



Notes: *Silent Depression* by Wallace Peterson (1994)

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Peterson, Wallace, 1994. Silent Depression

Notes and comments by Mason Gaffney

Chap. 5, ... And the Rich get Richer

A. Gilded Ages, 1866-1929

The Age originally called "Gilded" was 1866-73. The name came from a book by Mark Twain and Charles Dudley Warner. There was widespread corruption and unjust enrichment. There were vast land grants to railroad promoters, Boss Tweed, the *Crédit Mobilier* scandal, Boss Murphy in Washington, and railroad looters like Jim Fiske, Jim Brady, Daniel Drew, Russel Sage, et al. In Chicago, for example, the 1873 crash unearthed vast prior corruption. The City had acceded to the demands of every land speculator who asked the City to finance street improvements, or "Public Works for Private Profit." It was the same in New York City (where one of my ancestors joined Tammany Hall and made his pile by paving streets).

However, this original "Gilded Age" was tempered by the residue of Civil War idealism and egalitarianism, which lasted until the stolen election of 1876. Also, this Gilded Age was short, followed by a long, deep depression that fostered radical reform movements.

The name was transferred, next, to the boom of 1886-93, and now usually refers to that period. Flaunting wealth was all the rage. These excesses, in turn, led to the Populist and then Progressive Movements, which shaped American politics from 1901-20.

The next gilded age was the "Roaring 20s." Like its predecessors it was financed from a peace "dividend," and again like them it self-destructed, leading to the New Deal.

B. 1981-87. WP sees "The Hateful Eighties" under Reagan and Bush as another Gilded Age, and foresees another self-destruction (p.95), but not a dramatic crash (although the DJIA crashed in 1987). There was, indeed, a recession that chased Bush from office, but it was not comparable to the crashes ending the previous gilded ages. Rather, WP sees it as continuing a long, steady, dreary drain on the middle and lower classes, dating from ca. 1975: the "Silent Depression."

C. WP as an extreme doubter of the market system

WP faults Clinton, p.96, for choosing to lower the deficit "rather than equalizing wealth." WP does not explain why these are mutually exclusive. Here, his apparent viewpoint is a throwback to early Keynesianism that most economists have dropped as no

longer apposite. WP sees “borrow and spend” as the way, perhaps the only way, to equalize wealth. We all have our biases, and he is telling us what his is.

For more on that, link to “M”, below.

D. Sources of Wealth (This section is most inadequate)

WP tells us the sources of wealth that are so unequally distributed

- Inheritance. Half of all wealth comes from this (and it is free of income tax).
- Capital gains

Starting new businesses is all he mentions. It is indeed possible to build up a new business, and then sell it, and have the gain treated by the I.R.S. as a “capital gain,” thus qualifying for much lower tax rates. However, the main gains somewhat arbitrarily defined as “capital gains” are increments to values of land, stock, minerals (hardrock and hydrocarbons), timber, cattle, water resources, and other assets that Congress has defined as “capital assets.”

E. Distribution of income before taxes.

[Note misprint: Book says “since 1974,” but obviously means “since 1947.” It tracks data from 1947 to 1970. This book needed better proofreading.]

First source of data that WP uses: the U.S. Census.

Census data are pre-tax only, thus do not show effect of taxes. Other data, from the Congressional Budget Office (CBO), will be used for that.

Census data understate income of the richest in several ways

- Omit all capital gains
- Omit all other income >\$299,999
- Omit inheritances and insurance receipts

Thus, Census data are of little value for the present purpose. It is surprising that WP even uses them at all. We will see later how much Census data understate the true share of the top quintal.

Up to 1970, every quintal gained income except the top. Thus, income became more equal. (Except we do not really know, since Census understates income at the top, as just shown.)

Later, pp. 102-05, WP discusses effect of taxes on distribution of AFTER-tax income, using data from a different source.

1947-1970, everyone “felt good,” says WP. [Economically, that may be. At the same time, married women were reading Betty Friedan and Gloria Steinem and divorcing their husbands in droves. Nuns, too, were leaving the church. Young men were rebelling against war and the draft. It was a time of upheaval, hard on young males and traditional middle-aged males, and, finally, on the large new crop of unwed mothers.]

F. 1970-94, a period of reversal and reconcentration

After 1970, the share of the top quintal rose again, and the bottom fell.

G. WP introduces a device for measuring inequality, the "Gini Coefficient." He does not define it or explain it - I will do so in class.

He does not calculate it correctly, either. He says it dropped by 6.1% from 1947-70, and then rose by 12.1%, 1970-90. I have calculated it from his data, and those figures are wrong - too high.

Anyway, the Gini has no meaning that is intuitively obvious. It is very useful for researchers because it sums up a large array of numbers in one single number, but it doesn't tell students exactly what is going on. Furthermore, a small change in the Gini corresponds with a large change in the quintal shares, so it mutes and conceals large changes.

Here, therefore, are some figures whose meanings are self-evident.

Table 5A (selections from WP's Table 5-1, p.99): Share of income, before tax, received by the top 5% of income-receivers, using family units, and using data from the U.S. Census (which understates income at the top).

Year	Share of the top 5% (%)	Increment from Previous year shown (%)	Increment as % of previous year shown (%)
1947	17.5	--	--
1970	15.6	-1.9	-10.8
1990	17.4	+1.8	+11.5

(Be sure you understand why the absolute values in the right column rise between 1970 and 1990, while those in the column to its left fall between the same years.)

Table 5B (taken from text, p.100): Average incomes of the top 5% of income receivers, in 1990 \$\$

Year	Average Income	Increment from Previous year Shown (\$\$)	Increment as % of previous year shown (%)
1970	\$116,555	-----	-----
1990	\$148,124	\$31,569	27.1%

Table 5C: Average incomes of the bottom 20% of income receivers, in 1990 \$\$

Year	Average Income	Increment from Previous year Shown (\$\$)	Increment as % of previous year shown (%)
1970	\$ 10,176	-----	-----
1990	\$ 9,833	-\$343	-3.4%

The data above show an enormous worsening of the bottom 20% relative to the top 5%.

In addition, note the ratio of the average income of the top 5% in 1990 (\$148,124) to that of the bottom 20% (\$9,833). The ratio is about 15/1. Remember, though, that The U.S. Census jiggers these data to understate the incomes at the top, so the actual ratio is much higher.

H. Ownership of property is much more unequal (concentrated) than incomes are. For more detail, see "L", below.)

For the most lopsided inequality, look at data on ownership of property.

1. What kind of property?

Begin with housing, because WP and others tell us that housing is more equally owned than other assets like businesses, and corporate shares, and bonds. And yet, the bottom 1/3 own no housing at all, because they are renters. The ratio of anything to zero is infinity. That is quite a gap, indeed. At the top, there are houses and grounds in coveted spots like Palm Beach valued at \$75 millions. The owners of such houses mostly live there just part time, for they own more houses elsewhere, plus vast grounds for hunting, riding, beaching, horse and cattle breeding, flying, and whatnot, plus memberships in country clubs, yacht clubs, city clubs in prime spots, and you name it.

2. Why should we care?

If "A" can add to his wealth without subtracting from "B", B has little reason to care. B may be jealous, may feel left out and behind, which is too bad, but not a legitimate complaint. A may grow rich by working harder or smarter so as to produce more. A may grow rich by saving more and creating more capital, all without hurting A.

The zero-sum game, however, is acquiring land, because the amount is fixed. The only way for A to have more is for others to have less. Here is where the shoe pinches. This is the original and ongoing reason we should care about the distribution of wealth.

I (Eye). Data from "The Green Book."

On p.101 WP turns to another source called colloquially “The Green Book,” issued yearly by the House Committee on “Ways and Means.” (This is the quaint archaic name of the committee in charge of writing tax policy.)

These data include more (but still not all) of the income of the top bracket.

- They include realized (but not unrealized) capital gains. Unrealized gains are much larger, and go undetected in all data. (Those who receive them want us to wear blinders, and so far have prevailed.)
- They include money incomes over \$299,999 (the Census cap, if you recall).
- There are other differences whose effects are probably minor.

With this improved measure, the top 5% get 26% of the income. That is a lot more than the 17.9% in the Census data.

J. After-tax income is only negligibly more equal than before-tax income (pp.102-03).

That means, our allegedly progressive tax system really isn't.

The after-tax income of the top 1% grew by 70%, 1977-89.

- Why has WP shifted to a different pair of dates? Presumably because he is now using a different source.
- Note that WP is now referring to the top 1% - not 5% as before, and not 20% as before that. He seems to pick the bracket that helps him make his point of the moment. This is a sloppy practice. It doesn't seem to bias his points seriously, but watch him in the clinches.

He should have mentioned that the top marginal tax rate - the one applying to the top bracket - dropped from 70% to 28% between 1977 and 1989 - a huge drop, accounting for part of the rise in after-tax income in the top bracket.

p.105, WP gives data on average tax rates, and nothing on marginal rates, which are much higher.

K. What helps the poorest most are not that they pay a lower rate of taxes, which they do not; but they get higher “transfer payments.” These are Social Security, Welfare, and Unemployment Benefits.

[Here, WP seems to be overlooking governmental subsidies paid to the rich, directly or indirectly. For example, our farm subsidy programs, with few exceptions, pay huge sums to the largest farmers and absentee landlords, and only trivial drips and dribbles to small farmers, and nothing to tenant operators. Our vast program of subsidized housing credits funnels money to the suburbs and does nothing for the truly poor, who are renters, and constitute 1/3 or more of all households.]

P.108, the bottom quintal gets a very large percentage of its income from transfer payments.

[The largest cut of these “transfers” are social security checks. They are the repayment of a forced loan that the Treasury has taken from wage-earners during their working years, from their after-tax incomes. Those still working are still paying in about as much as they take out. It is a bit unfair to treat this as a form of charity, transfer, or “social dividend.”]

The most conspicuous lobby working to cut down welfare transfers is The Heritage Foundation, a lobby financed by those in the top 5% or 1%. Its most visible spokesman is Robert Rector, often quoted in the press, belittling welfare recipients and deploring the effects of welfare on their character. The Foundation itself is tax-exempt, while contributions to it are tax deductible. There are dozens of similar tax-exempt foundations actively lobbying today. They are a major political force, and have succeeded in lowering welfare payments a great deal since WP wrote, i.e. during the Clinton and Bush II Administrations.

L. Distribution of wealth, pp. 110-13

Link back to “G” and “H”, above.

We saw in “G” that the top 5% had 17.4% of the income, in 1990. Here, we see that the top 1% (not 5%) had - are you ready for this? - 37% of the wealth in 1989. It follows that the top 5% must have about 60% of the wealth. That is about 3.5 times their share (17.4%) of the income.

Wealth is measured by net worth. “Net worth” is the value of property that people own, less their debts.

The share of net worth held by the top 1% grew from 31.5% in 1983 to 37% in 1989. See table 5D.

Table 5D (from text, p.110): Net worth by brackets, 1983 and 1989

Year	Brackets	
	Top 1%	Bottom 99%
1983	31.5%	68.5%
1989	37.0%	63.0%

The growth in the top 1% came at the expense of the other 99%.

To show how the above shares translate into Gini Coefficients, see Table 5E, next

Table 5E, from text, p.111: Gini Coefficients, net worth and personal income, U.S.A., 1983 and 1989

Year	Personal Income	Net worth
1983	.414	.777
1989	.428	.793

More recent studies show that the share of the top 1% has grown equally fast after 1989.

The following is repeated from "H", above, for emphasis. WP and others tell us that housing is more equally owned than other assets like businesses, and corporate shares, and bonds. And yet, the bottom 1/3 own no housing at all, because they are renters. The ratio of anything to zero is infinity. That is quite a gap, indeed. At the top, there are houses and grounds in coveted spots like Palm Beach valued at \$75 millions. The owners of such houses mostly live there just part time, for they own more houses elsewhere, plus vast grounds for hunting, riding, beaching, horse and cattle breeding, flying, and whatnot, plus memberships in country clubs, yacht clubs, city clubs in prime spots, and you name it.

M. Why are distributions so unequal?

[First, forget about biological differences, like abilities to run fast or far, to jump, to catch balls, or to learn math. These are unequal, but they are distributed along "normal" or bell-shaped curves. Similar curves showing incomes or wealth are so highly skewed that economists do not even try to use normal curves of "frequency distribution" to display them. Instead they use techniques like those used above in this chapter.]

[Biological normal curves are based on comparisons within one generation at a time. They are based on the biological principle that acquired characteristics are not inherited, that is, the descendants of Yo-Yo Ma will not benefit as 'cellists from all the practice and training that made him great, they would have to start all over. In economics, however, acquired wealth IS inherited. So are social and professional contacts, and class status.]

1. WP says no economist has ever explained inequality.

a. Actually, quite a few have. A pioneer in this was Henry George, 1879. He wrote "The great cause of the unequal distribution of wealth is the unequal distribution of land." He inferred this from what he had observed, as a journalist in San Francisco, of the process of privatizing the public domain in California, when the S.P.R.R. walked off with about 10% of the usable land in the state. He later confirmed it after moving to New York City and observing the holdings of John Jacob Astor, the Trinity Church, and others. We'll have to reject this statement by WP.

Once there is an unequal start, “It takes money to make money,” so wealth naturally snowballs around original nuclei - but these snowballs do not melt, they keep rolling and growing, as WP points out in his passage on compound interest, p.112.

These original unequal stakes have had several sources.

- Superior productivity or inventiveness. This is the “good reason,” and sometimes the real reason - but not always. Read on!
- Conquest
- Fraud
- Corruption of public officials, by direct bribery or indirect (lobbying, campaign financing). This is how most of the U.S. public domain was, and still is being, privatized
- Acquisitive temperaments and life styles (you would not expect Mother Teresa to grow rich, but that doesn’t mean she is less worthy than Hugh Hefner or Donald Trump or Anna Nicole Smith)
- The slave trade - source of capital for many leaders of the industrial revolution in England
- Crime
- Evasion of taxes and other social responsibilities
- Polluting other peoples’ environments
- Luring others into debt slavery (peonage)
- Embezzlement
- Luck, e.g. having someone else find oil under your land
- Flacking for those who get their money in the above ways
- Go on; once you get the idea you can extend this list a long way

So we should reject WP’s first point here. He evidently believes that inequality is a natural result of free markets, but few of the above bulleted items are products of free markets, except in the worst, or Gordon Gecko, senses. (Gordon Gecko is the fictional Wall Street titan who intones “Greed is Good.”)

b. WP blames the war in Viet Nam for destroying faith in government. LBJ had led the War on Poverty, and was identified with it, and then turned into a national villain.

c. As public opinion turned to the libertarian anti-welfarism of Jarvis and the militarism of Reagan and Bush, economists followed along, says WP. Well, many economists are weather-vanes, it is true. Many are professional grantsmen, who follow the money. It is equally true, though, that leading politicians select a different group of economists, those more in tune with their beliefs, as their spokesmen.

2. WP equates inequality with the free market. This is the mindset of an older generation of New Dealers. There are others who see perversions of the market, like those bulleted above, as the major sources of inequality. They would say he is giving the

market, per se, a bum rap, by identifying it with its perversions and overlooking its virtues.

3. Americans admire riches, whether acquired honestly by production and inventiveness, or dishonestly by predation. He has a point here, unfortunately. Most people fail to distinguish between different ways of making money: to them, it's all a sign of virtue. (Jean Calvin has been blamed for this attitude. To him, worldly success was a sign of Divine Favor. He probably was a bit more scrupulous about HOW people made money than some of his later followers.)

The American economist Thorstein Veblen made the same point. Both he and WP were old and perhaps a bit too bitter when they wrote that.

4. Politicians controlled by the top 1% are clever at deflecting middle class anger from the very rich to the very poor. [That is a result of the kinds of federal programs that WP and his generation espoused. These programs have been TARGETED at the very poor, instead of building up the whole wage structure from bottom to top. The middle class has thus been set at odds with the very poor.]

5. WP says the L.A. riots of 1992 (Rodney King) were a class conflict more than a race conflict. [It is certainly true that the 1992 riots were indigenous to California, compared with the 1967 riots, which were nationwide, and triggered by the assassination of M.L. King, Jr., a national leader. One must seek a peculiarly California explanation for the 1992 riots. It was not Rodney King himself. Critics of Prop. 13 would be tempted to focus on its breaching the previous social compact as a root cause that is peculiar to California, but we may never know. Rioters generally do not know why they riot, in any deep or rational economic sense, they just know they are aggrieved, so asking them hasn't produced any deep answers.]

6. Looking back to the 18th Century, WP finds that inequality grew clear up until World War I. Actually, he should give more credit to the Populist and Progressive movements, from about 1892. During this period we had:

- Urbanization, with massive growth of city property taxes to pay for city services
- A reversal of consolidation in farming. Subdivision of large grain farms into small irrigated farms was notable in the arid western states, especially California, 1900-30
- Trustbusting under T. Roosevelt, Taft, and Wilson
- Railroad rate regulation, as led by Gov. Hiram Johnson of California
- The corporate income tax, from 1909
- The personal income tax, from 1913

World War I, under the Wilson Administration, gave new powers to Washington, used for egalitarian purposes.

There was a reaction and consolidation, 1919-32, but then came The New Deal, and then W.W. II, and then Truman, Eisenhower, Kennedy, and Johnson, all of them flaming liberals and egalitarians compared with what came after, including Bill Clinton and John Kerry.

7. WP picks 1970 as a kind of watershed year, after which welfare spending was more channeled to the rich than before. There was an explosion of tax loopholes tailored for the propertied classes. [Even those shelters used to shelter high incomes of professionals, exemplified by Bob Hope, Fess Parker, Ronald Reagan, Frank Sinatra, and others, entailed buying property on which to establish tax losses to set off against their high salaries.}

8. Also, from ca. 1970, we developed a two-tier labor market. Those in the lower tier, "the working poor," rose from 12% to 18% of all workers, according to WP (p.123).

WP cites 3 causes (p.124):

- Downsizing, or "corporate restructuring."
 - Production line workers and middle managers bore the brunt of this
 - Note that many firms downsized their work forces, but not their ownership of properties. If they had sold off their properties, new firms could have picked them up and hired the laid-off workers
 - Magnifying the excess of top management salaries to worker wages
- Outsourcing - sending jobs offshore
- Entry of more women, at lower wages, into the labor force
- WP does not mention, but should, heavy immigration of low-skilled workers from Central America

N. Forecasts

WP does not see any quantum leaps

- No great crash, just a slow and "silent depression." As the poet said, the world ends "Not with a bang, but a whimper."
- No rebellion by the have-nots, just a slow slippage into a lower caste existence, with the poor accepting their fate, and continuing to vote for the very people who keep them down.

Such pessimism and fatalism never led any successful revolts, so don't look to WP for charismatic leadership! Do look, however, for radical rebels to arise from unsuspected quarters. The scariest radical rebels of the early 1930s, the ones who chased FDR into The New Deal, were Huey Long, a southern demagogue; Francis M. Townsend, a California dentist; and Fr. Charles Coughlin, a radio priest from near Detroit. All three had a big imprint on what FDR actually did; he undercut them by

adopting parts of their programs, while keeping them at arms' length. Something like that could happen again.