Special to The Spokesman-Review: Hanauer sees danger of rising economic inequality

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"It was the best of times, it was the worst of times."

Dickens could have written about the U.S. today. This month, the Census Bureau announced 46 million Americans – 15 percent of the population – live below the poverty level, including one in four American children.

Meanwhile, since 2008 the stock market's value has doubled, CEO salaries are at record highs, and according to the Commerce Department the after-tax profit of corporations topped $1.7 trillion last year, the highest ever (in both absolute terms and as a percentage of GDP).

By most measures, the U.S. economy is back and booming. So, why are things not better?

Even as the economy has recovered, the massive wealth produced continues to concentrate at the top and is not being distributed. The figures are familiar. Since the recession ended in June 2009, 95 percent of income gains went to the top 1 percent of Americans, while median incomes actually declined. The top 1 percent raked in 20 percent of all income earned last year (up from 8 percent in 1973), the bottom 50 percent saw their share drop to just 16 percent. The top 1 percent now own 40 percent of American wealth – stocks, property, cash and other assets (by contrast, the wealthiest in Britain own 18 percent). The 400 richest Americans now own more assets than the 155 million at the bottom combined.

As most Americans continue to struggle, it's unprecedented boom times for the richest. Economists debate what has driven the unprecedented redistribution of income and wealth. Structural changes brought on by globalization and deindustrialization? The impact of trickle-down economics policies (which, among other things, allowed CEO compensation to grow 127 times faster than worker wages since the 1980s)? But what's beyond dispute is that rising economic inequality is the central domestic challenge facing Americans.

There is a moral problem of course. Poverty leads to crime, disease, and robs society of the productive capacity of the millions whose lives it ruins. Extreme inequality threatens the American dream – the idea of equal opportunity and hard work is rewarded – which cannot survive in the face of a hollowed-out middle class. But staggering inequality is an economic problem too. Capitalist economies are unstable when wealth is concentrated in the hands of too few.

Nick Hanauer, a successful Seattle venture capitalist, civic activist and self-described plutocrat, is raising the alarm about the economics of ever-rising inequality. Hanauer argues that capitalist economies only function with a virtuous cycle: Rising consumer demand requires businesses to hire workers and raise productivity; productivity leads to higher worker incomes; higher worker income leads back to more consumer demand. Break any part, and the cycle collapses.

According to Hanauer, the level of today’s inequality threatens the cycle. Even with expensive tastes for yachts and private jets, the super-rich can’t possibly consume enough to make up for the lost demand that a broader distribution of income produces. As Hanauer notes, even if he buys an expensive car, he only needs one, not 10,000. Consumer spending powers 70 percent of the U.S. economy. That means it’s the middle class who are really the job creators in America, not wealthy business owners. If their incomes fall, the nation’s economy is in danger.

The solution, Hanauer argues in a recent book authored with Eric Liu, is to move toward a “middle-out” rather than a trickle-down economics. We need policies that ensure workers and the broad middle class share the wealth being generated rather than allowing it all to concentrate at the top. A major supporter of the $15 an hour minimum wage in Seattle, Hanauer argues that rather than “tax breaks for the rich” the mantra should be “If workers have more money, businesses have more customers.”

In a recent TED talk, Hanauer also contends that it’s wealthy plutocrats like he who should be most concerned with ever-rising inequality. Comparing the plight of American workers with pitchfork-wielding French revolutionaries, Hanauer predicts the struggling middle class will turn against wealthy elites unless dramatic changes in economic policy occur – and soon.

Hanauer is not alone in calling for policies to address growing economic inequality. Pope Francis, President Obama, Nobel Prize economist Joseph Stiglitz and Thomas Piketty, whose book on capitalism was a surprise best-seller this summer, among others, have raised alarms. But Hanauer is one of the most thoughtful and his ideas challenge tired economic orthodoxies on both the left and right.

Hanauer will present this year’s Thomas S. Foley Distinguished Lecture, sponsored by the Foley Institute at Washington State University. On Thursday he will speak at 2 p.m. on WSU’s Pullman campus and at 7:30 p.m. in the Fox Theater in Spokane. Both are free and open to the public.

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