MIRAGE AND DEFLECTION

Brent Searle

The hoopla by Fox News and other conservatives focusing on a photo of two teenagers who refused a job offer, and the employer holding a sign to shame the boys and tell others not to give them anything to them, is another grand deflection from the real issues of the nation.

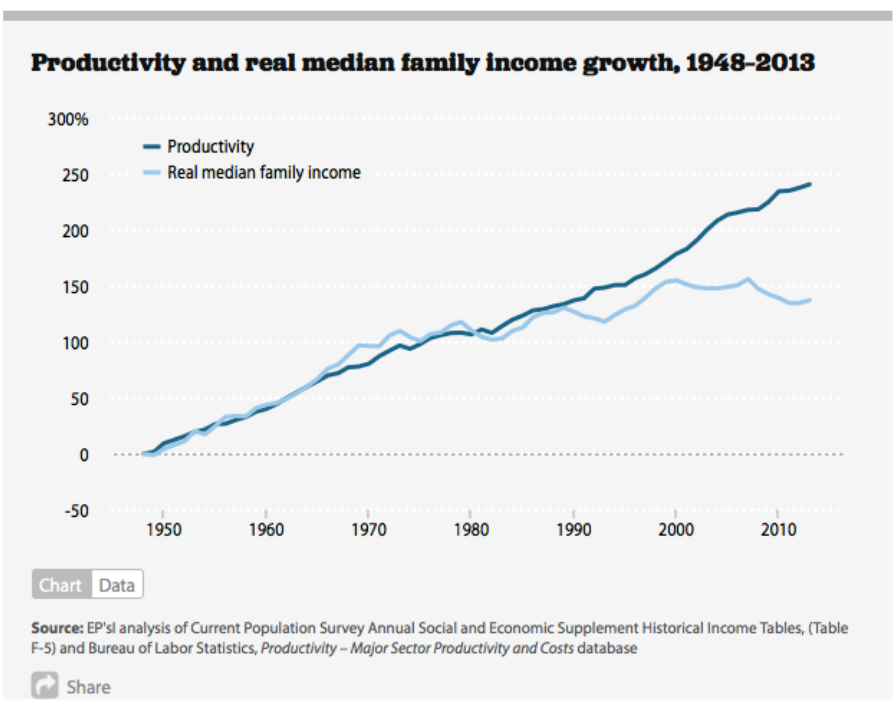
In talking with friends and associates, they characterize their response to this photo as "frustration" they feel with people who "fake" a need to get a "free handout" and then live in a house "better than mine, and make more money than I do…" (There's a lot of assumptions in there.) There's also a feeling of "theft," and it seems a bit of envy going on – for a couple kids on the street!

So -- theft and envy. Feeling of being cheated by a couple of kids on the street corner, and it bleeds over into broad accusation that anyone getting government assistance is faking it and stealing tax money from them. This is more of the "us versus them," divide and conquer mantra. The "them" in this case is the poor, or those representing the poor. The average conservative apparently feels cheated.

Well, there is robbery going on, but it ain't those boys!

In the early 20th century (post depression through 1980ish) there was an *unwritten moral imperative* between the workforce and employers, between capital owners and those they employed. It went like this: get a good education (though college wasn't necessary for all), work hard, be innovative, use your skills and commitment to the company so that productivity increases (costs go down, profits go up), and you will receive a corresponding increase in wages to track productivity.

The chart below shows the correlation until 1980.



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Another aspect of the *imperative* was that CEOs and other top-paid employees would be paid in a moderate ratio to average employee salary. Up until 1980, that was about 30X the average worker annual pay.

1980 began the era of deregulation of financial institutions, of less oversight over trading and investment, of free-for-all capitalism without regulatory bodies conducting due diligence over the practices of traders. There was also the growing world economy and large companies, once beholden to U.S. workers and markets, increasingly becoming multinational in nature and growing in size with income and assets greater than many small nations. Capital chased cheaper labor. The *unwritten moral imperative* was broken.

No longer did employers seem to care about productivity to labor ratios. The game became focused on returns to investors, shareholders of the company's stock, and the corresponding pay to the CEO. The mantra became "go where there is cheap labor, convert the higher proceeds into profits, and split it between CEO and shareholders."

The result? Enron, Bernie Madolf, Lehman Brothers, Martin Shkreli, etc., etc.; and many more in the past three decades that haven't been prosecuted because the regulators weren't watching or investigating. Hopefully that is changing. Here's a couple recent examples:

"Martin Shkreli, a boastful pharmaceutical executive who came under withering criticism for price gouging vital drugs (raised the price from $13.50/pill to $750/pill), was arrested on securities fraud charges on Thursday…While the 32-year-old has earned a rare level of infamy for his brazenness in business and his personal life, what he was charged with had nothing to do with skyrocketing drug prices. He is accused of repeatedly losing money for investors and lying to them about it, illegally taking assets from one of his companies to pay off debtors in another. Shkreli essentially ran his company like a Ponzi scheme where he used each subsequent company to pay off defrauded investors from the prior company…http://www.bloomberg.com/features/2015-martin-shkreli-securities-fraud/

"Through lies and deceit, the defendants took advantage of the investing public and sold them worthless stock of shell companies that were propped up by false press releases. … The evidence at trial established that Kershner and Sahachaisere, together with others, engaged in an international 'pump and dump' operation, fraudulently inflating the share price of worthless penny stocks, and then dumping billions of shares on unsuspecting victim investors across the globe. " https://www.fbi.gov/newyork/press-releases/2015/two-convicted-for-participating-in-a-95-million-international-market-manipulation-scheme

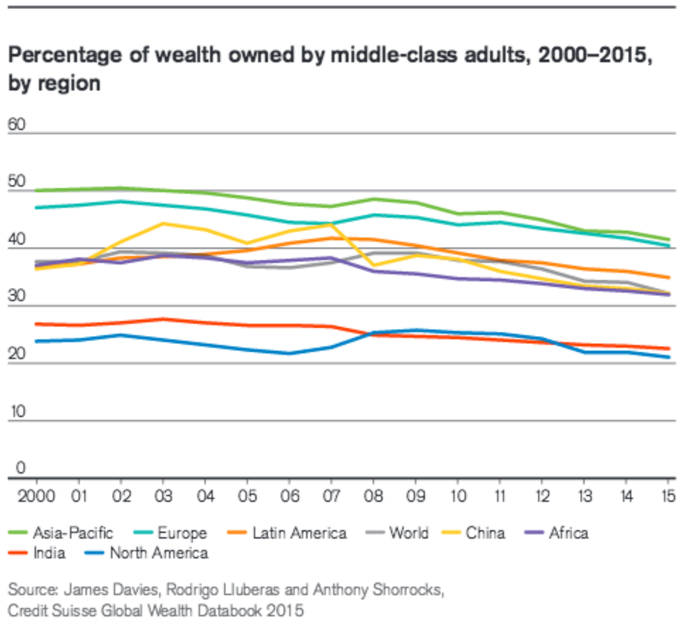
$95 million dollars in worthless stock sold to investors, as a penny stock probably to people who don't have a lot of money to start with.

Since fiscal year 2009, the Justice Department has filed over 18,000 financial fraud cases against more than 25,000 defendants. There's a lot of "stealing" and ruining peoples lives going on at this level than there every will from a couple teenagers on a street corner.

Even bigger, just earlier in 2015: "Six of the world's biggest banks will pay $5.8 billion and five of them agreed to plead guilty to charges tied to a currency-rigging probe… Citicorp, JPMorgan Chase & Co., Barclays Plc and Royal Bank of Scotland Plc agreed to plead guilty to felony charges of conspiring to manipulate the price of U.S. dollars and euros… The four banks that agreed to plead guilty to currency charges are among the world's biggest foreign-exchange traders. They were accused of colluding to influence benchmark rates by aligning positions and pushing transactions through at the same time. Traders who described themselves as members of "The Cartel" used online chat rooms to discuss their positions before the rates were set and suppress competition in the market…" http://www.bloomberg.com/news/articles/2015-05-20/six-banks-pay-5-8-billion-five-plead-guilty-to-market-rigging

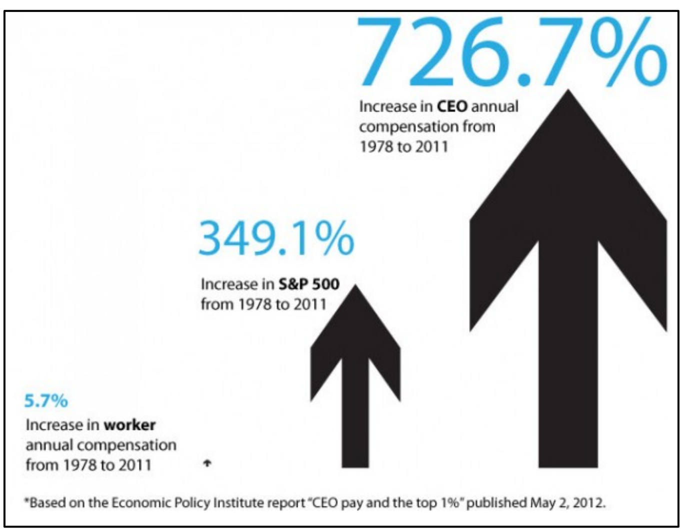
These are the people who should have signs hung over their heads: "Don't give these people any money! They are cheaters, liars, and mess with your life savings in major ways!"

These people are products of a liaise-faire capitalism that cares for no one but themselves. They seek to exploit whatever they can -- including workers, investors, governments to whom they owe taxes – to engorge their already wealthy pockets. It's become almost standard practice – not for all – but for way too many of the largest wealth owners, businesses, and financial organization in the U.S. Further, large, multinationals are playing tax evasion games. They have coffers loaded with profits but want to further this scheme by finding every loophole to avoid not only equitable pay (related to productivity), but their share of taxes from the benefits of the host society where they were founded and grew within (Phizer).



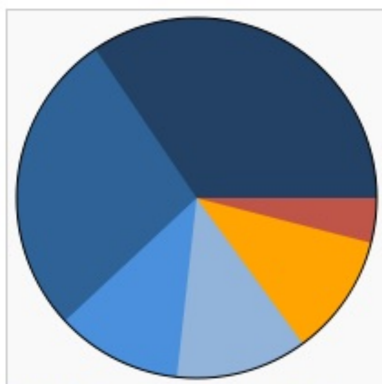
There are profound repercussions of this wild-west capitalism mentality in the U.S. The market left alone creates far too much speculative and manipulative invitation for too many individuals and companies. The evidence is all around us.

First and foremost, the middle class is shrinking, worldwide. But the U.S. is at the bottom. See chart to the right.



Second, the income of wage earners has shrunk while that of CEOs and those with lots of capital (wealth) has increased dramatically. There is no longer a "gentlemen's agreement," or agreement of any kind that gauges the salary and benefits of CEOs to that of workers in the U.S.

The discrepancy can only be called what it is – theft. It's an immoral taking from wage earners to feed the greed of those at the top. How can this chart be reconciled with any gauge of fairness? It can't, so FOX news trumpets out a photo of two kids on the corner who won't work so the populace is whipped up into a frenzy of misdirection.

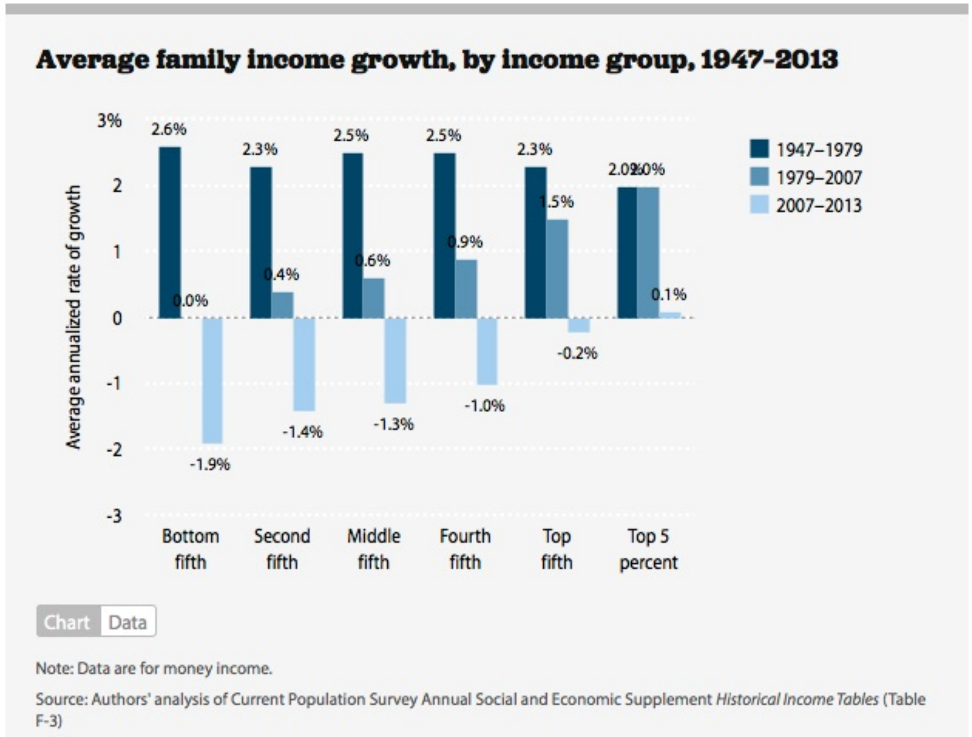


Wealth distribution in the United States by net worth (2007).[10] The net wealth of many people in the lowest 20% is negative because of debt.[10] By 2014 the wealth gap deepened.

- Top 1% (34.6%)
- Next 4% (27.3%)
- Next 5% (11.2%)
- Next 10% (12%)
- **Upper Middle 20%** (10.9%)
- **Middle 20%** (4%)
- **Bottom 40%** (0.2%)

The chart to the right shows how U.S. wealth is now owned: the top 5% of the population controls 62% of the wealth. The bottom 95% of the population split (unevenly) the other 38%. It's staggering.

This isn't the American dream any longer. Younger generations are no longer earning more than their parents (with a few exceptions). College education is hardly worth the cost – of the $11.1 trillion debt for all US households, $1.2 trillion is student loans that are increasingly in default (nearly 12%) because of low wage jobs. Students can't repay the high cost of today's colleges with the wages being offered. The average student loan debt is approximately $23,000. Last year, for the first time, Americans owed more on student loans overall than they did on their credit cards.



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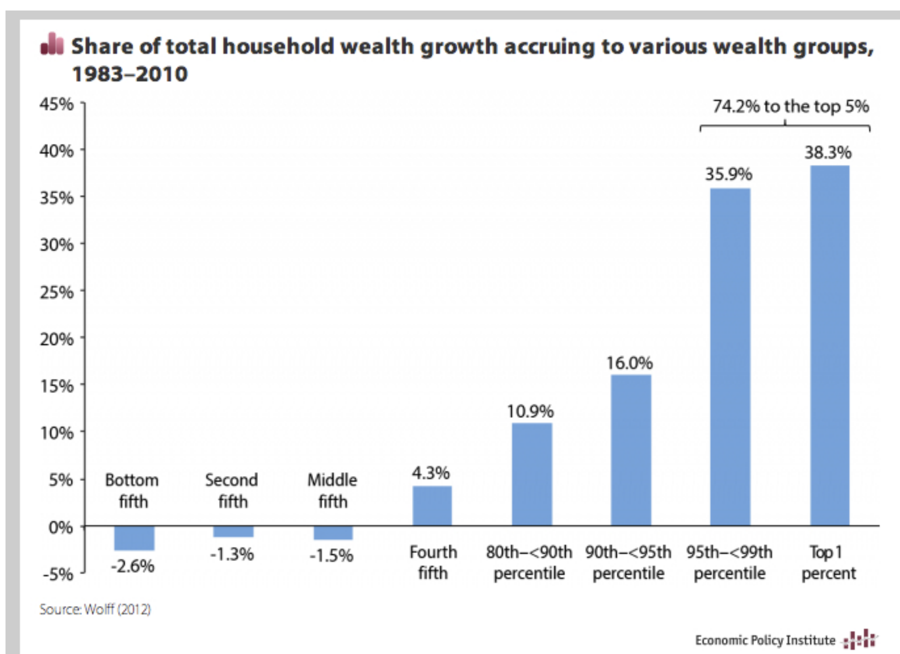
This graph to the right denotes that between 1947 and 1979 the population at large saw family income (mostly wages) rise at a relatively constant rate with productivity.

From 1979-2007 the changes in the structure of the job market, lower pay, and multinationals moving jobs offshore hit lower-income families first and hard. Higher income earners (top 5%) were unaffected at all.

Between 1997-2013 the full brunt of the housing bubble fiasco, the market manipulation resulting in losses to savings and retirement accounts for average Americans, lower wages and higher unemployment combined to push the entire country – 95% of Americans (all but the richest 5%) into negative income. That is to say, income growth was negative over this 5-year period.

The overall net worth of the average American is down nearly 40% from 2007 to 2010 according to one report; that's partly because the largest single asset of the average family is their home, and home prices are only now starting to recover from the housing bubble.



The wealthiest 5% of income earners didn't suffer any backward slide in income during the 2007-2010 period. Their income didn't grow as fast, but it didn't go negative. And even a .01% increase on a $5 million salary is still a $50,000 bonus –nearly what the average family makes in an entire year.

The chart to the right looks at the period we're discussing and shows the share of wealth accumulated to various income levels over this period – 74.2% to the top 5% of the households.

Something is terribly wrong with this situation!

There's a great interactive chart at: https://en.wikipedia.org/wiki/Distribution_of_wealth
Using this chart to sort by **median** wealth per adult, we find that the U.S. ranks 27th down the list behind Slovenia. (*Mean* wealth is skewed by high-wealth adults).

The "Gini coefficient" noted in the right column is defined thus: The Gini coefficient measures the inequality among values of a frequency distribution (for example, levels of income). A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income). A Gini coefficient of one (or 100%) expresses maximal inequality among values (for example, where only one person has all the income or consumption, and all others have none). However, a value greater than one may occur if some persons represent negative contribution to the total (for example, having negative income or wealth -- Denmark in this measurement; must have a lot of people in debt).

This table was created from information provided by the Credit Suisse, Research Institute's "Global Wealth Databook", published 2013.[19]

Country	Adults Thousands	Mean wealth per adult USD	Median wealth per adult USD	Distribution of adults (%) by wealth range (USD)					Gini %
				under 10K	10K - 100K	100K - 1M	> 1M	Total	
Australia	16,617	402,578	219,505	6.9	23.7	62.6	6.8	100	63.6
Luxembourg	390	315,240	182,768	15	22.5	57	5.5	100	65.7
Belgium	8,387	255,573	148,141	17.4	22.1	57.3	3.2	100	62.6
France	48,124	295,933	141,850	21.7	22.9	50.8	4.6	100	69
Italy	49,117	241,383	138,653	20	20.5	56.5	3	100	65
United Kingdom	48,220	243,570	111,524	18	28.8	50	3.2	100	67.7
Japan	104,315	216,694	110,294	9.2	37.7	50.6	2.5	100	63.5
Iceland	253	211,592	104,733	20	30	47.3	2.7	100	67.3
Switzerland	6,101	512,562	95,916	5.2	46	38.8	10	100	80.6
Finland	4,195	171,821	95,095	29	22.3	47.2	1.6	100	66.4
Norway	3,733	380,473	92,859	19.4	32.5	40.6	7.5	100	77.8
Singapore	3,955	281,764	90,466	20	34.2	41.4	4.4	100	73.9
Canada	27,173	251,034	90,252	30	21.5	44.9	3.7	100	72.7
Netherlands	12,914	185,588	83,631	23.3	30.9	43.6	2.2	100	73.2
New Zealand	3,234	182,548	76,607	25.6	34.1	38.1	2.3	100	71.8
Ireland	3,488	183,804	75,573	20.9	36.5	40.4	2.2	100	70.9
Spain	37,206	123,997	63,306	17.4	52.4	29	1.1	100	66.1
Qatar	1,278	153,294	58,237	25	38.3	35	1.7	100	70.5
Denmark	4,190	255,066	57,675	39.5	17	37.8	5.7	100	107.7
Austria	6,761	203,931	57,450	28.2	31.8	37	3	100	77.8
Greece	9,105	102,971	53,937	20.4	53.7	25.1	0.8	100	65.9
Taiwan	18,359	151,752	53,336	22.5	45.1	30.8	1.7	100	73.6
Sweden	7,299	299,441	52,677	15.6	48.3	29.2	6.9	100	80.3
United Arab Emirates	3,777	126,791	51,882	20	50.6	28.2	1.3	100	70.5
Germany	67,068	192,232	49,370	29	33.3	35.1	2.6	100	77.1
Slovenia	1,655	64,067	44,932	19.4	60.6	19.9	0.1	100	53.5
United States of America	239,279	301,140	44,911	30.7	33	30.7	5.5	100	85.1

The countries (aside from the anomaly of Denmark) with the highest Gini co-efficient (greatest income inequality) are the following: The Russian Federation, Ukraine, Kazakhstan, Lebanon, and the U.S.

Not a great crowd to be grouped with.

Income concentration also affects elections with fewer constraints on doners under current laws.