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The Quiet Role of Class in the Coming Budget Battle

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The political struggle over how the federal budget will shape American government is now in full swing and likely to dominate Washington for the next two years. This week, the President joined the battle by proposing a two-year freeze on federal pay, his symbolic version of Bill Clinton's maxim that "the era of big government is over." In doing so, he aligns himself with growing public skepticism about the value of much of what Washington does. Yet, the anger driving the public debate isn't really about federal spending much less federal pay. It's about continuing high unemployment and stagnating incomes, because if Washington can't get that right, what credibility does it have to manage everything else the public pays for?

There's another, more subliminal factor feeding the public's anger about taxes and spending, and the only accurate term for it is economic class. Most Americans are fine with rich people getting richer, even when they get richer faster than everyone else -- so long as the rest of us make progress too. But that's clearly and painfully not the case today - the stock market and corporate profits are way up and multi-million-dollar Wall Street bonuses are back, while high unemployment won't budge, wages are down, and the value of most people's homes keep falling. On top of that, it was middle-class Americans who financed a recovery, through taxpayer bailouts and emergency spending, which so far seems to benefit only the wealthy. These factors alone should give Republicans pause as they prepare to block the extension of unemployment benefits and hold tax cuts for the middle-class hostage to preserving the tax cuts for the well-to-do.

The bigger political question is how most Americans would feel about the GOP's hard-line positions, if they realized how much the economy in recent years has tilted to favor the wealthy. Recent data from the Federal Reserve document this tilt. In 2007, for example, the top one percent of Americans owned about 35 percent of all of this country's assets or wealth - including houses, stocks, bonds, businesses, and so on - and the top 10 percent owned 70 percent of those

assets. The distribution of financial assets is even more skewed: In 2007, the top one percent owned 43 percent of the total value of all bank accounts, stocks and bonds, business equity, mutual funds, pensions, and retirement savings; and the top 20 percent of Americans owned an astonishing 93 percent. Ownership of only one type of asset is still spread around fairly broadly: With 70 percent of Americans being homeowners, the bottom 90 percent owned 40 percent of the total value of all residential real estate in 2007. But that fact is no longer evidence for the conservative trope that good times for the wealthy presage good news for everyone else: Since 2007, the housing bust has destroyed about 30 percent of the value of American homes, and it was triggered by Wall Street geniuses who took the taxpayer bailouts and now are pocketing multi-million dollar bonuses.

The tilt towards the wealthy is also much less steep in most other societies. While the top 10 percent of Americans own 70 percent of this country's wealth and assets, the top 10 percent of Britons own only 56 percent of the wealth of their nation, the top 10 percent of Canadians own just 53 percent of their country's assets, and the top 10 percent of Germans hold but 44 percent of the assets of their nation.

The gap in incomes also has grown substantially over the last generation, and that suggests that the wealth disparities will only continue to increase. From 1982 to 2006, for example, the share of all annual income claimed by the top one percent of Americans increased from 13 percent to more than 21 percent; and the top 20 percent of us took home more than 61 percent of all the income earned here in 2006. Put another way, 80 percent of Americans have to divvy up about 38 percent of all the income generated in our economy. To be sure, a modestly progressive tax system ensures that the top one percent and the top 20 percent both contribute slightly larger shares of all federal revenues than they collect as income. But their share of federal revenues is also much smaller than their fast-growing share of the nation's wealth.

These disparities have grown not from our politics, but from the way the economy is evolving. For example, our economy is increasingly capital-intensive - just consider, for example, how much more technology-dense most offices and workplaces are today, compared to just 20 years ago. Since capital is the source of more wealth creation than before, the wealth of those who own most of it has been growing faster. Incomes also are linked closely to the ability to work with all of that capital, increasing the income share of the top 20 percent of Americans with the most advanced skills and education. It is certainly not the burden or responsibility of government to alter the economy's natural course. But when that course precludes meaningful economic progress for most people and creates profoundly undemocratic disparities in wealth and incomes, it surely becomes the government's responsibility to ensure that the majority can genuinely thrive in that economy.

That's a budget battle that President Obama could champion with confidence. For example, a good handful of subsidies for various industries would pay for low-cost access to college and graduate training for any young American with the drive and ability to see it through - as Britain, Germany and other countries, all with much smaller disparities of wealth and incomes, do. A small tax on financial transactions could float a new program of low-cost loans for homeowners with troubled mortgages, and so help stabilize the housing values that comprise the only asset of most Americans. Even a modest reform of the "carried interest" tax preference for hedge funds

and private equity funds could more than pay for grants to community colleges to provide free computer training for any working person who wants it. And surely it's time for the new realities of wealth and incomes in the United States to provide part of the framework for reforming our taxes and entitlements.

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