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Analysis of the Increasing Income Gap between the Rich and Everyone Else

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The growing disparity in income between the rich and middle/lower income groups has resulted in significant skewness in the distribution of wealth in the U.S. The short and tall of it is that the real incomes of the top .01 percent of Americans rose seven fold between 1980 and 2007, but the real income of the median family rose only 22 percent, less than a third of its growth over the previous 27 years. Two main reasons given by economists are technological innovation and inadequate technical education in the U.S. However, there are several other factors that are relevant. This paper analyzes the other issues: 1) the funding of federal political campaigns, 2) the effects of offshoring, 3) the role of the U.S. tax code, and 4) the absence of a strong connection between performance and rewards that may be related to the recent shift in wealth. While wage differences naturally occur in a capitalistic system, massive differences provoke social unrest and the rise of demigods advocating collectivist solutions.

1. Introduction

The income gap between the rich and everyone else is getting wider since the mid 1970s, irrespective of which political party was in power (Johnston, 2007). However, the cause is disputed. Two main culprits widely suggested by economists are technological innovation and inadequate technical education of the U.S. workforce. While that is a partial cause requiring the improvement of the education of the U.S. workforce, a serious analysis is needed to put the issue into proper perspective. That analysis must include: 1) The way federal political campaigns are funded; 2) the relationship of offshoring and the income gap between the rich and everyone else; 3) the role that the U.S. Tax code plays with respect to the increasing gap between the wealthy and everyone else; and 4) the absence of a strong nexus between performance and rewards; which is a more nuanced cause, but requires attention, nonetheless. Campaign financing, the federal tax code, offshoring, and the disconnect between performance and rewards are parts that move together in a system that favors the rich and should be changed to favor the middle and lower classes of society. This analysis and the necessary recommendations to decrease this gap are the main purpose of this effort.

2. Historical Perspective

Old Economic Order: There is no argument that the golden age of the U.S. manufacturing industry was between 1940 and the mid 1970s. The U.S. enjoyed virtual monopoly during that period. The nation's exports exploded, creating economic prosperity for its people. American workers participated in this prosperity as never before, since the industrial union movement made great headway during this period. In fact, the U.S. union movement was the most vocal supporter of international trade during these years.

New Economic Order: In the years following World War II (WWII), the industrialized nations took until the mid 1970s to rebuild their industrial base. Moreover, the emerging economies of Southeast Asia came on the industrial scene about the same time creating the beginning of the global economic village which not only changed the nature of international trade but also the fortunes of U.S. manufacturing and U.S. industrial workers. While in 1973 only 7 percent of the U.S. economy was exposed to international trade, by 1993 that percentage had increased to tenfolds, and the trend continues (Muczyk, 1997).

It is no coincidence that the uninterrupted U.S. trade deficit began with the onset of globalization. Likewise, it is no coincidence that the gap between the rich and everyone else started to widen soon after that.

Figure 1: Total U.S. Income Share of Wealthiest Families

Year	1925	1935	1945	1955	1965	1975	1985	1995	2005
Top 10%	45%	45%	35%	32%	32%	33%	35%	40%	44.3%
Top 5%	35%	33%	23%	21%	21%	21%	23%	30%	32.5%
Top 1%	19%	17.5%	11%	9.5%	9%	9%	10%	15%	17%

Source: University of California, Berkeley – Dept. of Economics (Associated Press)

Figure 1 illustrates the shift in wealth over time. The great depression and WWII shifted the wealth distribution from the wealthiest top 10 percent families to the rest of the families. But from 1985 forward the top 10 percent of wealthiest families started a comeback to the pre-great depression levels. To be precise, the rich-poor gap in America is at a 77-year high, with the top 1 percent annual income in excess of $348,000, receiving their largest share of national income since 1928 (Johnston, 2007). Tax data reveal that families with annual income in excess of $96,563 accounted for more than 44 percent of total U.S. income in 2005. Note the Tax Reform Act was passed in 1986, and more will be said about the impact of the tax code on wealth distribution in a subsequent section of this article.

Figure 2 buttresses the argument further. Note that after tax income of the top fifth increased 48.2 percent between 1979 and 2002, while the after tax income of the top one percent increase 111.3 percent during the same time frame, both considerably higher than the rest of the cohorts.

Figure 2: Average After-Tax Income by Income Group (In 2002 Dollars)

Income Category	1979	2002	Percentage Change 1979-2002	Dollar Change 1979-2002
Lowest Fifth	$13,200	$13,800	4.5%	$600
Second Fifth	26,700	29,900	12.0%	3,200
Middle Fifth	38,000	43,700	15.0%	5,700
Fourth Fifth	49,800	61,700	23.9%	11,900
Top Fifth	87,700	130,000	48.2%	42,300
Top One Percent	298,900	631,700	111.3%	332,800

Source: Congressional Budget Office, “Historical Effective Federal Tax Rates: 1979-2002,” March, 2005.

3. The Impact of Financing Political Campaigns

It is very expensive to get elected at the national level, and it is vested interests who pay for these campaigns through their lobbies and Political Action Committees (PACs), irrespective of the political party to which the candidate belongs (Morris & McGann, 2007); and we know that those who pay the piper call the tune. For example, according to Public Citizen, a watchdog group, eighteen families have spent to date more than $200 million to repeal the estate tax (Morris & McGann, 2007) in the U.S.?

While cosmetic changes in Congressional ethics rules are instituted when a major ethics scandal surfaces, such as the Jack Abramoff/Tom DeLay scandal, it is unlikely that the people’s business will receive top priority until such time as all political elections are funded by tax revenues, lobbying is seriously restricted, and the practice of Congressional earmarks eliminated (Morris & McGann, 2007).

4. The Impact of the Federal Tax Code

The strategy by which the income gap is increased is deceptively simple – shift the tax burden from the rich to the middle class and keep profits high by keeping wages low (Dobbs, 2006). Let us examine the 2001 tax cuts, excluding the two provisions that go into effect starting January 2006 and will be completed by 2010. Figure 3 illustrates this point. While the tax burden of the top 20 percent was reduced between 2001 and 2004, the tax burden on the next two quintiles (the so- called middle class) was increased during the same period.

Figure 3: Percentage of Total Federal Taxes by Income Group

	Avg. Income	2001	2004
Lowest 20%	$14,900	1.2%	1.1%
	34,200	5.3	5.2
	51,500	10.3	10.5
	75,600	18.7	19.5
Top 20%	182,700	64.4	63.5

Source: Jonathan Weisman, "Tax Burden Shifts to the Middle," Washington Post, August 13, 2004.

Figure 3 captures the high-income households experiencing a larger increase in after-tax income as a result of the 2001 tax cuts than any other income group. Also, note the impact of the 2001 tax cuts on after-tax income in Figure 4, below:

Figure 4: Impact of 2001 Tax Cuts on After-Tax Income

Income Class	After-Tax Cut	Percentage Change in After-Tax Income
Middle 20 percent	$748	2.5%
Top one percentage	$39,020	5.0%
Over #1 million	$111,549	5.7%

Source: Urban-Brookings Tax Policy Center

Figure 5 examines the two provisions that start taking effect in January 2006 and finish in 2010. These provisions are: 1) repealing limits on itemized deductions for the wealthy, and 2) repealing limits on personal exemptions for the wealthy.

Figure 5. Distribution of the Two Tax Cuts, 2010

Income Group (thousands of 2003 dollars)	Share of Households	Share of the Tax Cuts	Avg. Tax Cut
$0-75	77.1%	0.0%	$0
75-100	8.3	0.1	1
100-200	10.9	3.2	25
200-500	3.0	19.1	558
500-1000	0.5	24.0	4,141
More than $1 million	0.2	53.5	19,234

Source: http://cbpp.org/9-19-05tax.htm

Some 54 percent of these two tax cuts will go to households with incomes of more than $1 million per year, the top 0.2 percent of households. Another 43 percent will go to the top 3.5 percent of households with incomes between $200,000 and $1 million. Specific groups of the wealthy also get special treatment. For example, high level employees of the Blackstone.

Group and Kohlberg Kravis Roberts, Private Equity firms, have their income from managing other people's money taxed at the capital gains rate of 15 percent instead the ordinary income rate of 35 percent. Executives of these firms hint that they may move offshore if there taxes are raised. Congress should hint that in turn they will be denied access to U.S. markets. Who benefits from federal tax legislation? Those who pay for election campaigns! We must be reminded again and again: Whoever pays the piper calls the tune.

The Treasury analysis reveals that the one percent of taxpayers with the highest incomes paid 34.3 percent of federal individual income taxes in 2003. The Congressional Budget Office data, on the other hand, show that the top one percent of income earners paid a substantially smaller proportion – 22.6 percent - of total federal taxes, including payroll, excise, and other taxes. That number is further reduced when the regressive state and local taxes are considered (Friedman, Shapiro & Greenstein, 2006). While apologists for the wealthy point out that the top 20 percent paid 63.5 percent of total federal taxes in 2004, they fail to mention that the top 20 percent received almost as much income in 2003 as the bottom 80 percernt combined (Friedman, Shapiro & Greenstein, 2006).

Are Bureau of Census Data Misleading? The answer is yes if one considers absolute incomes as opposed to relative incomes. While the income share of the poor has been shrinking, the size of the pie has been growing considerably. Consequently, the slice of the economic pie that went to the lowest quintile was 80 percent larger in 2006 than in 1980. Allowing for population growth still leaves the average "poor" household with 40 percent more income in 2006 than in 1980. Furthermore, the size of the average household has gotten smaller. Hence, the "stagnant" household income conceals the increase in the income of the typical household member. Lastly, immigrants (legal and illegal) enter the labor force at the bottom rungs of the income distribution, thereby changing the nature of the household and further depressing household income (Schiller, 2008).

5. The Role of Offshoring

In order to offshore U. S. jobs to third-world countries with low wages, first it is imperative to create the necessary industrial infrastructure in those countries. This is accomplished through foreign direct investment. Let us take China as an example. Factories built with overseas money made 58 percent of that nation's record $969 billion of exports in 2006. As it turns out, China was the world's fourth-largest recipient of foreign direct investment in 2006, after the U.S., U.K., and France (ASEAN Investment Report, 2006).

China and India rival one another when it comes to challenging the U.S. as the world's most favored destination for foreign direct investment. Global investors, however, view these two destinations quite differently. While China is preferred for manufacturing, India is favored for business processing functions and IT services. China and India are cited by CEOs as the most attractive foreign direct investment destinations, beating out countries such as Brazil, Mexico and Poland (ASEAN Investment Report, 2006).

Manufacturing now accounts for approximately 10 percent of non-farm employment, and about 12 percent of U.S. GDP (it was 26 percent in 1965); and offshoring is a major contributor to this decline, although not the only one. New technology takes its toll as well (Muczyk, 2007).

U.S. recessions impact manufacturing jobs the hardest. Between 2000 and 2006, 2,951,000 manufacturing jobs were lost, and unlike other jobs, they do not return when economic recovery begins (U.S. Bureau of Labor Statistics, 2006). Manufacturing jobs are important for several reasons. Manufacturing accounts for a great deal of value added. Also, manufacturing jobs pay more than non-manufacturing jobs. Today trade is dominated by manufactured goods, unlike the early 19th century when it was largely an agricultural world. We must keep in mind that it was during the latter period that the theory of "Comparative Advantage" was developed. Consequently, it is vital that we retain the manufacturing sector (Gomory & Baumol, 2000).

Vulnerability of Non-manufacturing Jobs. While most people appreciate the vulnerability of manufacturing jobs to offshoring, they often fail to realize that digitization coupled with the fiber optic highway exposes many service jobs to offshoring as well. Forrester Research estimates that about 40 percent of Fortune 1,000 firms have already outsourced some work and that at least another 3 million service jobs will leave U.S. shores by 2015. A study by the University of California, Berkeley estimates that 14 million U.S. jobs (11 percent of the total work force) are vulnerable to offshoring. Princeton economist Alan Blinder, a former vice chairman of the Federal Reserve Board, estimates that between 42 and 56 million U.S. Jobs are susceptible to offshoring (Muczyk, 2007).

Even when jobs are expanding for the entire economy, U.S. manufacturing jobs are contracting. For example, payrolls increased by 110,000 jobs in September, 2007 while 23,000 manufacturing jobs were lost during the same period. Since the average manufacturing wage is higher than the average non-manufacturing wage, the loss of manufacturing jobs increases the gap between the wealthy and everyone else (Muczyk, 2007).

It makes sense for labor-intensive work to be performed in lower-wage countries, providing there are proper safeguards for workers and the environment. However, contrary to the standard explanation proffered by economists, U.S. Jobs that are offshored will not be replaced by jobs invented by a creative and flexible society. Motorola, Texas Instruments, GE, HP, IBM, Microsoft, Dell, and every Silicon Valley venture firm are spending billions of dollars in Asia to take advantage of cheap, educated, and motivated labor (Muczyk, 2007). Much of this investment is in the Information Technology (IT) arena. We must remind ourselves that China and India are not racing the U.S. to the bottom but instead to the top of the economic food chain (Friedman, 2005). One could make a better case that workers displaced by offshored well-paying manufacturing jobs are taking lower-paying service jobs. It appears that the only jobs that are immune to offshoring are the ones that require the worker to be in the U.S.

Yes, the U.S. economy continues to create jobs, including well paying jobs, as it always has when it expands, but these require excellent technical education and are not replacements for jobs that have been offshored. Likewise, it should be national policy to create well-paying jobs; but this is not accomplished by offshoring American jobs, a belief that is little more than latter day alchemy. One viable strategy for creating good jobs is to embark on a crash course, much like sending a man to the moon had been, in order to develop energy alternatives to fossil fuels.

It is also true that there are millions of workers in the U.S. who only qualify for unskilled and semi-skilled labor intensive jobs. If these jobs are offshored, what will happen to these workers? Since these persons lack the necessary education, suggestions that they be retrained for higher level jobs are unrealistic.

Tax incentives for offshoring. Companies that establish subsidiaries in low tax countries pay the lower tax if they certify that their profits are invested abroad (Dorgan, 2006). So why stay in the U.S.? Moreover, by establishing manufacturing operations low tax countries and deftly manipulating transfer pricing, companies avoid paying U.S. taxes. The tax incentive in conjunction with the power of "absolute advantage" frequently constitutes an irresistible force (Muczyk, 2007). The losers are U.S. workers and this further exacerbates the gap between the rich and everyone else.

The Bureau of Labor Statistics projects that the following jobs will experience the fastest growth (Dobbs 2004):

1. Waiters and waitresses
2. Janitors and cleaners
3. Food preparation
4. Nursing aides, orderlies, and attendants
5. Cashiers
6. Customer service representatives
7. Retail salespersons
8. Registered nurses
9. General operational managers
10. Postsecondary teachers

Notice that only three of these job classifications require a college education.

If anything belies the claim that jobs lost to offshoring will be replaced by high tech jobs, this data does.

Defenders of the status quo argue that all is well since median household income rose 4.6 percent in 2006. They fail to mention that the wealthy have enjoyed double-digit gains during the same period, thereby widening the gap between themselves and everyone else (D'Innocenzio, 2007). To be specific, the average after-tax income of the top one percent of the population jumped 35 percent between 1990 and 2003, while the average after-tax income of the middle fifth of the population rose 12 percent (Friedman, Shapiro & Greenstein, 2006). Moreover, the median household income increase is masked by the fact that more and more workers are forced to work longer hours, often holding two jobs with reduced benefits, to make ends meet (Muczyk, 2007).

Justifying Offshoring. The theoretical justification for offshoring happens to be the same as the defense of international trade, namely "The Theory of Comparative Advantage". However, the assumptions upon which David Ricardo relied in 1817, chiefly the immobility of factors of production, no longer are relevant (Muczyk, 2007). Moreover, free trade requires a level playing field. However, many of our trading partners acquire an advantage by deftly practicing neo-mercantilism or state sponsored capitalism (Muczyk, 2007). The indisputable proof lies in the thirty-one consecutive years of U.S. trade deficits with no end in sight. What skews international trade now is Adam Smith's "Absolute Advantage" in conjunction with the adroit practice of neo-mercantilism, not David Ricardo's "Comparative Advantage" in the context of free trade. While countries practicing state sponsored capitalism employ a myriad of artifices to discourage imports and encourage exports, border tariff adjustments are in the forefront (Gomory & Baumol, 2000 & Muczyk, 2007).

Are U.S. Trade Negotiators Honest Brokers? Furthermore, the trade agreements negotiated so far by the U.S. Trade Representatives favor U.S trading partners. It has been estimated that between 750,000 (Dobbs, 2004) and 879,280 (Dorgan, 2006) U.S. jobs have been lost as the direct result of NAFTA. When these Trade Representatives leave office, they start consulting firms and are paid large retainers by countries to which they gave away the store (Dorgan, 2006). It is for the above-mentioned reasons that Lee Iacocca argues that free trade does not imply fair trade. Consequently, the U.S. should level the playing field in terms of fairness and reciprocity. Warren Buffett agrees with Iacocca and prescribes the mechanics for doing just that (Iacocca, 2007; Dorgan, 2006).

Politics Trumps Free Trade. Countries with large populations, such as China and India, in order to maintain political stability are not interested in fair trade but in creating the largest number of jobs for their citizens. For example, China has already relocated 300 million people from rural areas to cities and has plans to relocate 200 million more in the future. These people need jobs if social unrest is to be avoided, and huge trade surpluses by these countries guarantee job creation.

While there may not be a theoretical justification for offshoring at the level of the economy, there are practical justifications at the level of the firm. Lowering the cost structure helps U.S. companies compete in a global economy, increases profits, and benefits shareholders as well as executives. Moreover, consumers benefit by paying less for their products. But many consumers also hold jobs that can be offshored, and companies on U.S. soil pay taxes, as do their employees. When those jobs disappear, what will happen then? Clearly, the winners are more influential than the losers. Therefore, the situation will be difficult to change.

Moreover, there will be fewer job opportunities in the countries exporting to the U.S. We believe that the price should be paid in order to preserve the U.S. manufacturing base. Furthermore, we do not believe that the U.S. consumer has the obligation to create jobs around the world at the expense of his own. That is the responsibility of the governments of the exporting countries.

Free Trade and Creative Destruction. From the standpoint of job creation, evidence dictates that Schumpeter's (1942) defense of the free marketplace as a mechanism of efficiency and innovation does not extend to international competition. On the contrary, it is competition within the boundaries of a country that benefits the workers of that country so far as job creation is concerned. Many twentieth century innovations were created in the U.S. For example, television, telephone, light bulb, computers, calculators, VCRs, copy machines, microwave ovens, nuclear technology, robotics, the airplane, many medicines, etc. were invented in the U.S. (Muczyk, 1990). However, the payoff is not in the invention, which is but an expense, but in the manufacture and sale of industrial and consumer applications of the innovations. Thus, workers in Japan, China, India, Singapore, Malaysia, Philippines, etc. are now the major beneficiaries of U.S. innovation, in part due to the fact that their countries ignore property rights.

Admittedly, U.S. consumers benefit from lower prices until they lose their jobs (Dobbs, 2004 & 2006; Dorgan, 2006). Clearly, demanding that our trading partners honor intellectual property rights if they wish access to our market is in order.

6. Unintended Consequences of a Disconnect between Performance and Rewards

Numerous scholars have observed over time the lack of a strong connection between performance and rewards, which is vital in an instrumental culture (Muczyk, 1988), and the unintended consequences of such a disconnect. However, one such consequence has been neglected but deserves attention; and that is increasing the gap between the wealthy and everyone else. The exorbitant compensation packages that certain individuals have received have been justified by two lines of argument. First, these persons are entitled to such remuneration because they earned it. Second, organizations had to pay these outsized salaries and bonuses in order to attract the best people.

Gaming the System. Acceptance by society at large of these assumptions permitted many organizations to game the system by awarding their top officers outlandish compensation packages unjustified by exceptional performance. This has led to what some call the age of the "imperial" presidency. Certain industries, such as investment banks, granted huge bonuses to a number of their employees even though the firms were on the verge of bankruptcy. Although Bear Stearns, Lehman Brothers & Merrill Lynch are fresh in our minds, this is not a recent trend. Drexel Burnham Lambert (of Levine, Milken & Boesky fame) collapsed in 1990, and the Federal Reserve Board had to engineer the rescue of Long-Term Capital Management in 1998. Clearly, such outsized compensation packages exacerbated the income gap. On January 29, 2009, President Obama branded Wall Street bankers "shameful" for giving themselves nearly $20 billion in bonuses as the economy was deteriorating and the government was spending billions to bail out some of the nation's most prominent financial institutions. And this happens year-in-and-year-out regardless of performance. Let us examine the facts on the ground to see if these arguments hold water.

CEO pay at major corporations rose from 42 times average production worker pay in 1980, to 85 times in 1990, and to a multiple of 419 times by 1998. Moreover, U.S. executives receive much higher compensation than European or Asian counterparts, even when controlled for size of organization (Azavedo & Scoville, 2001). The near collapse of the U.S. financial system, where compensation was among the highest, belies the argument that these high-flyers earned their pay. Ditto for AIG, GM, Chrysler, Countrywide, Fannie Mae, and Freddie Mac; just to name a few examples.

Top officers at some major corporations are now convicted felons serving time or about to. While a comprehensive list is too long to mention here, it is worthwhile to note the most familiar examples: Top executives at Enron, Winnick of Global Crossing, Scrushy of Health South, Ebbers of WorldCom, Kozlowski of Tyco, and John and Timothy Rigas of Adelphia. Moreover, leading corporations are required by regulatory agencies to pay huge penalties for unlawful conduct. For example, AIG was fined $800 million by the SEC for accounting irregularities, and UBS reached an agreement with the Justice Department and the SEC to pay a $780 million fine for tax evasion schemes. Pfizer reached a $2.3 billion settlement with the Justice Department for violating FDA drug laws and regulations. A federal judge recently vacated a $33 million settlement between the SEC and Bank of America over withholding "materially adverse impact" information from shareholders resulting from the acquisition of Merrill Lynch, and is taking the matter to trial.

Ponzi schemes are being uncovered with increasing frequency, with those of Madoff, Stanford and Nadal receiving the most intense media scrutiny. By pouring billions of dollars into the financial, insurance, and mortgage corporations, the very businesses that caused the international economic crisis, the federal government has made a mockery of the "moral hazard" principle.

Loss of Trust. There has never been any evidence to suggest that executives are any more talented than doctors, lawyers, scientists, military officers or academics, all of whom are willing to work for much more modest compensation packages. Given the recent failures and malfeasance by corporate executives, elected officials, as well as the general public, no longer buy the above mentioned arguments used to justify astronomical compensation packages, and have begun passing legislation limiting compensation of officials in organizations accepting government funds. Furthermore, they are debating legislation requiring shareholder approval of executive remuneration, even though their organizations did not receive government funds.

We are witnessing the "iron law of accountability" at work. If industries and professionals cannot regulate themselves, the government will step in. The Occupational Safety and Health Act (OSHA) and the Employee Retirement Income Security Act (ERISA) are recent examples. New Deal legislation is even a better example. Compensation committees of boards of directors have failed to do their jobs so far as coupling executive compensation to performance is concerned, so now the government is stepping in for better or worse.

7. Conclusion

While there is agreement that wealth distribution has become skewed in favor of the highest income groups, the reasons for the increasing disparity remain in dispute. While a better educated workforce is part of the solution, especially at the elementary and secondary levels, other changes need to be made as well (Goodman & Healy, 2009).

While Europe was mired in the Dark Ages, the world skewed toward the Muslim Middle East. About 1400 C.E. it tipped toward Europe. Starting with the beginning of WWII, it tilted toward North America. Since the mid-1970s it started favoring Southeast Asia again (Murray, 2003), largely because of the absolute advantage brought about by lower costs and the consequences of state sponsored capitalism. That is why better education alone will not make the U.S. competitive.

The wealthy not only run corporations but also dictate to elected officials through their campaign contributions. Until elections are paid for by taxes, we should not expect much of a change. It is clear that the tax code needs to be changed so as to favor the overwhelming portion of the population that is not wealthy. Moreover, the tax benefits that encourage offshoring should be eliminated. The Obama administration appears to recognize these issues and promises to take corrective action. Furthermore, the huge perennial trade deficit needs to be erased as well.

U.S. leaders should recognize self-interest instead of being guided by outdated theories when it comes to international trade (Muczyk, 2007: Naim, 2009). In other words, our trading partners should be required to buy from us as much as we buy from them. Establishing foreign plants in the U.S. is equally acceptable. We should not be concerned that foreign plants are operating on U.S. soil. They increase U.S. productivity by putting competitive pressure on other domestic producers and transfer knowledge of the best practices to other domestic producers. When it comes to negotiating these provisions into trade agreements, we posses the most powerful bargaining chip of all — the U.S. market (Iacocca, 2007). President Reagan showed the way with regard to Japanese automobiles: build plants in the U.S. or we shall limit your auto imports into the U.S. (Dobbs, 2004).

However, great care must be exercised when managing trade, and trade should be managed only as much as is necessary either to encourage major trading partners to create a level playing field or to preserve a semblance of import-export parity in the face of unreasonable trade barriers. We must be mindful of the fact that in general global competition increases productivity while protection induces stagnation. Also, we must be vigilant so that lobbyists in the proverbial smoke-filled rooms lining the corridors of power will not do whatever they need to in order to limit competition at the expense of the consumer (Morris & McGann, 2007).

Lastly, the best way to provoke social upheaval is to create conditions that produce a small group of economic elites and a large group of "have nots." While the revolutions in Europe in 1848, the French revolution, the Russian revolution, and the Chinese revolution are the most dramatic examples of consequences of extreme income and wealth disparities in other parts of the world, the anti-trust legislation passed during the latter part of the 19th century and the early part of the 20th (Morris, 2002), the New Deal legislation passed during the 1930s, and the social legislation passed during the 1960s are much better predictors of how the U.S. addresses income disparities. Hence, preserving a large middle class is vital if we wish to limit government involvement in our lives, and this is best accomplished by pursuing policies that close the gap between the wealthy and the middle class. Our trading partners appreciate this point more than we do. That is why they make every attempt to create and retain as many jobs as possible in their own countries by whatever means necessary.

If the past can be relied on, the wealthy lose some of their advantage during a severe recession, and there are preliminary indications that this might be happening as the result of the current one. However, everyone suffers during a severe recession, and we should rely on structural changes rather than recessions to redress our economic problems.

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