Why did the Great Recession Fail to Produce a *New* New Deal in the USA?

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A society which reverences the attainment of riches as the supreme felicity will naturally be disposed to regard the poor as damned in the next world, if only to justify itself for making their life a hell in this.
(R. H. Tawney 1926, 222).

The class which has the means of material production at its disposal, has control at the same time over the means of mental production, so that… the ideas of those who lack the means of mental production are subject to it.
(Karl Marx 1845, 172).

The United States, despite its formally democratic character, is firmly in the hands of a moneyed oligarchy, probably the most powerful ruling class in history.
(Robert McChesney 2014a, 58).

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Abstract

In a manner remarkably similar to the decade of the 1920s, inequality soared for over three decades prior to the crisis of 2008, provoking in both instances financial crises and severe macroeconomic dysfunction. The 1930s depression witnessed a strong egalitarian political reaction to the laissez-faire ideology that had justified the inequality-generating institutional changes of the 1920s, resulting in a New Deal that launched four decades of institutional change that considerably improved general welfare and lessened inequality. The Grand Recession and its wake, by contrast, has not put that same ideology seriously into question, malaise becoming expressed predominantly in a form of rightwing populism, behind which inequality continues to explode. Why such radically divergent reactions to severe hardship? This chapter explores three foremost reasons for why ideology legitimating inequality survived practically unscathed during the later crisis: First, the crisis beginning in 2008 proved to be less severe, in part due to wiser public policy responses. Second, the welfare net that developed in the wake of the earlier crisis softened the degree of hardship accompanying the later crisis. And third, the elite's command over ideology had become more sophisticated and thus capable of surviving the later crisis essentially intact.

Keywords

Inequality · Ideology · Great Depression · Laissez-faire · Barack Obama

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In 2008, at the onset of the worst macroeconomic crisis to afflict the United States since the Great Depression, Democrat Barack Obama, promising major change, won the Presidency with a decisive victory over Republican John McCain, commanding 53% to 46% of the popular vote and 365 to 173 in the Electoral College. After his inauguration, he received sky-high public approval ratings. Democrats also commanded majorities in both houses of Congress giving the new President a challenge and opportunity that politicians rarely encounter – a crisis so severe that he could claim legitimacy to rewrite the social contract so as to reverse the soaring inequality that had evolved in the previous 35 years and return the nation to furthering the progressive measures that were instituted during the 40 years following the Great Depression's New Deal. Along with a Democrat-controlled Congress, he faced an opportunity to launch a New New Deal and it was widely expected that he would do so. In the wake of his election, he appeared on the cover of *Time* as FDR with the heading "The New New Deal." Such an opportunity was captured by Milton Friedman's quip that "Only a crisis—actual or perceived—produces real change" (1982, ix). But Obama and Congressional Democrats failed to seize the occasion.

Inequality continues to soar and progressive programs that had been instituted between the mid-1930s and mid-1970s continue to be weakened.

A considerable amount of ink has been spent on explaining why Democrats failed to seize, or were effectively blocked from seizing, their once-in-a-political-career opportunity (e.g., Skocpol et al. 2012; McChesney 2014b). But what has been inadequately recognized is the degree to which all of politics is fundamentally a fight for shares of income, wealth, and privilege, and the overwhelming role that ideology has always played in this struggle. Ideology has always been second only to violence in creating and maintaining inequality.

The Great Depression of the 1930s witnessed a strong egalitarian political reaction to the laissez-faire ideology that had justified the inequality-generating institutional changes of the 1920s, resulting in a New Deal, that launched four decades of progressive institutional change, considerably improving general welfare and substantially lessening inequality. The Grand Recession and its wake, by contrast, has not put that ideology seriously into question, malaise becoming expressed predominantly in a form of rightwing populism that has provided cover behind which inequality continues to explode. Why such radically divergent reactions to severe hardship? This chapter explores three dominant reasons for why the laissez-faire ideology legitimating inequality survived practically unscathed during the later crisis: First, the crisis beginning in 2008 proved to be less severe, in part due to a prompt and wiser public policy response. Second, the welfare net that developed in the wake of the earlier crisis softened the degree of hardship accompanying the later crisis. And third, the elite's command over ideology had become more entrenched and sophisticated and thus capable of surviving the later crisis practically intact.

A Historical Glance at Laissez-Faire Ideology

Whereas religion served the predominant role of legitimizing inequality in premodern societies, economics evolved to increasingly do so with the rise of capitalism, and among economic doctrines, laissez-faire has played a dominant role. Laissez-faire ideology has its origins in the struggle of a rising bourgeois class to curb the absolutist state's restrictions on their pursuit of profits. It received its theoretical grounding in the work of Adam Smith and the subsequent Classical School of economics. It has since served to legitimate strictly limiting government's interference in markets, while justifying its enforcement of private property rights.

Although laissez-faire ideology remained dominant throughout the nineteenth century, as industrialization and urbanization accompanying economic growth increased inequality, it also greatly augmented the potential, as Marx anticipated, that the working class could organize and threaten violence against the elites' state for redress. The evolution of an urban industrial working class brought with it organized, at times violent, resistance to long workdays, low wages, child labor, and unhealthy working conditions. To reduce and hopefully eliminate the threat of violence, elites began bribing the working class with various benefits and with the franchise. These strategies for calming working class revolutionary fervor resulted in higher living standards for workers.

The progressively greater democratization at the ballot box decreased the ease with which elites could use the state to violently curb the aspirations of workers, especially in putting down strikes. Retention of their control over the state would depend increasingly on their control over ideology. Always before, excepting severe crises, they had been successful in convincing the producers below that what was more narrowly in the interests of elites was equally in the interests of the workers. But now, because elites could no longer so readily back up their ideology with violence, they had lost their violence-backed monopoly control over the state.

By the end of the nineteenth century and during the first two decades of the twentieth century, workers used the state to politically advance their collective interests on an unprecedented scale. The state was transformed from the executive committee of the ruling class to that social agency that could limit or, in the extreme, eliminate the capturing by elites of disproportionate shares of income, wealth, and privilege. Without revolution, the working class had in principle gained power to rewrite the social script. That they did not fully do so is testament to the power elites retained over ideology.

Elites' command over ideology got a decided boost when a number of forces, most notably the seemingly unpatriotic strikes during World War I and the Bolshevik Revolution, turned public sentiment against worker organizations, enabling a robust form of laissez-faire ideology to recapture the political sphere and generate exploding inequality (Wisman and Pacitti 2004). But laissez-faire ideology's return to dominance was short-lived, becoming significantly delegitimated by the severity of the Great Depression.

However, in the 1970s, a convergence of events, most notably stagflation, dollar devaluation, heightened strike activity, and presumed moral degeneracy, enabled elites to depict government as "the problem." Laissez-faire ideology began returning to the dominance it had commanded in the 1920s. It retains that dominance to this day.

Inequality and the Dynamics of Ideology

Elite control can be maintained by either physical or ideological force, as has been recognized by social thinkers since Machiavelli. Physical force has often been necessary for initially establishing and solidifying a hierarchical social structure. However, brute force is relatively inefficient in that it generates strong resentment and the constant threat of insurrection. It is also costly in terms of policing resources. A far more efficient and effective long-term strategy – one that decreases the costs of resentment and physical repression – is for elites to generate an ideological system that convinces not only themselves but all beneath them of the moral and functional appropriateness of the existing social order. Those below are led to believe that their lesser status in terms of income, wealth, and privilege is as it must be.

During the greater part of history since the rise of the state and civilization, an aristocracy controlled access to land and the dominant ideology legitimated their privileged position. With the rise of capitalism, the owners of capital came to control access to the means of production and an ideology rose to dominance that legitimates the institutions and practices of capitalism. It is this control of ideology, backed when necessary by state violence, that has enabled the continual exploitation of producers since the rise of civilization 5500 years ago. It is also control of ideology that permits exploitation to continue, even when the exploited have gained the franchise and thus possess in principal the political means to bring it to an end. Beyond violence, ideology has always been elites' most powerful political weapon.

Ideology is deception, although not usually conscious deception. It is a form of mystification that serves specific interests. It promotes a mistaken view of aspects of reality, most importantly, social aspects and social relations. In doing so, it has always been a powerful instrument for creating and maintaining inequality (Wisman and Smith 2011).

Ideology is an aspect of legitimation. Legitimation refers to a set of beliefs concerning the nature of reality. It concerns how people mentally experience and understand their world. As such, it is neither positive nor negative. Humans evolved such that they must give meaning to their world (Berger and Luckmann 1967). Ideology, by contrast, refers to the way in which reality is misrepresented to serve special interests. It presents a false view of social relations that enables the exploitation of some by others.

At times, warfare and economic, demographic, ecological, or other natural catastrophes brought on crises severe enough to threaten the elite's ideology and thus their fitness to rule. However, their superior command over ideology always permitted them to eventually reclaim legitimacy and control over labor and thus its exploitation – the expropriation of the surplus workers produced.

Ideological control is generally expressed through the manipulation of social discourse. As Jim Sidanius and Shana Levin put it,

> . . .almost all perspectives on legitimizing ideologies suggest that their power is derived from their consensuality. . .. legitimizing ideologies are believed to be effective in regulating group-based inequality because they are often endorsed by dominants and subordinates alike. All other things being equal, the greater the degree to which both dominants and subordinates agree on the veracity of hierarchy-enhancing legitimizing myths, the less physical violence will be necessary to keep the system of stratification intact (2001, 316).

For subjugation of labor and its exploitation to be efficiently sustainable, workers must be led to believe that their inferior status in terms of income, wealth, and privilege is as it must be. And strikingly, Elizabeth Haines and John Jost find that "people may be more willing to accept relatively illegitimate accounts than is commonly assumed. . .[and the authors] found that people misremembered the explanations that were given to them as more legitimate than they actually were" (2000, 232).

With the exception of periods of extreme crises, elite control has always been adequately legitimated such that most folks found it acceptable, even when it meant their lives were filled with hardship and misery. This was especially true if all other sufferers remained quiescent. As Tolstoy famously noted, there are "no conditions of life to which a man cannot get accustomed, especially if he sees them accepted by everyone around him" (2017).

Exploding Inequality and the Generation of Severe Crises: Parallels Between the 1920s and the Three Decades Prior to 2008

Since the beginning of the twentieth century, there have been two major explosions in inequality: the first between World War I and the late 1920s and the second since the mid-1970s. Both were facilitated by robust revivals of laissez-faire ideology. Both also set the stage for severe macroeconomic dysfunction, accompanied by economic privation that most afflicted the less-well-off.

The periods leading up to both crises appeared to be highly prosperous. Between 1922 and 1929, GNP grew at an annual rate of 4.7% and unemployment averaged 3.7% (White 1990, 69). Between 1993 and 2007, GNP growth averaged 3.25% (US Department of Commerce n.d.) and unemployment averaged 5.2% ("Current Population Survey (CPS)" n.d.). However, in both periods productivity gains outpaced wages, such that the share of total income received by the richest 5% of the population, for instance, increased from 24.3% in 1919 to 33.5% in 1929. The disposable income of the top 1% of taxpayers rose 63% (Livingston 2009, 38). The real prosperity of the 1920s was reserved for those residing in the top of the income scale (Bernstein 1966; Stricker 1983). Contributing to this heightened inequality were tax "reforms" that reduced corporate taxes and lowered the maximum personal income tax rate from 65% to 32% (Sobel 1968, 52–53).

Similarly, real disposable income declined for wage earners in the three decades leading up to 2008. Average weekly earnings (in 1982 dollars) declined from $331.39 in 1973 to $275.93 in 2005, greatly lagging behind productivity gains (Miringoff and Opdycke 2014, 226). What is especially striking about the two periods is the dramatically larger shares of income and wealth accruing to the ultra-wealthy, especially the top one-hundredth of 1%. Their income shares soared from about 1.7% to 5% in the first period and from about 0.9% to 6% in the second (Saez 2010).

Greater inequality during both of these periods generated three dynamics that heightened risks of financial crises. The first is that holding ever greater income and wealth, an elite flooded financial markets with credit, helping keep interest rates low and encouraging the creation of new credit instruments with higher risk profiles. Stock and real estate markets soared. The second dynamic is that greater inequality meant that individuals were forced to struggle harder to find ways to consume more to maintain their relative social status, with the consequence that they saved less, increased their indebtedness, and worked longer hours. The third dynamic is that, as the rich took larger shares of income and wealth, they gained more command over ideology and hence politics. Reducing the size of government, deregulating the economy, and failing to regulate newly evolving financial instruments flowing out of this ideology. Together, these three dynamics set the stage for the financial crises of 1929 and 2008 (Wisman 2013a, 2014). The Great Depression and Great Recession were the consequences.

Radically Opposite Reactions

The Great Depression's widespread suffering generated worker militancy and called into question the elite's laissez-faire ideology and its political and economic policies.[1] It also challenged the prevailing economic theory that legitimated these policies, making space for the Keynesian revolution. Moreover, as Milton and Rose Friedman wrote, the Depression "discredited [and] shattered the public's confidence in private enterprise" (1988, 458; 462). This delegitimation of the elite's ideology, their most controlling political tool, led to political changes during the subsequent four decades that reduced inequality in income, wealth, and opportunity. These political changes were guided and made possible by economic doctrines that depicted greater equality as positive and active government intervention as essential for a prosperous and fair economy. Only government could guarantee a more equitable society – a "New Deal."

The most significant government measures reducing inequality and improving conditions for the broad population included workers' rights to collectively bargain, minimum wages, Social Security, the G.I. Bill, Medicare, Medicaid, Food Stamps, public housing and rent subsidies, Project Headstart, Job Corps, Occupational Safety and Health Administration, the Consumer Product Safety Commission, the Mine Enforcement and Safety Administration, and the Environmental Protection Agency. Public goods that benefit the general population such as schools, community colleges and state universities, parks, playgrounds, and public transit were vastly expanded in quantity and quality. And the percent of Americans living in poverty declined dramatically from about 30% in 1950 to 10% in 1973 (Appleby 2011, 321). Highly progressive income taxation also reveals the intent of redistribution toward greater equality. The highest marginal income tax rates were: 1942–43: 88%, 1944–45: 94%, and 1946–50: 91%. Top marginal tax rates remained in the upper 80% from 1951 until 1964, and 70% from 1965 until 1981.[2]

[1]Melvyn Dubofsky notes that "The Great Depression and the New Deal had wrought a veritable political revolution among American workers. Masses of hitherto politically apathetic workers, especially among first-generation immigrants and their spouses, went to the polls in greater numbers" (1986, 212).

[2]The impact of tax rates on inequality is clear. OECD countries in which taxes have been cut most on high incomes have witnessed the greatest increases in income accruing to the very wealthy (Deaton 2013, 212). Piketty also notes that ". . .the resurgence of inequality after 1980 is due largely to the political shifts of the past several decades, especially in regard to taxation and finance" (Piketty 2014, 20).

Whereas the top 1% of households in 1929 received 22.5% of all pre-tax income (including capital gains), they received only 9% by the late 1970s (Piketty and Saez 2006). What Arthur Burns termed a "revolutionary leveling" (Williamson 1991, 11), and Claudia Goldin and Robert Margo, the "Great Compression" (1992) between the 1930s and mid-1970s, seemed to confirm Simon Kuznets' conjecture that inequality would decrease in the later stages of economic development (1955). Thanks to the relative delegitimation of the elites' laissez-faire ideology and thus political power, relative wealth distribution returned to levels that had disappeared in the decades after the Civil War.

However, by the mid-1970s, ideology began turning against the active government intervention that had benefited the broad population for four decades. Due to the elites' wealth, superior education, and influence over the political sphere, this ideological reversal was destined to happen eventually (Wisman 2013b), but in the 1970s specific events hurried it along.

Stagflation delegitimated Keynesian economics,[3] setting the stage for a strong rejection of government intervention in the economy. Liberal policies were alleged to be at the root of what pundits claimed was the decline of the American century. Evidence included loss of gold backing of the dollar and its devaluation; loss of the Vietnam War; and with the widespread use of recreational drugs and sexual promiscuity, alleged rising moral degeneracy; and leftist extremism.[4] Welfare, union power, and labor legislation were claimed to have sapped work incentives. High taxes, especially on the rich, allegedly reduced entrepreneurial energies and the incentives to save and invest, resulting in stagnation and anemic tax revenues (the infamous "Laffer Curve").

Legislation flowing out of the rising discontent with activist government reversed the trend toward greater equality. This shift of income, wealth, and privilege toward the rich set in motion a self-reinforcing process since it meant that they commanded yet more resources with which to influence public opinion and policy. And research reveals that their expenditures on creating and disseminating ideology yield high returns (Glaeser and Raven 2006). The consequence is that inequality has reached levels of the 1920s. The elite, thanks to their recapture of ideology that guided political policy to change the economic rules of the game, recaptured more than they had lost during the four decades of the "great compression" (Wisman and Pacitti 2015).

But why did the onset of the Great Recession in 2008 not follow, at least in part, the script written during the Great Depression? Whereas the Great Depression witnessed a strong egalitarian political reaction to the laissez-faire ideology that had justified the inequality-generating institutional changes of the 1920s, the Grand

[3]As Chicago School economist John Cochrane has put it, "When inflation came in the nineteen-seventies, that was a major failure of Keynesian economics" (Cassidy 2010, 31). As early as 1980, Robert Lucas wrote that "At research seminars, people don't take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another" (Lucas 1980, 19).

[4]Home-grown domestic terrorism also characterized this period. In 1972, there were 1900 domestic bombings. Notable terrorist groups included the Weathermen, the Black Liberation Army, and the Symbionese Liberation Army (Burrough 2015).

Recession did not put seriously into question that same ideology that had legitimated the previous 40 years of exploding inequality. Instead, the widespread malaise has been largely channeled into an expression of populism that enables the rules of the game to continue to be reformulated to direct yet more income, wealth, and privilege to an elite. Indeed, since 2008, inequality has continued to explode.

Why such radically divergent reactions to systemic dysfunction and severe hardship? Why did the ideology legitimating inequality survive practically unscathed during the later crisis? Three reasons stand out: First, the crisis beginning in 2008 proved to be less severe, in part due to wiser public policy responses. Second, the welfare net that developed in the wake of the earlier crisis softened the degree of hardship accompanying the later crisis. And third, the elite's command over ideology had become more entrenched and sophisticated and thus capable of surviving the later crisis practically intact.

Two calamitous public policy mistakes followed the stock market crash of 1929: The Federal Reserve System permitted the money supply to contract, creating a liquidity crisis, bank failure, deflation, and massive bankruptcies. Second, blaming unfair foreign competition for the crisis, Congress passed the Smoot-Hawley Tariff Act of 1930, the most protectionist in US history. Both helped magnify a financial crisis into a full-blown depression. The immediate response to the severe crisis that began in 2008 was radically wiser. The Federal Reserve massively injected liquidity into the banking system and bailed out banks, precluding a collapse of the financial system, deflation, and the massive bankruptcies that had characterized the early 1930s.[5] A rush to protectionism was also precluded. At the G20 meeting in London in 2009, world leaders committed to avoid the mistakes of the early 1930s by coordinating fiscal and monetary expansion and eschewing protectionism. Only when the threat of depression seemed averted did increasing voices insist on fiscal austerity.

The Great Depression was far harsher for the general population than would be the case during the Great Recession. Whereas unemployment reached 25% in the former, it attained only 10% in the latter.[6] Moreover, no public safety net existed during the Great Depression, whereas a considerable public support system limited suffering during the Great Recession.

Although laissez-faire ideology legitimated public policies that enabled explosions in inequality prior to both crises, its uninterrupted reign was only slightly more than a decade prior to 1929, whereas its dominance spanned three decades prior to 2008. Thus, in this later period, it had time to become far more deeply entrenched in politics and social attitudes, supported by social institutions such as education, media, think tanks, and popular entertainment. Further, whereas in the

[5]Relative success appears not to have been due to the lesser severity of the 2008 financial crisis. Ben Bernanke avowed at the Financial Crisis Inquiry Commission hearing: "As a scholar of the Great Depression, I honestly believe that September and October of 2008 was the worst financial crisis in global history, including the Great Depression" (*Financial Crisis Inquiry Commission* 2011, 354).

[6]Although official unemployment reached 25% in 1933, more recent estimates claim it was closer to 50% (Gans 2014, 56).

1930s, socialism was broadly entertained as a more just alternative to dysfunctional capitalism, the 1991 collapse of the Soviet Union all but eliminated it from political discourse.

In his first inaugural Presidential address in 1981, Ronald Reagan declared that "Government is not the solution to our problem; government is the problem." And in fact, until workers acquired the franchise, although government provided for defense and a degree of social stability, it enabled elites to extract as much surplus as possible from the working population, so for the latter it was indeed a problem. Workers, whether slaves, serfs, indentured servants, or wage workers generally retained merely the wherewithal to survive. Yet, while government served to enable the exploitation of the producers, its goodness was rarely in doubt. Ideology, crafted and controlled by elites, depicted the state as sacred, its rulers chosen by gods, or gods themselves. Government was part of the sacred order of things. Even when the state came to be legitimated in secular terms (as a *social contract*), elites continued to use the state to insure that they could capture most of the workers' output beyond the latter's survival needs.

However, since the late eighteenth century, laissez-faire ideology has served to cultivate a distrust of government, and the elite's need for this distrust became especially necessary after workers gained the franchise. The vote gave workers the power to peacefully claim a fairer share of society's income, wealth, and privilege. The role of the state was in principle reversed from a social agency that enabled elites to capture virtually all income beyond subsistence, to one that could impede them from doing so. If the state were to become truly democratically controlled, then for elites, government would indeed become "the problem." Thus, a winning ideological strategy for elites would be to convince the electorate that government is not to be trusted. And since the late 1970s, this strategy has worked. Whereas in the 1970s, 70% of Americans had "trust and confidence" that the government could successfully deal with domestic problems, only 22% held the same view in 2011 (Ford 2012).[7] The consequence has been massive tax cuts (incidentally mostly benefitting the rich) to "starve the beast," shredded welfare for the poor (depicted as lazy free-loaders), and deregulation. And as government programs that benefit the larger population have been cut, their quality has worsened, thereby giving credence to the view that government is incompetent. To check the power of those who do not buy into this ideology, more measures have been taken to restrict the right to vote.

[7]The ideology of "government as the problem" has been so successful that a huge percent of Americans do not even recognize very substantial benefits they receive from government. For instance, Paul Krugman points out that 40% to 44% of those who receive Social Security, unemployment benefits, and Medicare claim that they "have never used a government program" (2012).

During the three decades prior to the crisis of 2008, the majority of Americans witnessed a decline in the quality of their lives. Their wages stagnated and their jobs became less secure as freer international trade forced them to compete with low-wage foreign workers and new technology rendered their skills obsolete.[8] For many, neighborhoods decayed, as did public services such as schools for their children (Putnam 2016). And then the crisis of 2008 made everything so much worse. The victims' response had been ideologically conditioned to blame a government controlled by intellectual elites and Wall Street.

Both Political Parties in Harness to Wall Street

Obama's initial measures prompted progressives quickly to conclude that he had betrayed his campaign promises. He brought in Wall Street foxes (e.g., Timothy Geithner and Lawrence Summers) who had raided and devastated the hen house to fix it. Rather than nationalize mega banks, he bailed them out, saving their wealthy owners from massive losses, while letting poor homeowners go bankrupt on loans they were fraudulently sold.[9] The failing auto industry was bailed out at a final taxpayer loss of $10 billion.[10] Absent a massive jobs program, unemployed workers were left idle and discouraged, many dropping out of the job market to which some have yet to return.[11] Consequently, corporate balance sheets recovered quickly, while mainstreet small businesses and American households floundered. It is true that although Democrats held majorities in both houses during his first two years, Obama faced the threat of filibusters in the Senate. But rather than attempting to end-run Congress by appealing directly to voters with a strategy such as FDR's

[8]Production workers earned $9.26 an hour in inflation-adjusted dollars in 1972. Forty-four years later, in 2016, they earned $9.20 (Cassidy 2017).

[9]No mortgage executives were held accountable and mortgage companies were permitted to foreclose on homeowners instead of being forced to modify loans or reduce balances. About nine million households lost their homes. At the end of Obama's presidency, 63.7% of households owned their own homes, the lowest since 1965 (the peak was 69.2 in 2004) (Jackson 2017). Black households were especially impacted. By 2014, almost half of their wealth had vanished (Heideman 2017), a crushing blow given that net median white household wealth is 13 times higher than for blacks (*The Economist* 2016).

[10]The wealthy were generally spared the pain of the crisis. By the end of Obama's second year, the S&P 500 stock index had risen almost 60%, recovering most of its losses after its 2007 peak. By the end of his second term, it had gained 166%.

[11]The labor-force participation fell from 65.7% to 62.8% (half of the decline due to demographics) during the Obama years, the lowest in four decades, while the median jobless rate was 7.7%, higher than during any post-World War Two administration (Jackson 2017).

fireside chats, he futilely tried to appease Republican opposition.[12] The fact that Obama ended up embracing the same politics that had generated inequality over the preceding 35 years was the straw that broke the camel's back. Many of his supporters wound up supporting Trump.[13]

The Democrats' disappointing response to their unique opportunity to put American society back onto a progressive track is symptomatic of the extent to which a wealthy elite has captured government. Whether Democrats or Republicans have controlled the White House or Congress has made relatively little difference in who is winning in America. Since Jimmy Carter, income, wealth, and privilege have continued to shift toward an elite no matter which party has been in power.[14] The only difference is that Republican policies have been more clearly crafted to benefit the elite. Government under both parties had let down a majority of Americans and many were ready for anything but more of the same. Donald Trump's appeal was that he appeared and professed to not be a part of that establishment that had betrayed everyday Americans.[15] And although the Republican Party is seen as part of the establishment, due to its support of cultural stances that are anathema to the Democratic Party, it was stronger at the end of the Obama administration than at any time since 1928 (Time 2017). Incidentally, inequality as measured by the Gini

[12]Obama did not engage in reaching out to Americans through television (as had Ronald Reagan) to draw support for his policies and thereby skirt-around and bring pressure upon Congressional members. It should be noted that a conservative coalition opposing Roosevelt's projects formed in 1934. However, Roosevelt became increasingly supportive of workers as the Depression dragged on. In his presidential campaign of 1936, he advocated a wealth tax. He also advocated marginal income tax rates as high as 79%, stiffer inheritance taxes, and greater taxes on corporate profits. He attempted, unsuccessfully, to make guaranteed employment a part of the Social Security Act. He was also not reticent in his attacks on the rich, referring to them in his presidential address of 1936 as "economic royalists," an "autocracy" that sought "power for themselves, enslavement for the public" (Kennedy 2001, 227–82).

[13]During the 2016 election campaign, Donald Trump received the greatest support in those counties with the highest levels of economic distress, as well as where the mortality rates were highest from alcohol, drug abuse and suicide (Burns 2018).

[14]The election of Jimmy Carter in 1976 shifted the Democratic Party rightward, where it has since stayed, despite Bernie Sanders' attempt to take it back to the politics of FDR, Harry Truman, JFK and Lyndon Johnson, during whose administrations, wealth inequality decreased. It was especially Bill Clinton who dragged the party further to the right with his campaign pledge to end welfare "as we know it." During the administrations of Carter, Clinton, and Obama, wealth inequality increased (Studebaker 2016).

[15]Ganesh Sitaraman writes that "The defining feature of the 2016 election was the strength of anti-establishment candidates who channeled popular discontent with elites and with the current functioning of American politics. In the primaries, Senator Bernie Sanders received more than 12 million votes, Donald Trump received more than 13 million votes, and Senator Ted Cruz won more than seven-and-a-half-million votes. Together, explicitly anti-establishment candidates took more than 30 million primary votes, out of around fifty-six million cast" (Sitaraman 2017, 271).The Public Religion Research Institute conducted a poll in June 2016 and found that 49 percent of voters agreed with the statement "Because things have gotten so far off track in this country, we need a leader who is willing to break some rules if that's what it takes to set things right" (cited in Galston 2018, 74).

coefficient rose more during the Obama years than during any other administration over the past forty years (Regalia 2015). Obama failed to push hard for his campaign promise to permit the expiration of George W. Bush's tax breaks for the richest Americans, even though he enjoyed Democratic majorities in both Houses in 2009 and 2010. Emmanuel Saez reports that 52% of income gains since the financial crisis and up to 2016 had accrued to the wealthiest 1% of households, while average household's income remains at about the same as in 1999 (Ehrenfreund 2017).

The fact that both parties have become beholden and in service to monied interests is a direct outcome of surging inequality which has provided elites with ever-greater resources with which to purchase candidates and control government policies. Since election campaigns are funded by private money and organized labor has been busted, candidates in need of massive amounts of money to run for office are trapped. They must appeal to wealthy interests to get and stay elected.[16] There have been exceptions such as Bernie Sanders, and a more recent number of candidates for the Presidential election of 2020, but they prove the rule.

How Do the Elite, So Few in Number, Win Elections?

Although both parties have been substantially captured by monied interests, the Republican Party is generally the party to which the elite gravitate. But how could they ever rally sufficient support to get their candidates elected, given that the elite not only constitute but a very small fraction of the voting public, but also officially embrace political programs that blatantly are to their own benefit? For instance, the Republican Party has long advocated slashing funds for programs that benefit lower income households, such as food stamps, unemployment benefits, funding for public education, and publicly provided health care. And proving their allegiance to the rich elite, they have ever advocated cutting taxes for the wealthy. So how do they get their candidates elected?

It should first be noted that the GOP has a long history of demonizing the least privileged as lazy and handicapped by dependency on welfare, or as a Tea Party bumper sticker puts it, "Keep Working. Millions on Welfare are Counting on You."[17]

[16]Democrats as well as Republicans are dependent on the rich and the corporations they own. In the 2014 elections, for example, about 32,000 individuals — 0.01 percent of the population — accounted for 30 percent of all political contributions (Olsen-Phillips et al. 2015). With few exceptions, contributions from individual firms are given equally to Republicans and Democrats. Corporations hedge their bets, investing in politicians of all stripes to ensure that, no matter who is elected, they will have access. Politicians almost always respond to the will of their contributors, not constituents (Bonica et al. 2013)

[17]In an infamous 2012 campaign speech, Mitt Romney claimed that 47% of the country constitutes a "taker class," paying little or nothing in taxes, but expecting taxes on the productive classes for free health care, food, housing, etc. Many workers buy into this view. Catherine Rampell reports that "Across rural America, the Rust Best, Coal Country and other hotbeds of Trumpism, voters have repeatedly expressed frustration that the lazy and less deserving are getting a bigger chunk of government cheese" (2016).

The least privileged are told to buck up and go fend for themselves as earlier Americans always did. American society is presented as providing exceptional opportunity for vertical mobility. Anyone by dint of persistence and hard work can make it to the very top, making Americans far more ambivalent than Western Europeans about fairness.[18]

Neoclassical economics' claim that all economic actors get their just desserts reinforces the view that by working diligently, anyone can make it in America. This idea of fluid vertical mobility has deep roots in US culture. For much of its history, thanks to abundant land and emigrants fleeing Europe's rigid class structure, there was greater social mobility in America than anywhere else on Earth, making Americans more prone to internalize responsibility for their successes or failures. The rich have earned it and the poor are responsible for their poverty.

Europeans, by contrast, are less ready to find the poor at fault. For instance, a World Values Survey found that 71% of Americans versus 40% of Europeans believe that the poor could work their way out of poverty. "…54 percent of Europeans believe that the poor are unlucky, whereas only 30 percent of Americans share that belief." And "Sixty percent of American respondents, but only 26 percent of Europeans say that the poor are lazy" (Alesina et al. 2001, 237, 242, 243).[19]

Americans also greatly underestimate the magnitude of inequality. Whereas people on average believe that the richest 20% own almost 60% of all wealth, they in fact own about 85%. More striking, whereas they believe that the bottom 40% own 8% to 10% of wealth, they in fact hold only 0.3% (Norton and Ariely 2011).

The GOP also exploits the fact that for many people, cultural issues trump economic ones.[20] This is in part because economic issues are complex and hotly contested. Elites find support from some professional economists that tax cuts for the rich and corporations, cuts in welfare, and deregulation will generate economic dynamism, increase employment, and raise wages. So even when the economic consequences of this platform are unclear, voters find reason to support a political party that also happens to endorse their hot cultural stances on issues such as abortion, gay rights, race, immigration, gun control, and creationism. Moreover, these cultural issues are laden with an emotional energy that economic issues lack.[21]

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[18]Some conservatives have attempted to propagate a view that fairness is "hostile to capitalism, destructive of national security, and dangerous to liberty" (Woodward 2012, B6).

[19]Other evidence also suggests the greater extent to which Americans hold individuals responsible for their own fates. For instance, Alesina, Glaeser, and Sacerdote have found "an extremely strong relationship in the United States between supporting capital punishment and opposing welfare" (2001b, 242).

[20]Matt O'Brien writes that today's Republican Party is composed of three different wings. The first is Wall Street that puts up the money to get their leaders elected. The second wing is middle-class professionals who are attracted to tax cuts. The third wing is the white working class who are sold the argument that their woes are due to immigrants, free trade, welfare cheats, and many of whom are attached to cultural issues such as right to life, etc. (O'Brien 2017).

[21]Behavioral economists are finding that people systematically make decisions that are against their own interests, driven more by emotions than economic reason. In *What's the Matter with Kansas?* (2005), Thomas Frank provides wide-ranging evidence for this view.

The manner in which racism has played this role was extensively addressed by W. E. B. Du Bois (1935), and it has been alleged to have played an important role in the election of Donald Trump (Zeitz 2017).

Final Reflections

The sustained 40-year period of declining inequality between the 1930s and 1970s appears to have been a modern historical anomaly, if not a singularity. The reason is to be found in the elite's greater potential for crafting ideology that is widely persuasive and thus can be expected to reverse any setbacks. Not only do their greater material assets enable them to essentially purchase elections, they have the best educations, the most gifted friends and acquaintances, all of which make them on average more astute and successful in identifying and attaining their interests than less-privileged citizens. They are not evil or behaving in bad faith, but sincerely believe that the doctrines and policies they support, and which make them ever richer, are in fact the best for everyone.

What hope, then, remains for greater equality? By crafting their self-interested ideology to be ever more convincing to the larger population, elites have managed over the past 45 years to appropriate ever larger shares of national income, wealth, and privilege. This ideology has become deeply entrenched in the American psyche. It is plausible that the legitimacy of such ideology can only be effectively challenged by an extremely severe crisis – one that greatly reduces living standards and security – an event as extreme as the Great Depression. But what if elites who control the state by purchasing politicians and controlling ideology have learnt how to limit the damage of severe crises? This appears to have been the case with the crisis of 2008. Relatively limited suffering enabled the entrenched ideology to survive intact, deflecting blame from the wealthy elite to Wall Street and establishment politicians (not clearly realizing that they are agents of the elite!), immigrants, free trade, and welfare dependents.

The future could be one in which gradually, under an ideological umbrella, more and more measures will be launched that further increase the elites' capacity to capture ever more income, wealth, and privilege, continuing the explosive rise in inequality of the past 45 years. Indeed, as this is being written, under the Trump administration and a Republican Congress, precisely this is happening, at yet greater speed.

Or might elites come to realize that great inequality is not in fact in their best interest? Jared Diamond suggests that this is unlikely. He notes that in past civilizations elites pursued their own immediate self-interest even when they had before them the evidence of severe environmental decline, their civilization's decay, and thus the long-run ruin of the foundations upon which their own privileges and livelihoods depended (Diamond 2011). Diamond's investigations suggest that elites do not manage to recognize and act upon their enlightened long-run self-interests, even when their policies are leading to their own ruin. Similarly, according to Bos van Bavel (2016), capitalist classes brought forth robust economic growth in Iraq in the fifth to seventh century, Italy in the tenth to twelfth century, and the Low Countries in the eleventh to thirteenth century. However, the increasing political power of their ever-wealthier capitalist classes led to institutional changes that permitted them to massively rent seek as opposed to investing in productive capital, bringing that robust economic dynamism to an end and propelling their societies into first stagnation and then long-run decline. Moreover, in his magisterial study of inequality levelling, Walter Scheidel finds "little solid evidence for leveling by peaceful means" (2017, 377).

Could the US become a failed state? Daron Acemoglu and James Robinson remind us that "Countries become failed states. . . because of the legacy of extractive institutions, which concentrate power and wealth in the hands of those controlling the state, opening the way for unrest, strife, and civil war" (2012, 376).

Cross-References

- ▶ A Return to the Good Old Days: Populism, Fake News, Yellow Journalism, and the Unparalleled Virtue of Business People
- ▶ Conclusion: Management Theory in Crisis
- ▶ Economic Foundations: Adam Smith and the Classical School of Economics
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- ▶ What Is Management?

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