The Confiscation of American Prosperity:

From Right-Wing Extremism and Economic Ideology to the Next Great Depression

> "Though those different plans were, perhaps, first introduced by the private interests and prejudices of particular orders of men, without any regard to, or foresight of, their consequences upon the general welfare of the society; yet they have given occasion to very different theories of political oeconomy."
>
> Adam Smith

T The best lack all convictions, while the worst
Are full of passionate intensity.
The Second Coming -- W. B. Yeats

Prologue

For the last three and a half decades a tiny minority of people has captured the lion's share of the fruits of economic growth in the United States. At the same time, the middle class is disappearing and much of the rest of society is rapidly falling behind, producing a level of inequality that has not been seen since the eve of the Great Depression. Business leaders, along with most politicians and economists, celebrate this new state of affairs, and pretend the benefits are certain to trickle down soon to the rest of society.

This book does not belabor the obvious injustices of inequality; instead, it describes the extent of this confiscation of wealth, how the perpetrators managed to pull it off, and finally how this confiscation is setting the stage for a catastrophic depression. Leaders in the world of business and government, as well as professional economists, seem oblivious to the dangers ahead. The extreme inequities in society breed a hubris that prevents them from even considering the possibility that they are contributing to a catastrophe. All the while, the economics profession seems unable to comprehend the depth of the problem.

Unless strong actions are taken, the calamity that currently afflicts the poor is certain to trickle up, engulfing even the very rich. I do not mean the very rich will become destitute; only that the losses they will eventually experience will far outweigh the vast amount of extra wealth and income that they now claim for themselves.

Despite the dangers ahead, the United States still possesses the most powerful economy the world has ever known. The unique conditions that once made the US economy so effective are already beginning to unravel. People in power commonly realize that the US economy has fallen considerably short of its promise. In terms of traditional measures, such as Gross Domestic Product, the economy has modestly progressed, but the rate of growth is disappointing at best, especially considering the proliferation of new technologies. The quality of life for the majority of society has deteriorated.

In many respects, the gross inequities of United States society are coming to resemble some of the more impoverished countries in the world. Amidst splendid opulence, we find declining industries, unemployment, and even squalor. With so much potential, providing a decent standard of living for everybody should be a simple matter.

Despite these unpleasant symptoms, the deeper problems are not yet obvious. The dangers that I will explore do not appear in the media -- not even in the business press.

In his justly famous farewell address, President Eisenhower identified the main problem identified in this book as the "disastrous rise of misplaced power." At the time, he was referring to the military-industrial complex. Today the pathology has advanced much further. The complex now includes a vast network of corporate power, political parties, well-financed think tanks, and religious movements. This network has also enjoyed the support of much of the media and even a good part of academia. These parties did not have identical goals in mind, but they all shared a distaste for the sociopolitical climate of the late 1960s. The result was a conservative revolution.

The US had already been on a steady path to the right. Indeed, since the election of Franklin Roosevelt in 1932, every Democratic administration with the exception of Lyndon Johnson's has been more conservative -- often far more conservative -- than the previous Democratic administration. Similarly, every elected Republican administration, with the single exception of George Herbert Walker Bush's, has been more conservative than the previous Republican administration. Although the national election in 2006 appears to be a repudiation of the right-wing agenda, the most important factors in the election were the disastrous war in Iraq and a multitude of scandals that damaged the Republicans.

Given this relentless drift to the right, the policies of Richard Nixon now appear to the left of those of Bill Clinton. Yet by the time Nixon took office, business was distraught. Many business leaders at the time were under the impression that socialism would soon triumph in the United States. The first part of the book will explain this paradox.

In the early 1970s, business successfully launched an aggressive campaign to take a firmer hold on the levers of power. Instead of the gradual drift toward more conservative economic policies, revolutionary changes became the order of the day. Within a couple of decades, a right-wing revolution had swept aside much of the New Deal.

These right-wing revolutionaries professed conservative ideals, including a more modest role for the state. In practice, their willingness to use state power was hardly modest, except insofar as the state might otherwise inconvenience the interests of the corporations and the super rich. Backed up by the strict dogma of economic theory, conservatives categorically promised markets would cure all social ills. Markets, however, pay attention only to commercial activities, ignoring considerations such as quality of life or environmental degradation. Markets also disempower people from making political choices.

Rules and regulations provide a counterweight to market forces, creating a means to keep the harmful effects of markets in check. By this standard, the United States certainly has the most market-friendly economy in the world.

Regulations can protect people's health and safety and limit fraud; however, rules and regulations are not necessarily positive. They can also be used to shore up the corporate power to the detriment of society. The right-wing revolution has gone a long way toward dismantling the protective regulatory layers, while hardening the procorporate parts. This book emphasizes the importance of regulations as a check on some of the destructive speculative forces that can unleash depressions.

This reformulation of the ground rules of the system has given birth to a grotesque form of crony capitalism, which has been metastasizing for many decades. Under this crony capitalism, markets lack the capacity to discipline the most powerful players, which is supposedly one of the greatest benefits of capitalism. A wave of corporate manipulation and government favoritism will eventually wreak havoc on the economy.

This book explains the evolution of this system, while analyzing the deeper but often less obvious consequences of this deformed economy. It also shows the inevitability of a disaster so extreme that it will devastate even the most affluent who are benefiting the most from the current economy. The last part of the book explains why economists are unable to come to grips with this dangerous slide into disaster.

The trajectory of The Confiscation of American Prosperity resembles a crime story. The first part, The Plunder, describes the caper. The second part, The Plot, shows how brilliantly it was organized. The third part, Retribution, explains how it is going to blow up in the faces of the perpetrators, and finally the book turns to the presumptive cops on the beat, the economists, who should have known to have spoken up.

But this is not really a crime story. Although a few of the major players may have violated the law, most of what happened was perfectly legal. People combined raw power with dazzling tactics to engineer a right-wing takeover. While they mastered the short term tactics necessary to achieve their objectives, their ambition and greed blinded them to the long-run consequences of their actions.

Overview

The first part of this book describes how the conservative revolution permitted a small number of people to plunder the lion's share of three decades of economic growth -- perhaps the greatest confiscation of wealth and income in the history of the world.

The second part begins with the economic crisis in the late 1960s that pushed business to go on the offensive. Economists refer to the period following World War II as the "Golden Age" because conditions at the time were so exceptional. During that period, both business and the majority of the economics profession had been under the impression that with proper management, including government intervention in the economy, the good times could last forever.

Unfortunately, this faith was groundless. Business, political, and economic leaders were caught unaware of the inevitable unraveling of the Golden Age. No market economy, even with the most intelligent management, has ever achieved the kind of stability people came to expect during the Golden Age. Instability, even if punctuated by periods of calm, is a natural part of capitalism.

As the Golden Age ended, profits shrunk and business first became despondent then launched a furious campaign to reshape the social and economic structure of the United States in an effort to restore corporate power to its pre-Depression level.

This victory was even more impressive because the right wing managed to induce many people to support an agenda that was sure to undermine their own economic welfare. The right succeeded in this effort in large part because the deteriorating economic conditions left many working-class people confused and angry. Taking advantage of this mood, the right wing electoral machine caused many people to lose sight of their own economic interests by effectively railing about the contentious social conditions of the 1960s.

By the time Richard Nixon came to office in 1968, everything seemed aligned to allow conservatives to take political power. The Democrats had discredited themselves with an unpopular war and had done little to address the real needs of their political base.

Building upon the grass roots movement begun in the wake of Barry Goldwater's defeat in 1964, the Nixon administration launched a frontal attack on the New Deal coalition by appealing to the culture war of the day. Now the rich and powerful appeared poised to win support for their agenda.

These divisive machinations seemed to have cleared the way for an economic revolution, except a problem remained. Although part of the working class was antagonized by the upheavals of the 1960s, a growing antiwar movement and an energized civil rights movement presented serious challenges. The emergence of the environmental movement with the broad sympathy of much of the middle class complicated matters even more. Nixon moved to placate the environmental movement to appear to be more inclusive. Within this contentious political climate, he did not dare to carry out a broad offensive against labor.

Suddenly, the conflict took a decisive turn. A small group of business interests carefully engineered a conservative takeover of the main organs of power in the United States beginning in the 1970s. Using a combination of well-financed think tanks, racist demagoguery, and sophisticated political maneuvering, business countered the modest progressive successes of the 1960s. These institutions worked to change the political climate of the country by influencing the media. Even more importantly, business used its newfound powers to counter a falling rate of profit by turning back many of the reforms dating back to the New Deal.

The third part concentrates on how the right-wing revolution set in motion the destructive forces that are responsible for many of the difficulties that the US economy already faces and why the future damage will be far more extreme. I will also explain why not just ordinary working-class people will suffer from its harmful consequences, but even the intended beneficiaries of the right-wing revolution -- business and the very wealthy -- will pay a price.

In some cases, the costs of the right-wing revolution are already relatively obvious. For example, the obscene military budget crowds out important social and economic programs while military adventurism promises to make even greater demands on the economy in the future. In other cases, such as the undermining of the educational system, the effect is less immediate, but just as devastating.

The right-wing revolutionaries express vehement hostility toward the government. Indeed, the ability of the government to regulate some of the worst business abuses is now practically non-existent. Today, public agencies are less capable of protecting the environment, providing education, and promoting science and technology -- all of which are essential ingredients of a vibrant economy. All the while, business shamelessly wallows in generous government subsidies and other forms of favoritism.

In the fourth and final part, I discuss the impotence of the economics profession. This part recounts the evolution of the economics profession in the United States, including the long-standing suppression of critical voices. Despite intense and even acrimonious debate about minor issues, economics evolved into a narrow orthodoxy. I also discuss how the largely ideological nature of modern economics has more or less led the discipline into a dead end, leaving it incapable of dealing with the emerging economic catastrophe.

+ Part 1. Plunder: The Extent of the Confiscation

* Chapter 1. The Great Capitalist Restoration

The New Inequality

Right-wing extremism represents a serious threat to economic prosperity, so much so that even the intended beneficiaries of this movement eventually will pay dearly. So far, the major economic impact of the right-wing revolution has magnificently rewarded those who sit at the pinnacle of the economic pyramid, while the rest of society has not fared very well. This chapter discusses the extent of inequality before exploring the dangers that lie ahead.

Despite a historically slow rate of growth, between 1970 and 2003, the Gross Domestic Product adjusted for inflation almost tripled, from $3.7 trillion to $11.7 trillion (President of the United States 2006, Table B-12, p. 296). Because the population also increased by about 35 percent during that same period, per capita income grew more slowly than the Gross Domestic Product. On average, per capita income still has more than doubled -- but not for everybody.

Hourly wage earners certainly did not benefit from the economic growth. According to government statistics, hourly wages corrected for inflation peaked in 1972 at $8.99 measured in 1982 dollars. By 2005, hourly wages had fallen to $8.17, although they rose modestly during that period using a different measure of inflation (President of the United States 2006, Table B-47, p. 338).

In a pathbreaking series of studies, economists Thomas Piketty from the French research institute, CEPREMAP and Emmanuel Saez of the University of California at Berkeley produced a veritable treasure trove of data for researchers interested in the distribution of income. Using data from the Internal Revenue Service, Piketty and Saez reported gross pretax income for taxpaying units measured in 2000 dollars. This income excludes all government transfers to taxpayers -- such as Social Security, unemployment benefits, welfare payments, etc. -- as well as employees' payroll taxes, and capital gains. Their data is especially valuable because, unlike most data sets, it provides information about the highest incomes.

These data show that for the bottom 99 percent of taxpaying units, the average income stood at $36,008 in 1970, then peaked in 1973 -- at the same time as hourly wages -- at $38,206. This figure bottomed out in 1993 at $33,087. By 2004, average income for the bottom 99 percent recovered somewhat to $37,295, but was still below where it had been three decades earlier (Piketty and Saez 2006; see also Johnston 2003, pp. 38-39; and Krugman 2002).

Of course, not everybody in the bottom 99 percent fell behind, but the losses among the vast majority were sufficient to counterbalance the gains of the most fortunate members of this group. Also, as Piketty and Saez warn, the data require some refinement. Part of the shrinkage in the income per capita for the bottom 99 percent of the population results from a decline in the number of people within the average taxpaying unit. Also, the exclusion of capital gains creates a further understatement of income, especially among the most affluent of the bottom 99 percent.

As a result, taking individuals instead of tax returns as the unit of measurement, the average income of the bottom 99 percent has not decreased; but probably something like 90 percent of the population were worse off in 2004 than in 1970. During the same period, the top 10 percent increased its share of total income from about 31.51 percent in 1970 to 42.91 percent in 2004 -- that is, an increase of 11.40 percentage points.

Even among the richest 10 percent of the population, the unseemly distribution of income is increasingly skewing toward the richest of the rich. During the same 1970 to 2004 period, the share of the top 1 percent rose from 7.80 percent of total income in 1970 to 16.21 percent in 2004, an increase of 8.41 percentage points, meaning that this group enjoyed almost three-quarters of the 11.40 entire percentage point increase of the top 10 percent.

Even higher on the economic pyramid, this skewed pattern of income reproduces itself. The share of the top 0.1 percent increased from 1.94 percent of total income to 6.95 percent. This increase of 5.01 percentage points means that the top 0.1 percent of households captured almost 44 percent of the total increase of the share of income of the top 10 percent (Piketty and Saez 2006, Figure 3).

Moving up even further, the top 0.01 -- a mere 13,100 tax-paying households -- increased its income share from 0.53 percent in 1970 to 2.87 percent in 2004, not much below where it stood on the eve of the Great Depression. This increase of 2.34 percentage points represented almost 21 percent of the total gains of the entire top 10 percent. Looked at from another perspective, between 1972 and 2001, this group saw its wages and salaries increase fifteen-fold (Dew-Becker and Gordon 2005, p. 104).

Keep in mind that in their article, Piketty and Saez did not include capital gains, but they do in their supplemental data on the Web. There, they show that including capital gains boosts the income share of the top 1 percent in 2003 from 16.2 percent to 19.5 percent (Piketty and Saez 2006). As Jonathan Swift wrote back in 1733: "Big fleas have little fleas upon their backs to bite them, and little fleas have lesser fleas, and so ad infinitum." Alas, today, the big fleas are on the backs of their smaller brethren.

Other studies confirm the findings of Piketty and Saez. For example, in 1970 the top 10 corporate CEOs earned about 49 times as much as the average wage earner -- again, only counting direct pay. By 2000, the ratio had reached the astronomical level of 2173: 1. The rate of growth of executive pay has far outstripped the rate of growth of profits. For example, between the periods 1993-1995 and 2001-2003, compensation for the top five executives of public companies' relative to those companies' total earnings more than doubled from 4.8 percent to 10.3 percent (Bebchuk and Grinstein 2005).

Despite the decline in their average well-being, the bottom 90 percent probably still received about 30 percent of the increase in the Gross Domestic Product because of population growth. Even so, the Piketty and Saez data suggest that the wealthiest stratum of the nation was able to devour the majority of the $7 trillion growth in the economy between 1970 and 2002. In addition, the Gross

National Product does not exactly equal the income figures of the Internal Revenue Service, but the numbers are close enough to conclude that the top 10 percent of the population received the lion's share of all economic growth between 1970 and 2000.

These 13,100 richest families in America had about the same income as the poorest 25 percent of the households in the country (Piketty and Saez 2006; see also Krugman 2002). Of course, membership in this elite group was not unchanging, but it was probably relatively stable. Certainly, few of these fortunate people ever fell into the bottom 25 percent.

Such extreme inequality conjures up images of a world of old inherited wealth in which people passively live off relatively stable investments. That picture would be misleading. What seems to be driving this new inequality is a dramatic increase in labor income. I do not mean that those who just live off of their investments have disappeared. These coupon clippers are still with us, but they are now joined by people who enjoy stratospheric salaries (see Piketty and Saez 2006).

For example, in 2006 the five leading Wall Street firms -- Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley -- awarded an estimated $36 billion to $44 billion worth of bonuses to their 173,000 employees. The bulk will go to the top 1,000 people. Two executives alone account for almost $100 million (Herbert 2007). Worldwide, an estimated 3 billion people live on $2 per day. This $36 billion would be enough to allow about 1.4 million people to more than double their annual income.

One study examined the average pay for the top five executives in 1,500 firms included in major stock indexes. The average pay for these 7,500 people in 2001 was $6.4 million, numbering more than half of the 13,100 taxpayers in the top 0.01 percent, who, coincidentally, made an average of $6.4 million each in 2001 (Bebchuk and Grinstein 2005; Dew-Becker and Gordon 2005).

Of course, $6.4 million is not that much in the new world of inequality, where big fish expect to earn more than other big fish. The payroll for major league baseball, football, and basketball players averages $2.48 million per player (Dew-Becker and Gordon 2005). The elite players earn many times this average. Similarly, movie stars can earn tens of millions of dollars for performing in a single film. These celebrity salaries capture popular attention, but they are still relatively modest compared to the really big fish.

The world of finance offers the most stratospheric incomes. For example, James Simons of Renaissance Technologies made $1.5 billion in 2005. Twenty-five other hedge-fund managers made at least $130 million that year (Anderson 2006). To add insult to injury, ordinary taxpayers have to subsidize these outlandish salaries because corporations can deduct their costs on their tax returns.

Ownership of wealth is even more concentrated than income. With the bursting of the dot-com bubble in 2000, as would be expected wealth inequality has temporarily fallen a bit. Even so, by 2001, the top 1 percent of households owned 40 percent of the financial wealth in the United States (Wolff 2004). Had the calculation of the wealth holdings of the richest 1 percent been made while the stock market was still expanding, the number would have been even more extreme than the reported 40 percent.

Next, I will show that the extent of inequality even more extreme. I have no doubt that inequality will continue its upward climb in the absence of a serious recession or a rapid change in the political climate.

Even More Inequality

Some economists quibble with the way Piketty and Saez estimate income. By including transfers, such as Social Security and by using a different estimate of inflation, the incomes of the bottom 90 percent of the population can appear to have grown by about 20 percent between 1970 and 2002 -- or about a mere six tenths of 1 percent per year.

Such adjustments are relatively minor. In fact, I would argue that the unadjusted income data that Piketty and Saez use is actually excessively conservative in measuring how far the poor have fallen behind. Ordinary people must increasingly work longer hours to get the income they earn. For example, between 1970 and 2002, annual hours worked per capita rose 20 percent in the United States, while falling in most other advanced economies (Organisation for Economic Co-operation and Development 2004c, p. 6).

In addition, the reported income of the poorer segments of society does not account for the many extra expenses that poor people pay. For example, the data ignores the late fees that banks and other corporations charge. In 2004, banks, thrifts, and credit unions collected a record $37.8 billion in service charges on accounts, more than double what they received in 1994, according to the Federal Deposit Insurance Corporation and the National Credit Union Administration. Banks continue to raise fees for late payments, low balances, and over-the-limit charges to as much as $39 per violation. Some banks even charge for speaking with a service representative. Naturally, these fees predominately fall on the poor (Chu 2005; Foust 2005).

Insurance companies charge more for people in poor neighborhoods. The poor also find themselves at the mercy of predatory lenders. To make matters even worse, their food costs more because they lack convenient access to grocery stores. Even though the government disregards these factors in assembling its statistics about wealth and income, they can be significant (Brookings Institution 2006).

At the same time, middle-class people are already rapidly losing their pensions and medical benefits, while government programs upon which they depend, such as Medicare and Medicaid, are becoming less generous.

The Piketty and Saez data also seriously underestimate the welfare of the rich. For example, their income measure precludes capital gains, which represent a major share of the income going to the very rich. In addition, because measures of inequality depend on government data, efforts by the rich to avoid taxes make the distribution of income appear far more equal than it actually is (Titmuss 1962, p. 22). The Internal Revenue Service estimated that 16 percent of the legal tax obligation goes unpaid. We can rest assured that the vast majority of this shortfall comes from the wealthiest members of society.

Corporate executives have another reason to hide their income. Shareholders as well as the public at large do not look kindly when executives take advantage of their position. As a result, corporations go to great lengths to camouflage parts of executive income. For example, corporations often shower high-ranking officers with loans, which they later forgive (Bebchuk and Fried 2004, pp. 116-17). The full extent to which camouflaging income makes inequality measurements seem less extreme will probably never be known.

Economists understand that what economist Max Sawicky calls do-it-yourself tax cuts are not particularly difficult to pull off (Sawicky 2006). For the most part academic economics has done little to investigate either the extent or the effect of the multitude of tax-avoidance strategies.

The few academic studies that do exist offer shocking glimpses into this underworld of financial manipulation. For example, in a globalized economy, hiding money offshore is not particularly difficult. One recent study estimated that the world's richest individuals have placed about $11.5 trillion worth of assets in offshore tax havens. This amount is roughly equal to the annual Gross Domestic Product of the United States. Of course, citizens of the United States are not responsible for the entire $11.5 trillion, but then the report does not account for the assets that corporations stash in tax havens (Mathiason 2005).

Another scheme to avoid taxes is to underestimate tax liabilities by reporting inflated purchase prices on assets. This practice reduces reported profits when the assets are sold, lowering taxes on capital gains. One study estimated that this deception reduced capital gains by about $250 trillion (Dodge and Soled 2005). This form of tax avoidance obviously serves to benefit the richest taxpayers, although it does not affect the Saez and Piketty results, which exclude capital gains.

Although the IRS occasionally convicts an unsophisticated offender, cheating on taxes is relatively safe for the rich and famous. The IRS also makes inequality worse by devoting a disproportionate share of its investigative energies to scrutinizing those without substantial resources, especially poor people who declare an Earned Income Tax Credit (Johnston 2003, Chapter 9). As hotel magnate Leona Helmsley arrogantly said, "Only the little people pay taxes."

Helmsley, I might add, served eighteen months in jail for her financial transgressions, but not because of any diligence on the part of the government. Her tax fraud only came to light because of information uncovered in a civil suit filed by contractors she had refused to pay.

We should not be surprised that people resort to illegitimate means to avoid paying taxes. What is absolutely shocking is the extent to which Congress, often covertly, crafts special interest loopholes to allow the rich and powerful to avoid paying taxes. David Cay Johnston's outstanding book, Perfectly Legal, describes how thoroughly government has rigged the tax system to favor the rich (Johnston 2003). The government facilitates shenanigans, such as Helmsely's, by steadily increasing the complexity of the tax code by allowing skilled tax lawyers to devise even more loopholes.

In summary, the clever tactics of tax avoidance, which prevent the Internal Revenue Service data from capturing a good deal of the wealth and income of the top 10 percent of the population, also mask the extent of inequality in the United States. At the other end of the spectrum, measures of inequality also ignore the excessive costs borne by the poor.

Flying High in the Corporate Sky

Over and above tax-related distortions in the distribution of income, the wealthy have access to resources that do not even count as income. Because corporations must disclose some information, the rest of the world can enjoy a glimpse into this world of spectacular privilege. Consider executives' personal use of corporate jets:

> When William Agee was running the engineering firm Morrison-Knudsen into bankruptcy, he replaced its one corporate jet, already paid off, with two new ones and boasted about how the way he financed them polished up the company's financial reports. His wife, Mary Cunnigham Agee, used the extra jet as her personal air taxi to hop around the United States and Europe. When Ross Johnson ran the cigarette-and-food company RJR Nabisco, which had a fleet of at least a dozen corporate jets, he once had his dog flown home, listed on the manifest as "G. Shepherd." And Kenneth Lay let his daughter

take one of Enron's jets to fly across the Atlantic with her bed, which was too large to go as baggage on a commercial flight. [Johnston 2003, p. 62]

This description seriously understates the extent of this abuse. Consider this fuller account of the RJR Nabisco case:

> After the arrival of two new Gulfstreams, Johnson ordered a pair of top-of-the-line G4s, at a cool $21 million apiece. For the hangar, Johnson gave aviation head Linda Galvin an unlimited budget and implicit instructions to exceed it. When it was finished, RJR Nabisco had the Taj Mahal of corporate hangars, dwarfing that of Coca-Cola's next door. The cost hadn't gone into the hangar itself, but into an adjacent three-story building of tinted glass, surrounded by $250,000 in landscaping, complete with a Japanese garden. Inside a visitor walked into a stunning three-story atrium. The floors were Italian marble, the walls and floors lined in inlaid mahogany. More than $600,000 in new furniture was spread throughout, topped off by $100,000 in objets d'art, including an antique Chinese ceremonial robe spread in a glass case and a magnificent Chinese platter and urn. In one corner of the ornate bathroom stood a stuffed chair, as if one might grow fatigued walking from one end to the other. Among the building's other features: a walk-in wine cooler; a "visiting pilots' room," with television and stereo; and a "flight-planning room," packed with state-of-the-art computers to track executives' whereabouts and their future transportation wishes. All this was necessary to keep track of RJR's thirty-six corporate pilots and ten planes, widely known as the RJR Air Force. [Burrough and Helyar 1990, p. 94; also see Strauss 2003; and Minow 2001).

David Yermack of New York University's Stern School of Business produced a paper with the delightful title "Flights of Fancy: Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns," in which he investigated the relationship between this particular luxury and corporate efficiency. He found that the cost of corporate jets for CEOs who belong to golf clubs far from their company's headquarters is two-thirds higher, on average, than for CEOs who have disclosed air travel but are not long-distance golf club members (Yermack 2004).

Yermack's paper reported that "more than 30 percent of Fortune 500 CEOs in 2002 were permitted to use company planes for personal travel, up from a frequency below 10 percent a decade earlier." Since Yermack's study, the problem has continued to escalate. Between 2004 and 2005, the reported value of personal use of corporate aircraft increased 45 percent, according to government filings of the 100 largest public companies (Fabrikant 2006).

Not surprisingly, Raghuram Rajan, the chief economist of the International Monetary Fund, gallantly came to the defense of the corporations. He suggested, without the slightest hint of humor, that these expenditures may have actually been justified because they encouraged executives to be more efficient (Rajan and Wulf 2004). This justification does not seem particularly credible since Rajan's study did not bother to distinguish between planes used for business or personal purposes, including use by retired executives.

In fact, the personal use of corporate jets does not seem to be correlated with profitability at all. Of course, some of the firms that supply their executives with corporate jets for personal use are successful, despite such wasteful excesses, but the use of corporate jets is correlated with poor performance. According to Yermack: "Firms that permit personal aircraft use by the CEO under-perform market benchmarks by about 4 percent or 400 basis points per year, after controlling for a standard range of risk, size and other factors" (Yermack 2004).

A Wall Street Journal article entitled "JetGreen" followed up Yermack's report. It described corporate jets "as airborne limousines to fly CEOs and other executives to golf dates or to vacation homes where they have golf-club memberships" (Maremont 2005). Although executives must report such personal use of corporate jets as income, they rarely disclose anything near the full cost. Besides, hiding golfing expeditions as business activity is not particularly difficult.

Golf Digest provided further evidence of the negative consequences of corporate jets. Every two years, this publication informs the golfing public about who are the best golfers among executive leaders. A USA Today reporter investigated whether their companies performed as well in the business world as their leaders did on the golf links. The results were not surprising: of the companies run by the top 12 golfers two-thirds fared worse than the Standard & Poor's 500 index in 2006 (Jones 2006).

Of course, high-level corporate executives enjoy many other perks besides free travel, including the provision of luxury boxes at sports stadia, chefs, yard work, and a multitude of other benefits that ordinary people would have to pay for on their own, if only they could afford them. New York Times business columnist, Gretchen Morgenson, described the excesses of Donald J. Tyson, former chairman of Tyson Foods, which ranged from the personal use of corporate jets to housekeeping and lawn care. Echoing Leona Helmsley, she appropriately titled her article "Only the Little People Pay for Lawn Care" (Morgenson 2005).

While those who want to minimize inequality point to paltry government programs that aid the poor, they never mention the hidden wealth of the wealthy. Sociologist Robert K. Merton, father of a Nobel Prize-winning economist, introduced the concept of the Matthew Effect. Writing in the context of the accumulation of scientific prestige by elite scientists, Merton called attention to biblical passage from the book of Matthew: "For to everyone who has will more be given, and he will have abundance but from him who has not even what he has will be taken away" (Merton 1968, p. 58; citing Matthew 25:29). Today, we are witnessing an economic Matthew effect well beyond what anybody could have imagined only a few decades ago.

The Right-Wing Victory Paid Off -- For Now

Nobody could deny that the business offensive has certainly paid off handsomely -- at least for its intended beneficiaries. This alarming transfer of wealth and income has accelerated since the election of George W. Bush in 2000, although the rich suffered a slight, temporary setback with the collapse of the dot-com bubble early in his administration.

The increase of inefficiency has become so extreme that even the arch free-marketeer, Alan

Greenspan, then Federal Reserve Chairman, was moved to express concern, telling a Senate hearing, "I think that the effective increase in the concentration of incomes here, which is implicit in this, is not desirable in a democratic society" (Greenspan 2004). Admittedly, one might question the Chairman's sincerity, especially considering his preferred remedies for inequality. For example, in response to a question about Social Security from Senator Schumer at a hearing before the same Senate committee a few months later, Greenspan responded, "I've been concerned about the concentration of income and wealth in this nation ... and this [meaning the privatization of Social Security], in my judgment, is one way in which you can address this particular question" (Greenspan 2005).

Warren Buffett, perennially the second richest person in the world, offered more genuine expression of concern regarding the excessive tax cuts that have mostly benefited the rich. After surveying his clerk and secretaries, he found that he paid a far lower share of his income in taxes even though he did not attempt to minimize his obligations through tax planning (Stein 2006). Buffett offered some national statistics to shore up his analysis:

> Corporate income taxes in fiscal 2003 accounted for 7.4 percent of all federal tax receipts, down from a post-war peak of 32 percent in 1952. With one exception (1983), last year's percentage is the lowest recorded since data was first published in 1934 .... Tax breaks for corporations (and their investors, particularly large ones) were a major part of the Administration's 2002 and 2003 initiatives. If class warfare is being waged in America, my class is clearly winning. [Buffett 2004]

Many of the largest corporations pay no taxes whatsoever. One study of 275 profitable Fortune 500 corporations with total US profits of $1.1 trillion over the three-year period, 2001 through 2003, found that 82 of these corporations:

> ... paid zero or less in federal income taxes in at least one year from 2001 to 2003. Many of them enjoyed multiple no-tax years. In the years they paid no income tax, these companies reported $102 billion in pretax US profits. But instead of paying $35.6 billion

> in income taxes as the statutory 35 percent corporate tax rate seems to require, these companies generated so many excess tax breaks that they received outright tax rebate checks from the US Treasury, totaling $12.6 billion. These companies' "negative tax rates" meant that they made more after taxes than before taxes in those no-tax years. [McIntyre and Coo Nguyen 2004]

Twenty-eight of these companies managed to get a negative tax rate over the entire three-year period -- meaning that the government actually gave them money. To make matters worse, the inequities are getting more extreme year by year:

> In 2003 alone, 46 companies paid zero or less in federal income taxes. These 46 companies, almost one out of six of the companies in the study, reported US pretax profits in 2003 of $42.6 billion, yet received tax rebates totaling $5.4 billion. In 2002, almost as many companies, 42, paid no tax, reporting $43.5 billion in pretax profits, but $4.9 billion in tax rebates. From 2001 to 2003, the number of no-tax companies jumped from 33 to 46, an increase of 40 percent. [McIntyre and Coo Nguyen 2004]

Putting this erosion of corporate taxes into perspective, the authors of the report conclude:

> Corporate taxes paid for more than a quarter of federal outlays in the 1950s and a fifth in the 1960s. They began to decline during the Nixon administration, yet even by the second half of the 1990s, corporate taxes still covered 11 percent of the cost of federal programs. But in fiscal 2002 and 2003, corporate taxes paid for a mere 6 percent of our government's expenses. [McIntyre and Coo Nguyen 2004]

A follow-up study showed even worse erosion of taxes at the state level (McIntyre and Coo Nguyen 2005).

Gaining a perspective on the extent of the effect of cuts in personal income taxes may be easier. In 2005, President Bush campaigned to make his tax cuts permanent. If he succeeds, the benefits for just the top one percent of the population over the following 75 years will amount to an estimated $2.9

trillion (Kogan and Greenstein 2005). In other words, the tax cuts for this small segment of the population over this period would equal about one-quarter of the current annual Gross National Product of the United States.

The lethal combination of tax cuts for the rich alongside growing burdens on the poor threaten to annihilate what is left of social mobility. In the words of Thomas Piketty, who was mentioned earlier for his startling work on income inequality:

> These new high-income tax cuts, together with all the previous tax cuts (including the repeal of the estate tax), will eventually contribute to rebuild a class of rentiers in the US, whereby a small group of wealthy but untalented children controls vast segments of the US economy and penniless, talented children simply can't compete .... If such a tax policy is maintained, there is a decent probability that the US will look like Old Europe prior to 1914 in a couple of generations. [cited in Altman 2003]

I do not mean to imply that the right wing is totally indifferent about the unfairness of the present system of taxes. Without betraying a trace of irony, a famous Wall Street Journal editorial wailed about "the non-taxpaying class," complaining about the "lucky duckies" who avoided their tax obligation (Anon. 2002).

The lucky duckies in question were people who were too poor to earn enough to pay taxes, not the affluent beneficiaries of the right-wing revolution. And what a revolution it was! Even if we correct for population growth and transfer payments, while ignoring all the reasons why the gains of the wealthy may be an understatement, we can still safely say that the right-wing revolution represents the largest transfer of wealth and income in the history of the world -- far larger than what occurred during either the Russian or Chinese revolutions. After all neither China nor Russia had an economy that came anywhere near $7 trillion, which is the amount by which the annual Gross Domestic Product in the U.S. economy grew between 1970 and 2002.

In terms of wealth, the differences are far more severe because creating an annual income flow requires a much greater level of wealth, comparable to the difference between the annual rent of a house and its purchase price. Yet government policies continue to promote an even more extreme redistribution of wealth and income to the rich.

The words of John Taylor, a conservative American politician and political commentator two centuries earlier come to mind. Writing of plunder, the underlying theme of this chapter, Taylor observed:

> There are two modes of invading private property, the first by which the poor plunder the rich, is sudden and violent; the second, by which the rich plunder the poor, slow and legal .... [Both] are equally an invasion of private property, and equally contrary to our constitutions. [Taylor 1814, p. 259]

Many conservative economists manage to turn a blind eye to this recent revolutionary confiscation. Worse yet, other economists even claim that these inequitable policies are necessary to create jobs or to make the economy more productive.

The short-term victory in capturing virtually all of the growth of wealth and income while shedding tax obligations may seem like cause for jubilation -- at least within some circles -- but, as I will show, when the chickens come home to roost this victory will turn out to be hollow, even for those who have captured the bulk of the plunder.

Setting the Stage

This book builds upon the understanding that a market economy is an inherently unstable system, with a built-in potential for periodic collapses. In the United States, crises had appeared every few decades, most famously in the Great Depression of the 1930s. In fact, over the last 300 years, devastating depressions seemed to regularly come every half century until the last half century.

That seemingly regular pattern of economic history suggested that another crisis was due by the early 1970s. At the time, the business press spent a great deal of time educating its readers about the dreaded Kondratieff cycle, named for the Russian economist who first identified the supposedly 50-year pattern.

After a few years, the decade ended without an economic collapse, Ronald Reagan became president of the United States. Apprehension about the economic future gave way to an unwarranted optimism about the unlimited potential of markets.

Of course, Kondratieff never really explained the cause of the supposed regularity of the deep 50-year business cycle. Nor did anybody else for that matter. Just because the economy escaped the predicted crisis did not mean that it had actually dodged the bullet. In fact, confidence that grew in the wake of the failure of the timing of the Kondratieff prediction helped to sow the seeds of the impending economic collapse.

Cycles of confidence lie at the heart of normal boom and bust cycles, whether they be a massive Kondratieff cycle or the more common, but less extreme variety. As the economy begins to prosper and business becomes more optimistic, optimism gives way to what economists now call irrational exuberance. Then, business casts caution to the wind, throwing money at projects that they would normally recognize as foolish.

At first, the cycle feeds on itself, because the illusion of prosperity initially stimulates demand, which seems to validate even fraudulent investments. Eventually, a few problems come to light, panic spreads, and the bust begins. Business remains timid, perhaps for many years, until a few brave souls begin to feel their oats. Their actions help to renew confidence and the cycle begins once again.

Each time the United States has increased income inequality disaster has followed. Here is the assessment from an influential book on income distribution, co-authored by the recent chair of the Harvard economics department:

> The period from 1860 to 1929 is thus best described as a high uneven plateau of wealth inequality. When did wealth inequality hit its historic peak? We do not yet know. We do know that there was a leveling across the 1860s. We also know that there was a leveling across the World War I decade (1912-1922), which was reversed largely or

> entirely by 1929. This leaves three likely candidates for the dubious distinction of being the era of greatest inequality in American personal wealth: c. 1860, c. 1914, and 1929. That each of these pinnacles was followed by a major upheaval -- civil war and slave emancipation, world war, or unparalleled depression -- suggests interesting hypotheses regarding the effects of these episodic events on wealth inequality (or perhaps even the impact of inequality on these episodic events). [Williamson and Lindert 1980, p. 51]

The best chance to avoid disaster is to try to maintain a balance. So, while radical policies favoring business may boost profits in the near-term, within a relatively short time virtually everybody -- even the most favored business sectors -- will have to pay a hefty price.

When the powerful grab too much too fast, the system is almost certainly headed for a disaster. Extra pressures build up, usually because the rich and the powerful have pushed their advantage too far. Then, the stage is set. Some seemingly minor event triggers the crisis. The balances that normally cushion the typical business cycle cease to function.

Although market economies require balance to avoid disaster, right-wing revolutionaries, intent on victory, not balance, remade the economy in the last three decades.

As the economy faltered in the late 1960s, capitalists believed that the only way for business to recover the advantages it enjoyed before the Great Depression was to take aggressive measures against the rest of society. In this quest, balance was out of the question. Instead, a certain amount of short-sighted meanness appeared to be a necessity.

Under the watch of the right wing, the distribution of income became skewed toward the rich in a way unseen since the 1920s. Increased inequality is not only a serious problem in itself, but is also a symptom of a whole array of equally dangerous tendencies. The right wing has engineered breakneck deregulation, increased incarceration, dangerous militarization, rapid deindustrialization, unchecked financialization, and the evisceration of the public sphere. Worse yet, this right-wing plague has contaminated much of the globe. Because international financial networks have become deeply engrained in virtually every country in the world containing the crisis becomes almost impossible.

Throughout this book, I will use the expression "right-wing" to distinguish the current policies from traditional conservatism. Authentic conservatives want a minimal government with low taxes, but they display a certain degree of caution about the future consequences of their actions. Conservatives traditionally favor sound financial policies. They would never condone huge government deficits. Nor do authentic conservatives endorse military adventurism. Perhaps the quality that distinguishes the right wing from traditional conservatives is recklessness.

The reckless effort to commercialize and privatize every aspect of society creates an enormous gulf between rich and poor, while destroying the environment. The problem with this conservative agenda is not just inequality or environmental damage, but a host of other policies that permeate society, each of which will contribute to the self-destruction of the capitalist utopia that conservatives hope to construct. For example, these policies have created disincentives to develop either labor-saving or environmentally friendly technologies, which are capable of giving domestic business a comparative advantage.

The following chapters will track the evolution of the right-wing revolution and elaborate on its destructive nature, as well as on economists' incapacity to deal with the severity of the problem.