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Oligarchy, American Style

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Inequality is back in the news, largely thanks to Occupy Wall Street, but with an assist from the Congressional Budget Office. And you know what that means: It's time to roll out the obfuscators!

Anyone who has tracked this issue over time knows what I mean. Whenever growing income disparities threaten to come into focus, a reliable set of defenders tries to bring back the blur. Think tanks put out reports claiming that inequality isn't really rising, or that it doesn't matter. Pundits try to put a more benign face on the phenomenon, claiming that it's not really the wealthy few versus the rest, it's the educated versus the less educated.

So what you need to know is that all of these claims are basically attempts to obscure the stark reality: We have a society in which money is increasingly concentrated in the hands of a few people, and in which that concentration of income and wealth threatens to make us a democracy in name only.

The budget office laid out some of that stark reality in a recent report, which documented a sharp decline in the share of total income going to lower- and middle-income Americans. We still like to think of ourselves as a middle-class country. But with the bottom 80 percent of households now receiving less than half of total income, that's a vision increasingly at odds with reality.

In response, the usual suspects have rolled out some familiar arguments: the data are flawed (they aren't); the rich are an ever-changing group (not so); and so on. The most popular argument right now seems, however, to be the claim that we may not be a middle-class society, but we're still an upper-middle-class society, in which a broad class of highly educated workers, who have the skills to compete in the modern world, is doing very well.

It's a nice story, and a lot less disturbing than the picture of a nation in which a much smaller group of rich people is becoming increasingly dominant. But it's not true.

Workers with college degrees have indeed, on average, done better than workers without, and the gap has generally widened over time. But highly educated Americans have by no means been immune to income stagnation and growing economic insecurity. Wage gains for most college-educated workers have been unimpressive (and nonexistent since 2000), while even the well-educated can no longer count on getting jobs with good benefits. In particular, these days workers with a college degree but no further degrees are less likely to get workplace health coverage than workers with only a high school degree were in 1979.

So who is getting the big gains? A very small, wealthy minority.

The budget office report tells us that essentially all of the upward redistribution of income away from the bottom 80 percent has gone to the highest-income 1 percent of Americans. That is, the protesters who portray themselves as representing the interests of the 99 percent have it basically right, and the pundits solemnly assuring them that it's really about education, not the gains of a small elite, have it completely wrong.

If anything, the protesters are setting the cutoff too low. The recent budget office report doesn't look inside the top 1 percent, but an earlier report, which only went up to 2005, found that almost two-thirds of the rising share of the top percentile in income actually went to the top 0.1 percent — the richest thousandth of Americans, who saw their real incomes rise more than 400 percent over the period from 1979 to 2005.

Who's in that top 0.1 percent? Are they heroic entrepreneurs creating jobs? No, for the most part, they're corporate executives. Recent research shows that around 60 percent of the top 0.1 percent either are executives in nonfinancial companies or make their money in finance, i.e., Wall Street broadly defined. Add in lawyers and people in real estate, and we're talking about more than 70 percent of the lucky one-thousandth.

But why does this growing concentration of income and wealth in a few hands matter? Part of the answer is that rising inequality has meant a nation in which most families don't share fully in economic growth. Another part of the answer is that once you realize just how much richer the rich have become, the argument that higher taxes on high incomes should be part of any long-run budget deal becomes a lot more compelling.

The larger answer, however, is that extreme concentration of income is incompatible with real democracy. Can anyone seriously deny that our political system is being warped by the influence of big money, and that the warping is getting worse as the wealth of a few grows ever larger?

Some pundits are still trying to dismiss concerns about rising inequality as somehow foolish. But the truth is that the whole nature of our society is at stake.