Increasing Inequality and Systemic Racism: Business Notices

James A. Kyprios / Originally published by [LA Progressive on July 18, 2020]

"The business of America is business." *Calvin Coolidge, 30th President of the United States*

I am inclined to believe that many, if not most people, are ultimately influenced by what affects their pocket book- in other words, their economic wellbeing.

Illustrating this is a story about baseball legend Jackie Robinson. The Brooklyn Dodgers were traveling by bus down South during Spring Training in the late 1940s. The bus pulled into a gas station to refuel. Robinson asked the owner if some members of the team could use the bathroom. The white southern gentleman refused. Robinson told him that the bus would have to refuel at a more accommodating gas station. The owner quickly sized up the situation and reluctantly assented. It is not at all surprising that economic interests are capable of trumping (pun intended) long-held prejudices.

We now see this happening in the business community which is becoming more and more concerned about increasing inequality in the age of Covid. Inequality, which includes a good deal of systemic racism, is bad for business and ultimately bad for investments. When business gets on board, there may be a chance for lasting change.

The Analysis of Barrons Magazine

Almost everybody knows that Fox News and the Wall Street Journal are owned by Rupert Murdoch. They represent the bedrock of conservative America and the business establishment. A sister publication of the Wall Street Journal is Barron's magazine which is a "must read" for those with discretionary amounts of money to invest. This is a highly regarded magazine among investment professionals who are interested in making a good return on their own money or on the money they manage for others.

You would not think that Barrons magazine would take "liberal" positions on the subject of income inequality but that is exactly what they did in the feature article of the June 22, 2020 Edition of the magazine. (See "The High Cost of Inequality" by Reshma Kapadia). The article states that economic disparity causes massive divisions in society which in turn increase political risk for investors and leading to potential tax and regulatory charges that can weigh on corporate earnings. It also makes clear that Covid-19 is increasing economic inequality which will lead to bad economic outcomes for all. The statistics the Barrons article presents show how poorly even college educated African Americans are faring compared to less educated white people. The clear message in the article is that such a situation is not desirable and not sustainable.

Here is a list of some of the problems the article cites relating to inequality in the United States:

- The top 1% of earners now account for 20% of total income in the US while the bottom 60% account for just 13%.
- Only 10% of households own all but 16% of the stock market.
- Some 40% of the people who have lost their jobs were earning less than $40,000/year while only 13% of those earning $100,000/year or more lost their jobs.
- The US middle class, always the bedrock of the country, has fallen behind: the middle class has fallen to 50% of the population ranking behind Japan, France and Germany which are at 60%. The US is now more like Turkey and other third world countries.
- Economic inequality has been building over decades. This is in part caused by a penchant toward prioritizing shareholder value over other corporate stakeholders.
- More startling is the fact that black households headed by college graduates have 30% less median wealth than white families headed by those with no college degrees. Furthermore, the article states that the top 10% of African Americans had about 20% of the wealth of their white peers. Clearly there is a major racial component to inequality.

We are living in an age that worships data. These are the facts that Barron's magazine presents to its readers. America has traditionally been a country with a strong middle class. This middle class is diminishing and it has been noted by commentators that Covid-19 in many cases accelerates trends. Barrons Magazine, not exactly a progressive publication, warns its readers in a lengthy and elaborately illustrated article that the trend towards inequality is increasing.

The Rich Are Doing Fine Compared to the Poor

The Fed has pursued a low interest rate policy even as the economy started heating up several years ago. This has proven to be beneficial for the stock market and for stock market investors. Most of the stock market losses in April have since been recouped. Although Barrons does not explicitly say so- it is hard to avoid Karl Marx' famous comment that under capitalism the rich get richer and the poor get poorer.

Various pundits have stated that this is a small-business Great Depression. Many middle class and well-to-do people have fled New York and are working remotely from second or rented homes. Their business activities and spending continue now on line.

But the small businesses that depend on their physical presence in cities have seen business evaporate forcing business owners to cut jobs and reduce spending. Many poor people, who are supporting the economy, are in the most dangerous jobs and expose themselves daily to physical risk.

These are the plain facts presented by Barrons magazine.

A Well-Known Law Professor and Social Critic Agrees

Tim Wu, law professor at Columbia author agrees. (See article in the June 20, 2020 edition of the New York Times entitled: "The Pandemic's Legacy: Even More Inequality?")

Professor Wu states that since January Amazon's stock has soared and the S&P 500 index of stocks has recovered most of its lost value on the strength of large technology companies. Most highly paid professionals and mangers have kept their jobs. There has been very little change in their wealth despite the fact that we are now in the worst economy since the Great Depression.

In the meantime, more than 20 million Americans have lost their jobs, many of them permanently. He emphasizes that these are the signs that the economic legacy of the coronavirus is to increase wealth concentration.

The government has to come up with an array of programs to sustain the economy and by most accounts it has done a good job. But, this is a rich man's recovery. It seems that the government is supporting everyone, but Mr. Wu explains that there are differences between support given to large businesses and the support given to small businesses and individuals.

Large businesses have been given long term assistance mainly through the actions and promises of the Fed to basically serve as the buyer and lender of last resort. These programs are designed to provide long term assurances and have stabilized the financial markets.

By contrast, according to Mr. Wu, the money spent on small businesses and workers is short term and hard to rely on. The amounts are small. The Payroll Protection Program is an example of this. For individuals, long term support they could rely on is more valuable than one more stimulus check. Wu says that is why unemployment insurance should be made to last until jobs come back and why a universal basic income should be discussed.

He makes the case that government should do more to help a situation where the latest stimulus programs are in effect a "regressive subsidy" which increases wealth concentration. This is a call for the government to enact programs to counterbalance these actions.   We have to take care of all of America not just the largest, most credit worthy corporations, he explains.

To review, Professor Wu recommends the following:

- Everybody, not just the well to do, should have long term support that they can rely on during this pandemic.
- He suggests that unemployment insurance should stay in effect until the jobs come back.
- He further believes a universal basic income should be studied.

Ideas like these would have been mocked by many just six months ago. In the age of Covid-19, they appear to be acceptable.

The Head of the World's Largest Hedge Fund Is Also Concerned

Ray Dalio is the founder and owner of Bridgewater Associates, the largest hedge fund in the world. He is writing a book called "The Changing World Order" which goes on sale in September and which deals with the economic aspects of Covid-19. He recognizes that the increasing gap in wealth is a critical issue.

In an interview on May 29th he said that the top 40% spend five times as much on education for their kids than the bottom 60%. It is imperative that we spend much more on education of all people to give everyone a chance at the American dream. For example, a lot of children do not have the internet connectivity to get the education available today. He believes we have to grow the pie. He says that America has always been known to be a country where people adapt and evolve; and that we have to work in a bipartisan way to do this. This is a call for government action to lessen the wealth gap.

What Can Be Done?

According to the Barrons article, there are only two solutions:

- There must be a change in political views including increased taxes
- Revolution

Barrons does not mention this, but I am reminded of the well-known quote from President John F Kennedy: "Those who make peaceful evolution impossible make violent revolution inevitable."

Mr. Kapadia, the author of the Barrons article, however believes that revolution is not likely. The US does have a high inequality but also a high average age. He supposes older people are less likely to revolt than younger people. This argues against revolutions. But, he notes, this does not foreclose some political problems but probably not massive unrest. Let's hope so.

He believes that "a social reckoning" could increase calls for polices such as rolling back the 2017 tax cut, or higher taxes on the wealthy. Changes also could come from measures outside the tax system such as: (1) infrastructure spending; (2) giving companies incentives to spend on investments in the part of the economy that needs jobs to come back; (3) additional government stimulus programs; and (4) across the board wage increases.

Mr. Kapadia underlines the observation that Covid-19 is making it more and more obvious how interconnected the economy really is and how little the nation has addressed the underlying issues surrounding income inequality.

How Increasing Income Inequality Affects Portfolios of the Rich

Barrons is ultimately concerned with investments. The article demonstrates that the increasing divergence is showing up in portfolios.

- Luxury retailers that cater to the rich as well as companies like Facebook, Amazon, Netflix and Alphabet (Google) have been the biggest winners in the recent bull market.
- If there is a populist backlash or a push to increase regulation, these companies are more likely to be adversely affected.
- As awareness about racism and inequality grows, the way companies respond could affect their brands and valuations. **Inequality is the defining feature of our economy today. (Yes, this is in Barrons magazine.)** The backdrop of inequality and the fragility it creates depresses long term projections. This means lower stock market valuations.
- There is no methodical way to analyze the situation and project the future Mr. Kapadia imagines that some companies in industries that can help the present situation will prosper. This includes-education technology, telemedicine, affordable housing investments, financial technology and digital payments that can help the unbanked.

In Summary

I have tried in this article to summarize the concerns of the establishment focusing especially on mainstream and conservative news outlets. These are not thoughts restricted only to liberals and populists.

Covid-19 is widening the increasing income and wealth disparity among Americans. When a large group of the population is in economic distress, their spending is limited. Spending drives the economy, corporate earnings and ultimately the stock market. In a sense, business and the news media are anticipating that we are at a "tipping point" where large political and economic changes are in the making. And they would like to influence the discussion and policies. Denying the problem of income inequality is no longer an option.

In a nutshell- increasing inequality is bad for business and bad for investments. It must be dealt with.

The July 5, 2020 issue of the London Financial Times featured an article by Martin Sandbu which gives a wonderful overview of the problem and possible solutions. (See "The Everyone Economy"). Here are some choice quotes from the article which deals with the problems on a world wide basis:

- "How did it come to this? How did much of the work we count as essential become ill-rewarded and precarious? And what has economic polarization done to the way our societies and politics function? These are questions that Covid-19 forces us to confront."
- "Like many others, I have worried that when our societies divide economically, they also fall apart culturally and politically."
- "Governments have already gone to extraordinary lengths both to halt the pandemic and to offset the economic consequences of the lockdown."
- "With the pandemic causing widespread economic damage to already polarized societies, continued radical policy actions cannot be in doubt. What we are going to find out is for what- and for whom-that radicalism will be used."