2022

The U.S. Government's Program of Welfare for the Wealthy

Stanley F. Stasch
Loyola University Chicago, Sstasch@luc.edu

THE U.S. GOVERNMENT'S PROGRAM OF WELFARE FOR THE WEALTHY

Stanley F. Stasch

From the late 1940s to the mid-1970s, ordinary people in the United States enjoyed a tremendous increase in their prosperity. It was the highest level of prosperity the world had ever experienced, and it resulted in the creation of the great American middle class. That period was immediately followed by the 1980-2010 years, which witness the destruction of the great American middle class. That unfortunate development was caused by the great income inequality between bosses and their workers that first emerged in the late 1970s, and then continued relentlessly for the next 40-50 years. The U.S. Government was perhaps the major instigator of that growing income inequality.

Much of what happens in government occurs "behind the scenes" or "in the dark," in such a manner that the citizenry is deprived of accurate information about matters of importance to them. On such occasions, typically a special interests group influences government to do something that favors its welfare, but often at the expense of the welfare of others. Alternatively, sometimes the special interests group convinces government to do nothing that prevents the special interests group from taking some action that is beneficial to itself but harmful to others. Both types of events often receive little or no publicity that brings them to the public's attention in a manner that causes it to be fully informed. In such situations, the U.S. Government acts as a "stealth government" working against the general welfare of the American people.

The first paragraph of the United States Constitution reads:

> We the people of the United States, in order to form a more perfect union, ***establish justice,*** insure domestic tranquility, provide for the common defense, ***promote the general welfare,*** and secure the Blessings of Liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America.

The stealth government activities described in this paper did not in any way attempt to establish justice or to promote the general welfare, as envisioned by the Constitution. Rather, those stealth government activities were efforts to impose injustice on one or more groups of individuals in the U.S., or they were efforts to promote the welfare of a relatively small and select group of individuals at the expense of a much, much larger group or groups of individuals.

From 1970 to 2010 there were at least 17 occasions when the U.S. Government acted in this manner. Those 17 stealth government actions could most appropriately be called the U.S. Government's Program of Welfare for the Wealthy.

This paper describes how, from the 1970s to the decade of the 2000s, the U.S. Government created its Program of Welfare for the Wealthy by undertaking some 17 stealth government actions against the American people.*

---

*For the complete history of these actions, see "The Creation and Destruction of the Great American Middle Class: 1910-2010," at http://ecommons.luc.edu/business_facpubs/5/.) This paper is derived from that history.

Background: The Creation of the Great American Middle Class

In the late 1920s, before the onset of the Great Depression of the 1930s, the top 10 percent of the U.S. population claimed about 23.9 percent of the income earned by all of the people in the U.S. The other 90 percent of the population earned the remaining 76.1 percent of the nation's income.

That is, in the late 1920s:

- each 1.0 percent of households at or near the top of the income scale was claiming about 2.39 percent of the nation's earnings (23.9% divided by 10% = 2.39%); and
- each 1.0 percent of households near the middle of the income scale was claiming only about 0.85 percent (76.1% divided by 90.0 % = 0.85%) of the nation's earnings.

These percentages indicate that, in the late 1920s, individuals at or near the top of the income scale claimed about three times (2.39 percent versus 0.85 percent) the incomes claimed by individuals near the middle of the income scale. In other words, in the late 1920s, significant income inequality existed between the bosses and their workers.

Franklin Delano Roosevelt and Harry Truman were presidents of the country from 1933 to 1953. Their New Deal and Fair Deal Programs, along with the country's World War II GI Bill of Rights, instituted new policies that strongly favored military veterans and ordinary workers. Presidents Roosevelt and Truman legitimized labor unions; this action strongly encouraged workers to form and join labor unions at their places of employment. This they did in great numbers from the mid-1930s to the 1950s, which resulted in their receiving much better wages, benefits and working conditions compared with previously. Furthermore, because non-unionized businesses had to offer competitive wages and benefits, this prosperity extended to millions of other workers from the late 1940s into the 1970s and 1980s. In addition, the G.I. Bill helped millions of veterans pay for their college education, and then, a few years later, helped them finance the purchase of their own homes.

The result of that prosperity was that by 1976, the top 10 percent of workers only claimed 8.9 percent of the nation's earning, while the bottom 90 percent of workers claimed 91.1 percent. That is:

- each 1.0 percent of households at or near the top of the income scale was claiming only about 0.89 percent of the nation's earnings (8.9% divided by 10% = 0.89%), and
- each 1.0 percent of households in the middle of the income scale was claiming about 1.01 percent (91.1% divided by 90% = 1.01%).

Compared with the statistics from the late 1920s (just above), these 1976 statistics clearly indicate that the nation's income was now being distributed much more evenly across the entire working population. **The great American middle class was being created!**

*****

Background: The Business Community, Republican Party, and Conservative Democrats joined together in a strong faction to regain the wealth status they enjoyed in the 1920s and before.

The above statistics, when compared with those from the late 1920s, reveal the magnitude of the wealth the top 10 percent of earners gave up to the bottom 90 percent of earners over the decades from the 1920s to the 1970s. By the 1970s, the business community and the Republican Party, along with conservative Democrats, decided to fight to regain the incomes they had lost. To succeed in that fight, the faction would first have to destroy or severely weaken the power that labor unions had acquired during the Roosevelt and Truman presidential administrations. This section describes six important actions the faction took in their effort to destroy the power of labor unions and regain the wealth they believed rightfully belong to them.

<u>In 1947 Congress passed the Taft-Hartley Act, which was a very harsh, anti-union law</u>. In the 1946 mid-term elections, Republicans took control of both houses of Congress. They quickly passed the Taft-Hartley Act, whose main purpose was to severely restrict the powers recently granted to labor unions. President Truman vetoed the Act, but the Republicans and conservative Democrats in Congress overrode Truman's veto. The Act gave specific rights to businesses by taking away specific rights from unions. For example, "union shops", where all workers were required to be union members, could be made illegal by any state that chose to do so.

<u>In the late 1950s, President Eisenhower supported passage of the Landrum-Griffin Act, the harshest law against labor unions since the passage of the Taft-Hartley Act</u>. When Eisenhower became president, he appointed as his Secretary of Labor Martin Durkin, the head of the steamfitters union. Durkin had agreed to become part of the cabinet because during the campaign, Eisenhower had promised labor some revisions in the Taft-Hartley law, as he believed some of the provisions were too harsh and needed amending. But when he became president, he reneged on his promise.

Instead, he very strongly supported the passage of the Landrum Griffin Act, which severely restricted organizational picketing and "imposed stiff requirements on disclosure and standards of conduct that tightened the web of legalistic complexity already choking the labor movement."

*<u>*In 1965 the business community/Republican Party/conservative Democrats faction successfully prevented President Johnson's and the Democratic Party's attempt to reform the Taft-Hartley Act.</u>*
Lyndon Johnson won the 1964 election by a wide margin, and the Democrats won both houses of Congress (by 68 to 32 in the Senate, by 295 to 140 in the House). With their substantial victory at the polls, Johnson and Congressional Democrats tried to repeal the most blatantly anti-labor portions of the Taft-Hartley Act. However, Republicans in the Senate were joined by enough conservative southern Democrats to sustain a filibuster of the proposed reform legislation. This action demonstrated that the faction still retained power even with the Democrats controlling both the White House and Congress.

**<u>In the 1970s the business community "made a big move" to regain its influence in Washington.</u>* In 1970 the New York-based National Association of Manufacturers moved its headquarters to Washington, D.C. Because New York City was the country's center of business, the organization had been headquartered there. But the interrelationship of business with business was no longer considered as important as the interrelationship of business with government. The chief executives of Americans top 200 corporations formed the Business Roundtable, and it, too, moved to Washington. The National Federation of Independent Businesses, with a half a million members, also moved to Washington. So did the U.S. Chamber of Commerce, the National Association of Wholesalers-Retailers, and the National Restaurant Association. These were the "big six" business associations and they relocated to Washington to form an extremely powerful force there.

From the late 1970s throughout the 1980s, these groups increased their spending on congressional elections some five hundred percent. By the late 1970s these groups had hired such a large force of lobbyists that, when combined, <u>they had 130 lobbyists for</u> <u>each</u> <u>of the 535 members of Congress</u>. The result of this lobbying effort was that the anti-business Congress of the early 1970s became the pro-business Congress of the late 1970s.

By 1984, these lobbyists had established a powerful reputation: "When business really tries, when it is fully united and raring to go, it never loses a big battle in Washington."

**In the mid-1970s President Gerald Ford (Republican) vetoed two bills that would have strongly benefitted ordinary consumers and labor unions.* According to the proposed legislation, the Office of Consumer Representation would give consumers their own protective voice in all legal and regulatory matters within the federal system. For example, in the construction trades, where two or more unions were present at a construction site, if a union had a grievance with its sub-contractor, that union was not legally allowed to picket in order to demonstrate it grievance in public. The proposed Common Situs Picketing bill would have legalized such picketing.

The Office of Consumer Representation would have given ordinary consumers a powerful voice in Washington, something they previously had not had. The Common Situs Picketing Bill would have given unions more power than they had had. President Ford's veto prevented union workers and ordinary consumers from having stronger voices in important matters of concern to them.

**In 1978 the Democrats in Congress were pushing another bill that would support labor unions when confronted by the Taft-Hartley law. Because the bill would have passed the Senate if it came up for a vote, two Republican Senators, Orrin Hatch of Utah and Richard Lugar of Indiana, offered one amendment after another, until the number of amendments eventually totaled almost one thousand.* After five weeks of such delaying tactics, three votes were finally taken to end the filibuster. The closest vote favoring ending the filibuster was 58 – 41, two short of the needed 60 votes. A noted historian called this defeat a "Waterloo for labor."

Did these actions weaken labor unions?

The following four observations clearly indicate that the above actions were very effective in greatly weakening the power of unions.

- The effectiveness of labor union activities reached its zenith about 1976, when the bottom 90 percent of workers received 91.1 percent of the nation's income. After 1976, that 91.1 percentage constantly trended downward, and by 2010, reached approximately 75 percent.
- The bottom 90 percent of workers were able to achieve the rewards noted above because, from the late 1930s to the 1960s-1970s, union membership continued to grow until about 33-34 percent of workers in the U.S. were union members. After that, union membership went into a steady decline until 2010 when only 10-12 percent of U.S. workers were union members.
- As noted, workers received an increasing share of the nation's income from the mid-1940s to the mid-1970s. During that period the productivity of U.S. workers grew at a steady pace, and workers' wage increases essentially kept pace with the increases in productivity. That occurred because unions were strong enough at the bargaining table to demand wage and benefit increases that matched productivity increases. But that changed in the middle of the 1970s when unions were no longer strong enough when renegotiating their labor contracts to demand wage and benefit increases that matched productivity increases.
- After the business community moved to Washington in the 1970s, it had thousands of lobbyists doing their bidding. Labor unions could not afford an army of lobbyists who were strong enough to compete with the business-community's lobbyist force.

Once the power of labor unions had been significantly weakened, the U.S. Government then proceeded to utilize stealth government actions to create its program of Welfare for the Wealthy.

Stealth government actions in the 1970s

There were four stealth government actions during the 1970s: two undertaken by Congress and two facilitated by Supreme Court decisions.

1. Student loans guaranteed by the government rewarded bankers at the expense of students. In the 1972 student loan program established under Sallie Mae, the government did not lend money directly to students. Banks made the loans, and the government guaranteed the loans. The banks took absolutely no risk. Banks could borrow money from the Federal Reserve at low interest rates, then lend the money to students at substantially higher interest rates. President Clinton tried to change the system to one where students borrowed directly from the government, but Congress prevented that approach. The net effect was that Congress passed laws that forced students to pay higher interest rates on their loans than they would have, had there been available a system of direct-government loans. The bankers got very rich. Students suffered severe financial burdens.

(Currently, there are more than a million students with loan balances exceeding $200,000. The dollar total of student debt held by the government is $1.6 trillion, which is approximately equal to the total GDP of Canada.)

2. The new bankruptcy law of 1978 strongly favored management over workers. In 1978 Congress passed a little-noticed bankruptcy law that greatly shifted legal power in bankruptcy cases away from the courts and the public, and gave that power to the management of the company declaring bankruptcy. Instead of ousting the company's management and replacing them with an outside bankruptcy trustee (as had been common practice), the new law not only left the old management in place, but also allowed them to mastermind the entire bankruptcy process. This new law permitted the old management to shed old debts and abrogate long-standing labor union contracts that had guaranteed wages, health benefits, and lifetime pensions. Thus, management was empowered to deprive rank-and-file employees of millions of dollars in hard won economic gains. The result was that management teams that could not profitably manage their business were rewarded generously for their incompetence, while the company's workers were forced to sacrifice not only their current incomes, but also their retirements.

3. Supreme Court decisions in the late 1960s made all labor union strikes illegal. Labor disputes now had to submit to arbitration. The 1930's Norris-LaGuardia Act prohibited courts from hearing labor cases or issuing injunctions against labor unions. In a 1969 case (*the Boys Market case),* the Supreme Court decided that it would begin to issue injunctions to enforce no-strike clauses in labor contracts. Then the Court went even further. It would imply "no strike" clauses even if no such clause existed. The Court reasoned that labor unions didn't need strikes anymore, and that everything could be decided by a neutral arbitrator. With these decision, the Supreme Court declared strikes illegal, thus denying unions the use of their most powerful weapon in their struggle to improve workers' conditions. Employers could then do anything they chose to do and know that unions couldn't strike or do anything but wait and wait and wait, because companies had no incentive anymore to deal with grievances when they could get injunctions, contempt, and punitive fines. Management benefited greatly, while workers suffered much loss of income and wealth.

4. A 1978 Supreme Court decision allowed banks to charge high credit card interest rates for low-income credit card holders. In Marquette National Bank of Minneapolis v. First of Omaha Service Corp., the Court invalidated the use of a state's anti-usury law against nationally chartered banks. Those laws were designed to prohibit banks from charging excessively high interest rates. That decision effectively deregulated credit cards interest rates. Banks could now charge 30 percent to people who previously could not qualify for a bank loan because they were too high a risk.

Because of that decision, Citicorp decided to move its credit card operations to South Dakota. To do so, it had to convince the Governor of South Dakota to persuade that state's legislature to formally invite Citicorp to operate there, as required by federal law. The Governor then successfully lobbied the legislature to pass a bill to repeal the state's cap on interest rates. That done, Citicorp then moved its entire credit card operation to South Dakota.

Within a few years, several other national banks and other states followed the pattern established by the Citicorp-South Dakota precedent. The banks then began to aggressively market their high-interest rate cards to customers who carried large balances but rarely paid more than the monthly minimum. Because those payments consisted mostly of interest and not principle, these credit card operations became very profitable and important profit centers for the banks. Through this action, the government encouraged the exploitation by banks of individuals who were at or near the bottom of the income scale.

*

These four stealth government actions allowed wealthy individuals to legally steal money (i) from students, (ii) from workers in companies that declared bankruptcy, (iii) from a company's unionized workers when those workers were attempting to strike in order to settle a grievance, and (iv) from high-risk, low-income individuals trying to obtain a credit card. Each of these actions became part of the U.S. Government's Program of Welfare for the Wealthy.

Stealth government actions in the 1980s

There were four such actions in this decade: three taken by President Reagan's administration, and one by Congress.

5. The Reagan presidency allowed corporations to replace pension plans with 401(k) plans, thus greatly reducing the retirement incomes of millions of middle and lower class workers. In 1981 the Reagan Treasury Department, without specific legislation passed by Congress and signed by the president, ruled that a tax provision allowing the use of 401(k) plans—narrowly intended for a dozen or so New York state corporations—could be applied across the nation. As a result, the percentage of large and medium-sized American firms that offered traditional lifetime pensions fell from 83 percent in 1980 to 28 percent in 2011.

In the old system, employers put up 89 percent of the money for retirement, while the employees only contributed 11 percent. Under the 401(k) system, the employees now paid 51 percent of the cost of the system, while the employers only paid 49 percent. Under the old system, companies guaranteed monthly retirement checks to employees for as long as they lived. Under the 401 (k) system, it was now up to employees to provide for their own retirement savings and to manage their money for long-term security, a task beyond the capability of millions, as the record now shows. Overall, this Reagan decision proved to be a disaster for huge numbers of workers when they entered retirement. However, much of the savings accruing to corporations from this change went toward greater CEO compensation, which further exacerbated the growing income inequality.

6. The Reagan administration allowed corporations to "buy back" their own company stock. Prior to 1982, a corporation's repurchase of their own stock (a "buy back") was considered an attempt to manipulate the company's stock price. Doing so was illegal, and had been for decades. In 1982, under Reagan, the Securities and Exchange Commission (SEC) adopted rule 10b-18, the result of which was that a corporation's repurchasing of its own stock ***was no longer an illegal act*.** By making this change, the SEC ceased to be stock regulator, as decreed by law, and, instead, became an active promoter of stock price manipulation.

Since the mid-1980s, corporations have spent trillions of dollars repurchasing their own stock, almost all of it for the sole purpose of giving manipulative boosts to their companies' stock prices. The reason for doing so was that it would make corporate CEOs fabulously wealthy, because of the stock options given to them. In effect, the CEOs were stealing money from current stockholders, because their stock options devalued the stocks currently held by stockholders.

7. Congress passed the Garn-St. Germain Act and eliminated three important banking regulations, the absence of which contributed to the nation's subprime housing mortgage crisis that culminated in the financial crash of 2007-2008. In 1982 Congress passed the Garn-St. Germain Act, which basically deregulated the Savings and Loan industry. The Act allowed "thrifts" (i.e., savings and loans associations) to increase the interest rates they offered savers and to use the extra income to make "speculative" investments, which previously they had not been permitted to do. Due to the poor investments they made, several thousand thrifts failed in the 1986-2002 period. That created a shortage of mortgage lending institutions (i.e., "lenders"), a shortage that was quickly filled by newly emerging mortgage-writing companies, which were both unregulated and unscrupulous.

Also in the early 1980s, through the Secondary Mortgage Market Enhancement Act, Congress (1) abolished usury interest rates on mortgages and the requirement of a down payment when buying a home, (2) allowed banks to offer adjustable-rate mortgages to financially unqualified individuals, and (3) allowed the "securitization" of those mortgages on the secondary market, even though they were of very questionable quality. This was the start of the "subprime mortgages" market. Because of these deregulations, lenders sold their subprime mortgages to investment banks like Goldman Sachs, who securitized them and sold them as high-quality securities to private individuals and pension funds, who expected to receive a high rate of return on their purchases.

The mortgage lenders and the investment bankers got very rich, while those who took out a subprime mortgage or who bought securitized mortgages on the secondary market lost everything.

Lenders used that new source of income (reselling their subprime mortgages to investment banks) to again begin issuing adjustable-rate mortgages to financially unqualified individuals, thus starting the cycle all over again. From the very beginning, these home mortgages were loaded "with poisonous features that made them virtually impossible to repay." When those home buyers began to default on their mortgages in the early 2000s, they lost most or all of the investments they had made in those homes. Individuals who had purchased those securitized mortgages as good investments also lost most or all of their investments. During the decade of the 2000s, those subprime mortgage foreclosures occurred with increasingly greater frequency, and that caused the financial crisis of 2007-2008.

8. Reagan and Republicans aligned themselves with the ultraconservative Federalist Society to identify young prospective Supreme Court nominees who strongly embraced very conservative political ideals. From President Reagan's point of view, the federal judicial system was no longer meant to be politically independent—i.e., be one of the three equal branches of government. Instead it was to become a legal force aligned with and supporting the Republican Party. Reagan decided that the source of these future Republican-friendly Supreme Court justices was to be the Federalist Society.

All Federalist Society members were libertarians who strongly opposed big government programs like Social Security, Medicare, and Medicaid. They also opposed legal abortions, government regulation of private industry and other popular initiatives like progressive income taxes. Included among the things that Federalist Society members favored were a premium on individual liberty, and fewer restrictions on gun ownership and political campaign contributions. With millions of dollars of support from mega-donors like the billionaire Koch brothers, the overall effect was that the Federalist Society exerted unparalleled influence over Republican appointees to the Supreme Court.

The Supreme Court is the highest court of the land, and the court that protects the rights and liberties of all Americans. As such, it seems logical that the Court should at least somewhat resemble the profile of the American people. Yet Republican presidents—from Reagan to Trump—consistently nominated to the Supreme Court individuals who were members of the Federalist Society. But the Republicans went even further in their efforts to "Republicanize" the federal judicial system; they did so by only appointing to the federal judiciary individuals who were Catholics, and therefore probably opposed to legal abortions—as were evangelical Christians and mainline Protestants, both of whom were very important Republican Party constituencies.

Consider the last four Republican presidents and the individuals they appointed to the Supreme Court. Reagan appointed both Antonin Scalia and Anthony Kennedy (although Kennedy, a conservative, was not a Federalist Society member). George Herbert Walker Bush appointed Clarence Thomas. George W. Bush appointed John Roberts and Samuel Alito. Trump appointed Neil Gorsuch, Amy Coney Barrett, and Brett Kavanaugh (who was raised Catholic). All eight of these appointees were very conservative, were raised Catholic, and all but Kennedy were members of the Federalist Society. Lastly, all eight appointees were graduates of good law schools and, as such, were probably in the top five percent of the income scale. The group in no way resembled a profile of the American people.

By the end of the George W. Bush presidency (2008), the pro-business/anti-common worker bias of this "Republicanized" Supreme Court (e.g., Scalia, Kennedy, Thomas, Roberts and Alito) was evident in the Court's decisions (i) that halted the Florida recount of votes in the Bush vs. Gore presidential election of 2000 (reflecting a strong Republican/business bias), (ii) in the Lilly Ledbetter case (indicating a strong favoritism for big business and a very strong bias against women and common workers), and (iii) in the Citizens United case that strongly favored corporations and very wealthy individuals when it came time to select the next President and members of the next Congress, both of which were most likely to be involved in supporting the next stealth government action greatly benefitting corporations and/or very wealthy individuals.

(By the end of Trump's presidency (2020), six of the nine justices were members of the Federalist society, were raised Catholic, and were probably in the top five percent of the income scale. They did not even come close to resembling the profile of the American people.)

*

These four stealth government actions allowed individuals in the top one percent of the income scale to legally steal money (v) from ordinary workers when companies switched from pension plans to 401(k)s, (vi) from company shareholders when a company "bought back" its own shares on the open market, (vii) from unqualified, low-income homebuyers when they were sold subprime mortgages, and (viii) from ordinary people whenever the Supreme Court made one of its numerous decisions favoring business over workers or common citizens. These stealth government actions were also part of the U.S. Government's program of Welfare for the Wealthy.

Stealth government action in the 1990s

Bill Clinton, a democrat, was president from 1993 to 2000. There were three stealth government actions taken in the 1990s: two were initiated by Congress, and one by the Supreme Court.

9. Congress encouraged a substantial increase in use of stock options to dramatically increase CEO compensation and cause even greater income inequality. From 1990 to 2001, CEO annual compensation grew about 400 percent. To a great extent, that growth was due to the use of stock-option grants as a form of executive compensation. Stock options represented about 20 percent of executive compensation in the early 1990s. Twenty years later that figure tripled to about 60 percent of executive compensation.

The payoffs were astronomical, enough to vault a previously affluent corporate executive into the stratosphere of the super-rich. Stock options were the primary vehicle for creating the corporate super-rich. In 1980, only about 30 percent of CEOs had been granted company stock options. By 1994, 70 percent were getting options. By 2000, "mega-option grants" of millions of shares or more had become the norm.

The use of stock options was controversial because they were not treated as an expense in the company's accounting system. As a consequence, when CEOs exercised their stock options, they represented transfers of wealth from the shareholders of the company's stock to corporate executives. Since such transfers of wealth occurred without the permission of the shareholders, they were illegal.

The stock option practice finally provoked a political crisis in 1993 when the quasi-regulatory Financial Accounting Standards Board (FASB) announced that it intended (1) to rule that stock options were illegal because "failing to charge options as a business expense was deceptive accounting," and (2) to require companies to charge them as a cost, just like executive salaries. Corporate America was outraged. It besieged the Securities and Exchange Commission (SEC) that oversaw the FASB.

Congress quickly came to the rescue of corporate America the following year (1994). The Senate voted 88-9 in favor of a resolution that condemned the FASB's proposed actions as "reckless." Fearful that Congress would eliminate the FASB and reduce funding for the Securities and Exchange Commission, the chairperson of the SEC directed the FASB to withdraw its proposed ruling. That Senate resolution presented CEOs with another ten years of bountiful wealth. For example, including stock options, Larry Ellison (CEO of Oracle) was paid $706 million in 2001. Michael Eisner (CEO of Disney) received $575 million in 1998, and Sandy Weill (CEO of Citigroup) received $621 million from 1997 to 2000.

(Associated with the granting of stock options to CEOs was the practice of corporations buying back their stock on the open market. (See the second stealth government action in the 1980s.) Since 2004, companies have spent nearly $7 trillion purchasing their own stock—often at inflated prices. That amounted to about 54 percent of all profits from Standard & Poor's 500-stock index companies between 2003 and 2012.)

10. Congress excluded waitresses and waiters when it increased the federal minimum wage, thus relegating them to poverty or near-poverty incomes. In the early 1960s, the National Restaurant

Association persuaded Congress not to give any minimum wage protection to waitresses and waiters. Those workers would have to live only on the tips they received at work. That changed in 1966, when the minimum wage for waitresses and waiters was set at 50 percent of the minimum wage for other workers. From 1966 to 1996 the tipped wages for waitresses and waiters varied between 50 and 60 percent of the regular minimum wage. In 1996, the Republican-led Congress again raised the minimum wage for regular workers, but that raise did not apply to waitresses and waiters.

In the early 1990s, the Federal minimum wage for regular workers was $4.00 an hour, but for waitresses and waiters, it was only $2.13 an hour. The minimum wage for tipped workers remained unchanged through the decade of the 2000s, while the Federal minimum wage had risen to $7.25 per hour.

These actions by the Republican Congress reflected the wishes of the National Restaurant Association.

11. The Supreme Court allowed "forced arbitration" clauses in consumer contracts to prevent class action lawsuits against corporations. When a consumer signs a credit card contract, a cellphone agreement, or a cable television contract, the contract's fine print is likely to include a "forced arbitration" clause. By signing such a contract or agreement, the consumer gives up her or his right to join with other like consumers in a class action lawsuit against the company issuing the contract. Instead, if the consumer believes the company is being unfair, dishonest, or doing something illegal, she or he must hire a lawyer and enter into individual arbitration with the company. Since the financial reward for any consumer, if they win the arbitration, is likely to be less than the legal fees incurred, there is no incentive for the consumer to enter into such a legal action.

"Forced arbitration" clauses allow companies to include conditions in their contracts which signees do not know about, do not like, or do not want, but which cost the signees a few or several dollars a month. If there are hundreds of thousands of contract signees, those relatively small monthly amounts per individual signee may total in the millions. Over the course of a year, those small amounts may total in the tens of millions of dollars. By including such clauses in their contracts, companies reap great financial benefits, but they are not subject to costly class action lawsuits because of their unfair, dishonest, or illegal practices.

The use of "forced arbitration" clauses was well-established in the late 1990s, and the Supreme Court legalized the practice in *ATT v. Concepcion.* Corporations and their senior executives use the practice because it allows the top 0.1 percent of earners to legally divert, for their own personal advantage, millions of dollars each year from countless lower and middle income consumers. Members of the judiciary have referred to the forced arbitration/class-action ban as a "get out of jail free" card, because such clauses allow corporations to avoid the legal system, even when they are badly misbehaving.

*

These three stealth government action allowed those at the very top of the income scale to legally steal (ix) from the shareholders of their companies' stock when they accepted stock options, (x) from the waitresses and waiters in their employ, and (xi) from their customers when they use "forced arbitration" clauses in their companies' contracts or agreements.

Stealth government actions in the 2000s

George W. Bush was president from 2001 to 2009, and the Republicans controlled Congress from 1994 until 2006. There were six stealth government actions during this decade: one was initiated by President Clinton and supported by Congress; two were initiated by President George W. Bush and supported by Congress; two were initiated by Congress and supported by President Bush; and one was supported by both Congress and President Bush.

12. The business community helped President George W. Bush pass his tax cuts for the rich.
President Bill Clinton's 1993 tax increase on the rich was one of the major forces that resulted in the economic prosperity of the mid-to-late 1990s. For the first time in over 30 years, the U.S. Government's budget showed a surplus. In fact, it showed a surplus in four straight years, 1998 through 2001, the year that George W. Bush became president. (At the time, economists reported that, if the current economic policies remained unchanged, the federal budget would be in surplus for years to come, and that the entire national debt would be completely eliminated sometime around 2010.)

In January 2001, George W. Bush became president when the Supreme Court intervened in the controversial state of Florida vote recount. In February 2001, President Bush promised Congress he would eliminate $2 trillion from the national debt over the next decade. Referring to the recent budget surpluses, Bush also said "the people of America are being overcharged," and that, therefore, it was appropriate to give them a tax cut. Republicans had a small margin of control in the House of Representatives at the time, but there was a 50-50 tie in the Senate. As a result, Bush's proposed tax cuts were likely to be stopped by a Democratic filibuster in the Senate.

In his book, *Who Stole the American Dream?,* Hedrick Smith described how the business community assisted Republicans in getting this tax-cut bill through Congress. (In the passage below, the "Gang of Six" refers to the business community's six top lobbyist groups: the National Association of Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable (CEOs of the top 200 corporations), the National Federation of Independent Businesses, the National Association of Distributors-Wholesalers, and the National Restaurant Association.)

> Tax policy, as one academic put, is "a highly technical realm that is ripe for concealment and mystification," and the Gang of Six and the Bush White House were not above exploiting public confusion or gullibility. The Democrats warned that 43 percent of the tax cut would go to the top 1.0 percent of the income scale. But the White House highlighted the promise of a quick rebate for the average taxpayer--$300 for single people and $600 for couples. But that pitch masked the larger truth that, as the years rolled on, the lion's share of the tax cuts would go to the super-rich.
>
> With the full-court press by the Gang of Six reinforcing the White House push, the Bush bill offering $1.35 billion in tax cuts over a decade passed the House 240-154. In the Senate, Republicans sidestepped a Democratic filibuster by invoking the process of budget reconciliation—which required them to guarantee there would be no loss in revenue, an impossibility with such a huge tax cut. The Republican majority ignored that requirement and the looming deficits and passed the bill 58-33. (p.130)

If 43 percent of $1.35 billion (=$580 million) went to the top 1.0 percent of citizens, the remaining 99.0 percent of citizens received only $770 million. On average, then, any 1.0 percent portion of the middle-lower income citizenry received $7.8 million ($770 million /99 percent = $7.8 million), while the top one percent received $580 million, a ratio of 74 to 1 in favor of the rich. A very good example of the U.S. Government's program of welfare for the wealthy.

(In his eight-year presidency, Ronald Reagan increased the national debt from 32.5 percent to 53.1 percent. (All of these national debt figures are expressed as percentages of GDP.) In his four-year presidency, George H.W. Bush further increased the national debt to 66.1 percent, but Bill Clinton *decreased* it to 56.4 percent during his eight years in the White House. In George W. Bush's eight years in office, he increased the debt back up to a whopping 84.2 percent. In less than thirty years, three Republican presidents increased the country's debt from 32.5 percent to 84.2 percent of the nation's GDP. Without the budget surpluses created by Clinton's policies, the three Republican presidents would have increased the country's debt from 32.5 percent of GDP to 93.8 percent of GDP.)

13. The George W. Bush administration bailed out "banks too big to fail" during the financial crisis of 2007-2008, but prevented distressed homeowners from declaring bankruptcy. Shortly after the financial crisis began, the Secretary of Treasury, Hank Paulson, the Chairman of the Federal Reserve Board, Ben Bernanke, and the head of the Federal Reserve Bank of New York, Timothy Geithner, warned of impending economic disaster for the nation if $700 million was not immediately made available to the nation's largest banks. President Bush told Congressional leaders that if such funding were not forthcoming for the banks, the country's economy would collapse, as per his comments that "this sucker could go down."

Paulson had been the head of Goldman Sachs, and Geithner had been installed at the New York Fed by major bankers, including Citigroup. The two of them secretly decided which institution would get money, and how much they would get. Inasmuch as Goldman and Citigroup were the largest beneficiaries of the bailout, this reflected badly on the deal. The bailout was made even more suspect by the fact that neither Geithner nor Citigroup revealed any details of the bailout for several months. As a result, the bailout came to look like "a giant insider deal created by Wall Streeter for Wall Streeters, at everyone else's expense."

At the time, there were proposals to allow distressed homeowners to declare bankruptcy rather that forfeit their homes to their lenders. Such a development would have given those homeowner more bargaining strength when dealing with their banks. But through their lobbying efforts with Congress, the banking community was able to prevent such a development.

The American people were told that the bailout would be very helpful to everyone. In reality, the bailout saved the large bankers, who used the taxpayer money to keep solvent and to continue to do the kind of deals that made them very rich. Meanwhile, none of that taxpayer money tricked down to small banks, small businesses, and individual homeowners.

The bailout was a clear example of the government taking money and wealth from the middle and lower classes and transferring it to selected individuals in the top 0.1 percent of the income scale

14. Congress' new treaty greatly facilitated outsourcing U.S. manufacturing jobs to China and increasing imports from China. Prior to 2000, U.S. trade with China was based on, and limited to, annual agreements between the two countries: that is, a new agreement was negotiated each year. Because that arrangement did not allow for the establishment of longer term relationships between U.S. and Chinese companies, the business community put pressure on Washington to make appropriate changes. Business people argued that freer trade with China (that is, longer term trade agreements with China) would result in an export bonanza from which all Americans would benefit.

President Clinton strongly supported the U.S.-China Relations Act, which passed the House in May 2000. He argued that the agreement would open up China to all of America's products, "everything from corn to chemicals to computers," The Republican candidate for president, George W. Bush, declared that it would "open markets to American products and help export American values." The U.S. trade representative proclaimed that it represented broad export potential "across all sectors and all fields of a magnitude unprecedented in the modern era." The Business Roundtable lobbied Congress for its support and envisioned massive export gains in its ad: "A New trade agreement opens China's market to our goods and services." A number of U.S. industries jumped on the bandwagon in support of the treaty, including automobiles, farm equipment, telecommunications, pharmaceuticals, and electronics.

But organized labor was opposed to the treaty, believing that it would lead to massive job losses at home as U.S. companies would move factories to China to take advantage of China's cheap labor. Smaller U.S. manufacturing firms feared that big U.S. companies would use their China advantage to crush them by producing cheap goods there and exporting them back home.

As U.S. trade with China increased year by year after 2000, so also did unemployment in the U.S. manufacturing sector. From 2000 to 2010, unemployment in the U.S. manufacturing sector declined by some 33-34 percent. Many of those who lost high-paying jobs in manufacturing had to settle for lower-paying jobs in the service sector, or worse. Meanwhile, owners and executives of U.S. firms that were involved in outsourcing U.S. jobs to China were rewarded with significantly greater compensation, leading to even further increases in the nation's income inequality. For example, reportedly the "six Walmart heirs were worth as much as the bottom 41 percent of American households put together."

An event (i.e., the passage of the U.S.-China Relations Act of 2000) that had a gigantic negative effect on almost all ordinary Americans should have, in a Democracy, been discussed openly and freely for all to see and consider. But that was not what happened.

15. Congress and the President George W. Bush allowed employers to steal billions of dollars from their employees through legalized wage theft. First passed in 1938, the Fair Labor Standards Act required that workers be paid time-and-a-half for hours worked beyond the standard forty-hour work week. The act did not apply to managers and executives.

Under this law, a worker would be entitled to time-and-a-half overtime pay if he earned less than $460 per week ($11.50 per hour). If he earned $460 or more a week, he would not be entitled to overtime pay no matter how many hours he worked.

Under the 1938 labor law, workers were supposed to get overtime pay if they did not earn a professional or executive salary. In 1975, such a salary was defined as $455 per week (or $23, 660 per year), and that figure has changed very little over time. Once a worker was paid more than $23,660 per year, he or she typically was no longer eligible for overtime pay.

(If that 1975 salary level ($23,660) had been regularly updated to reflect the effect of inflation since 1975, the newly adjusted salary figure would be $52,000 per year. If such a change had been made, at least 5 million—and perhaps as many 10 million—more workers would have been eligible for overtime pay over those many years.).

By changing the law in 2004 to reclassify many ordinary workers as "executives," Congress and President George W. Bush legalized, and encouraged, wage thievery that denied millions of workers of billions of dollars of overtime pay that was due to them according to the Fair Labor Standards Act of 1938. In 2019, the Center for Public Integrity reported that the U.S. Department of Labor cited 8,500 companies for minimum wage and overtime pay violations that resulted in their stealing about $287 million from their workers. Reportedly, wage theft is so pervasive that it's costing U.S. workers at least $15 billion a year.

16. In 2005, Congress passed a new bankruptcy law that prevented ordinary homeowners from declaring bankruptcy, thus allowing lending banks to continue to charge the homeowners the usurious interest rates demanded by their mortgages and sales contracts. Republicans were already in control of both houses of Congress when George W. Bush became President. With such "friends" in high places, the financial industry began lobbying for new laws that would make it more difficult for ordinary individuals to file for bankruptcy when they could no longer pay their bills.

Average Americans were having difficulty paying off their subprime mortgages and the principles on their high-interest credit cards. Many were declaring bankruptcy, thus depriving banks of the usurious interest rates they were receiving from their loans. As a result, the financial industry wanted Congress to make it more difficult for average Americans to declare bankruptcy.

To disguise their true intent, the financial industry claimed that such a new law was needed in order to prevent "high-income deadbeats" from using bankruptcy to avoid paying their debts. The real purpose was to make it harder for ordinary individuals to get into bankruptcy court, because the harder it was, the more expensive it would be and the longer it would take, so those people would have to continue paying big penalty fees to their banks.

In 2005, Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act, which raised the legal and financial barriers to bankruptcy filings. This caused personal bankruptcy applications to plummet about 62 percent from 2005 to 2006. The new law acted like a legal barricade that prevented hundreds of thousands of honest Americans from using bankruptcy to seek relief from their financial woes. The longer they were prevented from entering bankruptcy, the longer they were legally obligated to keep paying their banks the usurious interest rated demanded by their mortgages and sales contracts.

17. Congress and President Bush allowed U.S. corporations to transform themselves into global corporations, and move thousands of high-tech jobs to foreign countries. During the decade of the 2000s, a large number of U.S. corporations outsourced thousands of high-tech jobs to foreign countries because they no longer felt the need to manufacture, or do research, or have operations in the U.S.

In his very good book, *Who Stole the American Dream?,* Hedrick Smith recorded the essence of the catastrophe being imposed on the American economy and people by these corporations.

> Alex Trotman, the CEO of Henry Ford's old company was among the first to openly sound that theme in the late 1990s. "Ford isn't even an American Company, strictly speaking," he said. "We're global." Ron Rittenmeyer, CEO of EDS, the largest American-based IT services company, described his firm as "agnostic about specifically where we operate." In 2005, former Intel CEO Barrett was so bullish about Intel's global presence and operations in an interview with *New York Times* columnist Thomas Friedman that Friedman paraphrased Barrett as contending that "Intel can be a totally successful company without ever hiring another American." In 2006, Cisco CEO John Chambers went further. "What we are trying to do," he said, "is outline an entire strategy of becoming a Chinese company."
>
> …the National Science Board reported that 85 percent of the growth in R&D workers by U.S. multinationals between 2003 and 2009 had been abroad, while American-based employment in high-tech manufacturing had dropped 28 percent since 2000.
>
> …IBM has become the flagship for outsourcing technology services, helping a fleet of U.S. firms to relocate as many as a couple of million high-end jobs to Asia, especially in India. If Walmart pushed consumer manufacturing to China, IBM has been the driving force for pushing IT work

> offshore. It own transformation has been stunning, implemented largely out of public view. In seven short years, from 2003 to 2010, IBM fired so many American IT professionals and hired so many engineers and computer programmers in India that IBM's India workforce is now larger than that of IBM USA.
>
> Since 2006, IBM has been secretive about revealing just where its 400,000-person global workforce is stationed. But the *Times of India* dug out the news that IBM's Indian workforce—a mere 6,000 in 2003—has catapulted to 100,000, maybe even 130,000, by August 2010. In those seven years, IBM cut its American workforce by 30 percent or more, from 135,000 in 2003 to under 100,000 by early 2011.
>
> But to reduce the unflattering headlines, IBM went sub rosa with its firings. Although federal and state laws require companies to report "material events" such as large layoff, IBM stopped announcing large job cuts in 2006.

Other large, well-known U.S. companies that went into high-tech job outsourcing in a big way were Accenture, Hewlett-Packard, Dell, Deloitte, Electronic Data Systems (EDS), Affiliated Computer Services, Computer Sciences Corporation, J.P. Morgan Chase, Bank of America, and Citigroup. With no public announcements by either Corporate or U.S. Government officials, former U.S. corporations, that for decades and decades had *benefited hugely* from being U.S. corporations, quietly transformed themselves into global corporations, moved thousands of high-tech jobs out of the U.S. into foreign countries, and rejected many if not all responsibilities toward the United States and it citizens.

*

These six stealth government actions allowed wealthy individuals to legally steal money (xii) from all lower and middle class individuals in the country, (xiii) from all the citizens in the U.S., (xiv) from all the workers who lost their jobs or lost income because of the China trade pact, (xv) from all the workers who suffered monetary losses because of wage theft , (xvi) from all the homeowners who lost their investments because they were deprived of declaring bankruptcy, and (xvii) from all the high-tech professionals whose jobs were sent overseas by employers acting as global corporations.

Characteristics of the U.S. Government's Program of Welfare for the Wealthy

The first characteristic. The program consists of the above seventeen stealth government actions. However, it may be possible that still other stealth government actions, that have not yet been identified, are in place and actively contributing to welfare for the wealthy.

The second characteristic. All three branches of the Federal Government—the Congress, the Supreme Court, and the Administration—initiate stealth government actions.

- Eight of the seventeen stealth government actions described in this paper were initiated principally by Congress, but several were strongly supported by the current president.
- Three of those stealth actions were facilitated by Supreme Court decisions.
- President Ronald Reagan initiated three of those stealth government actions, while President George W. Bush initiated two of them.

- In one stealth action, both the president and Congress were dormant/silent when it was appropriate for both of them to take action (when U.S. corporations transformed themselves into global corporations).

The third characteristic. The “victims” of some stealth government actions included all or nearly all of the individuals falling within the lower and middle classes.

- The George W. Bush tax cut was <u>extremely generous</u> to the top 0.1 percent of the population, but the bottom 99.0 percent received only a mere pittance.
- During the financial crisis of 2007-2008, the government <u>generously bailed out “banks too big to fail,”</u> but prevented stressed homeowners from declaring bankruptcy. All other ordinary citizens received nothing.

The “victims” of some stealth government actions, while smaller in numbers than those described above, , nevertheless did represent a very large segment of the lower and middle classes.

- Millions of ordinary consumers signed contracts or sales agreements containing “forced arbitration” clauses which required those consumers to pay a few or several extra dollars each month, even if they did not want the services they were being charged for.
- Congress allowed employers to steal billions of dollars from millions of their employees through legalized wage theft.
- During the subprime-mortgage market boom, millions of individuals bought homes they could not afford through mortgages they could not afford. They lost not only their homes, but all they had invested in them.