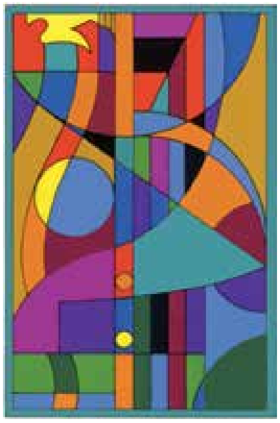

View from the Beltway

Saving Capitalism

By Owen Ullmann

The gap in prosperity between wage earners and investors is growing ever more worrisome.

Amazon attracted worldwide attention—and high praise—on October 2, when it announced it was boosting the minimum wage for all 350,000 full-time, part-time, and seasonal workers to $15 an hour. That certainly sounds commendable and generous of the online retail behemoth, and the move will certainly pressure other companies to boost their minimum wage for millions of struggling workers.

Yet largely escaping attention was a trade-off Amazon is making in exchange for increasing its hourly wage: elimination of incentive pay and compensation in Amazon stock. Though that lost benefit may largely offset the pay hike for veteran workers, they nevertheless seemed happy to get a certain raise in their paychecks rather than stock that can go down as well as up.

This one example goes a long way toward explaining the widening income and wealth gap in the United States, a long-festering problem that American policymakers and politicians worry about but are struggling to solve.

It is not coincidental that just over half of Americans own financial assets and they have prospered over the past four decades, while the others are treading water economically, living paycheck to paycheck without any financial cushion to fall back on should unemployment or illness strike.

Worker wages have barely kept up with inflation over the past year despite the lowest unemployment rate in a half-century.

In the case of Amazon, the minimum wage hike amounts to a hefty 36 percent increase from the $11-an-hour starting rate it had been paying. Sounds good, right? Not compared to its soaring stock price: it was up nearly 50 percent over the past year and 350 percent over the past five years. In fact, investors who purchased shares in the public offering in 1997 and held them have earned returns of 120,662 percent as of August 2018, according to Investopedia.

The near-term outlook for the stock of the still-rapidly expanding company also is far rosier than for worker wages, which have barely kept up with inflation over the past year despite the lowest unemployment rate in a half-century and severe labor shortages in numerous industries and geographic regions.

Across the United States, the disparity between wage gains and stock appreciation is stunning. Since 1978, hourly wages adjusted for inflation are flat, according to a study by Pew Research Center. By comparison, the S&P 500 Index adjusted for inflation is up more than 700 percent over that span, and more than 2,000 percent

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higher when reinvested dividends are included.

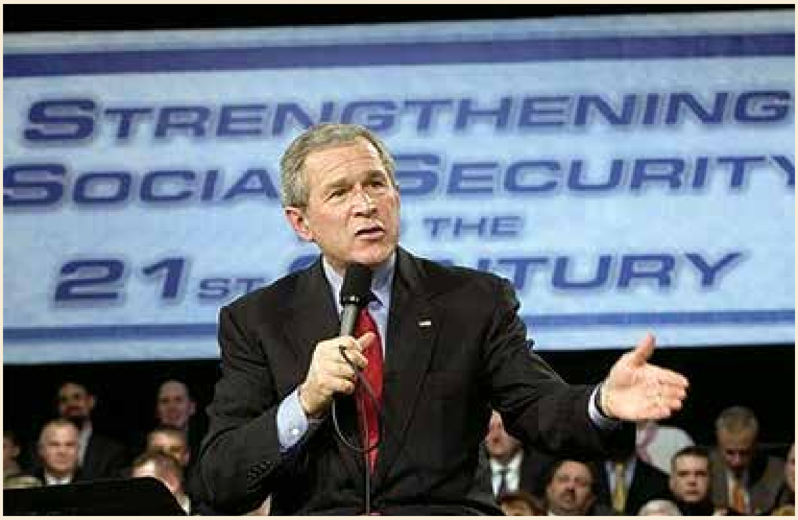
Economists understand the cause of the wealth and income gap in the United States far better than they have solutions. They point to education as a key indicator of a worker's future earnings and the most reliable indicator of which side of the income gap someone will land. Ownership of financial or real estate assets explains the growing wealth gap.

The unanswered question is how to improve education and wealth accumulation opportunities for the have-nots, whose lower-skilled jobs are at the greatest risk to technology and cheap labor overseas.

The problem weighs heavily on economists such as former Federal Reserve Chair Janet Yellen, who has observed that she is concerned about the future of an economic system in which half are gaining ground while the other half are failing to achieve anything close to the American Dream.

In testimony before Congress this past February, current Fed Chair Jerome Powell said the stagnation of middle-class median incomes "seems to be closely tied to the flattening out of educational attainment and skills attainment by our workers" for many years.

The growing gap did not become apparent until the late 1970s. Until then, as the economic pie grew, all income groups received a proportionately larger slice. But then the top income groups saw significant gains that continue today while lower-earning groups suffered stagnant earnings.



WHITE HOUSE PHOTO BY PAUL MORSE

President **George W. Bush** *discusses Social Security in 2005.*

Down a Blind Alley

President George W. Bush proposed a partial privatization of Social Security in 2005 to allow people to invest a portion of their retirement income in stocks and bonds. But like the Amazon workers, most Americans and members of Congress opposed the idea, preferring a guaranteed and steady income over taking on a risk that meant potential losses as well as sizeable gains.

Where Bush's plan went off the rails was daring to tamper with a program as successful and popular as Social Security, which will soon face its own severe financial crisis as more baby boomers retire and the remaining workforce becomes saddled with the prospect of higher payroll taxes.

—O. Ullmann

A recent Deutsche Bank study, confirming other research, pinpoints the growing income and wealth gap beginning in the late 1970s to the early 1980s. A University of California-Berkeley study of wealth concentrations over a century found that the share of wealth owned by the top 0.1 percent declined from more than 20 percent in the 1920s to 10 percent in the late 1970s and has since returned to 22 percent.

Besides education and technology, economists cite other factors for the growing gap, including globalization, the decline in the power of labor unions, and less-progressive tax laws and social benefits that have reduced income transfers from the wealthy to the poor.

The result is that by most measures, inequality in the United States now exceeds that of all other developed nations in the world. The Deutsche Bank study

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notes that other countries with significant income and wealth gaps, such as the United Kingdom, have more generous education, health care, and retirement programs and more progressive tax systems to narrow the gap.

Yet an underappreciated cause of the growing inequality in the United States is the dominance of the stock market as a driver of income and wealth.

During the 1970s and 1980s, Presidents Jimmy Carter, a Democrat, and Ronald Reagan, a Republican, deregulated the financial industry to allow far more people to own stocks and bonds. Tax-deferred IRAs and 401(k) plans emerged, the number of mutual funds exploded, and stock ownership grew from a fifth of households in 1983 to more than 60 percent in 2007, dropping to about 54 percent today because of the fallout from the financial crash of 2008–2009.

As stock ownership grew during the bull markets of the 1980s and 1990s, American corporations became ever more focused on stock prices and dividends for shareholders—a class that increasingly included top executives who awarded themselves lucrative stock awards as compensation.

Give average working families a stake in the nation's financial future by making every child at birth a stock-owning capitalist.

To maximize profits, companies replaced pensions with 401(k) plans, limited wage increases, and moved operations to lower-cost foreign countries. A study by the liberal Economic Policy Institute estimates that the share of corporate income that went to worker compensation fell from more than 80 percent in 2000 to about 75 percent in 2015, a decline that means a fatter bottom line for investors. Weaker unions and fears of plants moving overseas have dampened worker demands for higher pay.

Certainly, a rising stock market and profitable corporate sector are good for the American economy. The debate should focus on how to help more Americans share in the benefits of this capitalist system.

Economist Edward N. Wolff at New York University found that the top 10 percent of U.S. households own 84 percent of equities. So, the question is how to spread that wealth?

David Smick, founder and editor of this magazine, has come up with a novel plan to do just that: He proposes giving average working families a stake in the nation's financial future by making every child at birth a stock-owning capitalist.

Every child born in the United States would be given a modest $5,000 low-interest loan from the government and an account to invest in stock and bond index funds. The loan would be paid back in fifty to sixty years so these people could enjoy the miracle of financial compounding and build a real nest egg.

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Where Bush's plan went off the rails was daring to tamper with a program as successful and popular as Social Security, which will soon face its own severe financial crisis as more baby boomers retire and the remaining workforce becomes saddled with the prospect of higher payroll taxes.

Just over half of Americans own financial assets and they have prospered over the past four decades, while the others are treading water economically, living paycheck to paycheck

Perhaps it's time to explore another approach along the lines Smick outlines without touching sacred Social Security. The U.S. government has tried to promote education through its student loan programs that now have a record $1.5 trillion in accumulated debt. So why not try to promote ownership of a financial nest egg?

At a current rate of four million births a year, the cost of a $5,000 stock and bond ownership loan would be $20 billion a year. Considering that Congress recently enacted a $1.5 trillion tax cut and many congressional Democrats are proposing a Medicare for All plan that could prove very expensive, surely, we can afford $20 billion a year a small down payment on a more equitable—and stable—society.

The alternative is a growing gap between the haves and have-nots and more of the anger, anxiety, and division that are threatening to destroy the American Dream that all of us once shared. ◆