

# America's growing income gap: There is no 'economic boom'

by Richard Freeman

Late last year, the Census Bureau of the U.S. Department of Commerce reported in "Money Income in the United States, 1998," that in 1998, American families earned the highest level of income in U.S. history. This is offered as proof that America is in the tenth year of an economic expansion.

On closer inspection, the Census Bureau report actually shows that the U.S. economy is *contracting*, and the "expansion" is a fraud. True, there was a record level of income, as the Census Bureau alleges, but a significant majority of it went to the families in the upper 20% of income brackets, whose incomes soared. In fact, the economy has been rigged so that the upper 20% sucks in the lion's share of income each year. But in the same Census Bureau report, and in reports by other agencies, there is evidence that the income of families in the lower 80% of income brackets, on a per-family basis, fell. The reality is, that the income, or living standard of the lower 80% of families, is collapsing.

In 1999, for the first time in U.S. history, the income of the upper 20% was more than half of all national income. The upper 20% hauled in 50.4% of the entirety of America's real, after-tax income, while the combined resources of the lower 80% took in only 49.6%. That is an unprecedented development: 22.7 million families, representing 54.5 million people of the upper 20%, took in more income than 92.0 million families, representing 221 million people, of the lower 80%.

This signals the stratification of America. But it must be stressed, it is the spectacular rise of the income of the upper 20% of families, and the collapse of the income of the lower 80%, that gave rise to the income divergence.

The rise in the income of the upper 20% and the fall in the living standard of the lower 80%, has not been an independent development; rather, it flowed from the underlying policy that has been directing the economy.

The divergence in income is a deliberate outcome of the City of London-Wall Street financiers' imposition of a "post-industrial society" policy in America, following the Nov. 22, 1963 assassination of President John F. Kennedy. This policy wiped out a sizable section of America's manufacturing, agriculture, and hard and soft infrastructure, destroying the reproductive capability of America's physical economy, including a good portion of its skilled labor force. In its place, the oligarchy built up a post-industrial economy, based on "Information

Age" services, especially cancerous, speculative financial services. That bubble continues to grow at a hyperbolic rate, by sucking the physical economy dry.

## Income in a speculation-based economy

In the speculation-based economy, the upper 20% Americans derive income from the stock market in multiple ways: as dividends from stocks, as capital gains from the appreciation of the price of stocks, and as stock options which are awarded as part of compensation (and counted as part of "wages"). Many of these individuals earn income from derivatives trading, trusts, or from playing the speculative secondary real estate market. They work at jobs at Internet or so-called "high-tech" firms, or on Wall Street, earn incomes of \$250,000 to \$3 million per year (if stock options are included), own debt-leveraged \$500,000 to \$1 million homes, and own two or three \$40-60,000 cars. According to Spectrem Group research, during the 1990s, in America the number of millionaires doubled to 7.9 million individuals. Most of them are millionaires on paper, which paper can evaporate on a moment's notice.

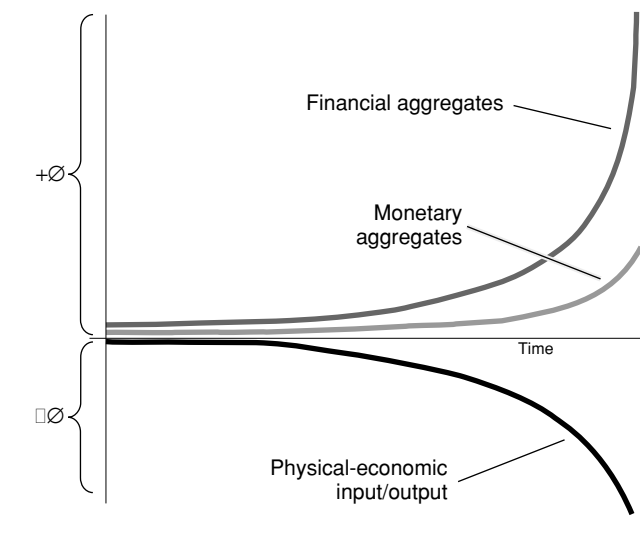
The upper 20% fight ferociously for policies which preserve these speculation-based income streams—and destroy the lower 80% of families, and ultimately, the U.S. economy and human civilization. The financier oligarchy of Wall Street and the City of London are directing this policy.

Look at this process from the standpoint of Democratic Presidential pre-candidate Lyndon LaRouche's Triple Curve, or "typical collapse function" (**Figure 1**). The upper curve, the financial aggregates, represents the mass of speculative financial paper, such as derivatives and stocks, which is growing at a hyperbolic rate. The middle curve, the monetary aggregates, represents primarily money supply, which is increasing, although at a slower rate than the financial aggregates, and supplies the monetary aggregates with liquidity. The lower curve represents the physical economy, the basis for the development of human existence, and upon which the other two curves ultimately depend. The escalating combined financial claims of the top two curves depresses the physical economy, the lower curve.

The more the physical economy contracts, the more it wipes out incomes and the basis for human existence. At a certain point, the financial claims of the upper two curves

FIGURE 1

## A typical collapse function



cause the breakdown of the physical economy, and as the instability increases, the financial aggregates—and financial system—disintegrate.

The upper 20%, in an attempt to preserve this unsalvageable system, back policies for intense austerity, including cutting funds for infrastructure, closing hospitals, and driving down wages. The 1996 Welfare Reform Act, for example, forced welfare recipients to work in slave-labor jobs, and used them as a battering ram against the wage levels of the rest of the workforce. The upper 20%, under the direction of the Wall Street financier oligarchy, has established control of the political process, to carry through its agenda. It has set up a political dictatorship, disenfranchising the lower 80%.

On Dec. 11, 1999, LaRouche stated, “It comes back very much to Wall Street. The upper 20% of the income brackets—led by Wall Street, orchestrated by Wall Street, and by a Wall Street-controlled mass media—are controlling U.S. politics. *These fellas don’t want a President who can think!* They want a bozo, like Al Gore, or George W. Bush, someone who will do as they tell him. They will do the thinking, the bankers and lawyers of Wall Street. . . .

“Therefore the crucial thing that must be done—*otherwise, nothing else is likely to work*—is we must build a mass constituency among the 80% of the lower-income brackets of this nation, the so-called forgotten men and women of this period. We must do this by bringing together African-Americans, Hispanic-Americans, concerned representatives of labor and farmers, and so forth, as well as senior citizens, and bring them into a *grand constituency* of the otherwise forgotten men and women, who will march into the polls, no matter what the mass media tell them to do, and take over politics in this country again, and select the kind of thinking leaders

which they need to deal with what are, in fact, manageable crises coming up fast ahead.”

## Not susceptible of reform

LaRouche’s comments set the context for how to deal with the income divergence.

There are groups that have spoken out about the income divergence, or disparity. This includes the AFL-CIO, Sen. Christopher Dodd (D-Conn.), and think-tanks such as the Center on Budget and Policy Priorities. They have made some useful points, and have proposed some tax and other measures that would cut down the margin of discrepancy. But this process is not susceptible of small adjustment; it is not correctable by an attempt at more “equitable” income distribution. Nor is it some passing phase of the economy. It is a designed outcome.

To correct the income divergence, one must close down the post-industrial society policy, and the irreparably flawed thinking and decision-making of leaders who generated it. As LaRouche has indicated, the first step should be a Chapter 11 bankruptcy reorganization of the bankrupt financial system, writing off much of the bloated paper of the financial bubble. This would be done in the context of a new fixed-exchange-rate, gold-reserve-based New Bretton Woods monetary system, pivoted around the great infrastructure projects of the Eurasian Land-Bridge, which would generate global economic reconstruction.

By bringing the lower 80% back into political life, and implementing such a policy change, the living standard of the lower 80% would increase immeasurably, up to the level needed to support a family, and cultural advancement.

This report first looks at the great income divergence, and the rise of the income of the upper 20% and the fall of the income of the lower 80%, which is deepening it. Next, it looks to the even greater concentration of the nation’s wealth—from stocks to bonds to private businesses to precious metals—in the hands of the upper 10%. Finally, it examines the actual level of poverty, to show that while an economic boom is being hyped, the number of poor is massive, and growing.

## I. The widening income divergence

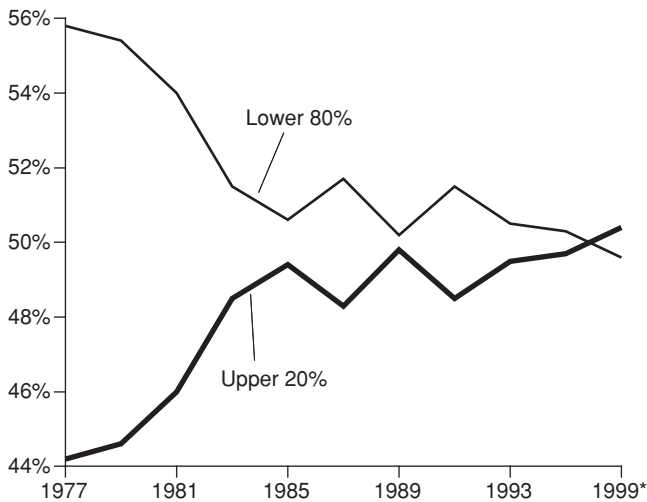
The income gap has widened steadily over the last two decades. The income of the upper 20% has risen, while the lower 80% has fallen. The income stream that grew by the greatest amount, most exemplifies the speculative process, and most widened the income divergence, is that of capital gains.

**Figure 2** presents the income divergence between the upper 20% of families, by income bracket, and the lower 80% of families. Unless otherwise noted, the data come from the Congressional Budget Office (CBO), a branch of the U.S. Congress, and are stated in “real,” that is, inflation-adjusted,

FIGURE 2

**Upper 20% of families haul in more of total U.S. after-tax income than lower 80%**

(percent)

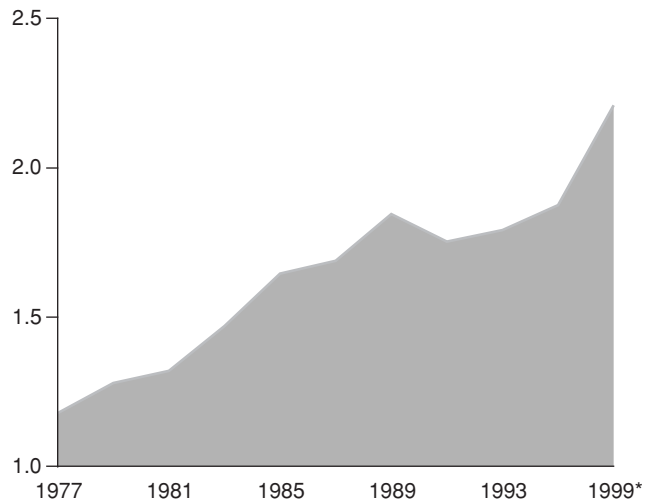


\*Projected  
Sources: Congressional Budget Office; EIR.

FIGURE 3

**Total spendable (after-tax) income of upper 20% of families**

(trillions 1995 constant \$)



\*Projected  
Sources: Congressional Budget Office; EIR.

1995 dollars. (There are serious problems which cause the government’s measure of inflation to significantly underreport the inflation rate, but the CBO uses this measure, and because the series is consistent, it produces a consistent comparison.) In 1977, the lower 80% of families earned 55.8% of America’s total after-tax real annual income. (The CBO series only starts in 1977; had it been possible to take the series back earlier, it is possible that the lower 80% of families had earned an even higher share of America’s total after-tax real income.) And, the upper 20% of families earned 44.2% of America’s total after-tax real annual income. Thus, in 1977, the lower 80% earned 11.6% more of America’s total after-tax real income than the upper 20%.

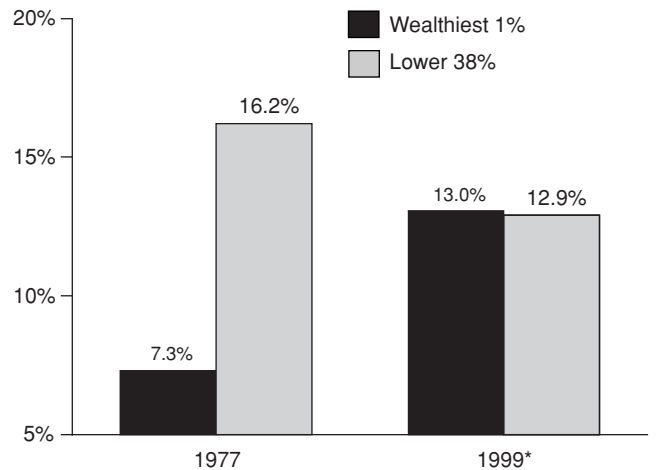
The growth of the speculative bubble and the contraction of the physical economy caused a profound transformation over the next 22 years. By 1999 (all income levels for 1999 are projected by the CBO), the upper 20% of families earned 50.4% of America’s total after-tax real income; the lower 80% earned only 49.6%. This marked an unprecedented development, with distressing consequences. The upper 20% of families had more income than the entirety of the lower 80% of families—the highest income discrepancy in U.S. history.

**Figure 3** shows the level of total real after-tax annual income that the upper 20% has had to play with. In 1999, the upper 20% earned \$2.209 trillion.

As one looks at the upper and lower ends of the income ladder, one finds that the discrepancy in income becomes larger. **Figure 4** shows that in 1977, the upper 1% of families,

FIGURE 4

**Upper 1% of families have greater share of total after-tax income than lower 38%**



\*Projected  
Sources: Congressional Budget Office; Center on Budget and Policy Priorities; EIR.

the super-wealthy elite, earned 7.3% of America’s total after-tax real income. In 1977, the lower 38% of families, America’s significant poor, earned 16.2% of total after-tax real income. The lower 38% had more than double the share of total

income than the upper 1%. But by 1999, the upper 1% super-wealthy families' share had zoomed up to 13.0% of America's total after-tax real income; by contrast, the lower 38% poor families' share had fallen to 12.9%. The upper 1% of families (1.2 million families, representing 2.75 million people) took in more income than the lower 38% of families (43.7 million families, representing 105.6 million people), i.e., 2.75 million people have more income than 105.6 million. The upper 1% had as much money to spend on its whims as the lower 38% had to spend on those goods and services they needed to survive. This represents a stratification not seen since the days of 19th-century imperial England.

This disparity arose because the incomes of the rich and super-rich skyrocketed, while the lower 80%'s income, especially that of the poor, tumbled. The income stream that poured most cash into the incomes of the upper 20%, is that of realized capital gains. Two other sources of income grew greatly during this 22-year period: personal dividend income and personal interest income. Including realized capital gains, these three sources of income provided a tidal wave of income, largely speculative in character and having no connection to real economic growth—in fact, destroying the real economy. Realized capital gains and so forth, are predominantly the preserve of the wealthy upper 20% of families.

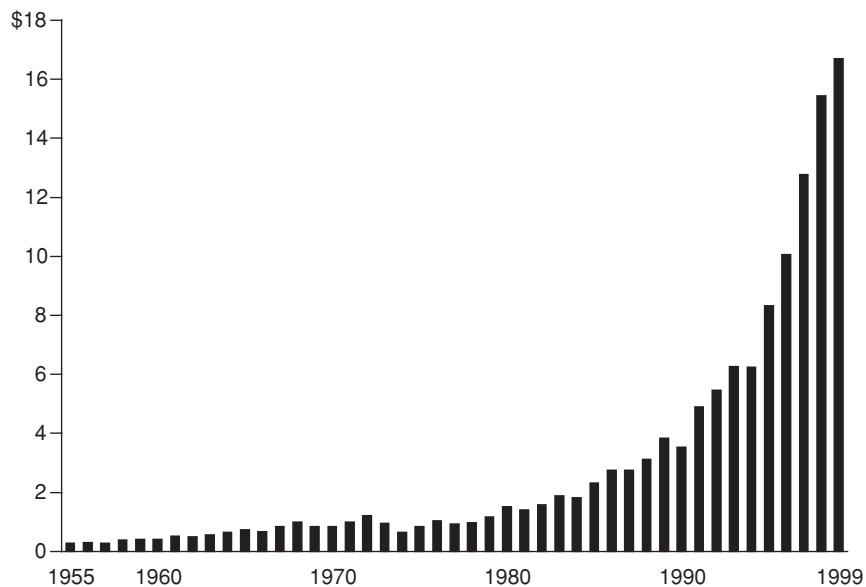
There are two types of capital gains: realized and unrealized. A capital gain occurs when one buys an asset—such as a stock, a home, an art work—at one price, and it is pushed up to a higher price. For example, if one buys a stock at \$20 a share, and sells it after the price is pushed up to \$80 a share, the capital gain is \$60. If one sells the asset and is paid for the capital gain, this is called a *realized* capital gain. If one doesn't sell the asset, one still has a capital gain of \$60, but it is called an *unrealized* capital gain. Most individuals only realize a minority of their capital gains, yet many individuals borrow against their unrealized capital gains. Therefore, capital gains, both realized and unrealized, have a very big impact on the economy.

Two speculative sources have generated most of the increase in capital gains: the insane run-up in the value of the stock market, and the inflationary increase in home prices. The financier oligarchy built up the stock market using multiply-connected leverage, including customer “broker loan” borrowing to enable individuals to buy stocks on margin,

FIGURE 5

**Capitalization value of all stocks traded on U.S. stock market, 1955-99**

(trillions \$)



Source: Federal Reserve Board of Governors, “Flow of Funds Accounts.”

leveraged buy-outs, and the use of stock-based derivatives to manipulate the price of stock—and these stock-based derivatives now total in the trillions of dollars. Federal Reserve Board chairman Alan Greenspan abetted this process, and there is now an immensely leveraged market.

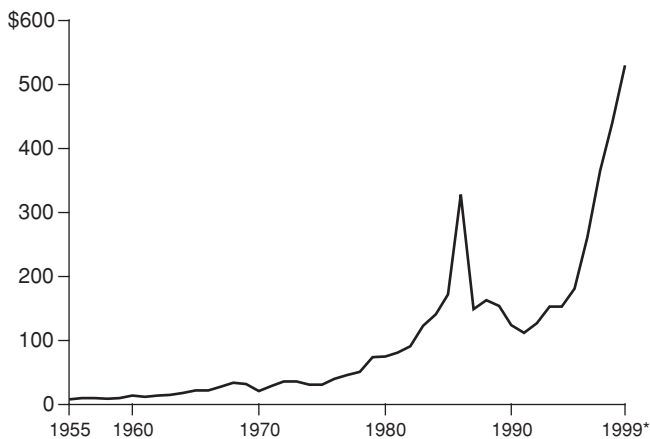
Figure 5 shows the stock market bubble, as displayed by the capitalization of all stocks in the United States. (Capitalization is the value of a share of stock times all the shares of that stock outstanding. So, for example, if a share of IBM is \$10 per share, and there are 100 shares outstanding, its capitalization would be \$1,000.) In 1982, the capitalization value of all stocks in the United States was \$1.59 trillion. It was pushed up to \$8.33 trillion by the end of 1995, and exploded to \$16.7 trillion by the end of 1999. Some of the increased capitalization was due to the issuance of new stock, but the vast majority was due to the artificial appreciation in stock prices, a sizable amount of which were sold and realized as capital gains. This went to the wealthy upper 20% of families that held the stock.

Figure 6 shows the result of what happened in the trajectory of realized capital gains, as they were reported on people's income taxes (the data come from the Internal Revenue Service). Between 1955 and 1990, realized capital gains grew slowly, but stayed within a fairly moderate band, usually far below \$200 billion (with the exception of 1986). They started to rise at a faster pace starting in 1990. Then, between 1995

FIGURE 6

## Realized capital gains

(billions \$)



\*Projected

Sources: Congressional Budget Office, Tax division; "Statistics of Income" of the Internal Revenue Service of the Department of Treasury; *EIR*.

and 1999, realized capital gains leapt from \$180 billion to an estimated \$530 billion, a *tripling in only four years*. Thus, between 1995 and 1999, the increase in realized capital gains alone was \$370 billion—three-quarters of this went to the upper 20% of the population.

The upper 20% took in two additional sources of income: The first is personal dividend income, which comprises the dividend yield of a stock. Because much of the economic activity of U.S. corporations these days is in the post-industrial/speculative field, as opposed to manufacturing and agriculture, most of the profits represent paper profits. It is from these paper profits that dividends are paid out. The second source of income is personal interest income, which comprises income arising from bonds and money market accounts, the majority of which are in the hands of the upper 20%, as well as income from savings and checking accounts.

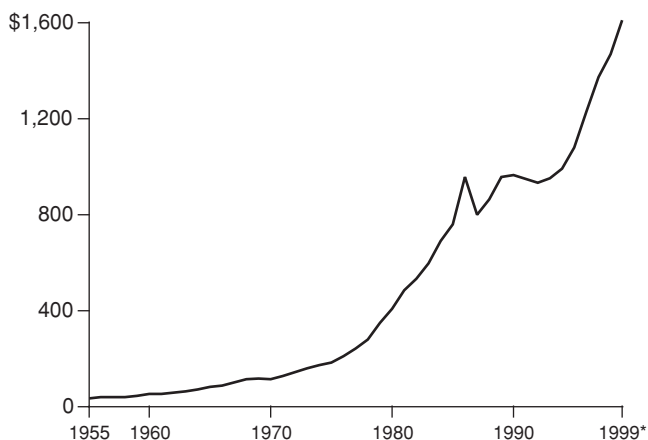
**Figure 7** shows the income arising from the three sources combined—realized capital gains, personal dividend income, and personal interest income—as the financial bubble grew. This started to take off in the second half of the 1980s, when Greenspan was Federal Reserve Board chairman. By 1999, when realized capital gains had reached an estimated \$530 billion, and personal dividend income and personal interest income were roughly \$174 billion and \$787 billion, respectively, the combined total of all three sources of income totalled a staggering \$1.61 trillion. Of this \$1.61 trillion, three-quarters, or \$1.2 trillion, flowed to the upper 20% of families.

This is an income stream upon which the upper 20% of families would stake their lives.

FIGURE 7

## Sum of income from realized capital gains, personal dividend income, and personal interest income

(billions \$)



\*Projected

Sources: Congressional Budget Office, Tax division; "Statistics of Income" of the Internal Revenue Service of the Department of Treasury; Department of Commerce, Bureau of Economic Analysis; *EIR*.

## Transformation of the economy

That the income from just these three sources of income should play such a commanding role in the U.S. economy (and there are additional speculative sources not itemized here), shows how completely the U.S. economy has degenerated.

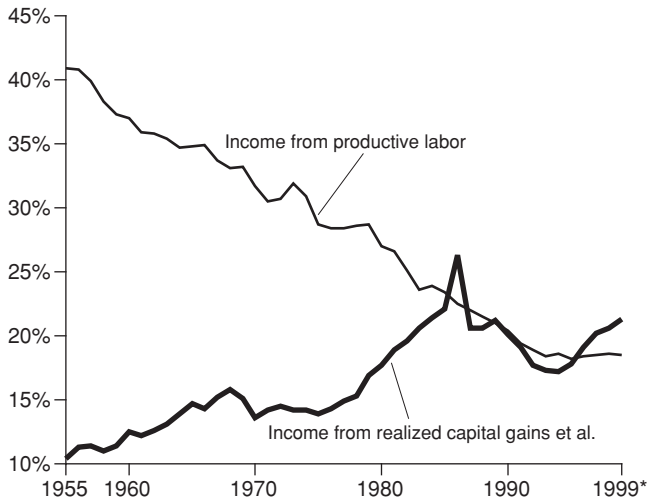
During the 1950s up through the mid-1960s, the U.S. economy was based primarily on capital-intensive, energy-intensive manufacturing, agriculture, and infrastructure. The U.S. economy had its problems, but it was driven by activity in the technology-proud "productive side" of the economy: manufacturing, construction, mining, agriculture, transportation, and energy generation. The importance of this is the following: The starting point of all economics is man's creative power of reason. Man, through his creative cognitive capability, makes revolutionary discoveries of validatable fundamental scientific principle. These ideas are transmitted into and generalized throughout the economy through the machine-tool-design principle and infrastructure. It is the productive labor force, who, working with advanced machine tools, physically alter nature, to raise man's material and cultural standard of existence, and increase the rate of economic development and man's mastery over nature.

When an economy is healthy, productive labor constitutes a majority of the labor force, and the income of the productive labor force constitutes a significant portion of the economy's total income.

FIGURE 8

### Share of America's income: productive labor vs. realized capital gains, etc.

(percent)



\*Projected

Sources: Bureau of Economic Analysis of U.S. Department of Commerce; Bureau of Labor Statistics of U.S. Department of Labor; *EIR*.

**Figure 8** compares the wage income earned by the productive labor force to the combined income of realized capital gains, personal dividend income, and personal interest income. It compares the wage income level of the productive labor force, inclusive of farm income, as a percentage of America's total personal income (as determined by the Department of Commerce's category "Personal Income"), to the combined income from realized capital gains and so forth as a percentage of total personal income. In 1955, the income flow to the workers of the productive labor force, inclusive of agriculture, was 40.9% of America's total pre-tax personal income. The income flow attached to realized capital gains etc. was but 10.4% of the total. In 1955, America had a relatively functioning economy: It derived four times as much income from the wages of the productive labor force as it did from realized capital gains and so forth.

By 1999, the income flow from wages of America's productive labor force had fallen to 18.5% of total personal income. The income arising from realized capital gains etc. had risen to 21.3% of America's personal income. It is now a larger percentage of total personal income than the income of the productive labor force.

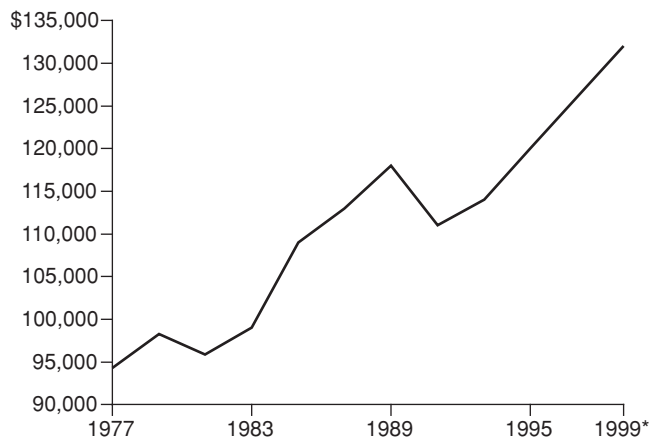
The productive labor force, upon whose activity the upward development of the economy depends, has been shrunk. The benefit and joy of productive, gainful work has been degraded. America is now dependent on a speculative stream of income, which cannot last.

Yes, it is true, as the Commerce Department and the *Wall Street Journal* claim, that America's monetary income is ris-

FIGURE 9

### Rise in median annual (pre-tax) income of upper 20% of families

(1995 constant \$)



Data not available for 1997.

\*Projected

Sources: Congressional Budget Office; *EIR*.

ing. Between 1987, when Greenspan became Federal Reserve Board chairman, and 1999, the income from realized capital gains, personal dividend income, and personal interest income collectively rose from \$799 billion to \$1.610 trillion, an increase of \$811 billion. This represents a dependency upon the speculative cancer which increases financial instability and wrecks the physical economy, but in America's policy-making councils, the increase of the speculative flows of income has gained more champions.

### The rich get richer . . .

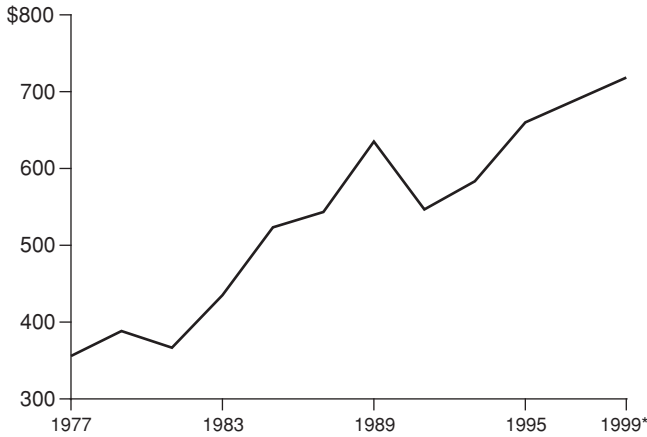
Now look at representative groups of the upper and lower portions of America's income brackets. The incomes we examine represent median incomes (the level above which half have more income, and below which half have less income), and are stated in real terms (which means they are adjusted for inflation, in this case stated in 1995 constant dollars). **Figure 9** shows what an average family earned that was in the upper 20% of America's families. In 1977, the upper 20% of families earned a real, pre-tax annual median income per family of \$94,300; in 1999, the upper 20% of families earned a real, pre-tax annual median income per family of \$132,000, an increase of 40%.

Look at the upper 1% of families (**Figure 10**). In 1977, the upper 1% of families earned a real, pre-tax annual median income per family of \$356,000; in 1999, the upper 1% of families earned a real, pre-tax annual median income per family of \$719,000, i.e., it doubled. **Figure 11** shows the after-tax real annual median income for the same families of the upper 1%. Between 1977 and 1999, the real after-tax annual median income earned per family per year, zoomed up from

FIGURE 10

**Rise in median annual pre-tax income of upper 1% of families**

(thousands 1995 constant \$)



Data not available for 1997.

\*Projected

Sources: Congressional Budget Office; *EIR*.

FIGURE 11

**Rise in median annual after-tax income of upper 1% of families**

(thousands 1995 constant \$)



Data not available for 1997.

\*Projected

Sources: Congressional Budget Office; *EIR*.

FIGURE 12

**Fall in median annual (pre-tax) income of lowest 20% of families**

(1995 constant \$)



Data not available for 1997.

\*Projected

Sources: Congressional Budget Office; *EIR*.

\$214,668 to \$471,664, an increase of 115%.

The lower income families saw their income go in exactly the opposite direction.

**Figure 12** shows that in 1977, the lower 20% of families earned a real, pre-tax annual median income per family of \$10,000; in 1999, the lower 20% of families earned a real, pre-tax annual median income per family of \$8,400, a fall

FIGURE 13

**Fall in median annual (pre-tax) income of second-lowest 20% of families**

(1995 constant \$)



Data not available for 1997.

\*Projected

Sources: Congressional Budget Office; *EIR*.

of 16%.

**Figure 13** demonstrates that in 1977, the second lowest 20% of families earned a real, pre-tax annual median income per family of \$23,700; in 1999, the second lowest 20% of families earned a real, pre-tax annual median income per fam-

ily of \$21,200, a fall of 10.5%.

The declines in the median family income for the lower 20% and the second lowest 20% of families, of 16% and 10.5%, respectively, are significant. In 1999, no family of four could productively raise its children on an income of \$21,200, which is the median income of a family in the second lowest 20% of families, let alone on \$8,400, which is the median income of a family in the lowest 20% of families.

But, the declines of 16% and 10.5% are only a fraction of the real collapse in income and living standards that occurred between 1977 and 1999.

One of the biggest fallacies in the approach of the U.S. government, including the U.S. Commerce Department, the CBO, and so on, is to measure economic trends in dollar terms. The use of dollars, or attaching dollar values, is inherently incapable of real economic measurement. For example, an income stated in dollar terms is unable to measure the collapse in infrastructure. The nonexistence of hospitals or medical facilities, the breakdown in transportation systems, the steep decline in quality and quantity of education, cannot be measured in dollar terms.

There are several other fundamental problems in the government's measurement of income.

The real measurement of living standards must begin from a broader and more scientific approach, one that is premised on what real economics, in terms of not-entropic development, is. This is the LaRouche-Riemann method, developed by Lyndon LaRouche. Using this method, *EIR* has accurately determined, and published in several locations, that the average family's purchasing power and standard of living has fallen by 50% since the oligarchy's imposition of the post-industrial society policy in the mid-1960s. This measures income, not in dollar terms, but from the standpoint of a family's consumption of market-baskets of consumer and producer goods, as those market-baskets afford an improving array of goods and services essential for the cognitive and material development of the labor force, including fundamental infrastructure, such as education, transportation, and health care.

The extent of the decline is hinted at by just one aspect of *EIR*'s studies. In 1963, it required 399 weekly paychecks of an average non-agricultural worker to pay for a new home. By 1998, it required 761 weekly paychecks to pay for a new home, an increase of 91%. Another way of stating this, is that in terms of a paycheck's ability to buy a new home, an average worker's purchasing power had fallen by 48%. (See Lyndon H. LaRouche, Jr., "Can You, Personally, Survive This Bust?" *EIR*, July 30, 1999; "What Economics Must Measure," *EIR*, Nov. 28, 1997; Richard Freeman, "America's Economic Recovery Is a Myth," *EIR*, May 21, 1999; "U.S. Market Basket Is Half What It Was in the 1960s," *EIR*, Sept. 27, 1996.)

The *EIR* studies show that since the mid-1960s, the drop in a family's living standard has been approximately 50%, which is much greater than the drop in income, between 1977

and 1999, of 16% and 10.5% for America's lower income groups, as documented by CBO data. This indicates that there are many more families that are just at, or below, the threshold for survival, and that the income divergence between the upper 20% and lower 80% is greater than even the catastrophic level that government figures indicate.

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## II. The widening wealth divergence

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What has enabled the upper 20% of families to earn the predominant share of America's income, is that they have amassed the greatest holdings of the nation's *wealth*, which generates income. (The Federal Reserve Board's "Consumer Finance Survey" determines wealth as the dollar sum of assets, minus the dollar sum of liabilities. Wealth is also called net worth; the two terms are interchangeable.) Among America's families, there exists an even greater divergence of wealth between the upper and lower income brackets than exists for income.

The upper 10% of America's families (measured by wealth) own 70-90% of all of America's stocks, bonds, estates, trusts, other (non-primary residence) real estate, and futures contracts. The upper 10% owns more than 90% of privately owned (non-public) businesses. These businesses cover a wide range of activities, but give the wealthy substantial ownership of hard physical assets, including oil, gas, and other energy supplies; food supplies; and the hard infrastructure for communications. The wealthy have also targeted for inclusion among their ownership of stock of publicly owned companies, those companies that are engaged in the same hard-commodity fields. The wealthy own the lion's share of precious metals, in the form of gold bullion and jewelry. They act as if they own America.

The super-wealthy 1-2% blue-blood families operate through a powerful economic-strategic network that includes the Federal Reserve Board of Governors, Wall Street banks, associated Wall Street law firms, and private foundations and trusts. Their wealth generates power, but, reciprocally, their wealth derives from power. They use their power to run a political dictatorship in the choice of candidates in political parties, and to set a number of political and economic policies.

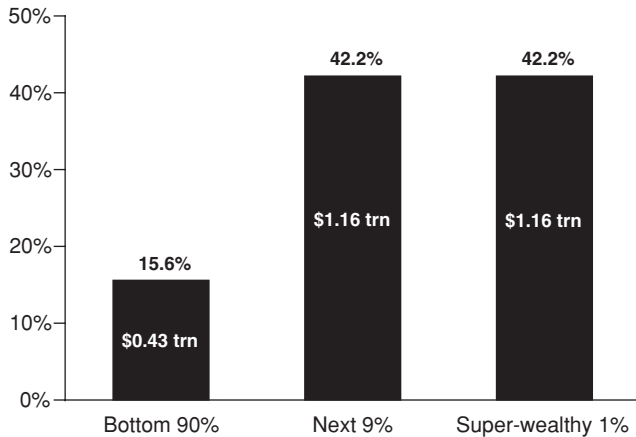
Wealth is defined as the value of a family's (or individual's) assets, minus the value of liabilities. An asset is a stock, bond, or privately owned business. A liability is a debt. Another name for wealth is "net worth," or what one is worth after debts have been deducted out. Consider the relation between an asset and income. Assume that an individual owns \$1 million worth of stock. That is an asset; it is an outstanding holding. It may generate income, but is not income itself. If an individual who owns \$1 million worth of stock derives from it \$50,000 per year, that is income. Obviously, the more assets one has, the more income the assets generate.

The information on wealth and assets has been compiled



FIGURE 14

**Stocks are concentrated in the hands of the wealthy**



*In 1995, total family holdings were worth \$2.75 trillion.*

Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

by the Federal Reserve Board of Governors in its "Consumer Finance Survey," put out once every three years. The latest data are for 1995 (a new survey is expected to be published at the end of February of this year, and *EIR* will report on the results when they appear), and they are startling, but the trends have worsened during the most recent period.

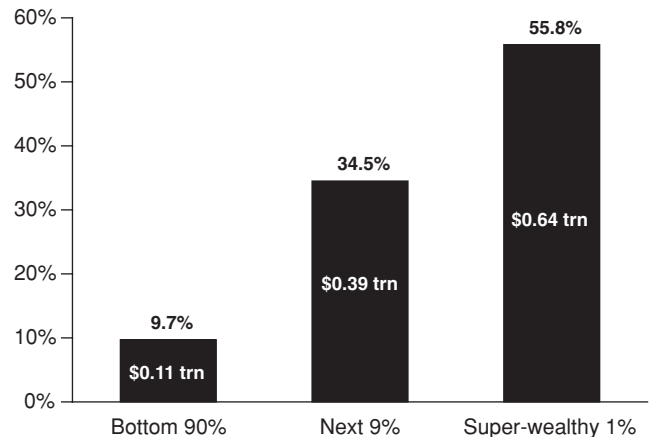
The Federal Reserve Board's survey breaks down families by percentile groupings different from either the CBO or the Commerce Department. The Fed's survey breaks down families by the bottom 90% in wealth; the next 9%, i.e., the group from 90 through 99%; the next 0.5%, i.e., the group from 99 through 99.5%; and the top 0.5%. We use those category rankings, except here the categories "next 0.5%" and "top 0.5%" have been consolidated into the "upper 1%."

The upper 10%, and within that, the upper 1%, have amassed a huge percentage of many of the nation's assets. Consider a few.

**Figure 14**, for stocks, shows the percentage of total holdings and the dollar volume that each of the groups of families, by wealth bracket — bottom 90%, next 9%, and super-wealthy 1% — hold. (For each asset, the percentages add up to 100%, and the dollar volumes add up to the total family holdings of that asset.) In 1995, according to the "Consumer Finance Survey," the nation's families held stocks worth \$2.75 trillion. Of that amount, the super-wealthy 1% held 42.2%, and a dollar volume of \$1.16 trillion; the next 9% of families held 42.2%, and a dollar volume of \$1.16 trillion; and the bottom 90% of families held only 15.6%, and a dollar volume of \$0.43 trillion. (The Consumer Finance Survey's statement that families held \$2.75 trillion of stocks is an understatement;

FIGURE 15

**Bonds are concentrated in the hands of the wealthy**



*In 1995, total family holdings were worth \$1.14 trillion.*

Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

another division of the Federal Reserve, which publishes the "Flow of Funds Accounts," places families' holdings of stocks at a significantly higher level, meaning that the dollar volume of stocks held by the upper 10% is even greater.)

Due to the fact that the upper 10% of families hold 84.4% of all stocks, it is no mystery that three-quarters or more of all realized capital gains, as well as personal dividend income, flow to the upper 10% of families. Extremely important is that the financier oligarchy core among the super-wealthy 1% families have targeted significant ownership stakes in companies engaged in energy production, food production, precious and base metals production, and the hard infrastructure of communications companies.

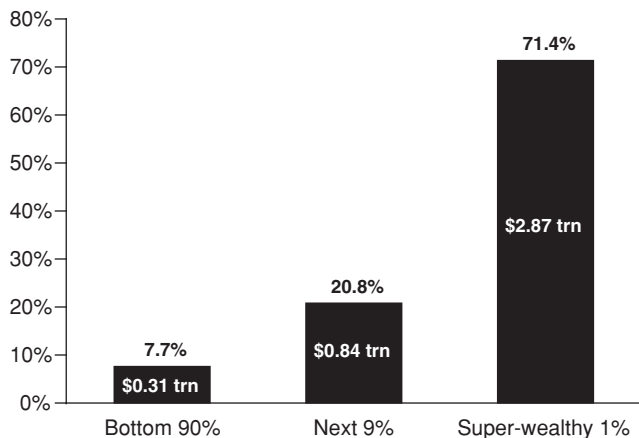
**Figure 15** shows that in 1995, the nation's families held bonds worth \$1.14 trillion. Of that amount, the wealthiest 10% held 90.3%, and the bottom 90% held only 9.7%.

**Figure 16** depicts how in 1995, the nation's families held ownership of businesses which were worth \$4.02 trillion. (These businesses are firms that are owned by one or more families, not corporations, and therefore do not have publicly traded stock.) Of that amount, the wealthiest 1% held 71.4%, or \$2.87 trillion; the bottom 90% held a mere 7.7%. The \$4.02 trillion worth of businesses cover a wide range of activities: some are investment and Internet firms, but several are companies that are engaged in oil and gas production, food production, precious and base metals production, transportation companies, and the hard infrastructure of communications companies.

The Fed's Consumer Finance Survey has an important category called "other assets," which includes ownership of

FIGURE 16

### Businesses are concentrated in the hands of the wealthy



In 1995, total family holdings were worth \$4.02 trillion.

Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

metals, jewelry, antiques, paintings, futures contracts, oil leases, and so on. The upper 10% of families hold 70.7% of that category, the bottom 90% hold 29.3%. Also, the upper 20% has dominant holdings in other (non-principal residence) real estate, trusts, estates, and so on.

### Where the bottom 90% dominates

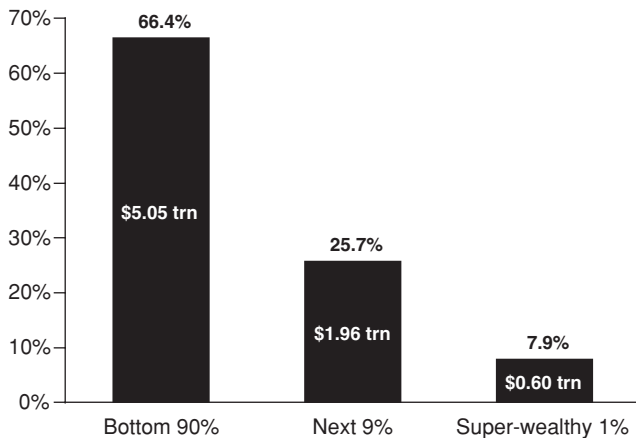
The bottom 90% dominates in only a few areas, including principal residences — i.e., homes and apartments that are one's principal place of residence — and cars. In fact, principal residences and cars constituted two-thirds of the holdings of the bottom 90% of families. **Figure 17** shows that the bottom 90% owned 66.4% of all principal residences in America.

There is one other area that the bottom 90% dominated: liabilities, i.e., all types of debt. **Figure 18** shows that the bottom 90% of America's families holds 70.9% of the total liabilities/debt of America's families. This has occurred, as the lower 80% of families, in particular, attempted to maintain declining purchasing power, due to collapsing incomes, by taking on debt. The Federal Reserve grossly understates the actual size of the total debt of America's families (for an accurate depiction of the debt burden of America's families, see "The Greenspan Bubble Is Wrecking the World Economy," *EIR*, Oct. 29, 1999). However, the percentage, of 70.9%, that the bottom 90% holds of all debt, is reasonably accurate.

**Figure 19** shows the level and percentage of ownership of wealth. In 1995, the bottom 90% of families held \$6.473 trillion of America's wealth, while the upper 10% of families held \$14.046 trillion. The bottom 90% accounted for only 31.5% of all of America's family wealth, while the upper 10%

FIGURE 17

### Bottom 90% own majority of principal residences

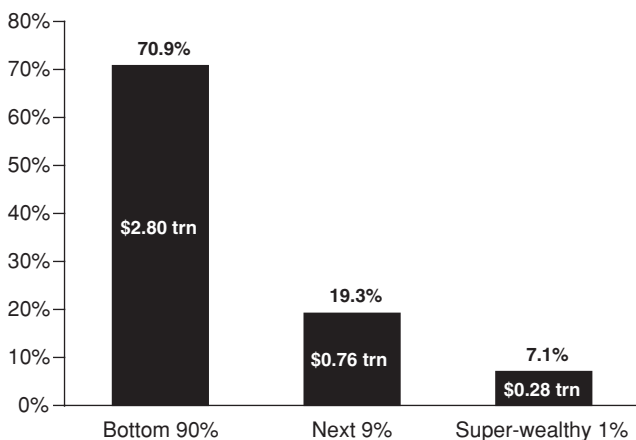


In 1995, total family holdings were worth \$7.61 trillion

Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

FIGURE 18

### Bottom 90% have 70% of liabilities (debt)



In 1995, total family debt was \$3.94 trillion.

Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

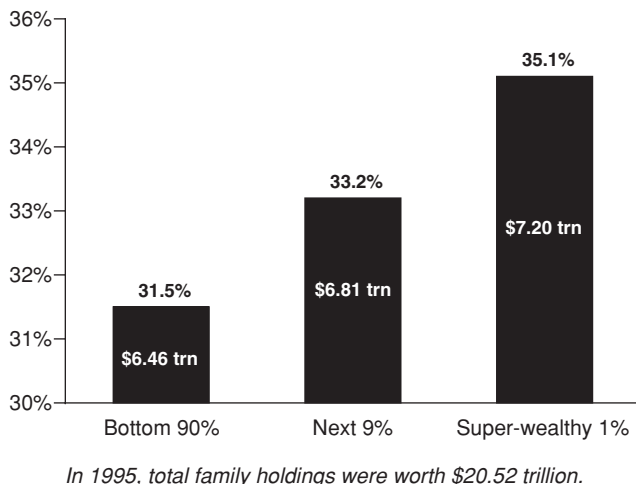
of families accounted for 68.5%.

In addition, in 1995, the super-wealthy 1% of families, representing 2.75 million people, owned more of America's wealth, 35.1%, than the bottom 90% of families, representing 247.5 million people, whose share was 31.5%

**Figure 20** shows (selected years) that the percentage of the nation's wealth owned by the super-wealthy 1% of families has grown steadily. In 1995, it was already at the highest

FIGURE 19

**Upper 10% own almost 70% of wealth (assets minus liabilities)**



Source: Federal Reserve Board of Governors, "Survey of Consumer Finances," August 1997 report.

level since 1929, a time when the financier oligarchy kept the economy unregulated, and did as it willed.

**III. The spread of poverty**

The reality of collapsing incomes for the lower 80% of the population, and rising incomes and wealth for the upper 20% of the population, cannot be disguised, although the government is working hard to do so. Ironically, it is government data which, when properly assembled, allow one to disprove the government's contention that there is an economic expansion.

But, as part of its effort to stand reality on its head and portray the economy as doing well, the government has started reporting on poverty, and claiming that the poverty level is falling. In truth, this is an issue which most shows just how bad things are.

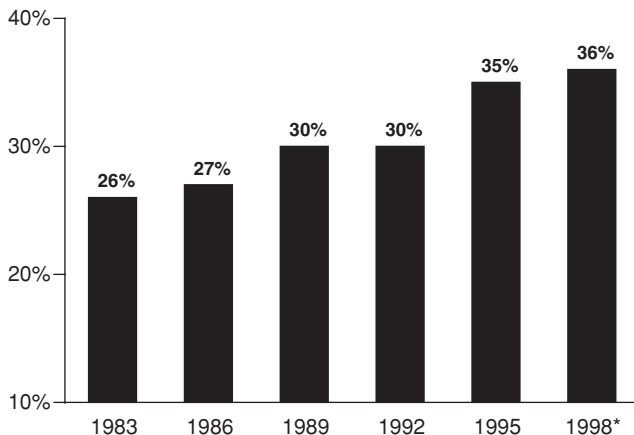
The U.S. Commerce Department reported in September 1999 that, according to its new figures, the number of people who are defined as poor had fallen from 38.06 million people in 1994 to 34.48 million in 1998, a drop of 3.58 million. This allegedly reduced the percentage of the American people who are at or below the poverty line, from 14.5% to 12.7%. This is still a significant number of people (1 out of 8 Americans) living in poverty, but the reduction in the number of people below the poverty level is a fraud.

The fraud was carried out by artificially increasing the threshold needed to be counted as poor. As the threshold was raised, the number of people counted as poor decreased. The poverty threshold was doctored through the downward ma-

FIGURE 20

**Wealthiest 1%'s ownership control of America's total wealth**

(percent)



\*Projected

Sources: Federal Reserve Board of Governors, "Consumer Finance Survey"; Edward D. Wolff, "Recent Trends in Wealth Ownership," April 1999, as modified by *EIR*.

nipulation of the inflation rate, which involved the application of an adjustment procedure called the "Quality Adjustment Index" (QAF). The QAF, by attributing part or all of price increases to alleged improved quality, removes 20-100% of price increases in hundreds of products. (In a future issue, *EIR* will highlight the QAF "adjustments" of inflation fraud.)

There is also a compelling reality: The official poverty threshold is preposterously low. In 1998, the U.S. government set the poverty level at \$16,600 per year for a family of four. A far more accurate minimal measure is what the Commerce Department calls 150% of the official poverty line. This would be an income of \$24,990 per year for a family of four. According to Commerce Department data, in 1998, there were 58.3 million Americans who fell below this level, or 21.5% of the population. It is the case that most families could not support four people, including raising two children to lead productive and creative lives, on \$24,900 per year. That is why *EIR* calls it a bare minimal poverty level. There are another 45 million Americans who are only \$10,000 per year income or less above this bare poverty level.

The poor cannot survive. The Conservative Revolution has cut food stamp benefits. Welfare recipients have been forced to work in slave-labor jobs, as a consequence of the 1996 Welfare Reform Act. Hospital services have been cut. And this is occurring while there are claims that America experiencing the "longest economic expansion in history."

Even the official Commerce Department poverty figures are revealing. The Commerce Department claims that there are only 34.48 million people who are poor. Of these, 14.64 million are working, and of these, 9.63 million, or nearly 28%

of the total, are working full-time jobs.

At the next major phase of financial breakdown, these poor will not have the wherewithal to exist. Already, the upper 20% are advancing programs to write them off. They see the poor—as well as the elderly and sick—as so many useless eaters.

### **The elimination of the lower 80%**

There is no way that the speculative financial bubble can continue much further into the future. It will pop. But the attempt to save this system, to feed the bubble with new loot, has led to ferocious austerity, which the financier oligarchy intends to intensify.

Such an outlook is typified by the tax policy promoted by George W. Bush. On Dec. 1, 1999, Bush called for a \$1.7 trillion tax cut over 10 years, a tax cut so large that it would require significant cuts in government programs *on top of* the severe cuts already mandated by the 1997 Balanced Budget Amendment. The Balanced Budget Amendment mandated combined cuts of \$433 billion during 1997-2007 in Medicaid and Medicare. Medicaid is the Federal-state program that provides medical assistance to the poor, and Medicare is the Federal program that provides medical assistance to the elderly and some disabled. The mandated cuts have already forced many hospitals, clinics, and nursing homes to shut down, and the scope of the shutdowns will increase. Bush's plan, were it to be adopted, would double the pace of this process.

Under Bush's plan, according to a study by the Citizens for Tax Justice Analysis think-tank, the upper 1% of the population would get 36.9% of the Bush proposed \$1.7 trillion in tax cuts, or \$627 billion. Each taxpayer in the upper 1% would get annual tax cuts worth \$50,166. But the lower 20% of the population would get only 0.6% of the proposed tax cut, or \$10 billion. Each taxpayer in the lower 20% would receive annual tax cuts worth only \$43.

It should be noted that tax cuts passed during the last few years have already given the upper 1% of taxpayers great breaks. If the tax rate for the upper 1% that was in effect in 1977 were in effect in 1999, each family in the upper 1% income bracket would have paid \$40,000 more taxes per year in 1999.

The attempt to save the financial system will hasten its demise, as the financial claims of the bubble eat at the bone and marrow of the physical economy. This kills the host upon which the cancer feeds.

As the system disintegrates, the lower 18% of the upper 20% will see its income, derived from realized capital gains, etc., evaporate. These people will become enraged: The white shirts of today who work at Internet, "high-tech," and Wall Street firms, will become the brown shirts in a global economic collapse. These are the same strata of people who became the backbone of the fascist movements that Benito Mussolini and Adolf Hitler built in the 1920s and 1930s.

### **The super-wealthy's strategy**

The super-wealthy 1-2%, especially the Wall Street-centered financier oligarchs, have a strategy. The insiders among this group know that the bubble cannot be sustained, despite the steady stream of nonsense from the *Wall Street Journal*. Over the last 24 months, along with their colleagues in the British raw materials and financier cartels, they have been increasing their hoards of hard-commodity assets: precious metals, like gold, and industrial and strategic metals; energy supplies; food supplies; the hard infrastructure of communications systems, and so on. They are preparing for a post-crash world, foreseeing that, at that point, several trillion dollars of paper value will evaporate. They plan, when the dust settles, to control 70-80% of the goods and processes upon which life depends, and to institute a feudalist world with fewer than 1 billion people, in which entire categories of people will be written off. They plan to exact even greater austerity. The financier oligarchs will use some of the enraged lower levels of the upper 20% as their policy-enforcing shock troops.

In a financial disintegration, unless steps are taken to start an economic recovery, the lower 80% will lose what stocks they foolishly clutched onto, they will lose their savings and checking accounts, Social Security, and the few assets and income streams they hold. They will increasingly be the targets of austerity.

The policy-thinking that went into the development of the post-industrial society policy has created this final stage. No simple reform to ameliorate the 80%-20% income divergence will work. The income divergence arose from the collapse of real living standards, and the growth of the upper 20%'s income flows, which has been a product of the post-industrial society policy.

The issue at hand is the survival of the lower 80%. As LaRouche has indicated, the entire bankrupt financial system should be put out of existence, through a Chapter 11 bankruptcy reorganization. This will also put the upper 20%, and in particular, the financier oligarchy upper 1%, out of existence, in terms of political and economic control. The downward spiral of the economy needs to be stopped. A new Bretton Woods monetary system, vectored around the great infrastructure projects of the Eurasian Land-Bridge will do that, generating global economic reconstruction that will draw in the economically depressed United States. Real economic development will build up real living standards, changing the entire profile of the economy and income streams.

To accomplish this, the lower 80%, what President Franklin Roosevelt called "the forgotten man," must become politically active, and break up the political dictatorship of the upper 20%. With time short, they must forcefully bring their views, based on an alternative perspective, into prominence.

Otherwise, the underlying process which has created this great income divergence, will accelerate the destructive process of the past 22 years, and lead to the lower 80%'s extinction.