How the Ultra-Rich .01% Have Sucked Up Even More of America's Wealth Than You Think

By David DeGraw

This is an adapted excerpt from the new book, The Economics of Revolution.

The economy has become systematically corrupt.

> *"There is no such thing as the liberty or effective power of an individual, group, or class, except in relation to the liberties, the effective powers, of other individuals, groups or classes."*
> ~ John Dewey, Liberty & Social Control

An extensive analysis of economic conditions and government policy reveals that the need for significant systemic change is now a mathematical fact. Corruption, greed and economic inequality have reached a peak tipping point. Due to the consolidation of wealth, the majority of the population cannot generate enough income to keep up with the cost of living. In the present economy, under current government policy, 70% of the population is now sentenced to an impoverished existence.

Share of wealth owned by the richest .001 percent of Americans.

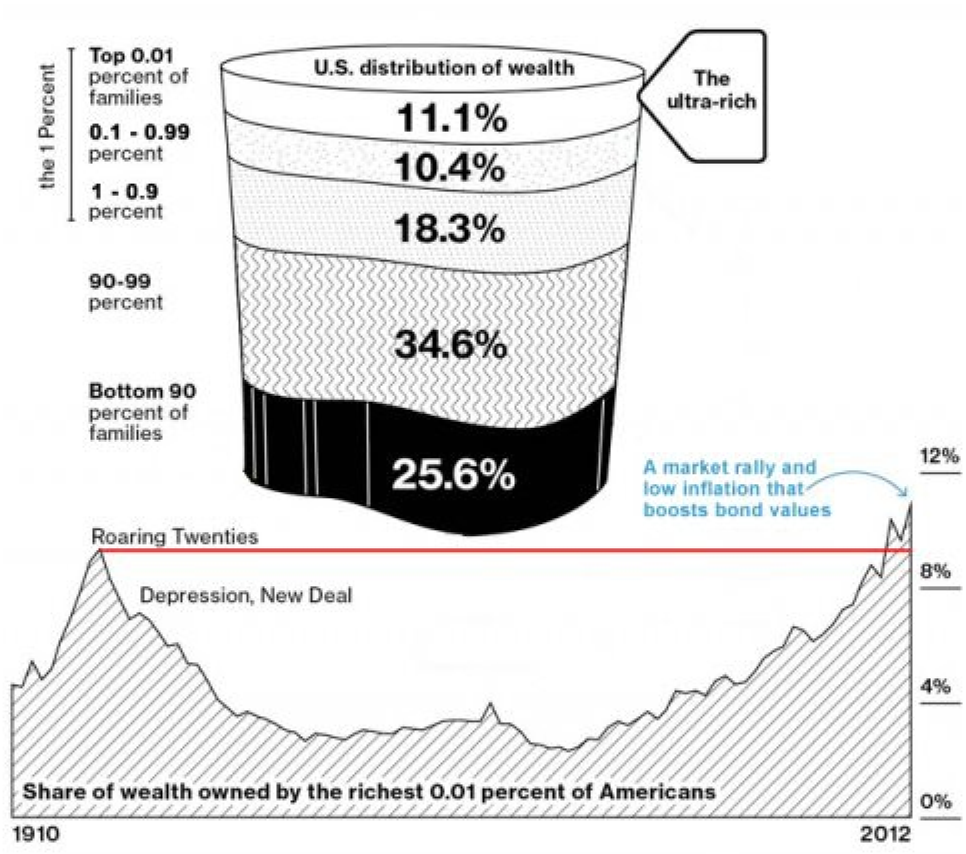

Photo Credit: Data from Bloomberg Businessweek

Let's take an in-depth look at the evidence.

I: The Ultra-Rich .01%

To see how corrupt the United States government has become, just follow the money. According to the most recent Federal Reserve Flow of Funds report, US households currently have an all-time high $82 trillion in overall wealth. If that wealth were spread out evenly, every US household would now have $712k. However, as of the end of 2013, the median household only had $56k in wealth. From 2007 – 2013, overall wealth increased 26%, while the median household lost a shocking 43% of their wealth. If median wealth continues to decline at this rate, over 50% of US households will be bankrupt within the next decade.

The fact that the majority of households are losing so much wealth in a time of record-breaking overall wealth demonstrates how systemically corrupt the economy has become. To begin to grasp the scale of corruption, let's analyze how much wealth has been consolidated within the economic top 1% of the population.

The latest comprehensive look at wealth distribution data reveals that the "ultra-rich" economic top 0.01% of US households now has an all-time high 11.1% of overall wealth. The next tier, the 0.1% – 0.99% has 10.4%, and the top 1% – 0.9% has 18.3%. In total, the top 1% now has an all-time high 39.8% of wealth.

When we correlate wealth distribution percentages with the $82 trillion in overall wealth reported by the Federal Reserve, it reveals that the top .01% has a stunning $9.1 trillion in wealth. In total, the top 1% has a mind-blowing $32.6 trillion.

To begin to comprehend wealth of this magnitude, one trillion is equal to 1000 billion. $32.6 trillion written out is $32,600,000,000,000.00.

Having that much wealth consolidated within a mere 1% of the population, while a record number of people toil in poverty and debt, is a crime against humanity. For example, it would only cost 0.5% of the 1%'s wealth to eliminate poverty nationwide. Also consider that at least 40% of the 1%'s accounted for wealth is sitting idle. That's an astonishing $13 trillion in wealth hoarded away, unused.

Once you truly understand how much $32.6 trillion is, and realize how just a fraction of that wealth could dramatically evolve society for the benefit of all, the argument for significant systemic change is solid. However, as scandalous as these statistics are, they do not factor in trillions of dollars more in unaccounted for offshore wealth, which makes the overall situation sound significantly better than it actually is and hides the true depth of the crisis from popular consciousness. (We will analyze hidden wealth in section 4.)

Looking toward the future, current trends reveal that the rate in which inequality is growing is increasing rapidly. Overall wealth increased by $1.5 trillion in the first quarter of 2014. If wealth keeps increasing at the current rate, there will be an increase of $6 trillion in 2014. How will this wealth be distributed? If you look at income gains since 2009, 95% of them have gone to the top 1%.

We Are The 99.99%

There are now many people within the top 1% who are much closer in wealth to the middle class than they are the ultra-rich. Greed has grown so extreme that even within the top 1% inequality is soaring. The top 1% of the 1%, the .01%, now has 28% of the 1%'s wealth. When you factor in hidden wealth, they have an estimated 33% of the 1%'s wealth. An individual must have over $100 million in wealth to be in the .01%.

In 1980, the richest .01% was already consolidating wealth at a systemically unhealthy rate. Since then, they have more than quadrupled their share of overall wealth. Meanwhile, households who fall between the top 10% and the top 0.1% have actually been losing their share of overall wealth.

As the ultra-rich .01% amasses unprecedented wealth, they are forcing the overwhelming majority of the population into extreme economic insecurity and ever-increasing debt.

II: The Systematic Impoverishment of Society

> ***"The war against working people should be understood to be a real war. Specifically in the US, which happens to have a highly class-conscious business class. They have long seen themselves as fighting a bitter class war, except they don't want anybody else to know about it."***
> **~ Noam Chomsky, Propaganda & Control of the American Mind**

If you are struggling to get by and running up debt to make ends meet, it is not your fault. It is the intentional outcome of government policy and economic central planning. In the present economy, it is impossible for 70% of the working age population to earn enough income to afford basic necessities, without taking on ever-increasing levels of debt, which they will never be able to pay back because there are not enough jobs that generate the necessary income to keep up with the cost of living.

For every 3.4 working age people, there is only one that can generate an income high enough to cover the cost of living without taking on debt. In total, only 20% of the overall population currently generates enough income to sustain the cost of living. As a result, poverty and declining living standards are much more prevalent throughout US society than the government and corporate media report. Let's take a look at the reality behind mainstream propaganda…

The US Government & Statistical Fraud

The government engages in outright statistical fraud on the most often cited economic indicators, from the unemployment rate to poverty and inflation rates. Even the use of the Gross Domestic Product measurement as an indicator for overall economic health is incredibly deceptive.

The mainstream media not only incessantly repeats these bogus measurements, they drastically underreport the growing epidemic of poverty. According to a study by Fairness and Accuracy in Reporting, "on average, someone affected by poverty appeared on any nightly news show only once every 20 days…. An average of just 2.7 seconds per 22-minute nightly news program was devoted to segments where poverty was mentioned."

On the rare occasion when poverty is actually mentioned, the government's Census Bureau poverty rate of 15% may be cited. When it comes to the overall employment situation, you will hear the Bureau of Labor Statistics' unemployment rate, which is presently hovering around 6%. While these statistics are alarming, they drastically undercount the severity of the present crisis. Those two statistics are pure propaganda and mask the economic suffering of over 222 million US citizens.

Before analyzing the employment situation, let's look at how the government calculates the poverty rate. The methodology behind the federal poverty rate was designed in 1963. It is incredibly outdated and significantly undercounts how much it costs to live in today's economy. It uses the extremely flawed Consumer Price Index (CPI) inflation rate to establish the poverty threshold. Many vital economic statistics that the government reports are based on this fraudulent inflation rate.

To give a more positive impression of overall economic health, the government has "revised" the methodology behind the CPI rate over 20 times since 1970. The CPI currently has inflation rising at a 2% annual rate. If inflation was calculated the way it was in 1980, the current rate would be 10%. When you take a deeper look into how this difference impacts vital economic statistics, it reveals a much different picture of the US economy.

Cost of Living

While the government claims a 2% annual inflation rate, the actual cost of living has been skyrocketing. Here's the reality of the situation…

The US now has the most expensive healthcare system in the world. There has been a 22% increase in out-of-pocket hospital expenses over the past year. In the first quarter of 2014, healthcare spending rose at the fastest pace in 10 years. The cost of giving birth has tripled since 1996, childbirth out-of-pocket expenses increased fourfold from 2004 to 2010. The cost of childcare increased by 70% from 1985 to 2011. From 1994 to May 2014, the cost of childcare has been more than double the CPI inflation rate.

The overall cost of raising a child has risen 40% in the past decade, not counting the cost of college. Since 1986, the cost of college tuition has increased by 498 percent, compared to the 117% CPI inflation rate over that timeframe. Student loan debt has increased threefold over the last decade. The amount of money students are borrowing to pay tuition bills doubled from 2005 to 2012.

Looking at basic food costs, from 2002 to 2012, total CPI inflation was 28%. Consider the following price increases over that timeframe: Eggs 73%, Ground Beef 61%, Turkey 56%, White Bread 39%, Spaghetti & Macaroni 44%, Peanut Butter 40%, Coffee 90%, Orange Juice 46%, Apples 43%, Margarine 143%.

This dramatic rise in the basic cost of living, the amount of money that people need to survive, which is all but ignored by the CPI in the federal poverty threshold calculation, only reveals part of the government's deception on poverty. Beyond the fraudulent inflation measurement, the Census Bureau does not adequately account for the differences in cost of living based on geographic locations. For instance, the cost of living in large population states like New York and California, as compared to the costs in more rural lower population Southern and Midwestern states.

When you realistically account for real inflation and geographically based cost of living, how much does it cost to cover basic necessities?

The Economic Policy Institute (EPI) has the most comprehensive look at the costs of living and how much money a family needs to cover basic necessities based on the city they live in. The EPI accounts for the costs of housing, food, healthcare, childcare, transportation and taxes. They do not factor in the costs of a college education or retirement.

Based on EPI calculations, a family of four needs to make $63,364 a year to cover basic necessities. Compare that to the government's Census Bureau calculation using the CPI inflation rate and non-geographic accounting, which puts this threshold for a family of four at a mere $23,600.

In relation to the government's poverty rate, the Economic Policy Institute's numbers sound extremely high. However, they use very modest costs. For example, they use Topeka, Kansas as their median family budget area and calculate the cost of housing for a family of four at only $692 a month. When you analyze geographically based costs, you can see how expensive it is for a family to live in larger population cities:

- New York HUD Metro FMR Area: $94,676
- Los Angeles-Long Beach: $74,605
- Chicago-Naperville-Joliet: $73,055
- Philadelphia-Camden-Wilmington: $77,928
- Washington, DC: $89,643
- San Francisco: $82,639
- Phoenix: $68,742
- San Diego-Carlsbad-San Marcos: $71,673
- San Jose-Sunnyvale-Santa Clara: $77,619

To give more context, USA Today recently analyzed how much moderate costs of living for a family of four are today. They calculated that the average family needs to generate an annual income of $130k. Their estimate was more than double the median EPI cost of $63k, primarily because they factored in the costs of owning a home, one car, retirement and education.

Now, consider that the current annual median household income is only $51k per year. While overall wealth and the cost of living have skyrocketed, median household income has declined 8.3% since 2007 and 9% since 1999. To further demonstrate how dramatically the cost of living has truly risen since 2007, while median household income declined 8.3%, their overall wealth declined 43%.

For more historical context and to further demonstrate how corrupt the government and economic system have become; if household income had kept pace with the overall economy since 1970, the current annual median would be $95k, almost double what it presently is. On top of that, it was normal to have only one wage-earner per household in 1970, as compared to two now.

Extreme Poverty

If we look at the government poverty threshold for what it truly is, an indicator of extreme poverty, then it has a little more legitimacy. As the National Center for Children in Poverty reported on the government's poverty threshold, "Research shows that, on average, families need an income of about twice that level to cover basic expenses."

When we count the percentage of the population at double the government's poverty threshold as living in poverty, the poverty rate explodes from 15% of the population to 47%. Now you can see one of the reasons why the government falsifies the inflation rate. The government will not make this long overdue adjustment because that would mean they have to admit that 150 million people are currently living in poverty and simply cannot afford the cost of basic necessities.

According to the Census Bureau, 28% of children are now born into poverty. This marks a dramatic increase from an already alarming 25% in 2008. In total, the Census Bureau reports that 22% of children live in poverty. However, when we make the proper adjustments to the methodology of the poverty rate, an even more horrifying 45% of children live in poverty. That means there are currently 33,389,063 US children living in households that cannot afford basic necessities.

It would take only 0.3% of the 1%'s wealth to lift every one of these children out of poverty.

Overall, from 2000 to 2010 the Census Bureau found that the percentage of people living in poverty-stricken neighborhoods grew from 18.1% to 25.7%. Extrapolating out to today, we can estimate that 82 million people presently live in extreme poverty-stricken neighborhoods.

Extreme poverty-stricken neighborhoods can become a relic of the past with 0.5% of the 1%'s wealth.

For a deeper understanding of why poverty is growing so rapidly while overall wealth is also growing, let's analyze the government's fraudulent unemployment statistics.

Unemployment & Underemployment

Other than the deceptive poverty rate, unemployment is much worse than the 6% that the government reports. The 6% rate does not include part-time workers who need full-time work, long-term unemployed people who have not been able to find work for over six months, and "discouraged workers" who do not consistently look for work. When you account for those groups, as the Bureau of Labor Statistics (BLS) did until 1994, the real unemployment rate is currently 23.2%.

For an example of how deceptive government unemployment reporting is, the BLS June 2014 jobs report decreased the unemployment rate and was portrayed in the mainstream media as a very positive result with 288k jobs added. However, in June, 523k full-time jobs were eliminated, and 800k part-time jobs were added, providing the illusion of job growth and a reduction in the government's unemployment rate. Due to this trend, there are now over 7.5 million underemployed workers who are "part-time for economic reasons" because they have had their hours cut and/or cannot find full-time employment. None of these people are counted in the official government unemployment total.

Since 2007, well-paying paying jobs have become rare and low-paying full-time, part-time and temporary jobs have replaced them. This has also been a downside of the new healthcare law, as companies are cutting back full-time employment so they don't have to pay for workers' healthcare. In total, 50% of jobs created over the past three years are "low-paying," mostly in retail, food service or temporary help. Low-paying jobs pay 80% or less of median wages.

The bottom line, in a nation of 318.6 million people, with a working age population of 213 million people, there are now only 118 million full-time jobs and 28 million part-time jobs, according to the BLS. However, also according to the BLS, there are currently only 106.6 million full-time workers. In other words, it is impossible for half of the working age population to get a full-time job. On top of that, of the current 118 million full-time jobs, 47% of them generate annual salaries below $35k per year.

III: Economic Slavery

> *"We are entering a new phase in human history - one in which fewer and fewer workers will be needed to produce the goods and services for the global population."*
> ~ Jeremy Rifkin, The End of Work

Beyond unemployment and underemployment, the percentage of full-time working poor has grown significantly. US workers are presently producing twice as much wealth per work hour than they were in 1980. Instead of median incomes doubling since then, they have stagnated. The gap between wealth production and median income is now at an all-time high.

Based on the latest available individual level income data, 40% of workers make less than full-time minimum wage workers made in 1968, roughly $20k per year according to the suppressed CPI inflation rate. More realistic adjustments for inflation will reveal a much higher total. For example, the current federal minimum wage is $7.25 an hour. If minimum wage had kept pace with overall income inflation since 1968, the minimum wage would now be $21.16, which means a full-time minimum wage worker would now be making $44k a year. However, the median annual wage is only $27,519. Based on income inflation, only 22% of the working age population and 15% of the overall population currently have an annual income higher than a full-time minimum wage worker had in 1968.

The average person needs to generate $35k in annual income to cover the cost of basic necessities. Looking at the actual spending habits of the average worker, you need to generate an income of $42k to cover annual expenses. If we use $35k as our threshold for a living wage, only 30% of the working age population and 20% of the overall population generate an annual income over $35k. For every 3.4 working age people, there is one that generates an income high enough to cover the cost of basic necessities without taking on debt.

Keep in mind, that does not factor in the cost of paying off student debt. Average student debt is presently $29,400. If paid off over a 10-year period, at an average 4.6% interest rate, it costs $306 per month, $3672 annually. In this situation, a person needs to make an annual income of $38,672 to cover the cost of living plus their student debt. Only 27% of the working age population and 18% of the overall population generate that much income. For every 3.7 working age people, there is one that can sustain the cost of basic necessities plus the average student loan debt without taking on more debt.

Therefore, in the current economy, 73% of people with student debt will not be able to pay it back while also maintaining the cost of living, without going deeper into debt. The US government has sentenced you to a lifetime of ever-increasing debt and ever-declining living standards.

Mathematically Eliminated from the American Dream

For a worker to cover their own cost of living and the cost of one child, they will need to make roughly $45k a year. Only 22% of the working age population and 15% of the overall population currently generate enough income to support one child. For every one person that can generate enough income to sustain the cost of basic necessities for themselves and one child, there are 4.5 working age people.

Now, think back to the American dream that prevailed from the 1950s – 70s. Each family had one wage-earner supporting three children and one other adult who would care for the children. While this was considered the “American dream,” it is also the basis of a healthy society.

How healthy is our society and how many people can afford to live the American dream in today’s economy?

With today’s cost of living, just to cover basic necessities it will cost $80k per year to pull this off in the median family area, Topeka, Kansas. In the current economy, only 5.8% of the population can currently generate enough income to live the traditional American dream in Topeka. Clearly, we are not in Kansas anymore.

Levittown, New York was the first suburb that gave birth to the American dream. Try pulling off the American dream in its birthplace and it will cost $125k a year. Only 2% of the population can pull that off.

Once again, these baseline costs do not take college or retirement costs into account. With the reduced costs in childcare, due to one person in the family focused on taking care of the children, they can at least put some money away for college, as long as they don’t go away for vacation and none of their children go to a private school.

Beyond these baseline costs, looking at moderate costs for a family of four owning a home in a median family area, with one car, education and retirement costs factored in, it will cost $130k a year. Add a third child and a second car into the mix and it will cost roughly $150k a year. Only 1.46% of the overall population makes over $150k per year. In other words, in the current economy, the average traditional American Dream is only attainable for the 1%. The 99% has been mathematically eliminated from the traditional American Dream. If they want to have a family and own a home, they are now sentenced to a lifetime of economic insecurity and ever-increasing debt.

As for retirement, if you American dreamers think you are going to retire at 65, it’s time to wake up.

There Is No Escaping

According to the National Institute on Retirement Security, “the median amount a family nearing retirement has saved for their post-work lives is $12,000.” As 76 million Baby Boomers are due to retire, the real toll of this economic crisis is going to hit home in a huge way.

Up until now, Social Security has been the savior. Currently 57 million people receive Social Security benefits. In the present economy, that works out to two full-time workers for every one person collecting benefits. Adding 76 million to the 57 million people currently drawing benefits would mean 133 million retirees to 118 full-time jobs. Even factoring in death rates, with new full-time jobs a rarity in today’s economy, having one retired person to one full-time worker will soon be a reality.

In fact, Social Security is already giving out more money than it is taking in. From 2010 – 2012, there was a $150 billion deficit. However, the Social Security trust fund is supposed to have a $2.7 trillion in surplus. In reality, all that money was already spent on wars, bailouts and tax cuts for the rich. As Charles Hugh Smith explains, “when Social Security runs a deficit, the Treasury funds it by selling Treasury bonds, the same way it funds any other deficit spending. If the Treasury can’t sell bonds, the phantom nature of the Trust Fund will be revealed.”

Given the corruption in Washington and the current fiscal debate, the likelihood of Social Security maintaining it promised returns is minimal. On top of that, the dramatic rise in healthcare costs and decline in full-time jobs make the current system inadequate and unsustainable. According to the Census Bureau, 54% of people over age 64 would be living in poverty without Social Security.

The probability that the more fortunate members of the Baby Boom generation will collect full pensions and be able to sell off their assets to cover the cost of basic necessities in this economy is also highly problematic. In "The Happy Story of Boomers Retiring on Their Generational Wealth Is Wrong," Charles Hugh Smith sums up the situation:

"[Boomers'] wealth will shrivel once they start selling assets en masse. The reality is neither Gen-X nor Gen-Y have the savings, income or desire to buy bubble-level assets from their elders. This reality has been papered over for the past 5 years of super-low interest rates, which have enabled unqualified buyers to buy overpriced assets with modest income. Once the defaults start pouring in (and/or interest rates rise), the reality will become visible: you can't cash in your wealth if there are no buyers.

There are numerous other fatal flaws with the happy story that 76 million Boomers can retire on full pensions and live off their home equity and stock portfolios…. Pension funds based on annual returns of 7.5% will be unable to fund the promised pensions when annual returns decline to negative 5%. As John Hussman has explained, every asset bubble in effect siphons off all the future return: when the bubble finally pops, average annual returns are subpar or negative for years."

Another Wave of Foreclosures on the Horizon

Since 2007, over 5.5 million families have lost their homes to foreclosure. The impact of that is horrifying to think about. The decision to bailout the banks to the extent that they were able to give out all-time record salaries and bonuses to the very people who caused the crisis, while millions of American families were thrown out of their homes is the epitome of tyranny and corruption.

Unfortunately, the foreclosure crisis is far from over. Six million families are still underwater on their mortgages, and this number will increase. Their average negative equity is a shocking 33%. As Ellen Brown recently summed it up, "40% of mortgages nationally are either underwater or nearly so, meaning more is owed on the home than it is worth. Seventy percent of homes that are deeply underwater wind up in default. Worse, second mortgages are due for a reset. Over the next several years, principal payments will be added to interest-only payments on second mortgages taken out during the boom years. Many borrowers will be unable to afford the higher payments. The anticipated result is another disastrous wave of foreclosures."

Looking at the overall picture, mortgage debt-to-wages is more than double the historic average. To make matters even worse, the Federal Reserve has been fraudulently inflating housing prices. As part of their wealth extraction operation they currently own $1.7 trillion in Mortgage-backed securities and $2.4 trillion in Treasury securities. (We will take a close look into how the Federal Reserve has been artificially propping up asset values for the benefit of the top economic .01% and the determent of everyone else in Part 2.)

The Illusion of Prosperity & A Tsunami of Debt

The inevitable insolvency of the overwhelming majority of the population hasn't hit home yet because they have taken on ever-increasing levels of debt to maintain the illusion of prosperity. Other than the staggering national debt that the corrupted government has run up, US citizens have now taken on $12 trillion in personal debt.

On average, that's $50k of debt for every US citizen over the age of 17. Again, it cannot be stated enough, in the current economy under present government policy, it is impossible for this debt to be paid off while maintaining the cost of basic necessities. Therefore, overall debt will continue to skyrocket. Even if interest rates on these debts dropped to 0%, as the Federal Reserve has done for a select few of their friends on Wall Street, there is no way for people to earn enough income to keep up with cost of living, let alone pay back their debts. On top of that, the already usurious interest rates on these debts are increasing. In fact, the spark that set off the global financial crisis in the first place is heating up once again:

"During the first quarter [of 2014], 3.7 million credit cards were issued to subprime borrowers, up a head-scratching 39% from a year earlier, and the most since 2008. A third of all cards issued were subprime, also the most since 2008…. In the first quarter, the average [interest] rate was 21.1%, up from 20.2% a year ago, while prime borrowers paid an average of 12.9% on their credit cards, and while banks that are lending them the money paid nearly 0%."

If current trends continue and current policies remain in place, 90% of the US population is heading for insolvency. That may sound like an exaggeration that is too absurd to be true. However, as the Guardian recently reported in an article headlined, "The Coming Debt Tsunami:"

"So why look down the road – say, to 2017 – and worry? Here's why: because the debt held by American households is rising ominously. And unless our economic policies change, that debt balloon, powered by radical income inequality, is going to become the next bust….

Falling government deficits are being replaced by rising debts on everyone else's ledgers…. the majority of Americans – the 90% – will once again do what was done before: borrow, and then borrow more. By early 2017… it should be apparent that we're reliving an alarming history. Middle- and low-income households have been following a trajectory of an ever-higher ratio of debt to income….

The evidence demonstrates that the de-leveraging of the very rich and the indebtedness of almost everyone else move in tandem; they follow the same trend line. In short, there's a strong and continuous correlation between the rich getting richer, and the poor – make that the 90% – going deeper into debt…. The more – proportionally – that the top 10% has prospered, saved and invested (naturally, the gains found their way into the financial markets), the more the bottom 90% has borrowed….

Insolvency for the 90% has become… 'the new normal'. Unsustainable? Of course…. Under the current disastrous economic and tax policies, we can look forward to rapid increases in debt for both corporations and households from at least 2015 to 2017: a tsunami of debt."

The first wave of the coming tsunami of debt has already begun to wash ashore. For the first time since the depth of the recession, credit card debt is now rising faster than wage growth, yet another ominous indicator of what's to come.

Crimes Against Humanity

Behind all of the statistics presented in this report is immense physical and psychological trauma. The stress of economic insecurity compounds the problem by leading to health problems, which dramatically increase costs of living. Economic insecurity drives people to expensive healthcare, medications, drug use and crime. Beyond the moral and humanitarian imperative, recent studies prove that the cost of poverty to overall society is far higher than the cost of eliminating poverty.

The shortsighted greed of the .01% is causing the unnecessary suffering of an unprecedented number of people. Their consolidation of wealth has created a system of economic slavery. In a wealthy and technologically advanced society, it is a crime against humanity for a majority of the population to be toiling in extreme debt, poverty, unemployment and low-wage jobs.