Popular Economics Weekly

# WEEK OF JANUARY 23, 2006—HOUSING INEQUALITY

Wages have not caught up with inflation for the past 5 years (since the last recession), and the consequences are that even the middle class is being shut out of homeownership in many parts of the country. That is, unless the causes of growing income inequality are not addressed.

Then why have housing prices soared? Because the top 5 percent of income earners have benefited most from the results of such growing inequality, and they can afford those prices. Their average annual income in 2005 was $264,387, helped by the massive tax cuts engineered in 2001-03. This is also the annual income required to own a median-priced home in Santa Barbara, California, and other coastal population centers.

The top 5 percent have seen their incomes increase $4,000 just in 2005, whereas, middle-incomers' earnings fell $300 to $44,455, according to the U.S. Census Bureau. The top 20 percent income-earners now corral 50.1 percent of all income earned in the U.S.

This is while job growth has been sub-par since 2000. Partly due to higher productivity and the globalization of jobs that puts American workers in direct competition with those in the Third World and developing countries, employment has been growing at half the rate of past recoveries—1.5 percent in 2005 (when 2 million payroll jobs were created), vs. 3.1 percent at the same stage of past recoveries, according to the Economic Policy Institute (EPI), a labor-oriented think tank.

Yet the tax cuts have not done their job. More than $860 billion in tax cuts were enacted from 2001-03--$929 billion with interest costs to date. For the tax benefits to work, the cuts should have focused on moderate-income, liquidity-constrained taxpayers (i.e., those who spent most of their incomes) over a limited time frame, instead of those with inheritance, dividend and capital gains who spend a smaller share of their incomes. We would not therefore have the huge deficits of today (both federal and consumer), while many more jobs would have been created.

The EPI is scathing about the huge transfer of wealth to those who President Bush once called, "The haves who have more; who are my supporters," at a fund raising dinner. "The winners of the legislative process pushed for tax cuts that do not expire and that focus on those taxpayers with high income and wealth. If their tax cuts had truly strengthened the economy, we would be observing it in the data by now.

Pushing for tax cuts that do not expire, in other words, caused the ballooning federal budget deficit. This is because "The longer it takes to restore the revenue base and reduce the deficit, the higher the prices that Americans must ultimately pay…The enduring tax cuts passed in 2001 (that the White House wants to permanently extend) have not enhanced the economy's performance, and have in fact caused a permanent boost in the federal budget deficit."

Former Treasury Secretary Robert Rubin said in a recent Wall Street Journal editorial that the economic "damage" of extending the Bush tax cuts amounted to $4 trillion in ten years. And this at a time when the baby boomers begin to retire. "With Medicare being several times as great a fiscal problem as Social Security…the effects of these fiscal conditions are exacerbated because they occur, uniquely in the U.S. amongst the developed nations, in combination with a very low personal savings rates, high levels of personal debt and enormous current account deficits, caused in part by our fiscal (i.e., federal) deficits!"

What can we do about such huge economic disparities not seen since the Great Depression? Rubin recommends that President Bush assemble leaders from both parties to form a consensus solution, similar to President Clinton's efforts that led to the deficit reductions of the 1990s. He maintains that "everything must be on the table, including cost discipline, progress toward entitlement reform, and judgment as to the revenues needed to close current deficits and provide the functions the American people expect of government."

This will not be easy. Many lawmakers are sure to oppose it, in part because globalization and reduced taxes favor our largest corporations, says the EPI. "If the CEOs of transnational corporations with American names thought their future depended on the competitiveness of the U.S. economy, they would simply not permit the underinvestment in skills and education that many complain about. They would not sit still for the huge disparities between what they pay their starting lawyers and what the country pays a teacher with twenty years of experience. They would not allow the Republican Party—their party—to turn over education or science policy to religious cranks. They would roll over the social conservatives just as they did years ago when Sunday blue laws got in the way of seven-days-a-week retailing."

We can only hope that our politicians have the will and fortitude to follow Rubin's advice, a respected figure on both sides of the political aisle.