaving them and their money managers with the challenge of locating ways to place these increased assets to maximum effect. But due to stagnating wages, those who spend most or all of their income had a far smaller share of total

income to spend, and thus profitable investment potential in the real economy was limited, a problem noted by Greenspan in his memoirs: "intended investment in the United States has been lagging in recent years, judging from the larger share of internal cash flow that has been returned to shareholders, presumably for lack of new investment opportunities" (2007: 387). This decline in investment opportunities would have been yet substantially greater if potentially weakened consumer demand had not been partially compensated for by reduced saving, greater debt, and longer work hours taken on by households.

The financial crisis was able to sneak up on the economy because stagnating wages and rising inequality were not generally viewed as threatening to the macroeconomy and the most noted indicators were positive. For instance, between 1991 and 2006 growth averaged 3.22 percent and inflation never went above four percent. However, stagnating wages and dramatically rising inequality were shifting investment from production to finance and speculation.[9]

The next section will address how, due to decreased household saving, increased indebtedness, longer work hours, and a wealth effect from rising asset prices, stagnating wages and rising inequality did not weaken consumer demand to the point of directly generating inadequate aggregate demand. But, as was noted above, its relative weakness did have an impact on investment behavior. In the six or so years preceding the crisis, firms were investing less than their retained earnings – the longest period of such business behavior since the Second World War --, even as corporate profits as a share of national income nearly doubled.[10] But these higher profits were being harvested increasingly in the financial sector. Since the 1980s, there was also a jump in the share of rentier income (the ratio of net interest and dividend payments to total profits) (Onaran, Stockhammer, and Grafl 2011). Whereas financial sector profits have

generally constituted about 10-15 percent of corporate profit, they jumped to 40 percent in 2007 (Stiglitz 2008: 36).[11] These profits resulted in good part from the recycling of some of the much higher income of rich households into loans to households below, and took such forms as the hefty transactions fees banks earned every time loans were sold, re-packaged and securitized.[12] Whereas finance and insurance accounted for less than four percent of GDP in the 1960s, it had risen to about eight percent by the eve of the crisis (Krugman 2009). As Palma has put it, "the value of financial asset not only decoupled from the real economy [but also inflicted] on the real economy …a special version of the 'Dutch disease' [by] crowding out the non-financial tradable sector" (2009: 852). Financial stocks grew from 6 percent of the stock markets total value in the early 1980s to 23 percent by 2006 (Crotty 2009: 576). Whereas there were no financial corporations in the Dow Jones Industrial Average (comprised of 30 large stocks) in 1982, by the onset of 2008 there were five (Palma 2009: 852). Nobel laureate Edmund Phelps wrote that "we are in a very unique period, in which we're seeing the biggest disconnection between financial capitalism and the real economy since modern economies began in the 19th century" (cited in Foroohar 2010: 44). The relative lack of new investment opportunities in the real economy prior to 2008 created a premium for financial entrepreneurs devising new financial investment instruments, that would enable a portion of the surplus funds of those with much larger income shares to find their way to becoming loans to those with smaller shares. Traditionally, banks that originated loans held them until maturity, providing good cause to scrutinize well the credit worthiness of the borrowers by checking for the three Cs: collateral, credit history, and character. What changed is that financial entities began to buy up mortgages and credit card debt and then package them in bonds backed by the monthly payments of the mortgage borrowers and credit card holders. The new "securitization" model was "originate to distribute" --generating

risk without absorbing it. Because profits would depend on fees rather than interest, there was a strong incentive to originate as many mortgages as possible. By moving their mortgages "off balance sheet" banks were freer from reserve and capital requirements. Between 1980 and 2000, this securitized debt expanded 50-fold, whereas bank loans expanded 3.7-fold. By the end of 2007, two-thirds of all private U.S. debt passed through Wall Street (Wilmers 2009: A19). Although banks no longer needed to be as cautious as to borrowers' credit risk, securitization was widely believed to strengthen the financial system by spreading risk more broadly.[13] These bonds were then sliced up into various tranches based on their degree of risk, although, as Crotty and Epstein have observed, "…deregulation allowed giant financial conglomerates to become so large and complex that neither insiders nor outsiders could accurately evaluate their risk" (Crotty and Epstein 2009: 13). These packaged securities were attractive to foreign investors looking for profitable and balanced placements for their dollar-denominated assets. Thus this process of securitization in an increasingly globalized financial world, linked together by almost speed of light electronic communication, enabled U.S. debt to spread around the globe, especially to Europe where it made banks as fragile as in the U.S.

Given the dearth of investment potential in the real economy, new financial instruments drew more and more wealth into financial assets, causing them to increase from four times GDP in 1980 to ten times in 2007. Along with the booming high tech stocks of the late 1990s, financial assets seemed the most promising way to hold one's wealth and make it grow.[14] Indeed, such instruments as hedge funds seemed a low risk alternative or complement to the sizzling tech stock market.

With more wealth in the hands of those with less to lose from risky investments, the total amount of wealth held in stocks as a share of total assets more than doubled from 1983 to the

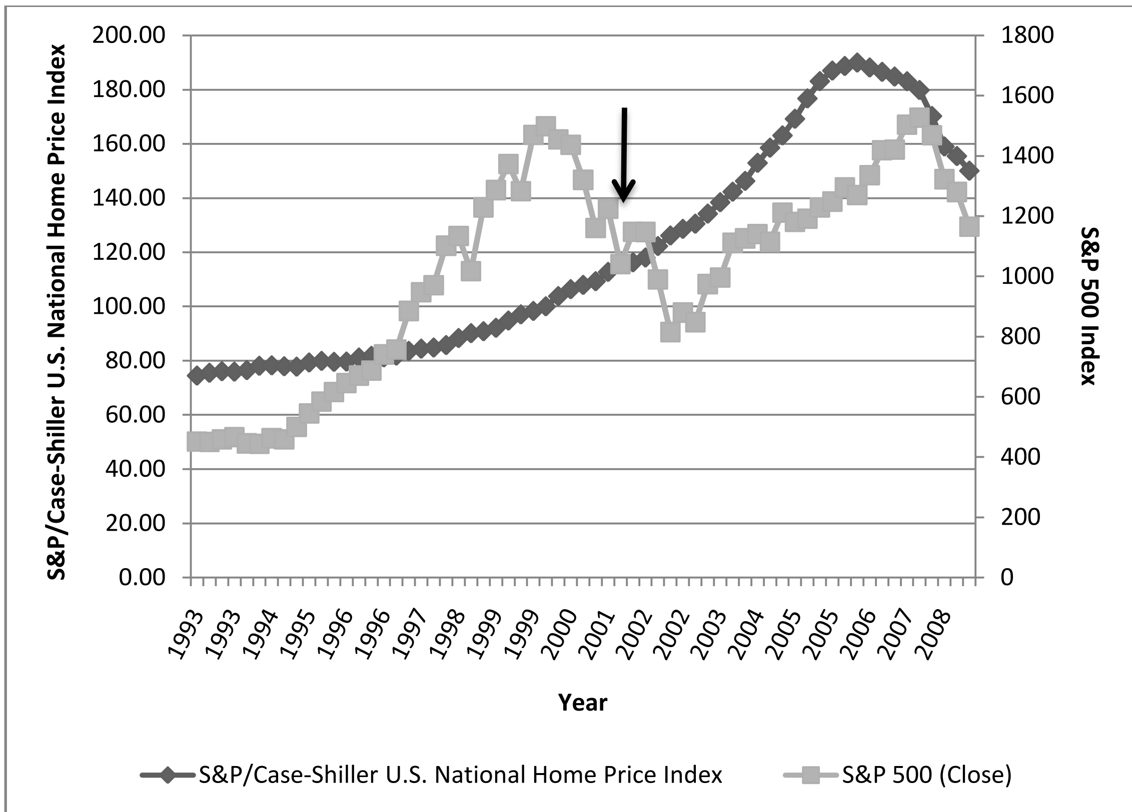
crash in 2001 (Wolff, 2004: 11). By holding more wealth in the form of stocks, investors scrambled for ever-higher returns from these investments, generating the tech bubble of the late 1990s. While the bursting of this bubble in 2001 did have some repercussions on the real sector, because the bubble was mostly limited to the stock market, its impact was primarily felt by those with money to invest, i.e. those in higher income brackets.[15] In addition, an expanding housing market continued to grow through the bursting of the tech bubble, tempering the severity of the 2001 recession (See Figure 3).[16] The housing market was greatly stimulated by very low interest rates that monetary authorities were forced to maintain to stimulate spending on credit due to the threat to adequate aggregate demand posed by rising inequality. Short-term interest rates were cut by the Fed in the wake of the collapse of the dot-com stock boom and held at record lows to mid-2004 (The Federal Funds Rate was slashed from 6.5 percent in 2000 to one percent in June 2003 where it remained until June 2004). These same low interest rates stimulated both speculation by those with ever larger shares of income and indebtedness by those with smaller shares.The growth of stock market assets as a percentage of total assets stopped and reversed following the mild recession of 2001 (see Figure 4) (Bucks 2006, A10). More and more wealth was redirected into nonfinancial assets, especially real estate. Because real estate is the economy's largest asset category, 70 percent of the economy's interest payments came from mortgages), making real estate the major customer of the financial sector. Real estate also generated most of the economy's capital gains (Hudson 2010: 1). Between 2001 and 2007, the market value of both "Primary residence" and "Other residential property" went up as a percentage of total assets (Figure 5) (Bucks 2009, A28). The magnitude of this real estate boom can be seen by the fact that whereas the ratio of mortgage debt to Gross Domestic Product was about 27 percent during the 1970s, it stood at about 65 percent at the end of the 1990s, and then

rose to about 96 percent in late 2007 (Household Debt 2010). Adjusted for CPI inflation, whereas housing prices had risen at an average annual rate of one percent between1975 and 1997, they rose an average annual rate of six percent between 1997 and 2006 (Cynamon and Fazzari 2008: 23).

A sustained housing boom is an especially powerful motor for powering the economy because ownership participation is so widespread, propelling consumption wealth effects, and because ever-rising housing prices provide a huge stimulus to the construction industry. They also provided rising collateral against which households could borrow. Government policy stoked the fires of booming real estate prices. George W. Bush's tax cuts, benefiting disproportionately the rich,[17] produced, as Livingston put it, "a new tidal wave of surplus capital with no place to go except into real estate" (2009: 47). Whereas a portion of the rich's increased income share was being spent directly on housing, another portion was going through financial markets to finance mortgages for households with stagnating or barely rising incomes.

Figure 3:

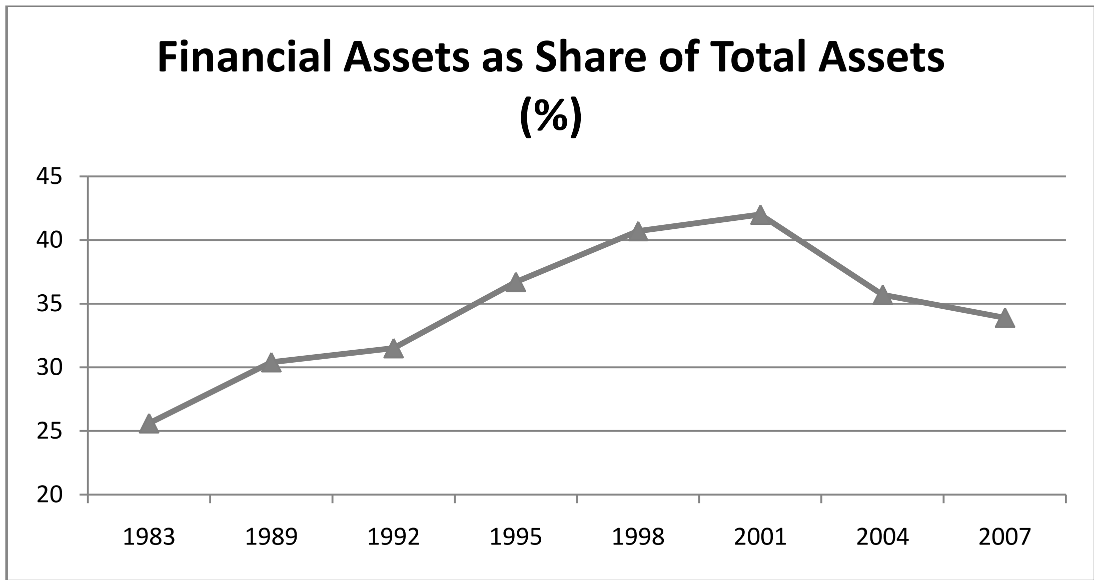
S&P/Case-Shiller U.S. National Home Price Index with S&P 500 Index



Source: *Standard and Poor's/ Case-Shiller Home Price Indices* and *S&P500 Index*.

The black arrow indicates the beginning of the 2001 recession. Note that housing prices continue to rise as if unfazed by the 2001 recession.

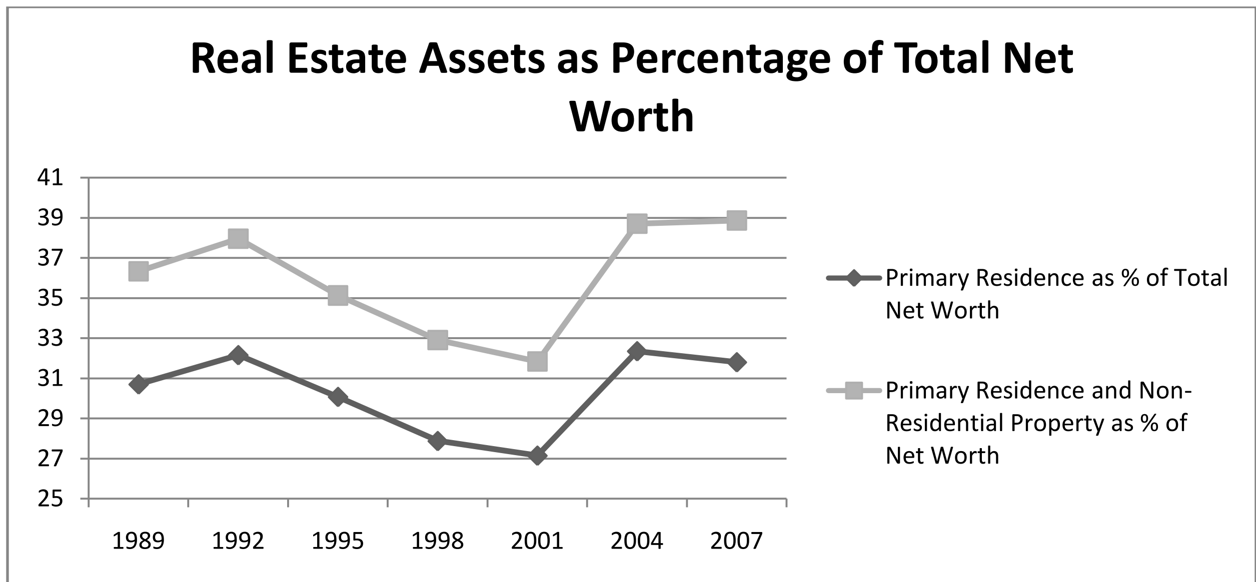
Figure 4



Source: *Survey of Consumer Finances 1992-2007*.

Financial assets as share of total wealth followed an upward trend until 2001.

Figure 5



Source: *Survey of Consumer Finances 1992-2007.*

With an abundance of credit fueled by rising inequality, overly expansionary monetary policy, inflow of foreign monies (Bernanke's world "savings glut"),[18] and new financial instruments, financial institutions were not under pressure to limit lending to those who could realistically meet their debt obligations, since these loans would be bundled or securitized and sold. In Minskyean terms, these financial innovations "stretched liquidity," increasing leverage ratios and credit availability. Within the financial sector, debt rose from 22 percent of GDP in 1981 to 117 percent in 2008 (Crotty 2009: 575). Increased credit availability allowed those in lower income quintiles with stagnating wages to obtain mortgages to pay for increasingly inflated housing prices. Subprime mortgages as a percent of total new mortgages grew from eight percent in 2002 to 22 percent in 2006 (JCHS 2008). A Ponzi-like scenario developed in which banks, using the "originate to distribute" model could issue ever more debt "off balance sheet," thereby ignoring previous debt-holding requirements for consumers. Mortgage lenders saw great short-term gain potential in these sky-rocketing housing prices. Whereas the percentage of households holding equity in their homes had remained at about 64 percent between 1975 and 1995, by 2007, almost 69 percent of households had invested in real estate through ownership of their primary residence. A measure of the frothiness of this bubble is that by 2006, the median house price reached $234,000, having soared 40 percent since 2000.

In terms of the real economy, this continuing expansion of credit meant that an underconsumption or "realization" crisis resulting from rising inequality would be postponed. The rich, with ever more saving from ever greater incomes were in effect loaning to those with stagnating incomes and thereby maintaining aggregate demand for the economy. Thus, the fact that income inequality increased more than consumption inequality not only increased the wealth

of the rich, but also provided the credit to support the consumption of the less well off. Between 1981 and 2007, private credit as a percent of Gross Domestic Product increased from 90 to 210 percent. However, this propping up of the economy could only continue as long as consumers could continue to borrow beyond their means. When housing prices began to reverse, the rising equity against which households could borrow disappeared and lenders became stingier with their loans. The price reversal was accelerated when many low income borrowers could no longer make their mortgage payments.

Real estate markets are more democratic than stock markets in that a larger share of the population participates in ownership, and for that reason, a collapse of a speculative bubble in real estate has consequences that are far greater and potentially far longer lasting. Far less indebtedness and thinner ownership of financial assets in the multiple other crises from the 1980s on (savings and loan crisis of the 1980s, stock market crises in 1987 and 2000, the 1994 Mexican crisis, the 1997 Asian Financial Crisis, the 1998 Russian default, and the LCTM bankruptcy) had less impact upon the real economy.

Wage Stagnation, Rising Inequality, Household Hardship, and Status Insecurity

Consumption as a percent of GDP rose from 63 percent in 1980 to 70 percent in 2008, hardly what might be expected with wage stagnation and rising inequality. Because the wealthy, with lower marginal propensities to consume, consume a smaller portion of their incomes than do the less well off, Keynes suggested that rising inequality would decrease total consumption. But *pace* Keynes, with stagnating wages and rising inequality, a surge in household consumption was made possible by a fall in saving, a rise in indebtedness, and longer work hours.

The dominant explanation among mainstream economists for why the Keynesian expectation did not hold is that inflation in asset markets, first in stock markets and then in real

estate, set off a wealth effect such that as households felt wealthier they became comfortable consuming more by saving less or taking on more debt.[19] Their analysis generally draws upon the life-cycle theory of saving, according to which households save or dis-save in order to even out their consumption over their life spans (consumption smoothing). However, this model has been found theoretically inadequate (Thaler 1994). It has also not fared well empirically (Courant, Gramlich, and Laitner 1984; Mokhtari 1990; Thaler 1990).[20] Moreover, those who claim a wealth effect have not found it to be large. For instance, Onaran, Stockhammer, and Grafl find that only "12.4% of the change in the consumption share from 1980 to 2007 is explained by changes in housing wealth and 5.5% by changes in financial wealth" (2011: 648). Other studies also suggest that wealth effects are likely small. Parker (2000) found that at most 20 percent of the rise in consumption in the late 1990s could be credited to a wealth effect. Examining evidence from the 1980s, Summers and Carroll had found that "the marginal propensity to save out of stock market gains is close to unity" (1987: 617).

Moreover, any wealth effect from the very substantial rise in the stock market could only have been important among the wealthy. Wolff points out that, "Of the total growth in non-home wealth between 1983 and 2007, 43 percent accrued to the top 1 percent and 94 percent to the top quintile, while the bottom 80 percent collectively accounted for only 6 percent" (2010: 14). Further, of the total gain in marketable wealth (including housing) between 1983 and 2007, 89 percent accrued to the top quintile, meaning that the bottom 80 percent received only 11 percent.[21] Thus, wealth effects could not have been substantial for the majority of households (Wolff 2010: 14). However, wealth effects among the top quintile may have created consumption externalities resulting in greater consumption by households below, a topic that is addressed below.

A second explanation is that with stagnating wages and exploding costs for such critical services as health care and education, households were forced to spend more. However, these soaring costs are included in the calculation of real wages, and even with a slight decline during the last five years (2002-2007), the median real wage increased 14 percent between 1979 and 2007, an average annual rate of about 0.40 percent (Madrick and Papanikolaou 2010: 310). Including fringe benefits, the increase was 19 percent. Because of the increase in two-earner households, median family income increase by yet more.[22] Between 1979 and 2005, after tax household income increased for the lowest quintile by 6 percent, the second quintile by 16 percent, the middle quintile by 21 percent, the fourth quintile by 29 percent, and the top quintile by 80 percent (Mishel, et. al. 2009: 66).

Further, households were making spending choices that represent more than simply treading water. Most strikingly, in spite of shrinking household size (average family size declined from 2.9 in 1973 to 2.5 in 2003), the average home size in the United States almost doubled, rising from 1,400 square feet in 1970 to 2,700 square feet in 2007, and whereas in 1970 homeowners paid about twice their family income for a home, by 2007 they were paying five times. The amount of middle-class income spent on housing rose from 26.8 percent in 1981 to 33.7 percent in 2006. Home mortgage debt as a percent of personal income increased from 46.2 percent in 1980 to 102.3 percent in 2006 (Federal Reserve Board, Flow of Funds Account). While some of this increase was due to housing price inflation, larger square footage was also a factor. To afford larger houses, many household located further from work, increasing average commute times by 14 percent between 1990 and 2006 (Johnsonn 2007). Frank and Levine have found that "increases in the proportion of drivers with long commutes were significantly larger in counties with larger increases in income inequality" (2005; cited in Frank 2007: 82).

Households were also spending more on larger and more expensive automobiles. The average 2007 midsize SUV, for instance, had grown 10 inches in length, 4 inches in width and gained 474 pounds since 1997.

Although wealth effects and wage stagnation may explain some of the rise in consumption, they do not explain more than a portion. The remainder of this section explores another explanation: the manner in which stagnating wages and rising inequality created consumption externalities that required that household increase spending in an attempt to protect the welfare of their families and to maintain, if not improve, their relative social status. The approach followed in this section views preference functions as at least partially endogenous -- to some extent, socially created. It is aligned with James Duesenberry's view that a "real understanding of the problem of consumer behavior must begin with a full recognition of the social character of consumption patterns" (1967: 19).[23]

Frank has addressed the manner in which consumption externalities often required households to increase spending for the basic welfare of their families that became so visible in housing:

> "Increased spending at the top of the income distribution has not only imposed psychological costs on families in the middle, it has also raised the cost of achieving many basic goals. Few middle-income parents, for example, would be comfortable knowing that their children were attending below-average schools. Yet the amount that any given family must spend to avoid that outcome depends strongly on the amounts that others spend…. [Moreover], people cannot send their children to a public school of even average quality if they buy a home in a school district in which house prices are well below average" (2000: 258).

This dynamic had also been noted by Christopher Lasch (1996). As economic elites took an ever-greater share of income and wealth, they tended to isolate themselves in social enclaves such as gated communities, exclusive clubs, and private schools. They tended to work in jobs, live in neighborhoods, and move in circles where they literally did not see those struggling to stay on their feet. Because of elites' disproportionate political power, this withdrawal from the wider society and from direct contact with the concerns of less-well-off citizens eroded support for public services on which those further down the economic ladder depended -- services such as schools, parks, transportation, even public safety. As Reich has put it, the elites "see no reason why they should pay to support families outside the gates when members are getting everything they need inside..." (Reich 2001: 199). The decay of public services encouraged those beneath the elites to do what was necessary – reduce saving, become more indebted, or increase work hours – to enable them to send their children to decent schools or to safe recreational facilities. And, of course, as those who could afford to consume the private provision of these services opted out of consuming the public ones, political support for, and the quality of, the latter continued to deteriorate. A vicious cycle was set in motion promising increasingly inferior public goods and ever-greater pressure to increase consumption of private substitutes.

A second manner in which, due to consumption externalities, wage stagnation and rising inequality prompted households to struggle to consume more is well captured by Veblen's theory of consumer behavior. As rising inequality permitted the wealthy, with far higher incomes, to consume much more, lower income bracket households had to struggle harder to also increase their consumption levels so as to maintain their relative social status and hence their self respect.

In the U.S. since colonial times, there has been a relatively strong belief that vertical mobility is readily possible. Consequently, to a greater extent than in most other societies, Americans generally feel responsible for their own social status. If they are willing to put forth sufficient effort, they may improve their status. Through adequate dedication and effort, anyone can move up, even to the very highest levels of social status. It is the individual's responsibility. It depends upon the individual's willingness to study and work hard. One's social status is not given, but earned.

In modern economies, however, how hard one works is generally not directly observable. What more readily catches attention is how much one can consume, which can stand, more or less, as a proxy for how hard one has worked.[24] Thus, because Americans believe they are individually responsible for their own social standing, they feel strongly compelled to demonstrate status and hence class identity through consumption. Indeed, their stronger belief in the potential for vertical mobility may well help explain why Americans have long consumed more (and saved less) than their counterparts in other wealthy societies (Wisman 2009).

An attempt to maintain or increase social standing through consumption is what Veblen meant by conspicuous consumption, and it manifests itself in two dimensions. Consumption that permits "invidious comparison" is meant to demonstrate one's status to be above those below. "Pecuniary emulation," on the other hand, refers to the practice of imitating the consumption standards of those of higher status with the intent of appearing to also possess that status. Veblen claimed that "With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper…[and] the propensity for emulation – for invidious comparison – is of ancient growth and is a pervading trait of human nature" (Veblen 1899: 110; 109).

Veblen's theory of consumer behavior is founded upon the fact that social status is critically important to people and thus strongly affects their behavior. His conception of social status conforms to that of Karl Polanyi's, whereby an individual is motivated "to safeguard his social standing, his social claims, his social assets" (1944: 46). Veblen gave an expressive account of the dynamics of this behavior in the following passage:

> "In modern civilized communities the lines of demarcation between social classes have grown vague and transient, and wherever this happens the norm of reputability imposed by the upper class extends its coercive influence with but slight hindrance down through the social structure to the lowest strata. The result is that the members of each stratum accept as their ideal of decency the scheme of life in vogue in the next higher stratum, and bend their energies to live up to that ideal. On pain of forfeiting their good name and their self-respect in case of failure, they must conform to the accepted code, at least in appearance....No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption" (Veblen 1899: 84, 85).[25]

Underpinning social status or respectability is the need for self-esteem or self-respect, what John Rawls suggested to be "perhaps the most important primary good" such that without it nothing else has much value (1971: 440). This conception of consumption being pursued for social respectability or social status and ultimately self-respect, differs from that set forth by sociologists such as Zygmunt Bauman (1988) who focus on consumption as a realm of unfolding freedom or autonomy and give but minor importance to its competitive aspect.

It might be noted that the human preoccupation with status or relative social position is understandable from an evolutionary perspective. Those with higher status, whatever its source, would possess disproportionate access to resources and members of the opposite sex, thus

permitting more and better cared-for progeny. A proclivity for seeking status would thus be naturally selected. Or, as Robert Frank has put it, “falling behind one’s local rivals can be lethal” (2005: 183).

Within the general theory of competitive consumer behavior formulated by Veblen, greater inequality means that consumers must stretch further to maintain their relative social standing. This challenge to maintain relative status in the face of widening inequality may help explain why American consumption as a percent of GDP substantially increased between the mid 1970s and 2006 (Wisman 2009), whereas it did not do so in those other wealthy societies where inequality increased substantially less.[26] The fact that the United Kingdom has experienced a substantial rise in inequality and a simultaneous rise in the ratio of consumption to GDP lends support to this hypothesis.

The argument set forth here modifies Keynes’ view that an increase in inequality could be expected to decrease consumption since wealthier households have lower marginal propensities to consume than do the less-well off (1936: 372-75). Keynes did not take consumption externalities into account -- the manner in which rising inequality pressures all households beneath the top to increase consumption to maintain their relative social status.[27] Indeed, as will be seen below, households in all income deciles became more indebted. The fact that the very wealthy became so much wealthier meant not only that they themselves significantly increased their own conspicuous consumption, but that because the gap between their consumption and that of those below them became so much greater, those below had to spend ever-more to achieve their status goals.

Feeling compelled to consume more could be expected to prompt households to respond in one or more of three ways: People might consume more of their incomes, forcing them to

save less; they might become more indebted to enable greater consumption, and they might increase the hours they work to enable them to increase their income and hence consumption levels. As the evidence presented below demonstrates, as a whole U.S. households did all three.

It is worth noting that while income inequality alone makes it more difficult for households to maintain their relative status, this struggle would have been less difficult had the potential for vertical mobility increased over this period. However, recent research suggests that the potential for upward mobility actually decreased, thereby compounding the difficulty that most Americans faced in maintaining or improving their status. Thus, not only did the differences between income brackets rise, but it also become more difficult for American families to move into higher income brackets.[28]

Where there is a strong belief that vertical mobility is possible, growing inequality puts additional pressure on households to struggle ever harder to maintain their relative status or demonstrate higher status through consumption. Increasing inequality means the status standard is ever higher. And the very rich, as noted earlier, had the means with which to raise the bar dramatically.

The struggle to keep up was especially intense in housing. As those at the pinnacle of wealth and income competed among themselves for status, they initiated what Wade has termed a “consumption arms race among elites” (2009: 20).[29] Most notably, they bought and had constructed ever-larger mansions, thereby degrading the status quality of homes owned or occupied by everyone beneath them. Houses and cars are principal symbols of status, not least because “research confirms that the tendency to look for goods which confer status and prestige is indeed stronger for things which are more visible to others” (Wilkinson and Pickett 2009: 225). Accordingly, as inequality rose in the last decades leading up to the crisis there was an

explosion in the consumption of so-called McMansions and extremely expensive and larger cars such as luxury SUVs as the very rich competed among themselves for highly visible signals of their status. Not surprisingly, given the intensified challenge among the rich themselves of keeping up, a February 2008 Pew survey found that "the proportion of wealthy Americans who say they are very satisfied with their housing and cars, in particular, has declined considerably since 2001" (Pew Research Center 2008). As the wealthiest Americans received ever-larger income shares and increased their consumption more-or-less proportionately, they reduced the subjective value of consumption levels below them, fitting Veblen's claim that:

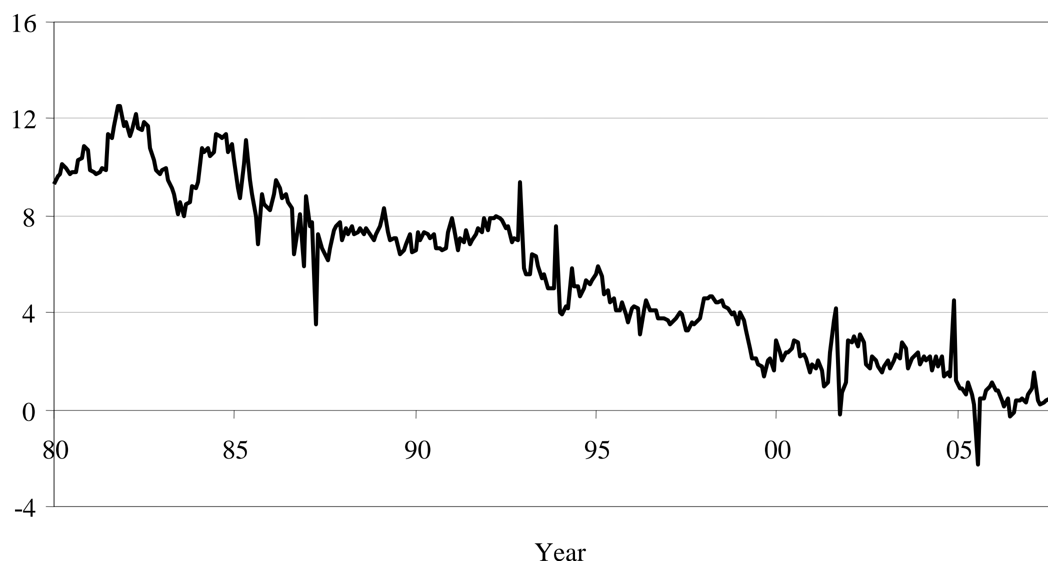
> "…in any community in which class distinctions are somewhat vague, all canons of reputability and decency, and all standards of consumption, are traced back by insensible gradations to the usages and habits of thoughts of the highest social and pecuniary class -- the wealthy leisure class" (Veblen 1899: 104).

As those below struggled in this "expenditure cascade" (Frank 2007: 43) to maintain their relative status by upgrading their own housing, the housing boom gathered ever more steam. The longer the boom continued, the stronger became the belief that housing prices would continue upward, and that housing was therefore a solid investment, a belief strongly encouraged by the real estate industry. However, by making all housing more expensive, the housing affordability index declined from 147.3 in 1970 to 111.8 in 2005 (Miringoff and Opdyke (2008: 233).[30] Although median household income fell slightly between 1999 and 2005, the average home price rose by 42 percent.

As inequality increased over the three decades preceding the crisis, the struggle by households to maintain their relative status resulted in reduced saving, greater indebtedness, and longer work weeks. The personal saving rate fell from 10.4 percent in 1980-84, to 7.7 percent in

1985-89, to 6.5 percent in 1990-94, to 3.8 percent in 1995-99, to 2.1 percent in 2000-04; and became negative in 2005 and 2006 (Figure 10 below).[31] It should be noted that this decline occurred even as there was increased doubt about the viability of social security and a precipitous decline in defined-benefit retirement plans that offer more security than the defined-contribution plans that have been replacing them. With defined-contribution plans, the employees bear a much greater share of the risk.

Figure 6: Personal Savings Rate
Source: Bureau of Economic Analysis



www.bea.gov/national/index.htm#personal

As noted earlier, most economists who have addressed the quarter century decline in household saving have done so by drawing upon the life-cycle model of saving the life-cycle theory of saving. Thaler (1994), however, argues that the life-cycle models of saving fail to capture actual household saving behavior in three ways: It is unreasonable to assume that households possess adequate knowledge to solve a “multiperiod dynamic maximization

problem." They have bounded rationality. Second, humans often lack self-control. And third, households react differently depending upon "the source or location of wealth" (whether coming in the form of current income or as changes in asset values). Because of these inadequacies, and because the life-cycle theory of saving does not seem to accord well with recent experience, it has led to "an increasing frustration in the economics community about personal saving" (1994: 186), prompting Axel Börsch-Supan to conclude that "Household saving is still little understood" (2001: 1). After examining the major "theories/explanations" for the fall in saving rates (wealth effects, "new economy" effect, financial innovation, social security programs and macroeconomic stability, demographics, Ricardian equivalence, and trends in the way companies compensate shareholders), Guidolin and La Jeunesse conclude that "none of them provides a compelling explanation" (2007: 491; See also Attanasio and Paiella 2001: 110). Similarly, Munnell, Golub-Sass and Varani note that "Economists have spent a lot of energy attempting to explain the precipitous drop, but with little success" (2005: 2). Examining an earlier fall in the saving rate, Barry Bosworth (1993) concluded that "there is no simple explanation for the collapse in saving." He went on to suggest that to some extent some of the explanation may be found in culture. The explanatory framework offered in this section follows his intimation. It develops, drawing upon Veblen's theory of consumer behavior, what is in large part a cultural explanation.

As wages stagnated and inequality increased, households also took on more debt, especially between the early 1990s and 2007. Total household debt as a percent of GDP increased from about 45 percent in 1975 to about 70 percent in 2000 to 96 percent in late 2007 (BEA and Federal Reserve Flow of Funds Report). Wolff notes of this explosion in debt that "Nothing comparable has happened since the second world war, if ever. Indeed, on average

households have run small financial surpluses over the past six decades" (2010: 13). It is not surprising that there was a surge in household indebtedness during the 2000s since the 2002-2007 expansion was the first on record in which median family incomes ended lower than they had been at the close of the last expansion. (Hacker 2011). Over this period, homeowners on average extracted 25 percent of their increases in home equity, which was not used to purchase new homes or investment properties or to pay down high interest credit card balances (Mian and Sufi 2010). Increased indebtedness held for households in all income quintiles, due not only directly to stagnating wages and rising inequality, but also indirectly to the easier access to credit cards[32] and more aggressive mortgage lenders who served as intermediaries for the recycling of a portion of the higher incomes of the rich into loans to the lesser well off. Stagnant wages in an economy experiencing rising costs for many critical goods such as education and housing may account for a portion of this rising indebtedness (Weller 2007).[33] However, the fact that indebtedness rose for all quintiles from the rich and poor alike suggests that more was going on and it fits the hypothesis set forth here: that in a society in which vertical mobility is believed to be highly fluid, increasing gaps in income all along the spectrum would stimulate everyone to struggle harder to meet their consumption status targets, as those at the very top compete among themselves for the very acme of status.

Concerning the struggle for status, Wenning notes that "The $6.2 trillion in debt that U.S. households took on between 2000 and 2007 fueled much of the consumer-related growth we've experienced in the past decade -- on SUVs, flat-panel TVs, and granite countertops and other luxury goods" (2008).[34] Deregulation of credit instruments such as credit cards and home equity loans, and their greater availability greatly facilitated this emulative consumption (Scott 2007). Supporting this hypothesis that rising inequality contributed to increasing indebtedness, Frank

has found that in those parts of the U.S. where inequality had most risen over a ten-year period bankruptcy rates also rose most (2007). More striking, even when the economy was booming with very low unemployment in the late 1990s, personal bankruptcy was four times greater than in the 1970s before the explosion in inequality.

It is noteworthy that increasing income and wealth inequality occurred even in the highest income decile, with the consequence that even those in this decile became, on average, about 50 percent more indebted, albeit with more variation up and down over the period than those with lower incomes. This rising indebtedness appears to have been driven by the dramatically larger share of income accruing to the ultra wealthy, the top one-hundredth of one percent. Their income shares soared from about 0.9 in the mid 1970s to 6 percent in 2005, surpassing the previous extreme level attained in 1929 (Piketty and Saez 2006), dramatically increasing the consumption of extremely expensive goods and services (mansions, private jets, Hirschian positional goods, etc.). These super-rich households were in competition with each other for the pinnacle of status, demonstrating that "In the consumer race the finishing line always moves faster than the fastest of runners" (Bauman 2000: 72). This put pressure on the lesser rich who also wish to be seen as at, or near the top. This pressure was reinforced by the advertising and programming that continually keep the consumption standards of the rich and famous on public display (See Schor 1998; Frank 2007).

TABLE II

Ratio of the Mean Value of Outstanding Debts to

Mean Family Income by Percentile

Income Percentile	Year						
	1989	1992	1995	1998	2001	2004	2007

All Families	**0.88**	**1.08**	**1.09**	**1.20**	**1.05**	**1.47**	**1.50**
< 20	0.89	0.33	1.85	1.84	1.68	2.31	2.56
20-39.9	0.86	0.35	1.12	1.23	1.12	1.62	1.54
40-59.9	0.85	0.42	1.03	1.19	1.18	1.61	1.72
60-79.9	0.96	0.71	1.14	1.32	1.16	1.56	1.82
80-89.9	0.84	0.85	1.08	1.14	1.12	1.47	1.77
90-100	0.60	0.62	0.76	0.79	0.68	0.99	0.87

Source: *Survey of Consumer Finances*

If, as a consequence of rising inequality, individuals had to consume ever more to attain their status targets, then it might also be expected that they would have increased their work hours to be better able to do so. Indeed, as inequality rose dramatically between 1970 and 2002, work hours per capita rose about 20 percent in the U.S. By contrast, in the European Union where income inequality had not so much changed, work hours fell 12 percent (OECD 2004, Chapter 1). This relationship is supported by a transnational study that found “that increased inequality induces people to work longer hours [and] …the underlying cause is the Veblen effect of the consumption of the rich on the behaviour of those less well off” (Bowles and Park 2005: F410).

This thesis is also supported by the fact that inequality appears to influence whether women married to working men take jobs themselves. Park finds that they are more likely to do so where there is greater inequality in men’s incomes (2004). In the mid-2000s, women worked about 200 hours more per year, versus about 100 more for men (www.bls.gov).

A Larger Slice and Command of Ideology

Why the political pendulum swung dramatically toward laissez-faire ideology between the mid-1970s and 2008 is complex and many causes have been suggested. Stagflation had delegitimated Keynesian economics,[35] setting the stage for a strong rejection of government intervention in the economy (Hirschman 1982). Also notable were the loss of gold backing of the dollar and its devaluation, loss of the Vietnam War, and with the widespread use of recreational drugs and sexual promiscuity, alleged rising moral degeneracy. But also important was the fact that rising inequality meant that the very rich had yet more resources with which to influence public opinion and policy, and research reveals that their expenditures on creating and disseminating ideology yield high returns (Glaeser 2006).

Different income and wealth groups have different interests and these interests are captured in ideologies that compete in the public sphere.[36] On average, individuals spontaneously gravitate toward political and economic doctrines that are supportive of their self-interests. This is represented in the spectrum of political parties from right to left. Wealthy individuals generally support political parties on the right that best represent their interests just as poorer individuals generally support parties on the left that represent theirs. However, they come to this task with widely unequal assets. In addition to far greater material assets, the wealthy have the best educations, the most gifted friends and acquaintances, and all of this privilege makes them on average more astute and successful in attaining their interests than less-privileged citizens. Indeed, their more sophisticated educations mean that they are less likely to be fooled as to just what these self-interests are.[37] In their competition for status among themselves the rich naturally gravitate toward ideologies supporting measures that bring them ever-greater shares of the nation's income and wealth.

In the United States, corporations are considered persons, having thereby many of the basic rights of citizens, such as the right of free speech, the right to contribute to political campaigns, and the right to lobby the government for their interests. And these corporations are overwhelmingly owned by the very rich. As noted above, in 2007, on the eve of the crisis, the wealthiest one percent of Americans owned 49.3 percent of stocks and mutual funds, the richest 10 percent, 89.4 percent, leaving the bottom 90 percent with only 10.6 percent (Wolff 2010: Table 9: 52). Most CEOs can count themselves as among the very wealthy, and have become far more so over the past several decades. In 1980, CEOs heading the corporations in the Standard and Poor 500 earned 42 times as much as the average worker. In 2007, they earned 344 times more (AFL-CIO 2009). The upshot is that the interests of the very wealthy and corporate America are typically the same such that the unparalleled expansion of corporate lobbyists in Washington and corporate campaign contributions are merely extensions of the rich's political power.

In the 1970s, corporate leaders unleashed what Hacker and Pierson (2010) term "a domestic version of Shock and Awe" to take back power from a progressive left that was improving wages and working conditions.[38] Corporate leaders created new national organizations such as the Business Roundtable in 1972 to fund militantly free market think tanks and action groups such as the Heritage Foundation and American Legislative Exchange Council in 1973, the Cato Institute in 1977, and the Manhattan Institute in 1978. Whereas only 175 U.S. corporations had registered lobbyists in Washington in 1971, there were almost 2,500 by 1982 (Hacker and Pierson 2010).

As a consequence, over the 35 or so years prior to the crisis, an elite gained greater control over the media, educational institutions, and think tanks, making it more likely that their

self-serving ideologies would come to be crafted so as to become ever-more convincing to a majority of the electorate.[39] It should be noted that because the rich are emulated, their ideologies have a decided advantage. As Veblen put this: “The fact that the usages, actions, and views of the well-to-do leisure class acquire the character of a prescriptive canon of conduct for the rest of society gives added weight and reach to the conservative influence of that class. It makes it incumbent upon all reputable people to follow their lead” (Veblen 1899: 200).

Some of the most notable media and think tanks shifted to the right. As Perelman points out, “the *New York Times, Washington Post*, the Ford Foundation, and the Brookings Institution, which had been aligned with a relatively centrist Democratic perspective, suddenly replaced their management with people much more receptive to the conservative view of the world” (2007: 63). Further, over the three decades leading up to the crisis of 2008, the media—newsprint, television, and radio -- became increasingly concentrated into the hands of a few mega corporations. To a significant extent, this was due to deregulation -- a central component of their ideology. For instance, the number of newspapers controlled by chains went up significantly as a result of relaxed ownership regulations (McPherson 2008: 165). Blethen points out that “The majority of our media are controlled by just five companies… [such that] about one-third of the population now listens to radio stations owned by a single company....The 1996 deregulation of radio virtually ended local ownership in that medium” (2004: B7). A result of this increased media concentration is that criticisms of laissez-faire ideology and the corporate power structure became increasingly marginalized.

An important component of the increasing influence of conservative, free-market ideology was the creation, proliferation, and empowerment of conservative think tanks. Conservative think tanks came to both outnumber and overpower their liberal counterparts. By

the mid-1990's, there were two conservative think tanks for every liberal one (Rich 2004: 206). While the five largest conservative think tanks all had total expenses greater than $10 million, only the largest liberal think tank, the Center on Budget and Policy Priorities, could claim this feat. In fact, in 2006 the arch-conservative Heritage Foundation alone had larger expenses than the largest four liberal think tanks combined.

The economics profession in the U.S. also became more supportive of a free-market approach to economic issues, thereby lending support to right-wing policies, even when such was not their intent. Stiglitz has claimed that mainstream economics moved from any semblance of scientific inquiry to become "capitalism's biggest cheerleader" (2010: 238).

The liberal Keynesian support for government intervention in the economy that had matured in the 1960s and 1970s became marginalized.[40] As Crotty has put it, "Efficient financial market theory and new classical macro theory replaced the theoretical visions of Keynes and Minsky, and the existing system of tight financial regulation was deconstructed through radical deregulation pushed by financial institutions and justified by efficient financial market theory" (2009: 564). More arguments were set forth in favor of privatization of social security and government services generally.[41] The pre-1980s concern with poverty and inequality all but disappeared. The 1995 recipient of the Nobel Memorial Prize in Economic Sciences even went so far as to declare that "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution" (Lucas: 2004).

Palma has characterized this "neo-conservatism," following Foucault, as "a new technology of power to help transform capitalism into a rentiers' delight…[and that] A key component in the effectiveness of this new technology of power was its ability to transform the

state into a major facilitator of the ever-increasing rent-seeking practices of oligopolistic capital" (2009: 883).[42]

Because of the wealthy's increased command over society's dominant ideology, the losers – the overwhelming majority of Americans – did not use the political process to stop the extraordinary reallocation of income and wealth toward the very rich. Through the democratic process, they could have forced the creation of compensatory measures to relieve workers harmed by technological change or international trade. Taxes could have been restructured in their favor, and public services that benefit them such as retraining, day care, better schools, health care and public recreational facilities could have been vastly expanded and improved. However, the wealthy's increased control over ideology resulted in a majority of citizens buying into the rich's ideology that such measures would not be either to their own or the country's benefit. As Robert Reich, Secretary of Labor during the Clinton administration put it: "As inequality has widened, the means America once used to temper it – progressive income taxes, good public schools, trade unions that bargain for higher wages – have eroded" (2007: 4).[43] And, "As money has risen to the top, so has political power. Politicians are more dependent than ever on big money for their campaigns" (2010). Thus, Kevin Phillips concluded that American "politics is increasingly dominated by people in the upper-income brackets" (2002, 15). For political scientist Robert Hunter Wade, this domination is by extremely few Americans: "The people who make the economic and political decisions that matter are concentrated in the top 1 percent of the U.S. household income distribution" (2004, 71).

As the financial sector grew and became increasingly important as a means for transferring wealth to the very rich, it gained ideological influence. As Simon Johnson, former chief economist at the International Monetary Fund put it, "…the American financial industry

gained political power by amassing a kind of cultural capital – a belief system…[such that] the attitude took hold that what was good for Wall Street was good for the country…[and] crucial to America's position in the world…. Faith in free financial markets grew into conventional wisdom – trumpeted on the editorial pages of *The Wall Street Journal* and on the floor of Congress" (2009). This influence extended to the Federal Reserve System, which became complicitous in the growth of banks that in the crisis would be deemed too large to fail. Between 1999 and 2009, it approved 5,670 applications from banks to merge with other banks. It only denied one of these requests (Appelbaum and Cho 2009: A6). The reason, according to Buiter, is that financial authorities internalize "as if by osmosis, the objectives, interests and perceptions of reality of the private vested interests that they are meant to regulate and survey in the public interest" (2008: 106; cited in Bresser-Pereira 2010: 5). Those financial interests also spent lavishly to get what they wanted, making $1.7 billion in campaign contributions between 1998 and 2008, and spending $3.4 billion to plead their case through lobbying (*Wall Street Watch* 2009: 17; cited in Crotty 2009: 577). There has also been a revolving door between the regulated and the regulators, between CEOs in powerful financial institutions and the Fed, Treasury, and the SEC.

The consequences of the increasing dominance of ideology that privileged the very wealthy were not only that income, wealth, and privilege became more unequally distributed, but that with much of the electorate distracted from economic issues or convinced by the elite's ever-more sophisticated ideology,[44] markets were deregulated and necessary new regulations were blocked, thereby changing the rules of the game and setting the stage for financial meltdown.

Since antiquity, interest rates were capped by usury laws, and for much of U.S. history, state and local laws continued to curb financial power by setting caps on interest rates and fees.

However, a Supreme Court decision in 1978 (Marquette National Bank v. First of Omaha Services Corp) claimed that a state could not control interest rates charged by an out-of-state bank. In addition to sweeping away usury laws, the credit card industry was also effectively deregulated. U.S. court decisions were beginning to reflect the general deregulatory trend that was sweeping through the economy as stagflation was blamed on governmental interference in the workings of the economy. The result of this court decision was that contracts with consumers became unintelligible and banks were free to impose high interest rates, fees, and penalties.[45]

Deregulation sped up after the 1980 election of Ronald Reagan. The Garn-St. Germain Act of 1982 loosened regulation of the saving and loan industry, setting the stage for a crisis in that sector such that in the late 1980s, the number of S&Ls decreased by about 50 percent and about 1400 institutions received federal monies or closed. The Secondary Mortgage Market Enhancement Act of 1984 legalized mortgage-backed securities in all states. The Riegel-Neal Interstate Bank Efficiency Act was signed by President Clinton in 1994, repealing restrictions on interstate banking and enabling the growth of huge financial institutioins. The Grahm-Leach-Bliley Act of November 1999 abolished the investment limits set on banks by the Glass-Steagall Act (a "firewall" between investment and commercial banking that Roosevelt had characterized at its creation in 1933 as an act to limit bankers' ability to speculate with "other people's money"). Clearly, the wealthy had gotten better at waging campaigns against state controls over activities from which they drew income. As Johnson put it, "The great wealth that the financial sector created and concentrated gave bankers enormous political weight – a weight not seen in the U.S. since the era of J.P. Morgan (the man)" (2009). So powerful was this weight that the limit on investment bank leverage of 12 times capital was raised in 2004 by the Securities and

Exchange Commission to 40 times capital with compliance becoming voluntary (*Wall Street Watch* 2009: 17; cited in Crotty 2009: 574).

Deregulation of the financial sector (banks, insurance companies, brokerages, real estate, etc.) led to increasing concentration in the banking industry and to booming profits,[46] hardly a surprise given that banks began charging interest rates on credit cards as high as 30 percent, and an increasing assortment of expensive fees. Further, it led to an explosion in so-called fringe banking such as check cashing, pawn, payday-loan and cash-advance shops that offer services to low income households at extremely high interest rates. Deregulation contributed to a shift of money out of investment in the creation of real capital and into the financial sector. It facilitated intermediation whereby the excess saving of the rich could be made available as consumption loans to the middle class and poor who could prop up aggregate demand. The underinvestment in the goods-producing sector contributed to a weak export sector. With fewer goods produced by domestic manufacturing, demand for manufactured imports was stimulated.[47] Together, underinvestment in manufacturing and demand for imports generating an increasingly large trade deficit. These dollars abroad flowed back into the U.S. financial system (domestically nourishing Bernanke's "savings glut"), helping keep interest rates low and fueling credit-financed consumption and speculative expansions. Without these capital inflows, "the bubble in the USA would probably not have inflated as strongly" (Stockhammer 2011: 249). And because these dollars flowed back, the ever-growing trade deficit did not cause the value of the dollar to dramatically fall, thereby allowing the trade deficit to continue growing as exports remained expensive and imports cheap.

It Happened Before: The Financial Crisis of 1929

In October of 1929, the stock market crashed and the Great Depression followed. There were many differences in the economies that led up to the crises of 1929 and 2008. For instance, in 1929, the government constituted only about three percent of GDP versus about 22 percent in 2008. Whereas extreme speculation on the eve of the current crisis was most visible in the real estate market, it was in the stock market in the late 1920s. Yet beneath such differences were striking similarities.

Booms in the market for homes – the most important status symbol and store of wealth for most households -- were common to both periods. In both periods, taxes on the rich were substantially cut.[48] Income distribution became radically more unequal in both periods,[49] meaning that households had to struggle ever-harder to maintain their relative social status, their social respectability. In both periods an elite had ever-rising amounts of money to invest, but because the non-elite had less to spend,[50] investment potential was greater in the financial as opposed to the production sector. Thus in both periods investment funds were being switched from production to speculation, which stimulated innovations in credit instruments that served as intermediaries enabling a portion of the increased income of the wealthy to be lent to those whose incomes were relatively stagnant. In both periods, a wealthy elite's possession of an ever-rising share of society's income enabled them increasing command over political ideology. In both periods, political attention was diverted away from economic to cultural issues. As cultural wars divided the electorate in the post-Reagan era, so too the 1920s saw political combat over such issues as evolution, prohibition, immigration, and the increasingly militant Klu Klux Klan.[51]

By the late 1920s, about 80 percent of U.S. households had radios, bringing advertising into living rooms. Radio advertising helped erode the historical thriftiness of American families. Households were encouraged to buy on the more value-neutral term, "credit," as opposed to

taking out loans. And to enable them to better do so, installment-plan financing developed. Between 1913 and 1929 the ratio of private credit to Gross Domestic Product nearly doubled.

Final Reflections

The argument explored in this article is not that all financial crises result from rising inequality, only that some do and that the current crisis, as well as the one that began in 1929, are examples. During the 1920s and over the three decades prior to 2008, concern about rising inequality was widely dismissed as either irrelevant or missing the economic dynamism that inequality generates.[52] Its irrelevance was supposedly that if everyone is becoming materially better off, the size of shares is unimportant. What this discourse missed was the behavioral and political changes generated by rising inequality, changes that would make the economy increasingly vulnerable to a severe financial collapse. Economic crises are as much about sociology and politics as economics.

The crisis of 1929 marked a turning point, reversing rising inequality, and ushering in roughly four decades of democratically-driven policies that significantly lessened inequality.[53] Might the crisis of 2008 ultimately promise to have similar distributional consequences? Perhaps. As Milton Friedman put it, "Only a crisis—actual or perceived—produces real change (1982: ix).

REFERENCES

AFL-CIO. 2009. "Trends in CEO Pay," http://www.aflcio.org/corporatewatch/paywatch/pay/

Akerloff, G. and R. Shiller. 2009. *Animal Spirits: How Human Psychology Drives the Economy and Why it Matters for Global Capitalism*. Princeton: Princeton University Press.

Aizcorbe, Ana M., Arthur B. Kennickell, and Kevin B. Moore. 2003. "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 89, January: 1-32.

Alesina, Alberto, and Dani Rodrik. 1994. "Distributive Politics and Economic Growth,"

Quarterly Journal of Economics, 109 (2), May: 465-90.

Appelbaum, Binyamin, and David Cho. 2009. "Fed's Approach to Regulation Left Banks Exposed to Crisis," *The Washington Post*, December 21: A1; A6.

Attanasio, Orazio P. and Monica Paiella. 2001. "Household Savings in the U.S.A." *Research in Economics*, 55: 109-132.

Baker, Dean. 2008. "The housing bubble and the financial crisis." *Real-world economics review*, 46: 73-81.

Barba. Aldo, and Massimo Pivetti. 2009. "Rising Household Debt: Its Causes and Macroeconomic Implications – a Long-period Analysis," *Cambridge Journal of Economics*, 33: 113-37.

Bauman, Zygmunt. 1988. *Freedom*. Minneapolis: University of Minnesota Press.

Bauman, Zygmunt. 2000. *Liquid Modernity*. Malden, MA: Blackwell.

Berg, Andrew, and Jonathan D. Ostrey and Jeromin Zettelmeyer. 2011. "What Makes Growth Sustained?" *Journal of Development Economics* (fortcoming).

Bernanke, Ben S. 2000. *Essays on the Great Depression*. Princeton, New Jersey: Princeton University Press.

Bernanke, Ben S. "The Great Moderation," Remarks at the meetings of the Eastern Economic Association, Washington, D.C., February 20.

Bernanke, Ben S. 2005. "The Economic Outlook," Testimony before the Joint Economic Committee, October 20. Available at www.house.gov.

Blethen, Frank A. 2004. "Stop the Media Mergers," *The Washington Post*, September 19: B7.

Boisguilbert, Pierre. 1695. *Le Détail de la France*, Available at : http://visualiseur.bnf.fr/ark:/12148/bpt6k87644k

Bordo, M., B. Eichengreen,D. Klingebiel, and M. Martineq-Peria. 2001. "Is the Crisis Problem Growing More Severe?" *Economic Policy*, 16: 51-82.

Börsch-Supan, Axel. 2001. "Introduction to 'International comparison of household savings behaviour: A study of life-cycle savings in seven countries," *Research in Economics*, 55: 1-14.
Bosworth, Barry P. 1993. "There's No Simple explanation for the Collapse in Saving," *Challenge*, 34 (4), 27-33.

Bourdieu, Pierre. 1984. *Distinction: A Social Critique of the Judgement of Taste*. London: Routledge & Kegan Paul.

Bowles, Samuel, David M. Gordon, and Thomas E. Weisskopf. 1990. *After the Wasteland: A Democratic Economics for the Year 2000*. Armonk, New York: M. E. Sharpe.

Bowles, Samuel and Yongjin Park. 2005. "Emulation, Inequality, and Work Hours: Was Thorstein Veblen Right?" *The Economic Journal*, 115, November, F397-412.

Bradbury, Katharine and Jane Katz. 2002. "Are Lifetime Incomes Growing More Unequal? Looking at New Evidence on Family Income Mobility." *Regional Review*, Q4, Federal Reserve Bank Boston: 3-5. http://www.bos.frb.org/economic/nerr/rr2002/q4/issues.pdf

Bresser-Pereira, Luiz Carlos. 2010. "The Global Crisis and a New Capitalism?" Levy Economics Institute: Working Paper No. 592, May.

Brooks, Rick and Ruth Simon. 2007. "As Housing Boomed, Industry Pushed Loans to a Broader Market," *Wall Street Journal*, Dec. 3: A1.

Brown, Christopher. 2008. *Inequality, Consumer Credit and the Saving Puzzle*. Northampton, Mass.: Edward Elgar.

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore. 2006. "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 92, February: A1-A38.

Bucks, Brian K., Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore. 2009. "Changes in U.S. Family Finances: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 95, February: A1-A55.

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore. 2009. "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 92, February: A1-A38.

Buiter, Willen H. 2008. "Central Banks and Financial Crises," Kansas City: 2008 Symposium of the Federal Reserve Bank Kansas City, August 21-23, available at www.kansascityfed.org/publicat/sympos/2008/Buiter.09.06.08.pdf.

Bureau of Economic Analysis (BEA NIPA), U.S. Department of Commerce, NIPA Tables. 2010. http://www.bea.gov/national/nipaweb/SelectTable.asp

Bureau of Labor Statistics (BLS), U.S. Department of Labor, Labor Productivity and Costs. 2010.
http://www.bls.gov/lpc/

Cassidy, John. 2010. "Letter from Chicago: After the Blowup," *The New Yorker*. January 11: 28-33.

Cho, David and Zachary A. Goldfarb. 2009. "U.S. Pushes Ahead with Derivatives Regulation," *The Washington Post*, May 14: A1; A14).

Cynamon, Barry Z. and Steven M. Fazzari. 2008. "Household Debt in the Consumer Age: Source of Growth – Risk of Collapse," *Capitalism and Society*, 3 (2): 1-30.

Courant, Paul, Edward Gramlich, and John P. Laitner. 1984. "A Dynamic Microeconomic Estimate of the Life-Cycle Model," *Retirement and Economic Behavior*, Henry J. Aaron and Gary Burtless, eds. Washington, D.C.: Brookings Institution.

Crotty, James. 1992. "The Investment Decision of the Post-Keynesian Firm: A Suggested Microfoundation for Minsky's Investment Instability Thesis." *Levy Economics Institute Working Paper*, No. 79.

Crotty, James and Jonathan Goldstein. 2009. "Structural Causes of the Global Financial Crisis: a critical Assessment of the 'New Financial Architecture'" *Cambridge Journal of Economics,* 33 (4), July: 563-80.

Crotty, James and Gerald Epstein. 2009. "Avoiding Another Meltdown," *Challenge*, 52 (1), January/February: 5-26.

d'Addio, Anna Cristina. 2007. "International Transmission of Disadvantage: Mobility or Immobility across Generations? A Review of the Evidence for OECD Countries," OECD Social, Employment and Migration Working Papers, no. 52, Paris http://www.oecd.org/els/workingpapers).

DeNavas-Walt, Carmen, Bernadette D. Proctor, and Cheryl Hill Lee. 2006. *U.S. Census Bureau, Current Population Reports, P60-231: Income, Poverty, and Health Insurance Coverage in the United States: 2005*. Washington, DC: U.S. Government Printing Office.

Duesenberry, James S. 1967. *Income, Saving, and the Theory of Consumer Behavior*. Cambridge, MA: Harvard University Press.

Dymski, Gary A. 2009a. "Racial Exclusion and the Political Economy of the Subprime Crisis." *Historical Materialism*, 17: 149-179.

Dymski, Gary A. 2009b. "Why the subprime crisis is different: a Minskyian approach," *Cambridge Journal of Economics*, 34: 239-55.

Easterly, William. 2002. The *Elusive Quest for Growth*. Cambridge: MIT Press: 265.

Financial Times. 2009. "AIG Faces Growing Wrath Over Payments,´16 March.

Foroohar, Rana. 2010. "The Recession Generation," *Newsweek*, January 18: 42-45.

Francis, D. R. 2008. “Tax Havens in US Cross Hairs. With $345 Billion in Lost Revenue, Tolerance for Off-shore Avoidance Fades,” CS Monitor, 9 June.

Frank, Robert H. 2000. “Does Growing Inequality Harm the Middle Class?” *Eastern Economic Journal*, 26 (3): 253-64.

Frank, Robert H. 2005. “Positional Externalities Cause Large and Preventable Welfare Losses,” *American Economic Review*, 95 (2): 137-41.

Frank, Robert. 2007. *Falling Behind: How Rising Inequality Harms the Middle Class*. Berkeley, CA: University of California Press.

Frank, Robert H., and Adam Seth Levine. 2005. “Expenditure Cascades.” Cornell University mimeograph.

Friedman, Milton. 1982. *Capitalism and Freedom*. Chicago: University of Chicago Press.

Friedman, Milton, and Anna Schwartz. 1963. *A Monetary History of the United States 1867-1960*. Princeton: Princeton University Press.

Friedman, Milton, and Anna Schwartz. 1965. *The Great Contraction 1929-1933.* Princeton: Princeton University Press.

Gilbert, Dennis. *The American Class Structure in an Age of Growing Inequality*. 8th Ed. Los Angeles: Sage, 2011.

Glaeser, Edward L. 2006. "Corruption In America," *Journal of Public Economics*, 90(6-7), Aug: 1053-1072.

Gorton, Gary. 2008. “The Panic of 2007”, *Federal Reserve Bank of Kansas City, Jackson Hole Conference*.

Greenspan, Alan. 2007. *The Age of Turbulence: Adventures in a New World*. New York: Penguin Press.

Guidolin, Massimo, and Elizabeth A. La Jeunesse. 2007. “The Decline in the U.S. Personal Saving Rate: Is it Real and Is It a Puzzle?” The Federal Reserve Bank of St. Louis, 491-514.

Hacker, Jacob S. 2011. “Reclaiming Middle-Class America,” *The American Prospect*. Februrary 8. http://www.prospect.org/cs/articles?article-reclaiming_middle...

Hacker, Jacob, and Paul Pierson, 2010. *Winner-Take-All Politics: How Washington Made the Rich Richer -- and Turned Its Back on the Middle Class*. New York: Simon & Schuster.

Hertz, Tom. 2007. “Trends in the Intergenerational Elasticity of Family Income in the United States,” *Industrial Relations*, 46 (1), January: 22-50.

Hirschman, Albert. 1982. *Shifting Involvements: Private Interest and Public Action*. Princeton: Princeton University Press.

"Household Debt as a Percent of GDP" 2010. Calculated Risk, Finance and Economics, April 13: http://www.calculatedriskblog.com/2010/04/household-debt-as-percent-of-gdp.html Accessed 11-5-10.

Hudson, Michael. 2010. "The Transition from Industrial Capitalism to a Financialized Bubble Economy," Working Paper no. 627, Levy Economics Institute, Oct.

Johnson, Simon. 2009. "The Quiet Coup," *The Atlantic Monthly Online*, http://www.theatlantic.com/doc/200905/imf-advice

Johnsonn, Brandon. 2007. "Commute Time – Is It Worth It?" http://ezinearticles.com/?Commute-Time---Is-It-Worth-It?&id=921076

JCHS (Joint Center for Housing Studies of Harvard University). 2008. "The State of the Nations Housing 2008," Cambridge: Harvard University.
Kalecki, Michael. 1942. "A Theory of Profits," *The Economic Journal*, 52 (206-07): 258-67.

Kennickell, Arthus B. 2006. "Currents and Undercurrents: Changes in the Distribution of Wealth, 1989-2004," Federal Reserve Board Survey of Consumer Finances Working Paper, 2006. www.federalreserve.gov/pubs/oss/oss/method.html.

Kennickell, Arthur, and Janice Shack-Marquez. 1992 "Changes in Family Finances from 1983 to 1989: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 78, January: 1-18.

Kennickell, Arthur B., Martha Starr-McCluer, and Annika E. Sunden. 1997. "Family Finance in the U.S.: Recent Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 83, January: 1-24.

Kennickell, Arthur B., Martha Starr-McCluer, and Brian J. Surette. 2000. "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances." *Federal Reserve Bulletin*, vol. 86, January: 1-29.

Keynes, John Maynard. *Essays in Persuasion.* New York: Harcourt, Brace and Co., 1932.

Keynes, John Maynard. 1936. *The General Theory of Employment, Interest, and Money*. New York: Harcourt, Brace & World, 1965.

Kotz, David M. 2009, "The Financial and Economic Crisis if 2008: A Systemic Crisis of Neoliberal Capitalism," *Review of Radical Political Economy*, 41 (3), Summer: 305-17.
Kotz, David M. 2010. "The Final Conflict: What Can Cause a System-Threatening Crisis of Capitalism?" *Science and Society*, 74 (3), July: 362-79.

Krugman, Paul. 2005. “That Hissing Sound,” *The New York Times,* August 8 Accessed Nov. 7, 2010 at: http://www.nytimes.com/2005/08/08/opinion/08krugman.html

Krugman, Paul. 2009. “The Market Mystique,” *The New York Times*, March 27: https://www.nytimes,.com/2009/03/27/opinion/27krugman.html

Lasch, Christopher, 1996. *The Revolt of the Elites and the Betrayal of Democracy*. New York: W.W. Norton.

Leijonhufvud, Axel. 2009. Óut of the Corridor: Keynes and the Crisis,” *Cambridge Journal of Economics,* 33 (4), July: 741-57.

Levy, Frank. 1998. *The New Dollars and Dreams: American Incomes and Economic Change.* New York: Russell Sage Foundation.

Livingston, James. 2009. “Their Great Depression and Ours,” *Challenge*, 52 (3), May/June: 34-51.

Long, Clarence D. 1960. *Wages and Earnings in the United States, 1860-1890*. Princeton: Princeton University Press.

Lucas, Robert E., Jr. 1980. “The Death of Keynesian Economics.” *Issues and Ideas* (University of Chicago, Chicago, IL). Winter: 18-19.Lucas, Robert E., Jr. 2003. “The Industrial Revolution: Past and Future,” 2003 Annual Report Essay, The Federal Reserve Bank of Minneapolis, http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3333

Madrick, Jeff, and Nikolaos Papanikolaou. 2010. “The Stagnation of Male Wages in the US,” *Internatinal Review of Applied Economics*, 24 (3), May: 309-18.

Marx, Karl. 1981. Capital: Volume III. New York: Penguin Books.

Mazumder, Bhashkar. 2005. “Fortunate Sons: New Estimates of Intergenerational Mobility in the United States Using Social Security Earnings Data,” *Review of Economics and Statistics*, 82 (2): 235-55.

McPherson, James Brian. 2008. *The Conservative Resurgence and the Press: The Media’s Role in the Rise of the Right*. Evanston: Northwestern University Press.

Mill, John Stuart. 1848. *Principles of Political Economy*. Clifton, New Jersey: Augustus M. Kelly, 1973.

Mishel, Lawrence. 2011. “Data on Income Gains Support 99ers’ Gripes,” Economic Policy Institute, October 19, http://www.epi.org/publication/data-income-gains-support-99ers/

Lawrence Mishel, Jared Bernstein, Heidi Shierholz. 2009. *The State of Working America: 2008-*

2009. Ithaca, N.Y. : ILR Press.

Mian, Artif, and Amir Sufi. 2010. “House Prices, Home Equity-Based Borrowing, and the U.S. Household Leverage Crisis,” Chicago Booth Research Paper No. 09-20, May 21.

Minsky, Hyman. 2008. *Stabilizing an Unstable Economy*. New York: McGraw-Hill.

Miringoff, Marque-Luisa and Sandra Opdyke. 2008. *America's Social Health: Putting Social Issues Back on the Public Agenda*. Armonk, New York: M.E. Sharpe

Mishel, Lawrence, Bernstein, Jared, and Allegretto, Sylvia. 2009. *The State of Working America*. Ithaca, N. Y.: Cornell University Press.

Mohktari, Manouchehr. 1990. “Are We Estimating a Life Cycle Model or an Error Correction Model?” Proceedings of the *Annual Conference of the American Council on Consumer Interests*, March: 70-74.

Munnell, Alicia H., Francesca Golub-Sass, and Andrew Varani. 2005. “How Much Are Workers Saving?” Issue Brief, Center for Retirement Research, Boston College, 34, October: 1-9.

OECD: Organization for Economic Cooperation and Development. 2004. *OECD Employment Outlook 2004*. Paris: OECD.

Onaran, Ö zlem, Engelbert Stockhammer, and Lucas Grafl. 2011. “Financialisation, Income Distribution and Aggregate Demand in the USA,” *Cambridge Journal of Economics*, 35: 637-61.

Orszag, Peter R. 2007. *Health Care and the Budget: Issues and Challenges for Reform,* before the Senate Committee on the Budget (June 21, 2007). http://www.cbo.gov/ftpdocs/87xx/doc8758/MainText.3.1.shtml.

Palma, Gabriel. 2009). “The Revenge of the Market on the Rentier: How Neo-liberal Reports on the End of History Turned Out to Be Premature,” *Cambridge Journal of Economics,* 33 (4), July: 829-69.

Parenti, Christian. 1999. “Atlas Finally Shrugged,” *The Baffler*, 13: 108-20.

Park, Yongjin. *Veblen Effect on Labor Supply: Male Earnings Inequality Increases Women's Labor Force Participation*. New London, CT: Department of Economics, Connecticut College, 2004.

Parker, Jonathan A. 2000. “Spendthrift in America? On Two Decades of Decline in the U.S. Savings Rate,” in Ben S. Bernanke and Julio J. Rotenberg eds., *NBER Marcroeconomics Annual 1999*: 317-70.

Perelman, Michael. 2007. *The Confiscation of American Prosperity: From Right-Wing Extremism and Economic Ideology to the Next Great Depression*. New York: Palgrave Macmillan.

Perez, Carlota. 2009. "The Double Bubble at the Turn of the Century: Technological Roots and Structural Implications," *Cambridge Journal of Economics,* 33 (4), July: 779-805.

Persson, Torsten, and Guido Tabellini. 1994. "Is Inequality Harmful for Growth?" *American Economic Review*, 84 (3) June: 600-21.

Pew Research Center 2008. http://people-press.org/report/?pageid=1282, March 27. omic-discontent-deepens-as-inflation-concerns-rise, February 14.

Phillips, Kevin (interview). "Too Much Wealth, Too Little Democracy," Challenge (September/October 2002): 6-20.

Piketty, Thomas and and Emanuel Saez. 2006. http://elsa.berkeley.edu/~saez/Tab-Fig2006.xls.

Polanyi, Karl. 1944. *The Great Transformation*. Boston: Beacon Press, 1957.

Rawls, John (1971) *A Theory of Justice*. Cambridge: Harvard University Press.

Reich, Robert B. 2001. *The Future of Success*. New York: Alfred A. Knopf.

Reich, Robert B. 2007. *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*, New York: Alfred A. Knopf.

Reich, Robert. 2010. "Unjust Spoils," *The Nation*, June 30; Accessed Nov. 7, 2010 at: http://www.thenation.com/print/article/36893/unjust-spoils

Reinhart, Carmen and Kenneth Rogoff. 2008. "Banking Crises: An Equal Opportunity Menace," NBER Working Paper no. 14587, December.

Reinsdorf, Marshall B. 2007. "Alternative Measures of Personal Saving," *Bureau of Economic Analysis Survey of Current Business,* 87, (2) February: 7-13.

Rich, Andrew. 2004. *Think Tanks, Public Policy, and the Politics of Expertise*. New York: Cambridge University Press.

Rose, Steve J. 2010. *Rebound: Why America Will Emerge Stronger From the Financial Crisis*. New York: St. Martin's Press.

Saez, Emmanuel. 2010. "Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2008 estimates)" July 17, 2010. Available at: http://elsa.berkeley.edu/~saez/saez-UStopincomes-2008.pdf

Sayer, Andrew. 2005. *The Moral Significance of Class*. Cambridge: Cambridge University Press.

Scott, Robert H. III. 2007. "Credit Card Use and Abuse: A Veblenian Analysis," *Journal of Economic Issues*, XLI (2), June: 567-74.

Segal, Lewis M. and Sullivan, Daniel G. 1997. "The Growth of Temporary Service Work," *The Journal of Economic Perspectives*. 11 (2) Spring, 117-36.

Shiller, Robert. 2005. *Irrational Exuberance*, 2nd ed. Princeton: Princeton University Press.

Sierminska, Eva and Yelena Takhtamanova. 2007. "Wealth Effects out of Financial and Housing Wealth: Cross Country and Age Group Comparisons," Federal Reserve Bank of San Francisco Working Paper Series 2007-01, January.

Solon, Gary. 1992. "Intergenerational Income Mobility in the United States," *American Economic Review*, 82 (3): 393-408.

Standard and Poor's/ Case-Shiller Home Price Indices. 2008. [Online] Available from http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----

Stiglitz, Joseph E. 2008. "Realign the Interests of Wall Street," *Harper's*, November, 36-37.

Stiglitz, Joseph E. 2010. *Freefall: America, Free Markets, and the Sinking of the World Economy*. New York: W.W. Norton.
Stockhammer, Engelbert. (2010). "Neoliberalism, Income Distribution and the Causes of the Crisis," in Philip Arestis, Rogério Sobreira, José Luis Oreiro (eds.), *The Financial Crisis: Origins and Implications*. Palgrave Macmillan: 234-58.

Summers, Lawrence, and Chris Carroll. 1987. "Why is U.S. National Saving so Low?" *Brookings Papers on Economic Activity*, 1987 (2), 607-42.

Taylor, John B. 2008. "How Government Created the Financial Crisis," *The Wall Street Journal*, September 7: A19.

Taylor, Lance and Stephen A. O'Connell. 1985. "A Minsky Crisis," *The Quarterly Journal of Economics*, 100: 871-885.

Taylor, Lance. 2010. *Maynard's Revenge: The Collapse of Free Market Macroeconomics*. Cambridge, MA: Harvard University Press.

Temin, Peter. 1976. *Did Monetary Forces Cause the Great Depression?* New York: Norton.

Temin, Peter. 1989. *Lessons from the Great Depression*. Cambridge: MIT Press.

Tett, G. 2009. "Lost Through Destructive Creation," *Financial Times*. March 10.

Thaler, Richard H. 1990. "Anomalies: Savings, Fungibility, and Mental Accounts," *Journal of Economic Perspectives*, 4 (1), Winter: 193-205.

Thaler, Richard H. 1994. "Psychology and Saving Policies," *The American Economic Review*, 84 (2), May, 186-92.

Thompson, John. 1991. *Ideology and Modern Culture*. Stanford: Stanford University Press.

Veblen, Thorstein. 1899. *The Theory of the Leisure Class*. New York: The Modern Library, 1934.

Tregenna, Fiona. 2009. "The Fat Years: The structure and Profitability of the US Banking Sector in the Pre-crisis Period," *Cambridge Journal of Economics,* 33 (4), July: 609-32.

Wade, Robert Hunter (interview with). "The American Empire," *Challenge* (January-February, 2004): 64-77

Wade, Nicholas. 2009. "The Global Slump: Deeper Causes and Harder Lessons," *Challenge*, 52 ((5), September-October: 5-24.

Wall Street Watch. 2009. "Sold Out: How Wall street and Washington Betrayed America," March, available at http://www.wallstreetwatch.org/reports/sold_out.pdf

Weidenbaum, Murray. 1979. *The Future of Business Regulation*.

Weller, Christian E. 2007. "Need or Want: What Explains the Run-up in Consumer Debt?" *Journal of Economic Issues*, XLI (2), June: 583-91.

Wenning, Todd. 2008. "What to Sell in This Market," *The Motley Fool*, Nov. 21, http://www.fool.com/investing/value/2009/03/02/what-to-sell-in-this-market.aspx

Wilkinson, Richard, and Kate Pickett. 2009. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane.

Wilmers, Robert G. 2009. "Where the Crisis Came From," *The Washington Post*, June 27: A19.

Wisman, Jon D. 2009. "Household Saving, Class Identity, and Conspicuous Consumption," *Journal of Economic Issues*, 63 (1), March: 89-114.

Wolff, Edward. 2002. *Top Heavy: A Study of Increasing Inequality of Wealth in America*. New York: Twentieth Century Fund Press.

Wolff, Edward. 2004. "Changes in Household Wealth in the 1980s and 1990s in the U.S." Working Paper, The Levy Economics Institute. http://www.levy.org/pubs/wp407.pdf

Wolff, E. N. 2010. "Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze - an update to 2007," *Working Paper No. 589.* Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Wolf, Martin. 2007. *Financial Times,* August 22: 13).

Wolin, Sheldon S. 2008. *Democracy Incorporated: Managed Democracy and the Specter of Inverted Totalitarianism*. Princeton, N.J.: Princeton University Press.

NOTES

[1] "The financial crisis was caused by significant gaps in oversight" (Geithner, cited in Cho and Goldfarb 2009: A14). Although housing prices rose 175 percent in the U.S. between 1997 and 2007, Bernanke declared before Congress in Oct 2005 that housing prices "largely reflect economic fundamentals" (Bernanke 2005), despite warnings from many economists of a dangerous speculative bubble about to explode (e.g., Shiller 2005; Krugman 2005). Leijonhufvud claims that "the Fed was lured into keeping interest rates far too low for far too long. The result was inflation of asset prices combined with a general deterioration of credit quality" (2009: 742). Because it helped maintain low interest rates, John Taylor has laid blame for the crisis on the Federal Reserve (2009). Akerloff and Shiller focus on the generation of speculative booms by mass psychology (2009). The moral hazard resulting from the Federal Reserve bailing out financial actors and thereby limiting their risks has been termed "the Greenspan put." This "put" was used, for instance, in the 1997 Asian contagion, the Russion bond defaults, the Long-Term Capital Management Collapse in 1998, The Y2K bug in 1999, the dot-com implosion of 2000, and in the wake of 9/11 in 2001.

[2] This has been the view of Stiglitz: "The downturn is likely to be so severe partly because we have succumbed to the opinion that markets work best by themselves, unfettered by government regulators. But the people making this argument are the ones who have been served well by it" (2008: 36).

[3] The shift in political power resulting from growing inequality helped enable the financial deregulation that Bordo et al. (2001) have found frequently preceding financial crises over the past decades.

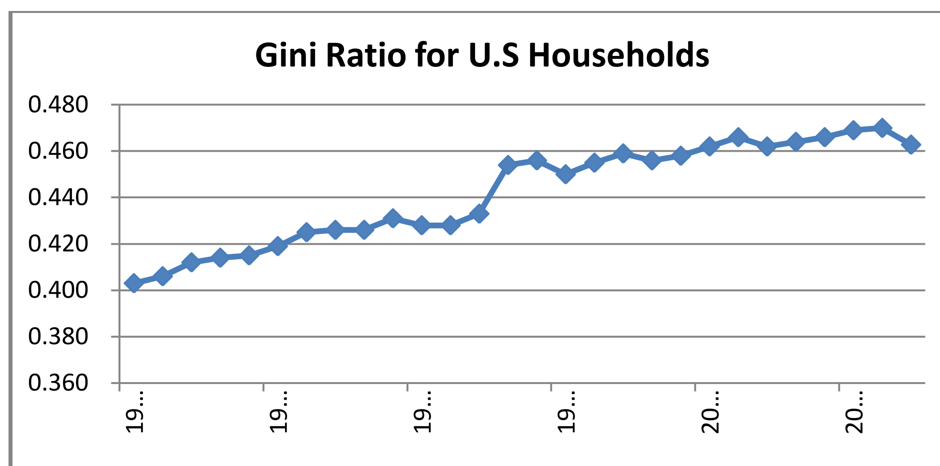
[4] What makes this even more surprising is that even well before Keynes, the role of rising inequality in provoking systemic dysfunction was recognized by major thinkers such as Marx and Veblen. Indeed, as early as the end of the 17th C. Pierre de Boiguilbert noted that the distribution of income in favor of the rich who would hoard much of it and away from the poor who would spend it contributed to the disastrous decline of the French economy during the reign of Louis XIV (Boisguilbert 1695).

[5] Veblen's theory of consumer behavior has been all but ignored by the mainstream of the economics discipline. James Duesenberry drew upon Veblen's theory to explain the empirical problems faced by Keynes' consumption function. However, as Taylor points out, "it lacked rational actor 'foundations,' which is the main reason why it has almost completely disappeared from view" (2010: 227). Barba and Pivetti (2008) have briefly addressed a Veblen-Duesenberry dynamic underlying increasing indebtedness prior to the Crisis of 2008.

[6] Between 1979 and 2007, the super-rich, the top 0.1 percent (the top one one-thousandth of households), saw their incomes grow 390 percent, while over the same period, incomes for the bottom 90 percent increased only 5 percent (Mishel 2011). Income distribution became even more unequal than these data reveal, if the declining availability and quality of public goods consumed by the less privileged are taken into account.

[7] There are many other ways of depicting this rising income inequality. For instance, the poorest 20 percent of Americans saw their share of total income decline from 5.5 percent in 1973 to 4.0 percent in 2006. Over the same period, the second poorest 20 percent saw their share drop from 11.9 to 9.5 percent, the middle 20 percent from 17.5

to 15.1. Meanwhile, the share of the richest 20 percent rose from 41.1 to 48.5 percent. And the richest five percent saw their share climb from 15.5 to 21.5 percent (Table 1.7, Mishel et. al. 2009). The rise in the Gini Coefficient depicted in the chart below provides a graphic glimpse of this growing inequality.



Source: Bureau of the Census, Historical Income Table H-4
http://www.census.gov/hhes/www/income/histinc/h04.html

[8] These figures are computed using "wage and salary accruals" for the labor share and the sum of "proprietors' income", "rental income of persons", "corporate profits" and "net interest and miscellaneous payments" (All with inventory valuation adjustment and capital consumption adjustment where appropriate).

[9] This shift in investment from production to finance was occurring even within major traditional manufacturing firms such as General Motors, Ford, and General Electric, that developed increasingly powerful financial departments. In the case of GM and Ford, it was to finance the sale of their vehicles. By 2000, General Electric received more income from financial transactions than from manufacturing.

[10] These profit figures would have been yet higher if extremely high CEO salaries and bonuses had been included. Stockhammer writes convincingly that "Arguably, the exorbitant management salaries in the Anglo-Saxon countries should be considered to be a form of profits rather than wages" (2010: 241).

[11] This shift also shows up in executives' income. Average compensation in the financial sector was close to parity with that of all domestic private industries between 1948 and 1982. However, it soared to 181 percent of the average level of other industries by 2007 (Johnson 2009).

[12] Home sales and mortgage securitization fees have been estimated to have been about two trillion dollars between 2003 and 2008 (*Financial Times* 2009; cited in Crotty 2009: 565).

[13] Bernanke (2004) had credited financial innovation for allocating capital and risk more efficiently and wise monetary policy as underlying the "Great Moderation" of the business cycle since the disinflation of the 1980s. Even though securitization was clearly implicated in the failure of the energy giant Enron in 2001, the Federal Reserve continued to argue that securitization made banks safer. As New York Fed Chairman Timothy Geithner put it in 2006, "In the financial system we have today, with less risk concentrated in banks, the probability of systemic financial crises may be lower than in traditional bank-centered financial systems" (2008; cited in Crotty 2009: 572). The IMF also claimed that credit risk dispersion "helped to make the banking and overall financial system more resilient" (Tett 2009; cited in Crotty 2009: 572). Providing background theoretical support was the efficient market hypothesis of neoclassical economics contending that prices would correctly capture risks.

[14] Kotz has described this change in investment dynamics as follows: "The rise in profits relative to wages, and the rising concentration of household income at the top produces a large and growing volume of investable funds, that tends to exceed the available productive investment opportunities. This creates favorable conditions for the developmet of asset bubbles, as such funds find their way into the purchase of assets such as real estate or securities" (2009: 308).

[15] In 1983, 16 percent of Americans owned stock directly or indirectly and they constituted about 12 percent of household assets. By the eve of the crash in 2007, over 50 percent owned stocks which represented 44 percent of household assets. Nevertheless, this ownership was extremely skewed. In 2007, the wealthiest one percent of Americans owned 49.3 percent of stocks and mutual funds, the richest 10 percent, 89.4 percent. The remaining 90 percent owned only 10.6 percent (Wolff 2010: Table 9: 52).

[16] Expressed in Marxist terms, "An asset bubble can prolong an expansion by holding off the realization crisis that tends to result from rising inequality" (Kotz 2010: 9).

[17] The effective income tax rate on the top 400 income-tax payers was reduced from 30 to 18 percent (Francis 2008; noted in Palma 2009).

[18] Palma has suggested that rising inequality was likely more important than the inflow of Asian monies in the ready availability of credit: "huge income polarization – between 1980 and 2006 just the taxable income of the top 1% increased by nearly US$2 trillion, and that of the top 10% by US$3.5 trillion – obviously became one of the major contributors (and one probably more important than the Asian 'savings glut') to the increased liquidity in the US financial markets…" (2009: 842).

[19] Rising private asset values are not included in the measurement of household saving rates in the national income and product accounts. However, they do, in fact, represent real saving, and may encourage increases in consumption.

[20] Others also challenge this relationship. Munnell, Golub-Sass, and Varani note that "the rise in the wealth [-to-income] ratio is concentrated in the years after 1994, and therefore does not explain why the saving rate took a nose dive beginning in the early 1980s" (2005: 2). Reinsdorf notes "During the 1990s, declines in the personal saving rate were often attributed to the effects of increases in personal wealth created by large capital gains. Yet, when subsequent declines in stock prices reduced personal wealth, the rebound in personal saving was disappointingly weak" (2007: 8). As for housing price inflation, Sierminska and Takhtamanova point out that, "housing is both an asset and a consumption item. Increases in house prices may indeed lead to an increase in one's wealth, but they also lead to a higher cost of housing services. Thus, an increase in relative house price does not necessarily lead to an increase in a household's overall ability to consume more of other goods and services" 2007: 3). Also, as James Duesenberry has pointed out, longer life-spans may outweigh wealth effects (Summers and Carroll 1987: 640).

[21] More than a third of the total gain in marketable wealth over this period accrued to the richest one percent and over two-thirds to the top five percent (Wolff 2010: 14).

[22] Woman as a percent of the workforce rose from 42.5 in 1980 to 46.4 in 2005, while over the same period the median percent contribution of wives to family income increased from 26.0 to 35.1 percent. (http://www.infoplease.com/ipa/A0104673.html).

[23] Cynamon and Fazzari also focus on "how consumption preferences evolve for households situated in a social context" (2008: 24). However, they do not explore the Veblenian approach whereby households strive to maintain, if not augment their status, respectability, and self-respect. They note how "integraton of semi-conductor technology into consumer products has …accelerated the growth of consumption norms" (2008: 9). While this is certainly true, what is perhaps more telling are the long pre-dawn lines in front of Apple stores in a quest for the status of being among the first owners of a new Apple product.

[24] Veblen put this as follows:

"One's neighbours, mechanically speaking, often are socially not one's neighbours, or even acquaintances; and still their transient good opinion has a high degree of utility. The only practicable means of impressing one's pecuniary ability on these unsympathetic observers of one's everyday life is an unremitting demonstration of ability to pay" (1999: 86-87).

[25] Veblen essentially embraced what later social thinkers such as Bourdieu (1984) and Sayer (2005) refer to as a Pascalian view of human action, whereby rational deliberation is of lesser importance than socialization and habitualization. Conspicuous consumption for Veblen is not so much consciously pursued as the engrained practice of struggling to maintain respectability:

> "For the great body of the people in any modern community, the proximate ground of expenditure in excess of what is required for physical comfort is not a conscious effort to excel in the expensiveness of their visible consumption, so much as it is a desire to live up to the conventional stand of decency in the amount and grade of goods consumed" (1899: 102).

[26] Many of the increased costs in the U.S. resulting from changing demographic conditions such as dual household income earners, divorced parents, child care, etc. have comparably affected household budgets within other rich countries.

[27] Yet Keynes obliquely recognized consumption externalities in his delineation of two classes of human needs, "those needs which are absolute in the sense that we feel them whatever the situation of our fellow humans may be, and those which are relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to, our fellows" (1932, 365). However, his view that less inequality would increase consumption does not concord with this distinction between absolute and relative needs.

[28] An OECD study (d'Addio 2007) finds upward mobility between generations to be lower in the U.S. than in Canada, Sweden, Germany, Spain, Denmark, Austria, Norway, Finland, and France. Further evidence that the U.S. is no longer the exceptional land of great equality of opportunity is provided by a number of other studies (Bradbury and Katz 2002: 4; Hertz 2007; Mishel, Bernstein, and Allegretto 2009; Mazumder 2005; Solon 1992). Nevertheless, the general view in the U.S. continues to be that it is the exceptional land of opportunity.

[29] In 2007, the wealthiest 10 percent held 45.9 percent of total home equity and 25.5 percent of the value of vehicles (Gilbert 2011, 91).

[30] This index measures one-quarter of median family income as percent of the funds necessary to qualify for an 80 percent mortgage on a median-priced home.

[31] For an extended discussion of Veblen's theory of consumer behavior applied to U.S. saving behavior, see Brown 2008; Wisman 2009.

[32] The securitization of credit card debt began in the early 1990s, enabling Wall Street brokers to sell bonds backed by credit card debt. The new profit possibilities greatly stimulated the aggressive marketing of credit cards. This marketing extended even to the least well-off households. Barba and Pivetti report that between 1983 and 2004, the percent of families in the lowest quintile with credit card debt rose from 11.9 to 30.3, those with installment loans rose from 8.8 to 25.5 (2009: 117-18).

[33] Exploding health care costs are also often mentioned as squeezing household finances. However, Peter R. Orszag, former Director of the Congressional Budget Office found that although "Total spending on health care in the United States, including both private and public spending, increased from 4.7 percent of GDP in 1960 to 14.9 percent in 2005, …out-of-pocket payments fell from 31 percent of national health expenditures to 13 percent, while payments by private insurers rose from 25 percent to 37 percent" (2007). Although the cost of higher education has soared, Rose claims out that "the share that moderate and low-income families have paid out of their incomes for sending their children to school has not increased over time" Rose 2010: 234).

[34] Barba and Pivetti report that research suggests that "a substantial and increasing fraction of the rise in mortgage

debt between 1980 and 2006 was used for purchasing goods and services" (2009: 116).

[35] As Chicago School economist John Cochrane has put it, "When inflation came in the nineteen-seventies, that was a major failure of Keynesian economics" (cited in Cassidy 2010: 31). As early as 1980, Robert Lucas wrote that "At research seminars, people don't take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another" (19).

[36] Following John Thompson, ideology as used here is understood as "the ways in which meaning is mobilized in the service of dominant individuals and groups" (1991: 73).

[37] The rich do not, of course, opportunistically pursue their own interests any more than do other folks. It's just that their privileged status and greater resources mean they can do it better. And, like folks generally, they do not see themselves as consciously doing so. All people want to be highly principled, to see themselves as supporting the causes of the good and just society. They come to believe quite sincerely that the economic doctrines they support are best for the country, for its freedoms, its fundamental values, and in fact, best for the future well-being of all humanity. This is why it is a mistake to blame the crisis on greed. Individuals respond to the incentive structures embedded in social institutions. The task, therefore, is to pass judgment not on individuals, but on social institutions that provide socially destructive incentives. The challenge is to craft institutions to elicit the behavior that is deemed necessary for the best social outcomes.

[38] Facing a profit squeeze, they had good cause to do so. Whereas real worker compensation increased an average of 4.4 percent between 1966 and 1973, real profit declined an average of 3.1 percent annually (Bowles et al. 1990). In fact, between 1960 and 1980, the U.S. profit rate trended downward, but began moving upwardward thereafter as labor's share of national income declined (Taylor 2010: 58).

[39]According to Palma, neo-liberal ideology "provided the technologies of power with the required degree of sophistication for accomplishing the most remarkable 'dispossession feat' ever within a democracy" (2009: 863).

[40] Palma claims that, "there is no doubt that a powerful fight took place during the 1970s between those interests backing the welfare state (working class, some industrial capitalists, some political parties and intellectuals) and those wanting to dismantle it (financial rentiers, other industrial capitals, some political parties and intellectuals, including most economists)" (2009: 840). Perez contends that "most neoclassical economists …tend to lay blame on government...[for the] derailment of the market mechanism" (2009: 779).

[41] Bresser-Pereira claims that "Neoclassical economics played the role of meta-ideology as it legitimatized, mathematically and 'scientifically,' neoliberal ideology and deregulation…. Neoliberalism…should not be understood merely as radical economic liberalism but also as an ideology that is hostile to the poor, to workers and to the welfare state." Further, "neoclassical macroeconomists and neoclassical financial economists built models that have no correspondence to reality, but are useful to justify neoliberalism 'scientifically'" (2010: 2; 3; 23).

[42] Palma went on to note that "It is not the first time in recent history that rentiers have tried to get rid of all fetters on their greed and transfer all associated risks; however, they have never succeeded on such a scale" (2009: 863).

[43] In the mid-1950s, over a third of U.S. workers in the private sector were members of labor unions, but membership began declining, and doing so precipitously after the mid-1970s. By 2006, only eight percent remained members.

[44] Further, noted political scientist Sheldon Wolin has claimed that the majority of Americans were being depoliticized.

> "The intense pace of work and the extended working day, combined with job insecurity, is a formula for political demobilization, for privatizing the citizenry…[This] depoliticization is promoted through society's being enveloped in an atmosphere of collective fear and of individual powerlessness: fear of terrorists, loss of jobs, the uncertainties of pension plans, soaring health costs, and rising educational expenses" (2008: 239).

[45] Evidence of this unintelligibility is presented in a 2007 Federal Trade Commission study that found that nine out of ten mortgage customers could not figure out the up-front costs on the loan after examining what were relatively straightforward fixed-rate loan contracts. One-half were unable to clearly identify the loan amount. Further, almost 60 percent of those who took out subprime mortgages between 2002 and 2007 could have qualified for prime mortgages if they had been offered. Brokers were rewarded for steering buyers to these higher interest mortgages (Brooks and Simon 2007). The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 also made it far more difficult for homeowners to get out of mortgage debt.

[46] Tregenna finds "a precipitous and continuous drop in the number of banks from the mid-1980s on. Whereas in the previous half-century the number of commercial banks hovered within a fairly narrow band, the number fell dramatically from about 1985 onwards." As a consequence, "by the early 1990s profitability reached a new historical high, only beginning to decline (and dramatically so) in 2006 and 2007 as the current crisis began." Tregemma's econometric study found "A positive and highly significant relationship …between concentration and profitability" (2009: 611; 613; 628).

[47] The ratio of imports to consumption increased from 0.16 in 1997 to 0.24 in 2007 (Bureau of Economic Analysis; cited in Brown 2008: 151

[48] President Calvin Coolidge and his Treasury Secretary Andrew Mellon energetically campaigned to drastically cut taxes on the highest incomes. By 1928 the richest 10 percent received 46 percent of total income. In their search for profitable investment outlets, they fueled ever-more extreme speculation. Similarly, while top marginal tax rates were reduced from a range of 70 to 90 percent during the 1950s and 1960s to a range of 35 to 39 percent from the 1980s until the 2008 crisis, sales taxes and social security taxes, both of which are regressive were raised, further increasing inequality and feeding the flames of speculation.

[49] In 2006, the top one percent of households received 22.5 percent of all pre-tax income (includes capital gains), the same percent as in 1929 (Piketty and and Saez 2006).

[50] In 1929, 90 percent of taxpayers had less disposable income than in 1922, whereas the top one percent of taxpayers had disposable income 63 percent greater (Livingston 2009: 38).

[51] The culture wars died out once the Great Depression refocused attention on the economic struggle for income and jobs.

[52] However, a number of studies challenge the claim of a positive relationship between inequality and economic dynamism, finding instead that greater income inequality causes economies to grow more slowly or be less sustainable (Alesina and Rodrik 1994; Berg, Ostry, and Zettelmeyer 2011; Easterly 2002; Persson and Tabellini 1994).

[53] Whereas the top one percent of households in 1929 received 22.5 percent of all pre-tax income (includes capital gains), they only received 9 percent by the late 1970s (the "Great Compression") (Piketty and Saez 2006).