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Thinking Economically

Time to Get Serious about Inequality and Sustainability

by Gar Alperovitz

It's time for people who are serious about sustainability to open a direct, clear, and explicit challenge to the extreme inequalities of income and wealth which are among the most important drivers of unsustainable growth. This requires far more than the usual laundry list of (failing) progressive tax and other policies. There are also signs that the beginning points of a tough-minded program may be possible in many parts of the country.

Although we often talk in generalities about inequality, the fact is the numbers are far more dramatic than most people understand. The top 1% now garners for itself more income each year than the bottom 100 million Americans taken together. The top 1% owns just under 50% of all investment capital. An only slightly larger elite group, the top 5%, owns slightly under 70% of financial wealth and more than 80% of unincorporated business assets. The most recent data (1999) showed a mere 0.2% at the very top making more money on the sale of stocks and bonds than all other taxpayers taken together. [1]

And of course this is only within the United States. Internationally, things are far worse. The richest 1% of people in the world have as much income each year as the poorest 57% taken together. The richest 5% have incomes 114 times that of the poorest 5%. [2]

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Quite apart from the indecency of these statistics, what needs to be confronted is their relationship to materialism in general and unsustainable consumption and production in particular. Ever more expansive materialism is driven in large measure by the pattern set by those who can afford upper level purchases. After “the rich and super-rich began a bout of conspicuous luxury consumption” in the early 1980s, Juliet Schor reports, members of “the upper middle class followed suit with their own imitative luxury spending...” In turn, the 80% below who lost ground also “engaged in a round of compensatory keeping-up consumption.” [3]

Even at times when there is no worsening in the relative distribution of income, there is an expanding absolute gap between those at the top and those at the bottom. Thus: If you have \$50,000 this year and I have \$1,000—and next year you have \$100,000 and I have \$2,000—the relative distribution of income has not changed since the ratio between our incomes remains constant at 50 to 1. However, the real world distance between us has gone from \$49,000 to \$98,000.

Dynamic processes of the kind which systematically expand the gap between those at the top and those at the bottom generates a powerful “envy machine”—a social and cultural dynamic in which even those who climb the ladder, step by step, regularly experience the space between the rungs getting greater and greater and the distance to the top farther and farther away as they climb (if, in fact, they do climb).

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“Compensatory consumption” to keep up is also driven by factors which are not directly related to envy or status. Essential to getting into a top college is high quality primary and secondary education. However, for those who can only send their children to public schools this almost always requires purchasing a home in a neighborhood supportive of good schools—i.e. a location where prices are inflated by high incomes at the top.

Again, the “arms race” among car buyers is not simply a matter of taste or status-striving. To the extent drivers of small, relatively fuel-efficient cars face the possibility of collision with a 7,500 lb. Ford Expedition, they may understandably feel compelled to buy a larger car for the sake of safety of their families alone.

The capacity of top elites to keep raising the bar in connection with consumption is almost unlimited. Income received by the 10 most highly paid C.E.O.s in the US rose from an average of \$3.5 million in 1981 to \$19.3 million in 1988. By the year 2000, however, it had skyrocketed to an average of \$154 million—for an overall gain of 4,300%! Meanwhile workers' wages did little more than slightly out-pace inflation during the same decades. [4]

At the outset of the 20th century, Thorstein Veblen coined the phrase “conspicuous consumption” to describe a form of materialism which has far more to do with demonstrating one's place in society than it does with meeting a physical or other need. Modern researchers have documented related concepts—including hunger for the kinds of “positional goods” which only elites can afford, pressures to emulate those ahead of one on career ladders, defensive strategies to keep from falling behind, and many similar efforts.

Just how strong such pressures can be is suggested by studies of what Americans feel they need in order to achieve their hoped-for goals. In 1986, when median family income was \$29,458, survey researchers found that on average Americans felt they really needed far, far more—\$50,000—if they hoped to fulfill their dreams. This benchmark, of course, offers a snapshot at one moment in time. The ongoing moving picture reveals a deeper dynamic: Less than a decade later, in 1994, what people felt they needed had more than doubled to \$102,000 while actual median family income had risen to only \$38,782 in current dollars. [5]

Not surprisingly, even as incomes have grown over time Americans (and others) have not experienced greater happiness. Quite the contrary; given the expanding dimensions of their unsatisfied aspirations, millions feel they are on a treadmill running faster and faster simply to stay in place. Over the roughly four-decade period between 1957 and 1995 both the US economy and consumption expenditures just about doubled. The proportion of Americans who described themselves as “very happy,” however, did not change in any significant way. [6]

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Several recent proposals suggest an initial line of attack on the expansive consumption and resource challenges created by such pressures. Schor, for instance, urges ending the tax-deductibility of advertising by corporations as a way to reduce some forms of unnecessary consumption. (A limited version of this approach has also been suggested by Senator John McCain.) Schor and others also suggest new taxes on luxury items. One specific proposal would provide that “the high-end, status versions of certain commodities would pay a high tax, the mid-range models would pay mid-range taxes, and low-end versions would be exempt.” [7]

It helps to be specific about the meaning of the term “luxury items”—and the kinds of consumption norms top elites help establish. The super-elite—the people Paul Krugman, Kevin Phillips and others have termed the new “plutocracy”—increasingly live in a very, very different world from most Americans, and in a radically different culture. It is a world where homes cost \$5–10 million and where \$5,000 grills, \$14,000 Hermes Kelly handbags, \$17,500 Patek Philippe wristwatches, and \$100,000 luxury automobiles are commonplace. When Mercedes-Benz introduced its new Maybach sedan in 2002, its beginning base-line prices were \$310,000–\$360,000; Ferrari had a three and a half year waiting list for its \$170,000 360 Modena Spider.

An approach which moves beyond taxing specific luxury goods is economist Robert Frank’s proposal for a progressive consumption tax to replace the federal income tax. This would exempt all savings from taxation—plus an additional \$7,500 deductible amount per person (\$30,000 for a family of four). It would then steadily increase the progressivity of taxes on the remaining income—i.e. all money devoted to consumption—with a top marginal tax rate of 70% on income and consumption expenditures above \$500,000. [8]

Important as such measures are, addressing the huge and growing income disparities which drive wasteful materialism in general and unsustainable consumption patterns in particular will ultimately require more far-reaching strategies to deal with the underlying social and economic pressures. One obvious element of a long-range approach is greater elite taxation, including wealth taxes and a return to income taxes ranging up to and including pre-Reagan-era rates of 70–91% for the very top groups.

A proposal by former Chairman of the House Budget Committee Martin Sabo points to a further issue which a serious long term approach must also address—namely, the ratio of income at the top to income at the bottom (i.e., not simply the extraordinarily high levels of elite income). Sabo has proposed legislation which would eliminate the deductibility to corporations of compensation at the top which is more than 25 times that at the bottom. [9]

Ecological economist Herman Daly goes further, and the logic he offers is compelling: First, “there is a limit to the total material production that the ecosystem can support.” Second, “I conclude, therefore, that there must implicitly be some maximum personal income...” Daly adds that “bonds of community break” if there is not some limit to inequality. [10]

Strategies which take on elite income and wealth, and thereby consumption, serve both an economic and a larger cultural purpose: They begin to give content to the ecologically and morally important principle that at some point “Enough is Enough” (or should be!).

Taxation of elites could also help generate resources which might in turn be channeled back to support expanded programs to raise floor-level incomes, thereby reducing the social distances which contribute to compensatory consumption. Additional precedents

for dealing with inequality “from the bottom up” include increasing minimum wage levels and enacting “living wage” requirements.

Over the course of the century a comprehensive strategy to undercut excessive materialism might slowly reduce ceiling levels of elite income at the same time low income floor levels were raised—so that ultimately not only would a ceiling be set, but the income distribution would begin to compress towards ever greater degrees of equality.

Often proposals which urge taxation at the top are viewed as utopian. Given the pain which the Bush Administration’s policies are creating at all levels, however, there are signs—particularly at the state level—of a new willingness of the American public to begin to get serious about what is going on. In the November 2004 elections, California voters overwhelmingly approved tax increases on those making more than \$1 million—and earmarked the proceeds for mental health programs. New Jersey enacted legislation in 2004 taxing those making more than \$500,000—and used the funds to offset regressive property taxes.

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Even the conservative Virginia State Senate approved legislation in 2003 that would have raised income taxes on those making more than \$150,000. In Connecticut—which is currently considering a tax on incomes over a million—a recent poll found 77% of voters in favor of the tax (including 63% of Republican voters!). [11]

The invidious comparison and envy machine mechanisms associated with great inequality are clearly not the only sources of unsustainable growth. “Faced with the loneliness and vulnerability that come with deprivation of a securely encompassing community,” NYU professor Paul Wachtel writes, “we have sought to quell the vulnerability through our possessions.” What is often interpreted as materialism, Thomas Power adds, is in reality a “demonstration of the pathologies of social deprivation.” What is really being sought “is participation in authentic social and natural worlds.” [12]

Among the underlying drivers behind such problems are the foundational conditions of everyday work and community life—including a dearth of meaningful personal relationships and a sense of community, and insufficient time and encouragement to pursue creative and fulfilling activities which do not require materialist consumption.

Community-oriented strategies now being developed by many activists can help open the door to dealing with foundational problems of this kind—especially efforts aimed at achieving greater local economic stability and thereby individual job security, and strategies designed to nurture community economic and social well-being. A

comprehensive program would bring together an all-out attack on extreme inequality at the same time it worked to rebuild ecologically and humanly sound communities.

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