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The Political Economy of the Occupy Movement

The spectacular growth of the Occupy Movement reflects a deep-seated political sentiment. The movement has grown, in just a little over two months, from an occupation of about 200 people in Zuccotti Park in New York City to a movement that is now represented in over 2,400 cities (according to Occupy Together) and in other formats such as Occupy Colleges and Occupy the Media. Many local communities—Riverside, San Bernardino, and Redlands among them—have been the sites of Occupy encampments and/or events.

What's more, in polls taken by Public Policy Polling, the fraction of voters who support the movement stands at about 33% (<http://www.publicpolicypolling.com/main/2011/11/voters-moving-against-occupy-movement.html>). Given the traditionally conservative nature of the U.S. electorate, this is a strong sentiment. The Civil Rights movement, for example, did not have this level of support in the late 1950s and early 1960s, and it took years before the Anti-War Movement of the 1960s reached the level of approval currently given to the Occupiers (<http://www.publicpolicypolling.com/main/2011/11/voters-moving-against-occupy-movement.html>). Clearly, something is happening here.

To political economists, what makes this phenomenon interesting is that it represents
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Department of Economics
CSUSB
909-537-5511
<http://economics.csusb.edu>
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an attitude that runs against what many claim are the dominant mainstream values in this county. Unlike the Tea Party, which gives voice to these dominant values, the Occupy Movement is giving voice to a contrarian set of norms.

While the Tea Party emphasizes private property, individualism, free markets, and a deep suspicion of government and “socialist” solutions, the Occupy Movement questions the power of corporations and is comfortable with socializing health care and education, redistributing income, and regulating markets—specifically financial markets.

However, while their encampments emphasize horizontalism, consensus decision-making, and an anarcho-socialist perspective, the Occupy movement is not seeking the

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overthrow of capitalism. Instead, it appears to seek a more fair form of capitalism. One gets the sense that they would prefer the kind of social democracies found in the Nordic countries (Denmark, Iceland, Norway, Sweden and Finland), where the underlying institutions of private



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property and markets are regulated to bring about greater equity and a broader access to public services than is common in the United States.

The Occupy Movement’s simple but powerful slogan, “We are the 99%,” has captured the imagination of a portion of the public that perceives that public policy in this country is being driven by a wealthy elite that ignores or shuts out the voice of the vast majority of citizens. The government, many in the Occupy Movement claim, has been captured by corporations and wealthy elites, making it less of a democracy and more of a “corporatocracy”: rule by large corporations and by those

who benefit from the ownership and control of these corporations.

One consequence of this capture of the government has been that the elite have managed to change the legal, economic, and social rules of the game so that they, the elite, benefit even more than before. This, in turn, has further enhanced the economic and political power of the elite and these elites have used this enhanced power to further tilt the rules of the game even more in their favor. A growing inequality in the distribution of wealth and income is one manifestation of this.

Political economists have long drawn attention to the way elites and

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Staying Informed about CSUSB Department of Economics Events and News

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You can stay informed by consulting:

Our Website - <http://economics.csusb.edu/>

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Chair of the Economics Department – mtoruno@csusb.edu

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the business sector shape government. For instance, both Thorstein Veblen and Karl Marx argued that, in capitalist societies, government largely reflects the influence and power of the business class. While the system is formally democratic and allows workers, the overwhelming majority of the electorate, to participate in the choice of legislators and executives,

“There would not have been a tea party without Fox.”

it is nevertheless the case that elected officials must be keenly attentive to the needs of business.

For instance, if elected officials ignore business interests they might provoke a “capital strike”—in which businesses reduce investment and production—which threatens the ouster of offending politicians as the public blames the politicians for the poor economic conditions created by the capital strike.

Beyond this, huge corporations and rich elites are able to shape public discourse in this country in ways that benefit these huge corporations and the elites. Consumers of this shaped public discourse—often middle-class workers—come to believe that their own (middle-class and worker) interests are aligned with the interests of corporations and

the elite. Out of this we got the Tea Party, which has provided cover for some in Congress to claim that policies Congress passes (designed to benefit large corporations and elites) are actually the product of the democratic demands of a grassroots and middle-class public movement. Yet the Tea Party’s rise to public prominence was not due to grassroots support. As a Tea Party leader Sal Russo admitted in a May 22, 2011 *New York Magazine* article, “There would not have been a tea party without Fox.”

The current political and economic structure of the United States is something new, but is also a manifestation of long-run tendencies.

For instance, Paul Baran and Paul Sweezy, in their 1966 book *Monopoly Capital*, argued that the rise of the corporate form of business led to a structural transformation of capitalism, from the competitive capital form of the 19th century to the monopoly capital form starting in the 20th century. Monopoly capital economies are dominated by giant corporations that control a majority of the manufacturing and financial assets, and operate in oligopolistic and/or monopolistic markets. Baran and Sweezy argued that this form of capitalism tended to generate profits that were so high that the system had difficulty finding ways to profitably reinvest the

profit. This situation, they argued, produced both stagnation in the economy and the potential for growing income for those at the top (and a consequent greater inequality in income and wealth distribution).

In a related vein, John Kenneth Galbraith argued in *The New Industrial State* that the rise of the giant corporation also has important cultural and political effects, creating an ideological environment in which consumer and political choices largely reflect the interests of giant corporations.

In short, the Occupy Movement has correctly assessed the broad

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outlines of what has been taking place for quite some time: growing wealth and income inequality and growing influence by the corporate elite.

Rising Income and Wealth Inequality

The distribution of income and wealth is more unequal now than it was in the 1970s. Consider first the distribution of income.

A recent Congressional Budget Office (CBO) studied change in the distribution of household income between 1979 and 2007 (CBO, “Trends in the Distribution of Household Income Between 1979 and 2007,” October 2011). The study looked at income (from both labor and property ownership) from two different perspectives: first, in terms of income before taxes and transfers; and second, in terms of income after taxes and transfers. The first measure captures the level of income distribution generated by “market forces” while the second measure captures the

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level of income distribution generated by the combination of market forces and particular public policies (i.e., taxes and transfers). As a result, the latter measure provides a better picture of the role of public policy (i.e. neoliberalism) in the distribution of income.

The chart below, taken from the CBO study, shows changes in the distribution of income after taxes and transfers for income quintiles from 1979 to 2007. Each income quartile includes 20% of households. The lowest quintile includes the 20% of households with the lowest after-tax income, the second-lowest quintile includes the 20% of households who have after-tax income above the lowest quintile but below those in the quintiles above them, and so on.

The chart shows, for instance, that in 1979 the after-tax income of the lowest quintile (which includes the 20% of US households who have the lowest income) made up about 8% of the total household incomes in that year. The next bar to the right indicates that in 2007 the lowest quintile's share

of after-tax income had fallen to about 6% of all after-tax income earned in that year. Market and political forces operating over 1979 to 2007 led to a shift in income away from the households in the lowest quintile.

The chart also shows that between 1979 and 2007 market and political forces caused a shift in after-tax income toward the richest quintile. Between these years, the richest quintile saw their share of the nation's

...households in the upper 1% saw dramatic increases in their share of the nation's income.

income grow from 43% to 53%. All other quintiles saw their share of income fall over the same period.

Yet, a closer look at the chart reveals that the gain to the upper quintile was not shared by all within that quintile. The chart indicates an important fact: the growth in after-tax income for the upper quintile was due exclusively to shifts toward the top 1% of all households. Over 1979 to 2007, then, households in the lower 99% saw

their share of the nation's income fall while households in the upper 1% saw dramatic increases in their share of the nation's income.

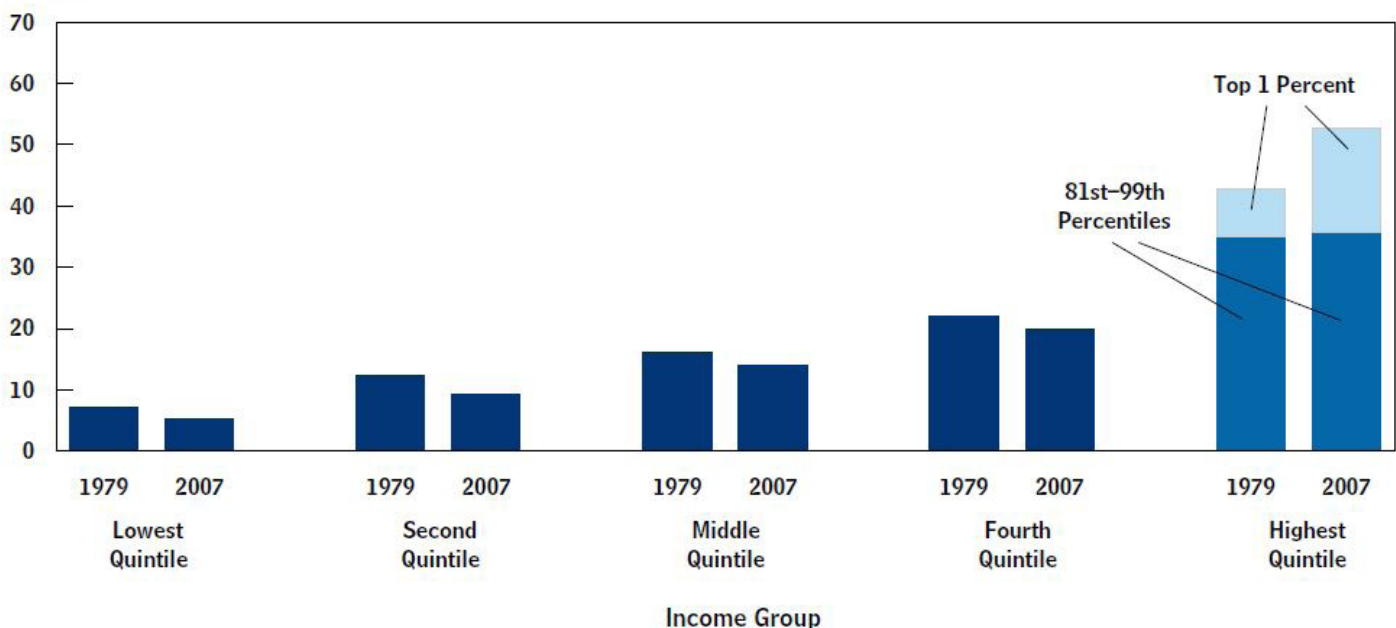
The focus on the 1% by the Occupy Movement seems well-supported by this data. The political and economic force operating within the U.S. granted great benefits for the upper 1%. Certainly *some* of the other 99% are doing okay financially, but many are falling behind as their incomes have failed to keep up. And the current bad economic conditions have seen many in the lower 99% face grave challenges as they have struggled in the face of layoffs and the lack of appropriate jobs for their education, skills, and abilities.

The change in the distribution of wealth follows a similar pattern as seen above for income. The broadest measure of wealth is net worth, which is equal to: value of assets owned minus the value of debt. This measure of net worth includes all assets: both tangible assets (e.g., land, businesses and homes) and financial assets (such as savings accounts, stocks and bonds)

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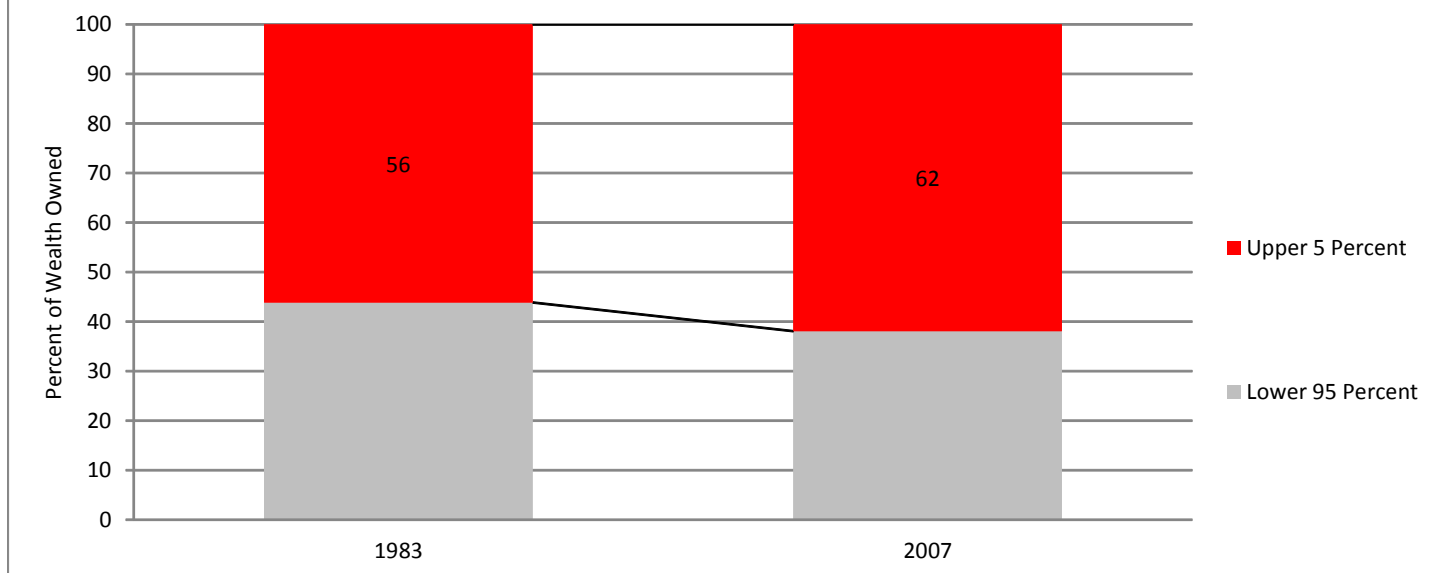
Shares of Income After Transfers and Federal Taxes, 1979 and 2007

(Percent)



Source: Congressional Budget Office, "Trends in the Distribution of Household Income Between 1979 and 2007," October 2011, p. XIII.

Net Wealth Distribution in the US, 1983 and 2007



Source: based on data taken from Edward N. Wolff, “Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze—an Update to 2007”, Working Paper No. 589. Levy Economics Institute of Bard College, March 2010, p. 44.

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as well as consumptive (such as a car or a home) or productive (such as a farm or factory) assets. Debt includes all forms of debt, such as credit card debt, mortgages, and other forms of loan liabilities.

The chart above, based on a recent study by Edward Wolff, shows the distribution net worth in two years, 1983 and 2007.

Notice that between these two years, the top 5% of all households (the upper red bar) saw their share of net worth grow from 56% to 62%. Over the same period, the rest of the country (the other 95%) saw their share of net wealth decline from 44% to 38%, which represents a decline of 13% in their share of net wealth.

It’s important to remember that this measure of net worth includes all assets and liabilities and does not distinguish between consumptive and productive assets. If we subtract from this measure the portion of net worth tied to the ownership of the primary residence (the overwhelming contributor to net worth for the

bottom 80% of all households) then the inequity in the distribution of net worth is even more dramatic.

In recent decades, the US economic and political system has generated a worsening distribution of both income and wealth. Those at the top have

...the US economic and political system seems to have been captured by the upper 1%...

managed to grab a larger portion of the income generated within the United States and, in parallel, have managed to take hold of a larger portion of wealth that exists within the United States.

These changes have occurred slowly, and have been the consequence of a large number of small changes in the US economy and the political and social system within the country.

These changes, however, did not become a centerpiece of protest until the financial system (which played a part in the worsening distribution and wealth) failed in the face of a lack of government regulation of this increasingly unrestrained financial

system. The consequent high levels of unemployment—and the failure of the Congress and the President to pursue the *obvious* demand-management remedies to this problem—have created a large number of people within the US who are willing to stand up and point out the obvious: the US economic and political system has been captured by the upper 1%...and the lower 99% are paying the price.



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Tentative **SPRING 2012** Schedule of Classes

Course	Section	Title	Time		Days	Instructor
104	01	ECON SOCIAL ISSUES	1200-0110	PM	MWF	ROSE
200	01	PRIN MICROECON	0920-1030	AM	MWF	STAFF
200	02	PRIN MICROECON	1200-0150	PM	MW	STAFF
200	03	PRIN MICROECON	0400-0550	PM	MW	ASHEGHIAN
200	04	PRIN MICROECON	1000-1150	AM	TR	STAFF
200	05	PRIN MICROECON	0200-0350	PM	TR	STAFF
200	06	PRIN MICROECON	0600-0750	PM	TR	STAFF
202	01	PRIN MACROECON	1040-1150	AM	MWF	STAFF
202	02	PRIN MACROECON	0600-0750	PM	MW	KONYAR
202	03	PRIN MACROECON	1000-1150	AM	TR	STAFF
202	04	PRIN MACROECON	0200-0350	PM	TR	STAFF
202	05	PRIN MACROECON	0600-07:50	PM	TR	NILSSON
311	01	ECON K-8	1200-0150	PM	TR	CHARKINS
333	01	PE OF WOMEN	1040-1150	AM	MWF	ROSE
335	01	TOOLS EC ANALYSIS	0240-0350	PM	MWF	HARRIS
357	01	PE OF LGBT	0120-02:30	PM	MWF	ROSE
372	01	BUSINESS CYCLES	0200-0350	PM	TR	HARRIS
410	01	MONEY & BANKING	0600-0750	PM	TR	STAFF
445	01	POL ECONOMY	0400-0550	PM	TR	NILSSON
450	01	GLOBAL ECONOMY	0600-0750	PM	MW	ASHEGHIAN
490	01	ECONOMETRICS	0400-0550	PM	MW	KONYAR
500	01	HIST ECON IDEAS	1200-0110	PM	MWF	TORUNO
630	01	INT ECON ISSUES	0600-0950	PM	W	DULGEROFF