



The Economist

Washington and the 1%

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SPEAKING of inequality, here are a couple of factoids worth noting. First, according to the Census Bureau, the Washington, DC area now has America's highest median income, surpassing even Silicon Valley. The high average pay of District-based federal workers, \$126,369, is really something. But that's by no means the whole story. As Timothy Carney observes:

It's not just federal employees' high pay. It's the fact that bureaucrats and congressional staffers can all get really rich by monetizing their public service on K Street as lobbyists for the industries that they larded up with more subsidies and regulations.

Washington also features America's highest concentration of lawyers, a prosperous group that does better on average than lawyers elsewhere across our crumbling republic. And, of course, government contractors are predominantly clustered near the seat of government. America's astoundingly expensive wars in the Middle East, combined with the massive expansion in the shadowy security state, have been a bonanza to well-connected contractors, as well as their lawyers and lobbyists.

Were Washington governing better than ever, providing Americans with essential services of superlatively high quality, this wouldn't be so worrying. However, Americans have never liked their government less. The reasons Washington has become so rich are surely among the reasons Americans so loathe Washington. As Gene Healy of the Cato Institute put it, Washingtonians "live in a vast, metastasizing tick of a city, swollen on the lifeblood it drains from the body politic". Nobody likes a vast, metastasizing tick.

However, as much as I like to highlight the wealth-destroying parasitism of the imperial capital, it's worth pointing out that the economy as a whole has been suffering the effects of exceedingly low consumer demand, and low consumer demand hits harder those who offer products and services for general consumption than those who work for the government or depend upon its largesse. As much as we keep hearing about the dangers of austerity, we haven't had too much of it so far, and that's a good thing given our dire straits. Even if government employment in the Washington area has declined (it has nationwide), this could increase median incomes if government employees at the lower pay grades are first to be let go or last to be replaced. Recessions aren't good for anyone,

but they're worst for those precincts of the private sector most dependent on general demand and least dependent on government contracts or subsidies. The decline of Silicon Valley relative to the Washington, DC area is probably a good example of this. Indeed, the hated 1% have not fared so well as of late, which is my second inequality factoid. M.S. has pointed us to the CBO's study of the income distribution from 1979 to 2007, just before the current era of economic awfulness. But what's happened since then? Greg Mankiw reports:

According to the most recent IRS data, between 2007 and 2009, the 99th percentile income (AGI, not inflation-adjusted) fell from \$410,096 to \$343,927. The 99.9th percentile income fell from \$2,155,365 to \$1,432,890. During the same period, median income fell from \$32,879 to \$32,396.

The top .1% *really* ate it. Shall we therefore whoop with *schadenfreude*? I think not. Generally, recessions reduce income inequality, but that's not some kind of silver lining in the dark cloud of a downturn. Suppose income inequality *has* recently decreased. Does Occupy Wall Street therefore have any less to bitch about? No, it doesn't. That America's Gini coefficient may have declined lately due to worldwide economic catastrophe has no logical relationship to the outrageously shady business going on in Washington that accounts in part for its own increasing relative affluence, and for the increasing relative affluence of all the other parasites feeding from America's emaciating carcass. This is why it is more than a little misleading, and perhaps counterproductive, for OWS to couch its main complaint in terms of the income distribution. The fortunes of the 1% may decline precipitously while having no effect whatsoever on the corruption of the Washington/Wall Street nexus or the welfare of the 99%. If bad rules have made a rigged game, we're best served by an unclouded focus on fixing the rules. The point spread may be outrageous, reflecting the game's crooked rules, but it doesn't contain the information we need to do anything constructive about it.