Rising Economic Inequality and Class Divisions in America: A Socio-economic Class Lifestyle Profile

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Abstract

Conservatives have long perpetuated a myth that America is a classless society. In this paper we have shown that, in reality, America is a deeply divided nation.

Economic inequality in America has been going up unrelentingly, squeezing the middle class for more than three decades. America's income inequality has now widened so much that it rivals the highest level recorded in 1928 that led to the Great Depression of 1929. Likewise, there is an extraordinarily high concentration of wealth at the top.

This vast economic inequality has now triggered a peaceful grass-roots protest movement in 2011, called the *Occupy Wall Street* (OWS). The underlying theme of OWS is that large corporations, particularly Wall Street, have a corrupting influence on politics and democracy through massive campaign contributions to influence government policy that primarily benefits the top 1% vs. the 99%.

Contrary to the popular belief, it is the top 0.5%—*not*1%—that has been by far the largest beneficiary of America.s huge economic inequality. While the incomes of the top 0.5% and .01% have risen dramatically since 1973, the *median* family income has virtually remained stagnant. In 2007 the top 0.5% families—America.s *upper class*—earned close to a fifth (19.3%) of the pre-tax income of all U.S. families: up from 6% in 1975.

In 2007 the top 1% households owned 35% of all privately held wealth and the bottom 80% only 15%. Compared to many industrialized European nations, Canada, and Japan the U.S. is the *most* unequal country in terms of *wealth* distribution.

This paper has three objectives. First we present empirical support for enormous economic inequality in America. The second objective is to develop a socio-economic class *lifestyle* profile of America. Third, we discuss why the rich are getting richer, and what the social implications of extreme economic inequality are.

Based on the income data analyzed in this study, we have developed an *economic* class structure of America that has six classes: The “Poor,” the “Near Poor,” the “Traditional Middle Class,” the “Upper Middle Class,” and the “Upper Class” (*The Very Rich*/*The Rich*, and *The Super Rich*).

Combining this framework with social class and price-quality segmentation, we have created a socio-economic class *lifestyle* profile of America that reveals *six* classes: (1)“Survival”, (2) “Just Making It”, (3) “From „Keeping up with the Joneses” to “Good Quality Public Schools in Suburbia”, (4) “Cultured Affluence”, (5) “Conspicuous Consumption” and (6) “Masters of the Universe”.

Introduction

The highest concentration of income in the U.S. occurred during the 1920s which culminated in the Great Depression of 1929 (Krugman, 2007: 16).

From 1942 to the mid-1970s, a “great leveling” of incomes occurred between classes in America. Then, three decades later, the “hourglass of history was inverted.” This “great leveling” turned out to be a “great reversal” (Rasmus, 2007:1).

The latest data shows that income inequality in America has now run a full circle, and has touched and even exceeded the towering heights of 1928.

The high economic inequality has given birth to a peaceful grass-roots protest movement in 2011 called *Occupy Wall Street* (OWS). The overarching message of OWS is that the U.S. economic system is highly unfair and heavily tilted toward the top 1% vs. the 99%; and that large corporations have too much influence that is subverting American politics and democracy (Hayat & Covert, 2011).

Objective of This Paper

First we present statistical support for the assertion that economic inequality—both income and wealth—has greatly increased in America since 1973. Then we use the income data generated in this exercise to build an *economic* class structure of America that yielded six classes.

Using this structure as a springboard, we have created a socio-economic class profile of America in which we have tried to present an overview of the *lifestyle* of each class.

Lastly, we have an in-depth look at why the rich are getting richer, and what the social implications of too much economic inequality in America are.

Middle Class on A Path of Relentless Economic Squeeze

Even though the U.S. economy and per-capita income have been growing since 1973, it has not helped the middle and lower classes. The median *family* income has practically remained *stagnant* even when wives have increasingly joined husbands in the workforce. The median family income went up a mere 7% over the 24-year period from 1973-1996 (Levy, 1998: 50). During the same period, the U.S. gross domestic product (GDP) grew 92% (Figure 1). The median *family* income for the 12-year period 1997-2008 rose just 3%. However, the GDP increased 35% during the same time (Figure 1).

The average after-tax *household* income of the *middle* fifth rose 25% between 1979—the first year when this data became available—and 2007; but for the *top* 1% the figure was 281%: eleven times as big (Sherman & Stone, 2010).

The before-tax income of the top 1% for the same period went up 236% (Prof. Saez.s Home Page: updated July 2010 [http://emlab.berkeley.edu/users/saez, file TabFig2008.xls, Table A3]. Thus, lower income tax accounted for close to one fifth of the increase in the after-tax income of this group.

Nobel Laureate Paul Krugman (1997) characterizes the period of 1947-73 as the "good" years which looks like an all-American "picket fence"—representing a prosperity that was widespread. In contrast, the 1974-94, a "troubled" period, projects a radically different view: "a *staircase,* with some of the steps *below* ground level" (pp. 21-22).

Median Household Income Declined in the 1999-2008 Decade

During 1999-2008—including eight years under President Bush—the real median household income *declined* 4% (U.S. Census Bureau, Table H-6, 2011, accessed Sep. 29, 2011, [available at http://www.census.gov/hhes/www/income/data/historical/household/index.html]. In the four decades the U.S. Census Bureau has been recording this data, there has never been a full decade in which the median household income failed to go up (Leonhardt, 2009).

Rising Debt, Negative Savings

There is no better way to establish the middle-class squeeze than in their rising debt. The ratio of debt-to-net-worth of the middle three wealth quintiles rose from 37% in 1983 to 46 % in 2001 and 61 % in 2007. As a result, their debt-to-income ratio rose from 67% in 1983 to 100% in 2001 and then jumped to 157% in 2007 (Wolff, 2010).

From One-Income to Dual-Income Family and Long Hours

In the 1950s the median family income largely represented the earnings of *one* working spouse (Barlett & Steele, 1992: xiv). A generation ago, an average working wife earned only a quarter of a family.s income. Then many families regarded the income earned by women as mere "pin money" (Warren & Tyagi, 2003: 29).

By the mid-1980s, more than two-thirds of all young wives were working (Coontz, 1992: 266). In 1976, a married woman was more than *twice* as likely to *stay* at home to take care of her children, rather than work full time. In contrast, in 2000 she was *twice* as likely to *work* full time than to stay at home (Warren & Tyagi, 2003: 30). At present 54% of American women are working full time (*Women Employed*, accessed Sep. 3, 2011, [available at http://www.womenemployed.org/index.php?id=20].

Today a husband and wife in an average middle-class household are working 540 hours, or *three* months more per year than they would have 25 years ago, because the working hours of married women are now much longer (Mishel, Bernstein, & Allegretto, 2006: 91).

The typical American worker works 1804 hours per year: 135, 240, and 370 hours more per year, respectively, than a typical or average British, French, and German worker (Greenhouse, 2008: 6).

Wages Decoupled from Productivity

In pursuit of higher profits American manufacturers have been moving their production facilities to low-wage countries for decades. As a result of this industrial restructuring the old link between wages and productivity has long been broken (Greider, 1997: 74-76). The nonfarm business productivity index (output per hour of all persons) climbed 92% between 1973 and 2009. However, the real wages of production or non-supervisory workers in the private sector fared far worse: they *declined* 14% during this period (*Economic Report of the President 2011*, Tables B49 and B47), accessed March 29, 2010, and [available at http://www.gpoaccess.gov/eop/tables11.html].

Wages Lag Corporate Profits

Before 2010 employees always received more than half of the total U.S. income. Nevertheless, in 2010 their share of this income fell to 49.9%—the lowest ever. In sharp contrast, corporate profits went up to 14% of national income: the *highest* share in any year on record and higher than the previous record of 13.6% set in 1942 (Norris, 2011).

The Elusive "Middle Class Dream"

Levy (1988: 206) says that any definition of a "middle-class income" is arbitrary. One way to visualize middle class is the *minimum* annual income necessary "to fulfill the middle class dream," i.e., a middle-class standard of living. He points out that prior to 1973, when incomes were going up this purchasing-power definition was identical to being in the *middle* of the income distribution. However, from 1973 the two definitions started to diverge, and occupying the middle of the distribution no longer ensured a middle class standard of living. According to a recent survey, the "American Dream"—the middle class standard of living—means "having a good job, being able to retire in security, owning a home, having affordable health care, and a better future for [our] children" (Crain & Kalleberg, 2007: 4).

Levy.s (1988: 206) estimate to "fulfill the middle class dream" in 1984 was at-least $30,000. He adds that the percentage of a family earning $30,000 or more (in 1984 dollars) declined from 51% in 1973 to 45% in 1984, even though an increasing proportion of wives were entering the labor force. In 2008, this percentage had dropped to 30%**.**

Massive Transfer of Economic Risk to the Middle Class

The number of American workers, and their dependents, who do not have health insurance has been climbing steadily over the past 25 years, as corporations have increasingly cut their coverage. During a two year span over 80 million adults and children find themselves at some time without the protection against catastrophic health costs (Hacker, 2007: 67).

Hacker (2007: 67-68) reports that about twenty five years ago 83 % of medium and large firms provided traditional "defined-benefit" pension plans that gave their employees a fixed benefit for life. Now, less than one third of the companies are doing so. He then goes on to say:

> [This is a] massive transfer of economic risk from *broad* structures of insurance, both corporate and governmental, onto the *fragile* balance sheets of American families. This transformation, which I call "the great risk shift," is the *defining* feature of the contemporary economy, as *important* as the shift from agriculture to industry a century ago (*italics* added).

Changing Social Values Widen Economic Inequality

Long-term demographic changes, triggered by social movements and changing social mores, have also accentuated economic inequality in America. These changes include divorces, marital separations, births out of wedlock, and increasing age at first marriage. According to U.S. Census Bureau, this change in social values has led to a significant rise in *single-parent* families and *nonfamily* households. Since single-parent and non-married-couple households tend to have *lower* income—compared to married-couple households—the swelling of their numbers has further added to the growing income inequality (accessed March 29, 2010, available at [http://www.census.gov/hhes/www/income/midclass/midclsan.html].

The American divorce rate tripled between 1960 and 1982 (Coontz, 1992: 3). However, it peaked in 1981 and is now at the lowest level since 1970 (Crary, 2007).

Divorce has had a damaging effect on divorced women. In most cases it is the woman who ends up with the children and the primary responsibility for supporting them (Ehrenreich, 1986). The result is that many fall out of the middle class: an important factor in the "feminization of poverty" (Phillips, 1993: 30).

The Economist (2007) is reporting another disquieting trend. Whereas, the divorce rate among the more educated—and more affluent—Americans has been dropping, it has been going in the *opposite* direction among the poor and those with low levels of education. And this is further fueling income inequality in America.

With the widespread entry of women in professional ranks, a new marriage pattern emerged sometime ago. In the past it was common for an executive to marry a pretty secretary, or for a doctor to marry a nurse. Now an executive is much more likely to marry another executive or a professional. Doctors, too, are now marrying other doctors, not nurses. Thus, this shift in marriage pattern has further inflated income inequality (Ehrenreich, 1986).

The Richest are Leaving even The Rich far Behind

It is no secret that the gap between the rich and everyone has been getting wider. Yet the extent to which the richest are leaving even the rich way behind is not widely known (*The New York Times*, 2005, Ch. 12).

Top 0.01% Are a Class by Themselves

Piketty & Saez (2003) have conducted a pioneering study of U.S. income inequality from 1913-1998, and now updated to 2008. This data, based on U.S. income tax returns (**Table 1)**, shows that the top 0.01% earned an average pretax income that was 62 times that of the top 1-.05%, 31 times that of the top .05-0.1%, and more than 8 times that of the top 0.1-.01%. Thus, this evidence clearly demonstrates that the top 0.01% group is in a league of its own.

Top 0.5%: America's Upper Class

Figure 2 contains income data for 1913-2008 for the top 1%, the *upper* half of the top 1% (the 99.5-100th percentile), and the *lower* half of the top 1% (the 99-99.5th percentile). In 2007, before the great recession of 2008, the share of the upper half was 82% of the the income for the entire top 1%, while the share of the lower half was just 18%.

From this data it is clear that the upper and lower halves of the top 1% belong to two very *different* neighborhoods. In a later discussion, we are going to argue that while the former represents the "Upper Class", the latter embraces the highest earners among the "Upper Middle Class".

U.S. Income Inequality Back to the Lofty Heights of the 1920s

Whereas the top 0.5% earned the *highest* income share in 1928 (19.4%), their share in 2007 was almost the same (19.3%)—up from 6% in 1975—as the 1928 peak (Figure 2). For the top 0.01% the income share for 1928 (5%) remained the highest for a long time but was eventually overtaken in 2000. In 2007 (6%) this share had surpassed even the towering heights of 1928 by 20% (Figure 3).

The "Superstar" Model and the "Winner-Take-All Society"

The entertainment and sports industries have traditionally been identified with the "superstar" model where *minor* differences in performance result in *huge* differences in reward (Krugman, 1994: 149). Frank & Cook (1996) argue that since 1975 or so America has become a winner-take-all society, in which more and more people are competing for ever fewer and bigger prizes. They suggest that this model has now permeated almost the entire economy.

Sharp Increase in Concentration of Wealth

The pattern of income distribution indicated above is also reflected in the distribution of wealth. In 2007 the top 1% households owned 34.6% of all privately held wealth, the next 19% had 50.5%, and the bottom 80% only 15% (Wolff, 2010).

The 1990s saw an explosive growth in millionaires and multimillionaires (Wolff, 2002: 3). In 2010 there were 8.4 million U.S. households with a net worth at least $1 million (http://money.cnn.com/2011/03/16/news/economy/millionaires/index.htm).

Wolff (2002: 36) has also made a comparison of wealth ownership between America and industrialized European countries, Canada, and Japan. His conclusion is that the U.S. is the *most* unequal country in terms of *wealth.*

An Economic Class Structure of America

The U.S. Census Bureau publishes *household* (and family) income data that shows income in *quintiles*. In addition, it also includes information for the *top* 5% households. The latter data masks a vast degree of variation *within* this group. So, we will rely on U.S. income tax data (Table 1) to provide a more realistic representation of this smaller group.

Now we present an *economic* class structure of America in Table 2.

It is important to point out that the threshold income data in Table 2 for 2008 is *average* for the entire United States, and is *not* representative of large metropolitan areas where incomes—and cost of living—are much higher. For example, in 2010 the *median* household income was 38% higher in the Boston metropolitan area than in the nation as a whole (*U.S. Census Bureau*, 2010).

Table 2 reveals three *broad* classes: Upper, Middle, and Lower. We have characterized the *bottom* two quintiles as the "Lower Class"—the "Poor" and the "Near Poor"; the 40-99.5th percentile as the "Middle Class"—the "Traditional Middle Class" and the "Upper Middle Class;" and the *top* 0.5% as the "Upper Class".

The "Poor" are represented by the bottom quintile the upper level of which is pretty close to the 2008 poverty threshold of $22,025 for a family of four (*U.S. Census Bureau*, 2008, accessed Sep.7, 2011, [available at: http://www.census.gov/hhes/www/poverty/data/threshld/thresh08.html].

The "Near Poor" occupy the next quintile (20-40th percentile) with household income between 100-200% of the poverty line (Newman & Chen, 2007: 236).

The next two quintiles (40-80th percentile) form the "Traditional Middle Class".

The "Upper Middle Class" occupies the 80-99.5th percentile. The highest level of income for this class is $558,726. So, with this modest level of income it makes much more sense to associate it with the "Upper Middle Class" than with the rich or the "Upper Class."

As we have seen in Figure 2, the upper half of the top 1% (the top 0.5%) and the bottom half of the top 1% (99-99.5th percentile) belong to two very different worlds. The 99.5th percentile represents an important *break* where membership of one class (the "Upper Middle Class") ends and that of another (the "Upper Class") begins.

Domhoff (2011b) also supports our position that the *upper* class begins at the 99.5th percentile. A major reason for this is that the top 0.5% group includes two sub-groups—the top 0.1-.01% and the top .01%—that reflect an extraordinary concentration of income.

So, we have divided the "Upper Class" into three sub-groups: *The Super Rich* (top 0.01%), *The Very Rich* (top 0.1-0.01%), and *The Rich* (top 0.5%-0.1%).

A Socio-Economic Class Lifestyle Profile of America

Using the economic class structure of Table 2 as a launching pad, and combining social class with price-quality segmentation (Datta, 1996), we have created a socio-economic class *lifestyle* profile of America (Table 3**).** This table also indicates the type of retail stores where members of each class typically shop. This information can provide a simple overall image of each class, and a symbol of their lifestyle.

Where They Generally Shop?

Before we present a socio-economic *lifestyle* profile of each class, we will first discuss the subject of where they generally shop. Because of the vast amount of information that had to be crammed into Table 3, we tried to make it as simple as possible. For example, in this table, we have identified certain types of retail stores with a particular kind of socio-economic class. However, as the following discussion shows, reality is not so simple.

The ultra-economy segment

One would have thought that the corner five-and-dime store had succumbed to Wal-Mart or K-Mart. But, retail chains, such as Dollar General, Family Dollar, and Dollar Tree (called the "dollar" stores) are living proof that this is not so. They are experiencing growth simply by "living off the crumbs of Wal-Mart" (Faircloth, 1998). Other examples are Sav-a-Lot and the German implant Aldi. Like Aldi, Dollar General stores are located in suburban areas, shopping centers, and rural locations (Silverstein with Butman, 2006: 76). These chains offer easy access, small stores, a very narrow selection of basic goods, mostly house or private brands, little service (often no credit card)—and of course—a very low price (Faircloth, 1998; Dreyfuss, 2004).

These limited-assortment stores also attract more affluent customers. That.s why Aldi seeks customers—regardless of income—who want to *save* money (Dreyfuss, 2004).

Many large supermarkets have abandoned inner city poor neighborhoods because of low profits. This is due to higher insurance costs because of high crime and low volume. So, partly because of transportation problems, many low-income residents in such neighborhoods are often forced to buy groceries from the corner grocery store at a price that is much higher than shoppers normally pay in suburban areas (Newman & Chen, 2007: 213).

The economy segment

Today the discount store industry in the U.S. is dominated by Wal-Mart, Target, and K-Mart. Warehouse clubs that charge fees for membership—such as, Costco, Sam.s Club, and BJ.s—are also major players in this segment. With the middle class under continuous economic pressure many customers are on the lookout for bargains. The low prices, however, are not only attracting lower and middle class families, but more affluent customers as well who often buy groceries and other staples at Wal-Mart. In a parking lot at Wal-Mart one can find shiny new luxury cars, alongside rusty old subcompacts (*Business Week*, 1997).

Affluent customers now regularly boast of shopping at warehouse clubs, like Costco, to show that they understand value. But Costco offers more. For example, it now stocks a larger selection and sells more *premium* wine than any other retailer (Silverstein & Fiske, 2005: 10).

Target has positioned itself as a "discount *department* store," which offers more upscale trendy and fashion merchandise than Wal-Mart. Its customers are more educated, younger, and more affluent than those who go to Wal-Mart. So, a high-income customer, who may shop at Nordstrom for higher-priced soft goods, may not hesitate to go to Target for low-price goods for a wide-variety of ordinary needs (King, 1998; Target Corp., 2010).

The new middle-class consumer

Silverstein & Fiske (2005) suggest that many middle-class customers are willing to pay a substantial premium for goods and services that are *emotionally* meaningful to them and that "deliver the perceived values of quality, performance, and engagement." But in categories that do not appeal to them emotionally, "they become bargain hunters" (inside jacket). The same middle-class customers who are trading up at Victoria.s Secret are going on a "treasure hunt" at Costco (Silverstein with Butman, 2006, inside jacket).

The "Poor"—"Survival" ("Bottom of the Pyramid")

In America members of this class usually are those who occupy minimum-wage jobs without benefits, or rely on government welfare programs, and non-profit charity organizations. This group falls in the *bottom* quintile with an income ceiling of $20,712 in 2008 (Tables 2, 3). In 2008, an amazing 57% of the households in this group were headed by *females* (U.S. Census Bureau, Table HINC-05 for 2008, [accessed Sep. 1, 2011, available at http://www.census.gov/hhes/www/cpstables/032009/hhinc/new05_000.htm].

A study sponsored by the Ford, Rockefeller, and Casey Foundation (Greenhouse, 2008: 7-8) found that more than *one* out of *four* American working families earn wages so low that they have trouble surviving financially.

According to the U.S. Census Bureau, 46.2 million Americans—15.1% of the U.S. population—lived below the poverty line in 2010, the *highest* number in the 52 years the bureau has been tracking this data. Also, 16.4 million children lived in poverty, and over 49.9 million Americans did not have health insurance coverage in 2010 (Tavernise, 2011).

How does anyone live on jobs that barely pay a minimum wage? To address this challenge, Ehrenreich (2001) posed as an inexperienced divorced housewife, and worked as a waitress, a hotel maid, a cleaning woman, a nursing home aide, and a Wal-Mart sales clerk. Commenting on this grueling first-hand experience, she says (inside front jacket):

- [No] job is truly "unskilled," that even the lowliest occupations require *exhausting* mental and muscular effort…[That] one job is *not* enough; you need at least *two* if you intend to live indoors (*italics* added).

In view of the above discussion, it is, therefore, quite appropriate to describe the *lifestyle* of the poor as *"Survival"*: because their life is perpetually in a *survival* mode.

Borrowing an expression from Prahalad & Hart.s (2002) pioneering study, it would also be quite apt to call America.s poor as "The Bottom of the Pyramid."

The "Near Poor"—"Just Making It"

Clerical, pink, and blue collar workers, with low job security typically belong to this group. It falls in the 20-40th percentile, with an income range of $20,712-$39,000 (Tables 2, 3).

According to Newman and Chen (2007, chap. 1), we all know a lot about the poor because the media consistently keep them in the news. Yet, there is a much larger group —57 million Americans—that doesn.t get much attention: the "near poor." They subsist in the "*nether* region *above* the poverty line but well *below* a secure station." They send their children to schools that are *underfunded* and *crowded;* they live in inner-ring suburbs and city centers where many of the social problems that afflict the truly poor constrict their lives, too.

The dedication of the "near poor" to their work, ironically, has had a harmful effect on their family life, as their children spend long hours in *substandard* day care centers, and have to raise themselves during their teen years (Newman & Chen, 2007:5).

Former Senator John Edwards has painted a grim picture of this class. He says the "near poor" are less likely to own a home, a savings account, or other assets, and are "just one pink slip, divorce, or health crisis away from the edge." They work at jobs many don.t want—"jobs with stagnant wages, no retirement funds, and inadequate health insurance, if they have it at all." They are "susceptible to predatory lenders, credit-card debt, and oppressive mortgages with unfair interest rates" (Newman & Chen, 2007: ix-x).

Given such a hard life of constant struggle, there is no better way to characterize the *lifestyle* of the "Near Poor" than *"Just Making It."*

The "Traditional Middle Class": From "Keeping up with the Joneses" to "Good Quality Public Schools in Suburbia"

Members of this class generally include college professors, school teachers, police officers, fire fighters, government bureaucrats, nurses, truck drivers, plumbers, skilled workers, farmers, and small-business owners. This group occupies the 40-80th percentile, with a household income between $39,000 and $100,240 (Tables 2, 3).

During the mass production era of the 1950s, the middle class wanted to "keep up with the Joneses": people who were like them, and who lived next door (Schor, 1998, chap. 1). However, as more and more married women entered the labor force, they were exposed to the spending patterns of a much wider spectrum, including superiors who made a lot more money. As mentioned earlier, Frank and Cook (1996, chap 5) suggest that we now live in, what they call, a *winner-take-all* society. Thus, incomes *within* occupations have become more unequally distributed than before. Schor (1998: 10-11) suggests that as high-income earners have emerged in one occupation after another, they have provided "a visible, and very elevated, point of comparison" for those who are not so fortunate. So, instead of trying to emulate others in their own social class, people now want to "measure up within some idealized group." And this shift in the standard of "belonging" has been driving even the middle class toward competitive conspicuous consumption.

However, Elizabeth Warren (2007) offers a *different* point of view. She says that Schor (1998) blames this overconsumption on the "new consumerism," with its obsession with designer clothes, Michael-Jordan athletic shoes, and so on. Frank (1999: 4-5), too, argues that—with static or declining income—this "luxury fever" is forcing middle-class families to finance their consumption increases largely by reduced savings and increased debt.

To test this hypothesis, Warren (2007), looked at the spending patterns of American families in federal (U.S.) archival data going back to the 1970s. Based on this analysis, she has concluded that middle-class Americans are *not* "blowing their paychecks" on "designer clothes and restaurant meals," and that they are *not* spending on such "frivolous" things more than their parents did a generation ago (p. 42).

Warren (2007) concludes that, even with *both* parents working, today.s middle-class couples have *less* cash left after they have met their basic expenses, than their one-income parents had a generation ago. And the biggest *single* reason for that is: very high *home mortgage* costs. To meet the rigors of global competition, middle-class parents believe their children must attend good public schools, which means living in a suburban community with *high* housing costs (Schor, 2000:11; Warren & Tyagi, 2003: 25; Krugman, 2007: 246-47; Datta, 2010).

Based on the foregoing discussion, we can therefore conclude that *"Good Quality Public Schools in Suburbia"* is a much better descriptor of the values and *lifestyle* of today.s middle class, than the erstwhile "Keeping up with the Joneses."

The "Upper Middle Class"—"Cultured Affluence"

Members of upper middle management, physicians, dentists, attorneys, small business owners, engineers, scientists, accountants, architects, and professors from top universities are usually the kind of people who belong to this group (also see Thompson & Hickey, 2005). This group is in the 80-99.5th percentile range, with a yearly income between $100,240 and $558,726 (Tables 2, 3).

The key to the success of the upper middle class is the "growing importance of "educational certification" and a heavy stress on advanced post-graduate education (Gilbert 2008: 233; Thompson & Hickey, 2005). Lind (1995: 202), however, offers a negative view of professional certification. He suggests that the professional class is the beneficiary of a "hidden *protectionism* based on credentials and licensing." He adds that "American professional accreditation is a non-tariff barrier *par excellence*" (*italics* in original).

Ehrenreich (1989: 6) calls this class the "professional middle class." She says that "this class plays an overweening role in defining „America.: its moods, political direction, and moral tone." Gilbert (2008: 233), too, suggests that its lifestyle and opinions exert considerable influence on the entire society.

Members of this class are very likely to engage in physical activity, such as jogging, aerobics, tennis, and so on. They also give a lot of importance to the fine arts—music, painting, and sculpture. They regularly travel to foreign countries, because they consider this as an extension of their education, and because it can give them a better understanding of different cultures in today.s global economy. Since they engage in foreign travel frequently, they tend to acquire a more cosmopolitan taste. So, they are more likely to enjoy gourmet food. Because of their concern for the environment they are also more likely to buy organic food.

Today, going to a *private* school is becoming an important part of standard of living of the upper-middle class—and even middle class (Schor, 1998: 86). One reason is that parents worry that without a private-school education their children will fall behind and will not be able to maintain their "class" status. And as members of the upper-middle class withdraw from public schools, the result is that it leaves public schools with a tainted *lower-class* image, thus further widening class divisions (*ibid)*.

Based on the foregoing discussion, we have labeled the *lifestyle* of this group as **"***Cultured Affluence."*

The "Upper Class"

In 2003, *The Wall-Street-Journal* assigned Robert Frank as its first journalist to report full-time on the "life and times of the New Rich" (Frank, 2007: 2). Based on estimates of wealth he recognizes three groups among the new rich: Lower Richistan, Middle Richistan, and Upper Richistan. This classification seems to match well with the three groups we have earlier identified within the upper class: *The Rich*, *The Very Rich*, and *The Super-Rich*.

Chrystia Freeland (2011), a business journalist, has spent an entire decade "shadowing" some of the *Super Rich.* She calls them the "new global elite."

The Rich and the Very Rich—"Conspicuous Consumption"

This group (*top* 99.5-99.99%) includes CEOs of major corporations, business owners, top movie stars, singers, and athletes; top professionals, investment bankers, mutual fund managers, entrepreneurs, and inheritors (Tables 2, 3).

Frank (2007: 9) says when Lower Richistanis go to cocktail parties or their children.s soccer games they run into people with much more wealth. So, to keep up with the richer crowd the Lowers are spending more and borrowing a lot. Many Richistanis think that the "Lowers" don.t even belong to Richistan, and refer to them as "affluent"—the ultimate Richistani insult.

The Lower Richistanis are conservative in their politics. However, the Middle Richistanis are more liberal than the Lowers (Frank, 2007: 9-10).

The most noteworthy symbol of conspicuous consumption of Lower Richistanis (*The Rich*) is the growth of McMansions (Frank, 2007: 7). McGuigan (2003) points out that the McMansions are "just too big—for their lots, for their neighborhoods, and for the number of people who actually live in them" (also Datta, 2010).

The sharp increase in the number of multimillionaires—Middle Richistanis (*The Very Rich*)—has spawned an upsurge in the construction of *trophy* homes—mansions with over 10,000 square feet of living space (Frank, 1999, Ch. 2). A mansion—more than luxury cars or anything else—shows everyone that you are *wealthy*. Thus, the multi-million dollar mansion is becoming a "high-profile badge of the gilded late 1990s" (Uchitelle, 1999).

Thus, based on the foregoing discussion, it seems quite reasonable to award the "trophy" of "*Conspicuous Consumption***"** to both groups: *The Rich* and *The Very Rich*.

The *Super Rich*: "Masters of the Universe"

The *Super Rich* of today are quite different from their counterparts of yesterday. Most come from the middle class. The "new global elite" are highly educated and hardworking with first-and second generation wealth (Frank, 2007, Ch. 1; Freeland, 2011). The group includes hedge fund managers, CEOs of investment banks, private equity partners, real estate tycoons, and innovators (Table 3). Table 1 shows why this tiny top .01% segment (one ten-thousandth) —15,246 tax payers in 2008—stands head and shoulders over even the top 0.1%. This is the group Frank (2007) calls the Upper Richistanis.

Greenwich, Connecticut is the wealthiest town in America. It has become very popular among hedge fund managers because it is an easy commute to Manhattan, New York, and has ample space for large mansions along the banks of Long Island Sound for a great view. It is intriguing to note that rents for office space in Greenwich are higher than in mid-town Manhattan or Wall Street (Johnston, 2007, Ch. 24)!

The *Super Rich* believe that even if they live lavishly their wealth will still keep growing. So, they plan their finances over the "next hundred years." …"They don.t buy mutual funds; they buy timber land, oil rigs and office towers" (Frank, 2007: 11).

The sheer proliferation of luxury goods over the past many years has made them available to millions. The "Super Rich" have come to realize that the "best things in life aren.t necessarily flashy objects but *discreet, meaningful experiences*" (Foroohar, 2007, *italics* added).

So, now these luxury customers are looking for "discretion, special access, surprise, humor and even secrecy." They would welcome the challenge of having an appointment with the "Parisian jeweler JAR," or be invited to a resort where they will be "entertained by rock stars and educated by Nobel laureates." Most importantly, they seek "*meaning*, *emotion* and *connection*" (Foroohar, 2007; *italics* added).

For the "new global elite" the real community life revolves around the "international conference circuit," the best known of which is the World Economic Forum.s annual meeting in Davos, Switzerland (Freeland, 2011).

"Luxury goes undercover"

The *Super Rich* are very protective of their *privacy*. As such, they prefer to patronize *low*-profile designers, and cutting-edge boutiques which sell their designer clothes in small *hidden* stores. Having salespeople *fly* outfits to their second homes has now become quite a standard procedure. Increasingly, they are shopping on the *web*, and shopping at home: by having luxury retailers make *house* calls. And they attend fashion "trunk" shows at fancy places for a small number of elite viewers (Foroohar, 2007).

Whereas the *Super Rich* are willing to pay just about any price for great *service*, they also crave "*immediacy and convenience* (Foroohar, 2007). They are very busy, so having a private jet or helicopter of your own makes a lot of business sense because it can save a lot of time. Also, owning homes around the world allows them to sleep in their own beds more often (Hesseldahl & Dubow, 2000).

This exclusive group wants to be rich only in *private*. As a result, "members-only services for dining, travel, entertainment, and retail" are flourishing. A concierge service is launching a chain of *members-only* hotels, where a swipe card flashed at the door by a guest will alert staff who will greet each guest personally (Foroohar, 2007).

The *Super Rich* have discovered yet another way to distinguish themselves from the mere rich: traveling in *private* jumbo jets like Boeing 737, or Boeing 787. These are *long-haul* planes that are converted to private jets that can carry not only "pampered passengers and their entourages, but also, in some cases, their Rolls Royces and racehorses" (Sharkey, 2006).

To celebrate a special birthday, a honeymoon anniversary, or a successful deal, the *Super Rich* can stay in vast fancy suites that are now increasingly becoming common at the "pinnacle" of five-star hotels. But some go beyond that, and look for a place that provides a sense of *history:* for example, the $14,312-a-night Villa La Cupola, Rome; or the $10,950-a night Hotel Crillon, Paris (Kolesnikov-Jessop, 2007).

According to *Forbes*, the latest "toys" for the *Forbes* 400 billionaires are private jets, helicopters, owning a sports team, collecting rare works of art, owning one or more getaway—whose location is secretly guarded—big yachts, etc (Hesseldahl & Dubow, 2000).

The single biggest expense of the *Super Rich* is for personnel: getting "all the people that you need to fly your planes, build your homes, manage your ranch, hang your paintings," and private chefs to cook your meals (Hesseldahl & Dubow, 2000). Upper Richistanis have created "family offices" that are large companies meant to cater to the family.s day-to-day and longer-term needs. Hence, they seldom open their own mail or pay their own bills (Frank, 2007: 11).

"My boat is bigger than your boat"

Earlier in this section, we have learnt that the "Super Rich" are very discreet, and are keen to protect their *privacy*. But, when a "Richistani" has a prized possession—say his or her yacht—that is on public display for all the other "Richistanis" to see, then that is an entirely a different matter. That is why only "in Richistan would a *hundred-foot* boat be considered a *dinghy*. Personal pleasure craft have started to rival *navy destroyers* in size and speed" (*italics* added; Frank, 2007, inside of front jacket).

One of the latest examples of this arms race in luxury yachts is the Maltese Falcon built by Silicon Valley.s Tom Perkins. It is the "largest, riskiest, highest-tech, most self-indulgent sailboat ever made" (Kaplan, 2008).

Return of the butler and live-in servants

The second largest group of people in the workforce in America around 1900 was domestic live-in servants. Eighty years later they became extinct in the developed countries (Drucker, 1995: 216). Now the sharp growth in the population of the rich—with their vast homes, multitude of "toys", and complex lifestyles—has created a big demand for household help.

Currently, there is a boom in the number of "newly trained butlers"—"household managers"—who will serve just the right cabernet when a Richistani.s new buddies from Palm Beach stop by" (Frank, 2007, inside front jacket). Now a company offers a rigorous eight-week course for aspiring butlers that is better known as "Butler Boot Camp" (*ibid*, chap. 1).

Since most members of the "Super Rich" group have come from the middle class, they, too, like the new butlers, have to be taught how to behave like the rich (Frank, 2007, chap. 1).

Social Responsibility: Two Different Views

Regarding responsibility toward society the *Super Rich* seem to fall in two camps:

"Keeping up with the Gateses"—This group is concerned with long-term issues that affect future generations: such as, "global warming, the failing U.S. education system, and ailing health-care system" (Frank, 2007: 187; Freeland, 2011; Foroohar, 2007):

- Like Andrew Carnegie, they believe that "The Man Who Dies Rich Dies Disgraced." So, they are investing heavily into *philanthropy*. The most famous example is the world.s largest charitable foundation: Bill & Melinda Gates Foundation, to which Warren Buffet is also a major contributor. Another case is George Soros, who is a "pioneer and a role model for the socially engaged billionaire." The *Super Rich* are not only "consuming like crazy, they.re also shaking up the establishment.s bureaucracy, slow-moving charity network, making lean, *results*-oriented philanthropy an important new driving force." So, it is "*not* about keeping up with the Joneses, but about *keeping up with the Gateses* (*italics* added,).

A sense of meritocratic accomplishment—Here are a few ideas of some of the new global elite:

- That they are the deserving winners of a tough global competition, and consequently, many "have an ambivalent attitude toward those of us who didn.t succeed so spectacularly." They feel they have more in common with their counterparts in foreign countries than with people back home. One CEO of a large U.S. company said that the "hollowing-out of the American middle class didn.t matter; " and if the "transformation of the world economy lifts four people in China and India out of poverty and into middle class," and if "one American drops out of the middle class, then that.s not such a bad trade" (Freeland, 2011).
- That the "trials faced by the working and middle classes are generally of their own making" (Freeland, 2011).
- Goldman Sach.s CEO Blankfein even claimed that he was just a banker "doing God.s work" (Dealbook, 2009).

Based on the foregoing background, we think that the lofty status of "Masters of the Universe"—made famous by Tom Wolfe (Krugman, 1994: 138)—is an appropriate identity for this super-elite group.

Why The Rich Are Getting Richer?

Loss of Union Power

From 1973 to 2007, union membership dropped from 34% to 8% for men and from 16% to 6% for women. This decline in union power can be attributed to a *third* of the increase in wage inequality among men and a *fifth* for women. For men this effect is comparable to wage inequality attributable to differences in education (Western & Rosenfeld, 2011).

There was a general consensus among economists that growth in union membership would increase income inequality. However, according to Freeman (1980), the net effect of the unions nationally was to *reduce* income inequality (also Noah, 2010).

During the post-war period big labor provided a "countervailing power" (Galbraith, 1952) to big business—"with government as the third man in the ring" (Levy & Temin, 2007). In 1935—under the Democratic President Franklin D. Roosevelt—the most important piece of labor legislation in U.S. history was passed. This was the National Labor Relations Act which legalized the creation of unions and their right at collective bargaining: including the right to strike (*Britannica Online Encyclopedia)*, accessed Sep.4, 2011, [available at http://www.britannica.com/EBchecked/topic/633977/Wagner-Act].

In 1950 the *Treaty of Detroit* was born as a result of the leadership of the Democratic President Truman: a negotiating framework that was based on the government.s idea of *shared prosperity*. The main features of this framework were powerful unions, a high minimum wage, progressive taxation, and corporations providing health and retirement benefits (Levy & Temin, 2007; Noah, 2010). After 1980, a new institutional norm, known as the *Washington Consensus,* emerged weakening the earlier gains by the unions. The grounding principal of this new norm was *deregulation* and *privatization*—what President George W. Bush called an „ownership society.. Skeptics say that this would imply YOYO: "you are on your own" (Levy & Temin, 2007; Lawrence, 2005).

CEO Compensation Going through the Roof

While the wages of production workers in the private sector declined 14% between 1973 and 2009, as mentioned earlier, the compensation of American CEOs has virtually been going through the roof. An American CEO.s pay has gone up from 42 times the average pay of a blue-collar worker in 1980, to 343 times the median pay of a worker in 2010—by far the widest gap in the world (AFL-CIO, accessed Oct. 13, 2011, [available at http://www.aflcio.org/corporatewatch/paywatch/pay/].

From Stakeholder to Shareholder Theory of the Corporation

In 1956 Ralph Cordiner, CEO of General Electric, proposed a stakeholder theory of the corporation that became quite popular. He said that the top management of a large publicly-held company should act as a "trustee" of the enterprise whose objective was to manage the corporation "in the *best balanced* interest of shareholders, customers, employees, suppliers, and plant community cities" (*italics* in the original). However, following the hostile takeover movement of the 1980s, the survivors were forced to make a drastic change in their management philosophy, or their rhetoric. Now almost all CEOs of large American companies proclaim just one thing: that their job is to "maximize shareholder value" with a short-term focus on current stock price (Datta, 1997).

Before the 1990s downsizing was deemed to be a symbol of decline, and used to be a mark of shame to fire workers en masse. Now a CEO would be embarrassed to admit that he or she sacrificed profits to protect employees or a community (Datta, 1997).

Donaldson and Preston (1995) argue that the stakeholder theory can be justified on three grounds: descriptive accuracy, instrumental power, and normative validity. They suggest that *ironically* the stakeholder theory can be justified on the grounds of theory of *property*. They point out that the current theory of property does not ascribe unlimited rights to owners, and therefore "does not support the popular claim that the responsibility of managers is to act solely as agents for the shareholders" (also see Datta, 1997). In Delaware, where many large corporations are located, the state law gives directors vast power to disregard short-term profits if this would benefit the company in the long run (Nocera, 2011).

Drucker (1991) says that "maximizing shareholder value" has little staying power because of its *short-run* focus (also Datta, 1997). A study sponsored by the *Harvard Business Review* (HBR) found that the U. S. financial system primarily advances the interest of shareholders in *short-term* appreciation of their stock at the cost of long-term performance (Porter, 1992; also Datta 2010). Shareholders now hold their stock only for a short period (Bok, 1993: 111); the average holding period of stocks on the New York Stock Exchange has declined from over seven years in 1960 to less than a year in 2009 (Datta, 2010).

American companies now prefer linking CEO pay to performance. However, a major practical problem is measuring performance reliably. Second, the record of performance-based pay has been rather disappointing. Third, there is no credible empirical evidence showing that performance pay motivates managers toward better work (Bok, 1993: Ch. 5).

Edgar Willard, Jr., the former CEO of DuPont has debunked the three main myths of executive pay: (1) The CEO pay is driven by competition, (2) The compensation committees are independent, and (3) CEOs deserve a hefty compensation because they create wealth for shareholders (Morgenson, 2005).

Teamwork is critical to success in business. So, Japanese corporations have made a conscious effort to narrow the gap between the pay of workers and executives. This policy is based on the belief that this practice will increase loyalty, cohesion, and productivity. The Japanese also think that huge executive paychecks will undermine teamwork and demolish morale (Bok, 1993, Ch. 5).

In the present U.S. downturn about 25 million people, about 16% of the work force, are looking for full-time work. Yet the U.S. companies are sitting on a mountain of cash, and reporting record profits. So, like the German society, Prof. Useem of Wharton School suggests that business needs to "make *people* a priority, *not* just earnings" (Nocera, 2011; *italics* added).

How Financial Sector's Vast Growth Deepens Economic Inequality

An important factor that has further widened economic inequality in America has been the torrid growth of financial markets. Three major factors have contributed to this immense growth: (1) The *unregulated* derivatives market for credit default swaps (CDS)—first introduced in 1997—which had exploded to $60 trillion by 2007 (Datta, 2010), (2) The repeal in 1999 of Glass-Steagall Act of 1933 which was designed to separate commercial banking from investment banking to protect bank depositors from the dangers of risky investments and speculation (Stein, 2009), and (3) The passage of the Commodity Futures Modernization Act of 2000 which rolled back the "bucket shop" anti-gambling law under which betting on company securities *without* owning them had been a *felony* for most of the twentieth century. Partnoy (2009: 258), a former Stanley Morgan trader, and now a law professor at University of San Diego, believes this was "one of the greatest mistakes in the history of financial markets" (also Datta, 2010).

This massive deregulation eventually led to a meltdown of the global financial markets in 2008 that many consider as the worst since the Great Depression. The "TNT. was the collapse of the U.S. housing market and the failure of the $1.2 trillion subprime mortgage derivatives—collateralized debt obligations (CDOs)—that major Wall Street banks had created and aggressively sold around the world. But the "rocket fuel" was the credit default swaps derivatives—CDS—a market 50 times larger than the subprime mortgage market (Datta, 2010).

It is important to point out that of the $1.2 trillion above-mentioned CDOs only $300 billion were based on real mortgages. The rest represented *synthetic* CDOs that were *not* backed by actual mortgages, but merely mirrored them. Instead, they were pure *gambling* plays: an activity that was legalized by the Commodity Futures Modernization Act of 2000, as stated above (Datta, 2010).

Simon Johnson (2009), former chief economist at the International Monetary Fund, and now a professor at MIT, says that the U.S. financiers "played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse." The "great wealth that the financial sector created and concentrated gave bankers enormous political weight" (also Wolf, 2009).

A vital factor behind the collapse of the global financial market in 2008 is the prevalence of paying enormous bonuses in the industry that encourages everyone to take excessive risks with "other people.s money." Even right after the collapse of the financial markets in 2008, the leading Wall Street banks paid $140 billion in compensation and benefits to their traders in 2009: the largest such payment on record (Datta, 2010) .

There is a sense of entitlement among Wall Street bankers; they expect huge bonuses—because they believe "they have earned it"—that are out of all proportion to their contribution to society. A bond trader can make more money in one good *year* than a doctor or airline pilot will make in a *career* (Amerman, 2008; Datta, 2010).

The GDP share of the U.S. financial markets—finance and insurance—has more than tripled since 1947 to 8.4% in 2010 (Philippon & Reshef, 2009; *Survey of Current Business*, 2011, accessed Sep. 15, 2011, available at http://www.bea.gov/iTable/iTable.cfm?ReqID=5&step=1). In contrast, between 1987 and 2010 the industry.s before-tax profits as a percentage of total domestic business profits averaged more than three times as much at 27% (Godow, 2011). In the last 20 years they have doubled: a growth rate much higher than that of the non-financial sector (Khatiwada, 2010).

From the early 1990s through 2006 skill levels and pay in the financial sector went up dramatically so that bankers were making 1.7 times more than comparable employees of other businesses (Philippon & Reshef, 2009). That is why the best and the brightest have flocked to the finance companies. Responding to a shortage of engineers, the Society of Manufacturing Engineers is running an ad campaign that is telling students: "Engineers create wealth by solving problems rather than creating .paper. wealth by playing with the markets" (Tett, 2009).

John Bogle has provided the following insight into how enormously profitable the U.S. financial sector is (Moyers, 2007):

- [It] is the largest profit-making sector in America. Our financial services companies make more money than our energy companies—no mean profitable business in this day and age. Plus our healthcare companies. They make almost twice as much as our technology companies, twice as much as our manufacturing companies. We.ve become a *financial* economy which has *overwhelmed* the productive economy to the detriment of investors and the detriment ultimately of our society (*italics* added).

Bogle (*ibid*) estimates that the financial sector takes away $560 billion per year out of society.

Philippon (2008) and Volcker (Armitstead, 2009) point out that you do not need a large financial sector for sustained economic growth: as exemplified by the excellent economic growth in the sixties. Another argument made by the supporters of a big financial sector is the innovations—e.g., the credit default swaps (CDS) and the collateralized debt obligations (CDOs) derivatives—introduced by the industry. In response Paul Volcker (*ibid*) argues that these are the innovations that brought us “right to the brink of disaster” in 2008, as we have reported above.

Extraordinary Tax Breaks for the Rich

The U.S. Internal Revenue Service has published income data for the top 400 taxpayers. While the income of the top .01% went up less than four times between 1955 and 2008 (based on data from Prof. Saez.s website, http://emlab.berkeley.edu/users/saez, file TabFig2008.xls, Table A-3), the former saw their income jump a staggering twenty times. However, their average tax rate dropped dramatically from 51% to 18%. In 1992 about 8% of this group paid less than 20% of their income in U.S. income tax. In 2008 63% did (Pizzigati, 2011).

In 1992 the top 400 derived 36% of their income from capital gains. By 2006 this percentage had shot up to 63%, followed by 66% in 2007. In 2008 the figure fell to 57% largely because of the 2008 recession. On the other hand, they received 26% of their income from paychecks in 1992, but only 8% in 2008. In 2008 22% of the top 400 didn.t even have jobs (Pizzigati, 2011). A similar pattern can be seen for the top 0.01% regarding their share of income from capital gains. It was 42% in 2005, 46% in 2007, and because of the recession it went down to 37% in 2008 (based on data from Prof. Saez.s Home Page, accessed Sep.7, 2011, [available at http://emlab.berkeley.edu/users/saez, file TabFig2008.xls, Table 0].

One reason behind the sharp increase in the share of capital gains is due to a drastic reduction in 2003 in capital gains tax on assets—held more than a year—to a flat rate of 15% for taxpayers with the marginal tax rates of 25 to 35% (*Tax Foundation*, accessed Sep. 4, 2011, [available http://www.taxfoundation.org/taxdata/show/2088.html]. Consequently, the CEO.s are now getting much more in stock awards and stock options than in salary.

In 2010, the average CEO.s pay at an S&P 500 company was only 12% as salary and bonus, but a whopping 55% in stock awards and options (AFL-CIO, accessed Oct. 13, 2011, available at http://www.aflcio.org/corporatewatch/paywatch/).

Finally, there are the unbelievable tax breaks for the super-rich spoken so well by Warren Buffet (2011):

- Some of us are investment managers who earn *billions* of dollars from our daily *labors* but are allowed to classify our income as “carried interest,” thereby getting a *bargain* 15% [capital gains] tax rate. Others own stock index futures for *10 minutes* and have 60 percent of their gain taxed at 15%, *as if* they.d been long-term investors (*italics* added).

George Soros (Zakaria, 2010) , a highly successful hedge fund manager himself, also suggests that the earnings of hedge fund managers—which for some can run into billions of dollars—should be taxed as ordinary income not as capital gains.

An investment manager who works with wealthy clients, and who understandably wants to remain anonymous, makes an important distinction between those in the lower half of the top 1% and those in the upper half. The *lower* half represents the very top earners in the Upper Middle Class (Table 2), that mainly includes physicians, attorneys, upper middle management, and small business owners. Those in the *upper* half of the top 1% are likely to be connected to financial services industry, real estate development, or government contracting. Our anonymous expert adds (Domhoff, 2011): [accessed Sep. 4, 2011, available at http://sociology.ucsc.edu/whorulesamerica/power/investment_manager.html].

- The higher we go up into the top 0.5% the more likely it is that their wealth is in some way tied to the investment industry and borrowed money than from personally selling goods or services or labor as do most in the bottom 99.5%. They are much more likely to have built their net worth from stock options and capital gains in stocks and real estate and private business sales, *not* from income which is taxed at a much higher rate….The bulk of any CEO.s wealth comes from stock, *not* income, and incomes are also very high….Those opportunities are largely unavailable to the bottom 99.5% (*italics* added).
- [Particularly] the top 0.1% can often borrow for almost nothing, keep profits and production overseas, hold personal assets in tax havens, ride out down markets and economies, and influence legislation in the U.S….Production, employment, profits, and taxes have all been outsourced….[Around] 40% of the profits in the S&P 500 come from overseas and stay overseas, with about half of these 500 top corporations having their headquarters in tax havens.

Economic Inequality and Tax Policy

Here we are going to discuss two main issues: the principle of progressive taxation, and the taxation of wages and salaries vs. capital gains.

The idea of progressive taxation

According to Johnston (2007, Ch. 26), the notion of progressive taxation is central to democracy. It is grounded in the principle of *ability to pay*. The more one.s income the greater is one.s obligation to pay taxes to support society. Every classic worldly philosopher—including Adam Smith—has endorsed this moral principle, “arguably making it the most conservative principle in Western civilization (p. 279).”

Bok (1993, Ch 13), too, suggests that progressive taxation is a necessary step to curb excessive earnings.

In a similar vein, Diamond and Saez (2011) recommend that persons with high income should be subject to high and rising marginal tax rates on their earnings.

Tax on capital gains vs. wages and salaries: The moral principle of fairness

Diamond and Saez (2011) argue that it is usually difficult to make a distinction between capital and labor incomes. For example, people who manage their investment portfolio are spending their *labor* time for expected capital income. However, the U.S. tax law treats the compensation of private equity and hedge fund managers as realized capital gains; yet conceptually it is income from *labor.*

The major argument in support of a low capital gains tax is that it promotes long-term investment that leads to growth and job creation. The HBR study, mentioned earlier, therefore recommended a minimum holding period of five years for stocks to qualify for the low capital gains tax rate (Porter, 1992). Yet, the capital gains tax law requires a minimum holding period of just one year (Datta, 2010).

Prof. Burman says that empirical evidence in support of the belief in a low capital gains tax rate "is murky at best;" and in the words of some hedge fund and private equity managers, "rests more on faith than science" (Stewart, 2011). Warren Buffet (2011) says "I have worked with investors for 60 years and I have yet to see anyone—not even when capital gains rates were 39.9 percent in 1976-77—shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off."

When there is a differential between tax rates for capital and labor, it generates a strong pressure to extend the most favorable tax treatment to a broader set of incomes (Diamond and Saez, 2011). Prof. Burman (1999:146) argues that a preference for capital gains "almost surely reduces tax revenues."

But, according to Prof. Burman (1999:147) the most crucial argument for treating ordinary income and capital gains the *same* is a simple notion: the idea of equity and *fairness*:

- A rate preference for capital gains provides an *unfair* advantage to people who can earn a large share of their income in that form. That is, it favors the *wealthy* over others, and those with a great deal of flexibility about *how* to receive their income over those who have *little* choice but to take their income in a *more heavily* taxed form, such as wages and interest (*italics* added).

The name of Andrew Mellon—a Republican banker and U. S. Secretary of the Treasury from 1921-32—is often invoked by supporters of lower taxes on the rich. But even he did *not* like the idea that "the people whose only capital is their mental and physical energy" should pay a higher tax rate than "the people whose income is derived from investments" (Johnston, 2007: 288-89).

One of the most successful advocates of this principle was Republican President Ronald Reagan who made it the cornerstone of his successful 1986 tax reform proposal: a simplified tax code that treated ordinary income and capital gains *alike* (Stewart, 2011). He said that tax loopholes should not allow a millionaire to pay a lower rate than a truck driver (Garofalo, 2011), accessed Oct. 4, 2011, [available at http://thinkprogress.org/economy/2011/10/03/333912/reagan-tax-loopholes-crazy/].

U.S. Supreme Court Rules that a Corporation is Legally a Person

In 2008 the U.S. Supreme Court ruled in the Citizens United case that a U.S. corporation is legally a *person*. The major implication of this momentous decision is that it allows U.S. corporations to spend an unlimited amount of money in U.S. elections without disclosure. The number one demand of the OWS movement is the repeal of this ruling which equates "*dollars with free speech*" (Hayat & Darcy, 2011).

In an inspired speech in Kansas about a hundred years ago, Republican President Teddy Roosevelt reasoned that too much concentration of wealth didn.t merely pose a threat to the incomes of the middle class. It threatened the very political system itself. He added (Klein, 2011, *italics* added)):

- Every special interest is entitled to justice, but *not* one is entitled to a vote in Congress, to a voice on the bench, or to representation in any public office.
- The Constitution guarantees protection to property….But it does *not* give the right of suffrage to any corporation.

Social Implications of Too Much Economic Inequality

The issue of class is a touchy subject in America (Fussel, 1992:15). DeMott (1990: 9-10) complains that the nation is shackled by a myth of classlessness. However, it is the Republicans and the conservatives who persist on promoting this myth. For example, according to the former President George Walker Bush, class is "for European democracies or something else—it isn.t for the United States of America. We are not going to be divided by class"(DeMott, *ibid*). Another example is the statement by Irving Kristol that we have discussed later in the Conclusion section. Still another strike against this myth is, as we have discussed later in this section, that upward economic mobility is *stuck* in America.

It is clear from the socio-economic class *lifestyle* profile in Table 3, and the discussion in the previous pages**,** that class divisions in America are very sharp, and that they are as real as they can get.

From a Mass to a Class Market

One result of the sharpening of economic inequality in America over the last three decades or more has been the splintering of the erstwhile mass market into a class market. The American market now consists of *six* major price-quality segments: "out-of-sight" or "price is no object," "ultra-premium," "premium," "mid price," "economy," and "ultra-economy" (Table 3).

While increased economic inequality has played an important role in the breakup of the mass market, this process had started a long time ago (Datta, 1996). By the end of the 1970s, the American consumer had become tired of the standardized goods produced by America's vaunted mass production machine (Piore & Sable, 1984: 184-85). The failure, during the seventies, of the mass-circulated general-purpose magazines—*Life*, *Look*, and *Saturday Evening Post*—symbolized the demise of the mass production era (Naisbitt, 1982: 99-100).

Mass Market was a Unifying Force in America

The mass market was a unifying force in America for a long time. Based on a Gallup survey conducted in 1954, historian Manchester (1974: 895-97) has reported that "by gourmet standards" the eating habits of Americans were "dull." The overwhelming choice of most Americans for dinner—if cost were no object—was fruit cup, vegetable soup, steak, french fries, and apple pie a' la mode. Phillips (1993: 17), too, makes a similar point, and says that by 1950 class differences were declining in clothing, autos, food, and even personal hygiene. Such a broad consensus exists no more.

Not very long ago "managers" and "professionals" probably considered themselves as members of a broad middle class with common aspirations and tastes (Adler & Waldman, 1995). But, today they regard themselves as part of what Ehrenreich (1989: 10-11), Lasch (1995, chap. 2), and Lind (1995: 145) describe as a more privileged *elite* class.

Sharpening of Class Divisions Causing Social Tensions

More and more American enterprises are embracing the "Tiffany/Wal-Mart"—"Upstairs-Downstairs"—strategy, because it is the top and the bottom segments of the market that are growing. However, the "Tiffany/Wal-Mart" environment is causing social tensions by identifying particular brands with a certain class that "helps put people in their uniforms" (*Business Week*, 1997).

Regardless of their social class, Winnie-the-Pooh connoted a single image for the readers of A.A. Milne's classic books in the past. Today, however, the image of Pooh depends on where a child lives, and how much money his or her parents can afford. Now Walt Disney Co. is marketing two distinctly different Poohs: one the original line-drawn figure on fine china sold at Nordstrom, and the other a fat cartoon-like Pooh sold at Wal-Mart (*Business Week*, 1997).

President George H. W. Bush's amazement when he saw an electronic scanner for the first time in a supermarket strikingly reveals the gulf between the elites and the rest (Lasch, 1995: 4). While the professional and managerial elites justify their contribution to society through *mental* activity, the blue-collar workers point to the market value of their *manual* labor to legitimize their status (Dudley, 1994: 180). Lasch (1995: 20) complains that the "*thinking* classes are fatally removed from the *physical* side of life," and a major problem is that we have "lost our respect for honest *manual* labor" (*italics* added).

The Well-off Isolating Themselves from Society

In many towns and cities, the wealthy have withdrawn their financial support of public places and institutions shared by all, and instead have chosen to spend that money for their own private services. Reich (1991) calls this development as "the secession of the successful."

Lasch (1995) has been very critical of the upper middle class:

- These elites—mobile and increasingly global in outlook—refuse to accept limits or ties to nation or place…[A]s they isolate themselves in their networks and enclaves, they abandon the middle class, divide the nation, and betray the idea of a democracy for all of America.s citizens (inside front jacket).

Robert Frank.s (2007: 2-4) comments about *the Super Rich* are quite revealing:

- Today.s rich had formed their own virtual country…[T]hey had built a self-contained world unto themselves, complete with their own health-care system (concierge doctors), travel network (Net Jets, destination clubs), separate economy…and language ("Who is your household manager?"). They didn.t just hire gardening crews; they hired "personal arborists." The rich weren.t just getting richer; they were becoming financial foreigners, creating their own country within a country, their own society within a society, and their economy within an economy.

They were creating Richistan.

In fairness to the *Super Rich* we must also recognize that, as reported above, many are deeply engaged in philanthropy, and are concerned about critical issues that affect future generations, such as global warming, education, and health care.

Upward Economic Mobility Stalled in America

The authors of "Class Matters" study of *The New York Times* (2005) also conducted a study of income mobility. They found "that there is far less mobility up and down the economic ladder than economists once thought or than most Americans believe" (*The New York Times* editorial: Class and the American dream, 2005, May 30; *italics* added). Even the conservative *The Wall Street Journal* has acknowledged that, as the "gap between rich and poor has widened since 1970, the odds that a child born in poverty will climb to wealth—or a rich child will fall into the middle class—remain *stuck*" (*italics* added; Wessel, 2005).

Bernstein (2007) says that he found mixed results in his study of economic mobility. Although some of the findings show that American society has become less mobile over time, others suggest status quo. Nevertheless, *none* shows a rise in mobility.

Bernstein (2007) points out that he was surprised to find that America has *less* economic mobility than other advanced countries, including those of Scandinavia.

Conclusion

In a study based on thirty years of research, Wilkinson and Pickett (2009)—both from the field of medicine—report that economic inequality is a serious problem because it can adversely affect the very health and well-being of society (back of front jacket; *italics* added):

- [One] common factor links the healthiest and happiest societies: the degree of *equality* among their members. Not wealth, not resources, not culture, not climate, diet, nor form of government. [More] unequal societies are *bad* for everyone within them—the rich and middle class as well as the poor.

- Almost every modern social problem—poor health, violence, lack of community life, teen pregnancy, mental illness—is *more* likely to occur in a *less*-equal society. This is why America, by most measures the richest nation on Earth, has per capita shorter life spans, more mental illness, more obesity, and more of its people in prison than any other developed nation.

In 1997, Irving Kristol, a neoconservative intellectual, wrote an article in *The Wall Street Journal*, titled: "Income Inequality without Class Conflict" (Krugman, 2007: 245). He argued that we shouldn.t worry about income inequality, because we had *social* equality. As an example, he said that "in all of our major cities, there is not a single restaurant where a CEO can lunch or dine with the absolute assurance that he will not run into his secretary" (*ibid*, p. 245).

Krugman (2007) says that Kristol was actually acknowledging that "income inequality *would* be a problem if it led to social inequality."…. "It *does*. Kristol.s *fantasy* of a world in which the rich live just like you and me, and nobody feels socially inferior, bears *no* resemblance to the real world we live in" (*italics* added; p. 246).

Lasch (1995: 22) says that "economic inequality is *intrinsically* undesirable;" and that social and civic equality assume a "rough approximation of *economic* equality" (*italics* added).

Freeman (2007: 41-45) has observed that income inequality in America is so high that it resembles more like a third-world country than a major industrial nation.

Alan Greenspan warns that for a democracy increasing income concentration is not a desirable development (*The New York Times*, 2005: 188). Now he says we don.t have a single economy, but *two*: each distinct and divergent (Freeland, 2011). Similarly, some of the wealthiest Americans—Warren Buffet, George Soros, and Ted Turner—have issued the following warning (*The New York Times*, *ibid*):

- [Such] a concentration of wealth can turn a *meritocracy* into an *aristocracy* and ultimately *stifle* economic growth by putting too much of the nation.s capital in the hands of *inheritors* rather than strivers and innovators (*italics* added).

Elizabeth Warren, now running as a Democratic candidate for the U.S. Senate, reminds us that "There is nobody in this country who got rich on his own. *Nobody*" (*italics* added). She says the rich can become rich only because of the "social contract" that benefits *everybody*: services paid for by ordinary taxpayers, such as, roads and bridges, an educated workforce, police officers, fire fighters, and so on (Krugman, 2011).

Freeland (2011) believes there is a legitimate fear today that America has become a plutocracy—a government by the *wealthy*:

- A multibillion-dollar bailout and Wall Street.s swift, subsequent reinstatement of gargantuan bonuses have inspired a narrative of parasitic bankers and other elites rigging the game for their own benefit. And this, in turn, has led to wider—-and not unreasonable—fears that that we are living in not merely a plutonomy, but a *plutocracy*, in which the rich display outsize political influence, narrowly self-interested motives, and a casual indifference to anyone outside their own rarefied economic bubble (*italics* added).

Finally, we cite Jeffrey Sachs (2011: 4-5) who has strongly criticized America.s elites (*italics* added):

- Too many of America.s elites—among the super-rich, the CEOs, and many of my colleagues in academia—have *abandoned* a commitment to social responsibility. They chase wealth and power, the rest of the society be damned.

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Table 1: Threshold & average pretax incomes of top 5% U.S. families: 2008 (including realized capital gains)

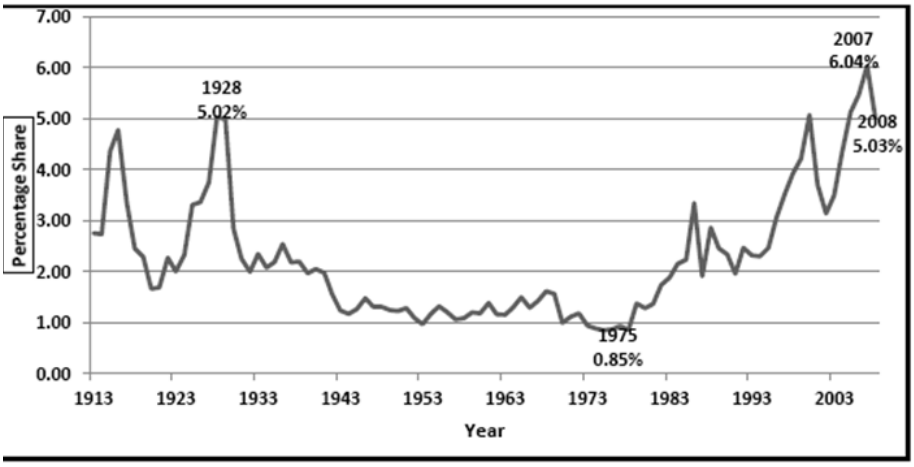
Percentile threshold	Income threshold	Income Groups	Number of families	Av. income of each group	Av. income top .01%/Av. income other groups
Top 5%	$152,726	Top 5-1%	6,098,480	$211,476	129.2 times
Top 1%	$368,238	Top 1-0.5%	762,310	$443,102	61.7 times
Top .5%	$558,726	Top 0.5-0.1%	609,848	$878,139	31.1 times
Top .1%	$1,695,136	Top 0.1-0.01%	137,216	$3,238,386	8.4 times
Top .01%	$9,141,190	Top 0.01%	15,246	$27,342,212	

Note: Table 1data and Table 2 data for the *upper* class (top 0.5%) is based on pretax U.S. income tax data from Prof. Emmanuel Saez.s Home Page updated July 2010 to 2008 [http://emlab.berkeley.edu/users/saez, file Tab Fig2008.xls, Table 0].

Table 2: An economic class structure of America: 2008

Note: Table 2 *threshold* income data for the *lower* and the *middle* class (up to the 80th percentile) is for U.S. *households* from the U.S. Census Bureau, Table H-1, accessed Aug. 30th, 2011, [available at http://www.census.gov/hhes/www/income/data/historical/household/index.html]. A *household* consists of a person living *alone*, related family members, or unrelated people who share the same housing unit.

Figure 1: Change in U.S. median family income vs. Gross Domestic Product (GDP)



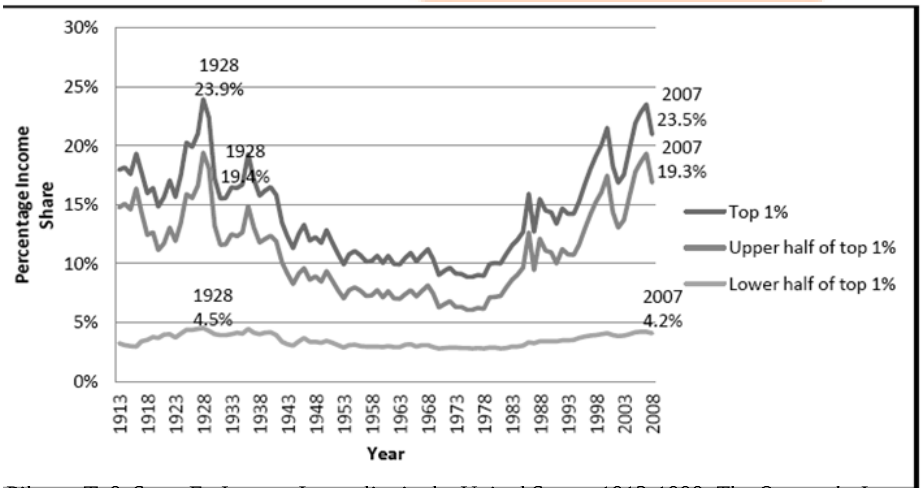
Source: For Median family income:

(1) 1973-96 (Levy (1998: 50)

(2) 1997-2008, Economic Report of the President, 2010, Table B-33

For GDP: Economic Report of the President, 2010, Table B-2 24

Figure 2:Top 1%, upper half of top 1%, and lower half of top 1%: US pre-tax Income Share (including realized capital gains)



Note: From Piketty, T. & Saez, E., Income Inequality in the United States, 1913-1998, *The Quarterly Journal of Economics*, 118 (1), 2003. Updated to 2008 at http://emlab.berkeley.edu/users/saez, file TabFig2008.xls, Table A-3. Data is from U.S. income tax returns.

Figure 3: Top 0.0 1% share of total U.S. pre-tax income: 1913-2008 (including realized capital gains)

Source: See the note in Figure 2. 25