

# KEY POINTS FROM DR. ROBERT REICH'S FILM, *INEQUALITY FOR ALL*

## THE STATS+

### Wealth Distribution

- Today, the U.S., by far, has the most unequal distribution of income of all developed nations.
- The U.S. ranks 64th in the world on income inequality (i.e., 63 nations are more equal than the U.S.)
- The top 1% holds more than 35% of the nation's overall wealth, while the bottom 50% controls 2.5%.
- The richest 400 Americans have more wealth than the bottom 150 million Americans combined.
- In 1970, the top 1% of earners took home 9% of the nation's total income. Today, they take in approximately 23%.

### Earning Power

- In 1978, the typical male worker earned \$48,302; while in 2010, that worker earned a typical \$33,751. In the same years, the top 1% earned an average of \$393,682 and \$1,101,089 respectively.
- Between the 1970s and 2010, the median disposable income decreased while household expenses increased:
  - 1970s: \$35,143 disposable income; housing cost \$15,579; healthcare expenses \$1,686; college \$903.
  - 2010: \$26,578 disposable income; housing cost \$21,684; healthcare expenses \$7,082; childcare \$3005; college \$1,833
- In the U.S., 42% of children who are born into poverty will not get out. In Denmark, the figure is 25%. In Great Britain, 30%.
- In the 1970s, the average CEO earned just under 50 times more than their average employee. By the 2000s, average CEO pay was 350 times more than their average employee.
- Between 1948 and 2010, productivity increased by nearly 250%. During the same time period, wages increased just over 100%.
- In 2009, (during the recent recession), top hedge fund managers each earned more than \$1 billion.
- In 1960, the ratio of debt to household income was even (1:1). By 2008, it was 12:1.

### Unions

- The decline of labor unions since 1970 mirrors the decline in the middle class share of national income.
- In 1930, 13.3% of workers were represented by a union. In the 1950s, it was 35%. Today, 11.3% of workers are union members.

### Economic Engines

- Consumer spending accounts for 70% of the U.S. economy.
- Between 1997 and 2007, finance was the fastest growing sector of the U.S. economy.
- In the 1990s, Americans worked 300 more hours/year on average than workers in other developed nations.
- In 1998, approximately \$1.5 billion was spent on lobbyists. In 2010, the figure was almost \$4 billion.

### Education

- 1940, 5.9% of Americans had a college degree. By the late 1970s, it was 24%. Today, the figure is approximately 29%.
- Since 2007, 41 states have reduced support for higher education, resulting in rising tuition and fees.
- In the U.S., college graduation rates have been essentially flat. Countries that invested in their people and developed a highly educated workforce (e.g., South Korea, Netherlands, Germany) have been more prosperous than the U.S. in the current economy.
- In the 1960s, attending UC Berkeley was free. In the 1970s, the tuition was \$700 annually (in today's dollars). Today, the tuition is \$15,000 per year for in-state students.

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## THE BIG QUESTIONS:

**Q: Why is it that the middle class – not the wealthy – are the true “job creators”?**

**A:** 70% of the U.S. economy is based on consumer spending. The bulk of that spending is done by the middle class. As Nick Hanauer explains, “Even a person like me who earns a thousand times as much as the typical American, doesn’t buy a thousand pillows a year.” No matter how much money Hanauer has, there are only so many haircuts and so many dinners out he can consume. Hypothetically speaking, if Nick had less money, and a thousand middle class people had more, they would each purchase haircuts and the barber would have many more customers and would purchase more products from suppliers, requiring the hiring of additional staff to meet the demand. Very rich people can’t spend enough to drive a consumer economy.

Bottom line: The middle class represents 70% of spending and is the great stabilizer of the U.S. economy. No increase in spending by the rich can make up for a shrinking or weak middle class.

**Q: Some income inequality is inevitable; capitalist systems use financial reward as the primary incentive to work hard and be inventive. So why worry about income inequality at all?**

**A:** Stagnating wages, combined with increasing costs of basics (housing, child care, etc.), leads to less disposable income. It’s the spending of disposable income that drives our consumer economy, so the concentration of wealth in increasingly fewer hands weakens the economy for everyone.

Furthermore, income inequality undermines the American Dream. Robert Reich explains that as income inequality rises, chances for upward mobility decline. Deborah Frias puts it this way: “How do you build wealth when you have nothing?” Deborah and her husband both work full time. She is also attending school to improve her job prospects, but this adds to her debt and her family is barely making ends meet without that added debt.

Eventually, as Reich points out, “Losers of rigged games can become very angry.” People who don’t share in the benefits start looking for scapegoats and the fabric of society starts pulling apart.

**Q: What are the parallels between 1928 and 2007?**

**A:** Both years preceded major economic crashes. In both years:

- The top 1% took home more than 23% of total income in the U.S.
- The wealthy put much of their money in the financial sector, which bloomed as a result. The financial sector invested in a limited number of assets: housing, gold, & speculation. Only a small percentage of workers were represented by unions (approximately 3% then, less than 12% now).

Middle class incomes have stagnated or dropped over the same period during which the American economy has more than doubled. So where did all that money go? The facts are clear – it went to the top earners. The last time wealth was as concentrated as it is now was 1928, on the eve of the Great Depression.

**Q: Reich refers to policies in place from 1947-1977. What were the defining economic factors of these prosperous years?**

**A:** More than 1/3 of all workers were represented by a union. The top tax rate ranged from 91% to 70%. The top 1% took home less than 10% of the nation’s income. The average CEO pay was approximately fifty times greater than what the average employee earned (compared to 350x greater now). The ratio of debt to household income hovered near 1:1. By the late 50s, the U.S. had the best-educated workforce in the world, in part because higher education was affordable.

The GI Bill made it possible for veterans of WWII and the Korean Conflict to attend college. Increased attendance numbers led to an expansion of public universities and tuition at those institutions was often free or minimal. This made higher education affordable and accessible, even to students who were not military veterans. As a result, the rates of those with college degrees increased from 5.9% in 1940, to 24% in the late 1970s.

**Q: Why is income inequality a threat to democracy?**

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**A:** Robert Reich explains that, "When so much wealth accumulates at the top, with money comes the capacity to control politics... It's not that people are rich, it's that they abuse their wealth..." The wealthy contribute to political candidates and the access that their contributions buy entrenches inequality by securing subsidies, bailouts and policies that lead to even greater inequality.

Concentration of wealth leads to political control in fewer hands and therefore undermines democracy. The Supreme Court's decision in *Citizens United* allowed the super wealthy and corporations to contribute nearly unlimited amounts of money to political candidates. The presence of money isn't new, but the quantity is, and that skews where power resides (away from the majority of citizens).

Political polarization mirrors income inequality. When inequality is high, polarization increases. People who believe the system is rigged against them get angry. Both Occupy Wall Street and the Tea Party are vestiges of this anger – and so is the scapegoating of minority groups and immigrants.

**Q: Who are the winners in today's economy?**

**A:**

- Consumers – many products are cheaper.
- Investors – profits increase when companies keep employee pay low and/or fewer workers are employed.
- Top executives – current economic policies support a system in which the average CEO earnings are 350 times greater than the average employee. In one example, while Viacom was saying it was forced into layoffs, CEO Philippe Dauman earned \$84.5 million annually.
- Financiers – Since de-regulation, the financial sector has become the fastest growing sector of the economy, but it has grown in ways that reward executives, rather than producing more jobs.
- Nobody. A handful of investors and top executives appear to do better, but that is short-lived. Reich notes, "The rich actually do better with an economy that is growing faster, when everyone else is doing better. This is not a zero sum game." The more people who are included in prosperity, the more prosperity increases.

**Q: The middle class dealt with wage stagnation for decades, so why is it a problem now?**

**A:** We've maxed out the coping mechanisms that middle class families used to maintain their standard of living: Family income increased by having more family members work. Women entered the workforce in greater numbers.

Everyone worked longer hours to earn the same amount of money. We let people go into debt. When debt was based on equity in houses and housing prices are going up, that worked. But when housing prices fell, the debt bubble burst.

**Q: How do we measure inequality?**

**A:** There is no official definition of "middle class." Instead, we compare: Income in actual dollars. Percent earned of the nation's total income. Percent of income paid in taxes. Percent paid of total tax revenue.

**Q: How does the current tax code favor the wealthy and disadvantage the middle class?**

**A:** In the U.S., when income inequality was at its lowest (1950s), the top marginal tax rate was highest (91%). Prior to the Reagan administration, the top rate was always above 70%. The current rate is now 39.6%, and income inequality is at all-time highs.

Currently, as Warren Buffett explains, the "tax code is tilted towards the rich and away from the middle class." It's actually upside-down – those with more pay fewer taxes, than people with less. Though the top rate for wage-based income is 39.6%, the rate for income from investments (capital gains) is only 20%. That means wealthy people pay a lower tax rate than the rest of us. Examples from the film include Buffett, whose tax rate is about 17%, while the people who work in his office were paying an average of 32%; Mitt Romney paid 13.9% while Ladd and Nancy Rasmussen paid 33% (or more); and Nick Hanauer paid 11% on an eight-figure income.

Hanauer says, "When you give rich people tax breaks, all in the name of job creation, all that really happens is that the fat cats get fatter, and of course that's what's happened over the last 30 years. It's the signature feature of the economy."

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Robert Reich adds, "Taxes are the price we pay to finance the things we can't do individually." If the wealthy don't pay their fair share and the middle class is stagnant, you're going to have a budget crisis. That leads to cutbacks in government services and programs on which the middle class relies, which contributes to the 'Vicious Cycle.'

In addition to tax policy, the wealthy are also favored by financial practices, including charging lower interest rates and fees to those with more funds.

**Q: What is the economic impact of globalization?**

**A:** According to Reich, globalization hasn't reduced the number of jobs available to Americans; it has reduced their pay. For example, an average meatpacker in the 1970s earned \$40,599 (in today's dollars); in 2010, the average pay for the same job was \$24,190. A 1970s bank teller earned \$27,920; and in 2010, that had declined to \$24,100.

Reich uses the iPhone to illustrate how globalization distributes the wealth that is generated from production and sales. When you purchase an iPhone, your dollars for labor and materials go to: Japan (34%), Germany (17%), South Korea (13%), U.S. (6%), and China (3.6%). It's not that all dollars flow to the location of the cheapest labor – assembly is only one part of the process. Assembly of the iPhone takes place in China, but assembly is not a high value addition to the product, so the Chinese don't garner a large percentage of the dollars from your purchase.

Furthermore, significant dollars do not automatically flow to the nation where the company is headquartered (in this case, the U.S.). Technology allows for parts of production to be parceled out across the globe and the resulting rewards go to those who contribute the most value to the product. So although the iPhone is developed by an American company (Apple), most of the dollars for labor and materials go to Germany, which has a workforce capable of producing highly precise parts.

**Q: What is the economic impact of new technology?**

**A:** New technologies have increased efficiency (which lead to greater productivity and profit), but they have decreased the number of jobs. The film uses Amazon as an example. Nick Hanauer explains that to do \$70 billion in sales, Amazon employs 60,000 workers. If "mom & pop" retail outlets generated that much revenue, they would employ ten times that many people (600,000 – 800,000 workers). Another example is Robert Vaclav, who loses his job when Circuit City goes out of business because the brick and mortar retail chain couldn't compete with Amazon.

**Q: What role do large corporations play in income inequality?**

**A:** Reich states that, "Big companies are not designed to generate good jobs in the United States; big companies are designed to create profits." At Calpine, Reich explains that all companies with shareholders use pressure and influence to keep labor costs down. When there isn't pressure from unions, wages and benefits remain low.

Responding to the declines that she has experienced, Nancy Rasmussen asks, "If you have a billion dollars, why do you need that little bit that I have?" Robert Vaclav loses his job at Circuit City as the company cuts payroll expenses by letting go those who have been there "too long."

The Citizens United decision increased corporate influence on the political system by equating money with speech and giving corporations the same rights to free speech as citizens. Corporations can therefore buy access to politicians and exert enormous influence on who is elected. What they ask of politicians is to support policies that will increase their profits; but those policies often serve to undermine working people and the middle class.

## RESOURCES

### Books

Robert Reich, *Aftershock: The Next Economy and America's Future* (2011) Robert Reich, *Beyond Outrage: What Has Gone Wrong with Our Economy and Our Democracy, and How to Fix It* (2012)

Joseph Stiglitz, *The Price of Inequality: How Today's Divided Society*

*Endangers Our Future* (2013)

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Erik Liu and Nick Hanauer, *The True Patriot* (2007)

Erik Liu and Nick Hanauer, *The Gardens of Democracy: A New American Story of Citizenship, the Economy, and the Role of Government* (2011)

## Films

*American Winter* (<http://www.americanwinterfilm.com/>)

*Capitalism: A Love Story* (<http://www.michaelmoore.com/books-films/capitalism-love-story>)

*Citizen Koch* (<http://www.citizenkoch.com/>)

*Inside Job* (<http://www.sonyclassics.com/insidejob/>)

*IOUSA* ([http://www.youtube.com/watch?v=O\\_TjBNjc9Bo](http://www.youtube.com/watch?v=O_TjBNjc9Bo))

*Queen of Versailles* (<http://www.magpictures.com/thequeenofversailles/>)

*Waging a Living* (<http://www.pbs.org/pov/wagingaliving/>)

*We're Not Broke* (<http://werenotbroke.com/>)

## Partners

Each of these organizations offers additional resources and action ideas related to issues raised in *INEQUALITY FOR ALL*:

### AFL-CIO

[www.aflcio.org](http://www.aflcio.org) – one of the nation's oldest federations of labor unions.

### Americans for Tax Fairness

[www.americansfortaxfairness.org](http://www.americansfortaxfairness.org) – a campaign of organizations working towards comprehensive, progressive tax reform that requires the wealthy to pay their fair share.

### Center for American Progress

[www.americanprogress.org](http://www.americanprogress.org) – a Progressive think tank focused on preserving the opportunity for all Americans to climb the ladder of economic mobility.

### Center for Budget and Policy Priorities

[www.cbpp.org](http://www.cbpp.org) – a non-partisan think tank working on federal and state fiscal policies and public programs that affect low- and moderate-income Americans.

### Common Cause

[www.commoncause.org](http://www.commoncause.org) – a non-profit, non-partisan advocacy organization that helps Americans hold their elected leaders accountable to the public interest.

### Corporation for Enterprise Development

[www.cfed.org](http://www.cfed.org) – provides data to support policies that help low and middle-income Americans achieve the American dream, including home ownership, higher education, and more.

### Economic Policy Institute

[www.epi.org](http://www.epi.org) - a non-profit, non-partisan think tank focused on giving voice to the needs of low- and middle-income workers in discussions about economic policy. See, especially their interactive [www.inequality.is](http://www.inequality.is) site, which personalizes explanations of the income gap.

**Generation Progress (formerly Campus Progress)** <http://genprogress.org/> - organizes young people on and off college campuses to promote progressive solutions to key political and social challenges.

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National Employment Law Project / Raise the Minimum Wage Campaign [www.nelp.org](http://www.nelp.org) – NELP uses a grassroots organizing model and combines it with research to develop and implement policies aimed at restoring the promise of economic opportunity for all in the 21st century global economy.

### Roosevelt Institute

[www.rooseveltinstitute.org](http://www.rooseveltinstitute.org) – this nonprofit works to ensure that the values championed by Franklin and Eleanor Roosevelt infuse current public policy.

### SEIU

[www.seiu.org](http://www.seiu.org) – the Service Employees International Union.

### United for a Fair Economy

[www.faireconomy.org](http://www.faireconomy.org) – With annual reports, special projects, and issue briefs, UFE raises awareness about the ways in which concentrated wealth and power undermine the economy, corrupt democracy, deepen the racial divide, and tear communities apart.

Activism stemming from *INEQUALITY FOR ALL* is dynamic and growing.

For the most up-to-date list of partners, visit our website, <http://inequalityforall.com/>

### What Can One Person Do?

We want to spark action – both individual and collective. These examples can help people expand their thinking about possible actions and see that individuals can, in fact, make a difference.

If you could get local, state, or federal legislators to watch *INEQUALITY FOR ALL*, what would you want their take-away to be? What message(s) from the film would you communicate to your representatives?

Nick Hanauer invests most of his income in hedge funds, which create a return for him (and the hedge fund managers) but do not contribute to expanding wealth for all. What types of investments could wealthy individuals like Hanauer, or people investing in pension plans make that would benefit the entire economy?

Reich acknowledges that cheap labor keeps product costs down. Would you be willing to pay more for the products you buy if it meant higher wages and benefits?

Former Senator Alan Simpson reflects on the current state of Washington politics stating, “You don’t have adversaries anymore, you have enemies.” What language or actions could you choose right here in our community to foster respectful dialogue with adversaries, rather than demonizing enemies?

Robert Vaclav refuses to use automated checkout lanes because he knows the technology has replaced someone’s job. He explains that although he cannot stop the automation, perhaps this small action will slow the process. What small actions have you taken to support working people? What could you, or we as a community or nation, do in the future?

*(and I add, if you got this far, start a website that encourages people to think about these important issues to our society, Thank you for reading, Sandra Ericson)*