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Effects of Income Inequalities: Society and Economy

Anomalies of the "Flagship"

Motto: „*All economics are political economics*"

Gunnar Myrdal

Summary: Income inequalities result in unequal societies and hinder economic growth in the long-term. Inequalities are evoked by rent seeking, but are also partly provoked by the state itself. The democratic electoral process of the Unites States does not limit financial support, therefore, people representing 1 per cent of the society elect representatives who influence the legislature and community decisions in the interest of their supporters. As a result of the impact of the media, average people fail to recognise their own interests. In certain cases, poorer sections of the population even tend to refuse state interventions that would actually improve their situation. Over the past two decades, wages and salaries have stagnated, or actually declined in the US. All surplus income flowed to 1 per cent of the population. Monetary policy and bank bailouts applied to manage the recent economic crisis also contributed to rising income inequalities. Not only democracy, but the whole of the economy cries out for reforms to be introduced both in economic policy and in politics itself.

Keywords: income inequality, rent seeking, bank bailout, taxation, monetary policy, financing of elections
JEL codes: D31, G29, H 21, E63, E 58

The quote by *Gunnar Myrdal* is highly relevant today. Even today it is about nothing else, but the division of incomes. And this cannot be elucidated without the political lobbying capabilities of the various layers of society.

Inarguably, the joint Nobel Prize granted to Gunnar Myrdal and *F. A. Hayek* demonstrates most clearly how disintegrated economics had grown in the nineteen seventies. The committee members could not decide between the two of them: hence they granted a joint Nobel Prize. Two schools have developed. While one argued for the almightiness of the market, the other advocated for the enforcement of social aspects in economic policy.

One claims that the laws of economics run their own courses and all state interventions have distortive effects. In essence, this represents mainstream thinking today. Smaller states mean more efficient economies! After all, only the economy matters…[1]. By contrast, on the basis of neo-Keynesian economics the other side tends to emphasise that the market is not capable of offering fair solutions to all social issues, therefore, the state must intervene in the economy.

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Both sides present a whole arsenal of arguments to support their positions. *Joseph Stiglitz* is one of the authors writing books advocating for state intervention.[2] In his opinion, the most important task of economists is to serve the public good. He feels that the excessive spending of incomes is not merely a social issue. Inequality carries a price even in economic terms, because it has a negative impact on growth. First of all, it causes a relative deterioration in the situation of the less well-to-do, but ultimately it also has a negative impact for the whole of the national economy, including the more affluent groups of society (Stiglitz, 2013). We can observe this phenomenon in other developed countries as well, not just in the New World.

Anyway, these issues are highly topical today.[3] Many similar works have been published lately. However, the flagship is still represented by the United States. Whatever is seen in the US, also appears sooner or later in other developed countries of the world. However, we must call the attention to the fact that the United States has an exceptional situation from many aspects, which throws these comparisons into doubt. The role of the US dollar as key currency and the possibility of *brain-drain* to ensure technical dominance may distort both economic data and social structure. However, it is still highly edificatory to see what income differentiation processes have taken place in the most advanced economies of the world.

Every morning, students throughout the US spring to attention and recite the credo of American identity: "*I pledge my allegiance to the flag of the Republic for which it stands, one nation, under God, with liberty and justice for all.*" *(Stiglitz, 2013, p. 334)* (I wish to note that its text includes the addition *"nation, under God*" since the nineteen fifties) But can it be stated reasonably in a split society, where in parallel to the flaunty flushness of very few, a large body of people must face stagnating, declining living conditions and must struggle with insecurity? Where the future is hopeless for the young, as well as for many other citizens? Only a more consistent distribution of income, delivering cohesion, can serve the public good permanently. Most importantly, only this type of society can provide democratic frameworks for such sustainable development.

THE LAND OF EQUAL OPPORTUNITY

How has the income stratification of US society developed in recent years?

Income inequalities have increased extremely in the US in the last quarter of a century. This is expected to entail severe economic consequences, in addition to the fact that it is unacceptable from society's point of view. In the longer-term, it will be disadvantageous for everyone, even for those who seem to have positive gains from this situation today. Excessive income concentration may set limitations to future growth. The situation of 99 per cent of the population has stagnated or deteriorated in the past decade, even if looked at from an income or wealth perspective. This phenomenon, namely that the vast majority of income generated has flown to 1 per cent of the population, has become particularly predominant recently, during the international financial crisis. It is clear that the current situation does not comply with democratic principles and the requirements of justice at all (Stiglitz, 2013).

We have to recognise that US economy has always been characterised by the existence of considerable income inequalities. Society tolerated differences, because it was the general understanding that wealth creation was an opportunity for everyone. They accepted income inequality as an attribute of capitalism. They had faith in equal opportunities. Equality is an important principle of social cohesion, but what does it mean exactly? American thinkers emphasised the importance of the equality of opportunities. Contrary to the egalitarian approach, i.e. the claimed egalitarianism of socialism, politicians has always emphasised from the start that the US is the land of equal opportunities. Everyone can prevail, if they are industrious and talented.

This theorem has changed by today. America is no longer the land of endless opportunities. Less well-to-do, but talented people cannot break out of their situations. The American dream that anyone can make it to the top, will remain as it is: a dream... Perhaps this is the most shocking revelation for American citizens being proud of their identity. And this might also come as a surprise to many other citizens who looked so longingly at American democracy in the past.

In theory, democracy is based on the principle of "one man, one vote". This democratic structure would be the foundation where each individual could get an opportunity to make best use of their capabilities. However, the increasing concentration of incomes paired with the sacredness and inheritableness of property has always facilitated the emergence of a new, hereditary elite, which renders social mobility impossible.

Let us take a little more detailed look at the facts.

SHOCKING DATA

A Chicago professor, *Raghuram Rajan* looked at the astonishing extent of income inequalities in his highly successful book (Fault Lines) a few years ago (Rajan, 2010). By having looked at the causes and consequences of the 2007 financial crisis in the US (which among financial experts was basically only predicted by Rajan), he pointed out two very important phenomena. On the one hand, he claimed that modern economic growth in the US is not accompanied by the growth of employment. Stiglitz repeatedly and expressly refers to this opinion in his quoted work. Rajan demonstrated that only educated people are able to find proper jobs. However, education is becoming increasingly expensive. And fewer average American citizens are able to pay for that. Most people start working after acquiring second level education, however, their income will remain relatively low, and will significantly lag behind the growth rate of GDP. That relatively small section of society having appropriate qualifications may request and receive high emoluments in the absence of proper competition (Botos, 2012). According to Rajan, this is another contributing factor to the dispersion of income.

Stiglitz provides detailed data on income differentiation in his book quoted earlier. In America, even before the 2007 financial crisis, the income of the richest one-thousandth of the society was 220 times higher than average people representing 90 per cent of the population. The distribution of wealth is even more disproportionate. Wealth owned by the top one per cent represents one third of total national wealth. 30 years ago, the income taken in by the top 1 per cent represented only 12 per cent of total national wealth. This number has dramatically increased since then. Between 2002 and 2007, 65 per cent of the national income flowed to the top 1 per cent. These processes, therefore, have already started before the financial crisis. However, this concentration of wealth became more predominant from 2009 to 2010: almost all of new value added, i.e. 93 per cent, flowed to the top 1 per cent. Manager salaries were back at the old level again by 2010 after the first one or two years of the financial crisis: their salaries were higher by the rate of 243:1 than average workers' wages. *Thomas Piketty*, who analysed the wealth gap at an international level, firmly asserts that astronomic manager salaries are justified by many reasons, except for performance (Piketty, 2014).

A few examples for tangible comparison: Today, the weekly income of the top 1 per cent reaches 40 per cent of the bottom 20 per cent's annual income. The one-thousandth of the society receives as much income in one and a half days as the remaining 90 per cent of the population do in a year's time!!! (Stiglitz, 2013) We could also quote Rajan, who demonstrated in his book quoted earlier, that before the breakout of the financial crisis the salary of the highest paid manager of an asset management company was 750,000 times higher than average wages. (I did not make any mistakes with the number of zeros!)

The income after tax of the top one fifth of society is the same as that of the rest of four fifths of society together (Stiglitz, 2013). Naturally, it must be stated that in the US, the poorer sections of the population mostly include Afro-Americans and Latinos. However, it does not detract from the value of the statement that the income scale of the population is highly dispersed. At the most, it may be stated expressis verbis that the democracy integrating potential of the US is far from being as efficient as many would like to think. In the US, where it is possible to carry out many different types of research, it was examined what opportunities American citizens have based on gender and ethnicity. It was assessed, and a detailed account was given thereof in Stiglitz's book, that the employment opportunities of Afro-Americans are significantly less favourable than the job prospects of their white compatriots. For example, a research examining the social reintegration of ex-convicts established that it was much easier for white Americans. An analysis focused on lifetimes also indicated similar differences. The life expectancy of black Americans living in poor neighbourhoods is considerably lower than that of their fellow-citizens. This statement holds particularly true for women.

Consequently, the dispersion of incomes was far from evolving in a manner where the rich would have pulled the economy along. Saying that although the rich fared much better, but the rest cannot complain either does not hold true. It was not the real economy that grew, which would have resulted in more jobs, and perhaps would have entailed a proportionate increase in wages and salaries.

(The quarter of a century following World War II was characterised by such growth. This is why the French co-authors, Dardot – Laval, referred to the post–1945 era as the age of Fordian growth in their book entitled The New Way of the World.) (Dardot – Laval, 2013). If the cake was bigger, then perhaps the living conditions of the lower income groups could gradually improve, even if the rich take a higher proportion from it. However, the situation, in particular in the case of less educated youth holding second-level qualification, has clearly deteriorated recently. In the first decade of the 21st century, their income has decreased by a quarter compared to it used to be 25 years before. In the case of those who reached the first stage of higher education, i.e. BA level, we can observe an approximately 10 per cent reduction in income at median value. (Median is a mean value, in respect of which the number of people earning more and the number of those earning less is the same.) Consequently, they did not fare particularly well, either (Stiglitz, 2013). And the greatest problem is that these extraordinary incomes do not reflect any special capabilities on the side of the elite, but the successful practice of rent seeking.

RENT SEEKING

Stiglitz emphasises that a significant percentage of extraordinary incomes does not arise from technical progress, innovation or from any other real economy achievement, but result from monopolistic situations. If vast incomes were given to their owners because of their considerable contributions to the welfare of the whole society, great scientists and innovators would primarily top the income list. We might think of famous mathematicians, the inventors of laser, transistor, the world wide web, and of the discoverers of DNA structure. However, we cannot see any one of them on "The Forbes World's Billionaires list"! Accordingly, significant income gaps are not commensurate with professional performances, but often result from rents arising from the application of above-market prices employed to the detriment of consumers.

These situations are often created by the market, but more often result from government regulations themselves. Insufficient application of competition laws, the granting of preferences and exemptions, large government contracts, preferential granting of government ownership, or bank bailouts performed at the taxpayers' expense during the 2008 financial crisis. The above typically resulted in monopolistic benefits. Despite the existence of antitrust laws on paper in the United States, these kinds of situation are practically unavoidable. Rent exists in many forms.

There are state-owned natural resources, where the prices charged are significantly higher than the extraction costs. This additional income can (could) be used for the advancement of the nation as a whole. This is not the policy applied in the US. Oftentimes these assets are transferred to their future owners below market price, as a form of national gift. Consequently, natural monopolies are complemented by artificial monopolies in this manner, and are aided in this by legislature. (In the Clinton era, attempts were made to better approach realistic prices, but to no actual avail. The legislature hindered the initiative.) It seems that the legislature is controlled by lobby groups representing the rich (Stiglitz, 2013).

Furthermore, rent also arises

- from the additional incomes generated by their affiliates in the peripheries;
- in the two most corruption-ridden sectors – where American companies are by far the most influential ones (pharmaceuticals and weapons);
- in the start-up business sector [where this is the hotbed of stealing many great (foreign) ideas];
- through the hostile take-over of competitors at the stock exchange. This is practically an 'industry' in the US, and brokers are the best at hiding fortunes thus accumulated.

Consequently, the incomes at the top of the list are not the results of entrepreneurship or expertise, but are mainly the consequences of legally devised rents. This statement is equally true in respect of the income of the caste of managers, as in most of the cases they determine their own "wages" by taking advantage of the possibilities laid down by law. This also holds true for those groups of lawyers who give helping hands in finding tax loopholes and in "designing" laws that deliver huge benefits to their clients. Balancing at the edge of law, "but still avoiding prison" – just to give a verbatim quotation of Stiglitz's reasoning (quoted work, pp. 53 and 61).

DEMOCRACY DEFICIT

According to the effective laws on campaign finance, donation cannot be limited. This gives considerable forehand to the rich sections of the population. They may, and indeed do, support candidates in the elections, of whom it can be readily assumed that they will represent the interest of this social group. In this way, the principle of "one dollar, one vote" is applied instead of the principle of "one man, one vote". 99 per cent of the society cannot enforce their interests, as the rules of the game are determined by politics so that they are prevented from doing so. And this enables the rich to influence politics according to their own interests. By paraphrasing *Lincoln*'s words (who said the following: government "of the people, for the people and by the people"), this is what applies today: „By the 1%, from the 1%, for the 1%".

American citizens, as it appears, do not perceive this. Surveys were carried out to find out how Americans think of themselves. It turned out that they continue to believe that the US is still the land of liberty and that in America anyone can reach the top. The public was also successfully made to believe that all government interventions in the economy are harmful. Those interviewed, even the ones living in poorer neighbourhoods according to the survey, thought that even those public grants were unnecessary that specifically served their own interests (Stiglitz, 2013).

How is this possible? It is possible because the 1 per cent supports research and publications that demonstrate their conceptions related to government intervention as the principles of economics. The thinking of the intelligentsia is set in this direction. The media are fully deployed to disseminate the above views. In this manner, the power of money can influence the public through the media. Therefore, the 1 per cent can successfully win the support of the majority of the population, in addition to politicians and the authoritative elite, for their candidates during election campaigns. Citizens are under the assumption that they follow their own interests when casting their votes.

They believe that income inequality (even to its current astonishing extent) is inevitable based on economic principles and directly serves their best interests. They believe this, because they are told that the income flowing to the top 1 per cent trickles down to the less well-to-do, and will create jobs, as a result. They believe, even though relevant data show something totally different. The adequate mass of the population identifies itself with the carefully rubbed in sentiments that "all governments are evil", because redistribution only increases tax burdens. Of course, this statement is true to the extent that the majority of taxes are imposed on poorer people, even in the US. Since the well-to-do sections of the population can find a thousand ways to avoid taxes. According to Stiglitz, Americans do not have the required knowledge about examples, according to which in North Europe the economy works effectively even in parallel with the concept of the "good State". They are not aware that growth may exist even in parallel with a high level of social redistribution, while this redistribution is significantly fairer than what we can see in the US (Stiglitz, 2013).

All this means nothing less than that people can be misled even under democratic rules, or we could say despite such rules. Absurdly enough, they themselves decide to cast their votes on politicians representing political programmes that are unfavourable for them. Voluntarily and eagerly. The big question is how to change this?

BANKING SECTOR AND MONETARY POLICY

The financial crisis aggravated income inequalities. Bank bailouts have been widely discussed by relevant literature since 2008. Nevertheless, it is worth touching upon this question even within the framework of this study, as this generous operation had further adverse effects on income distribution. The statutory provisions resulted in unprecedented gift packages given to bankers, who in turn represent a significant part of the 1 per cent. Stiglitz goes as far as to say that, "never in the history of the planet had so many given so much to so few who were so rich without asking anything in return." (Stiglitz, 2013, p. 210).

He is not the only one among other excellent financial experts who see events this way. Earlier, Raghuram Rajan explained (in his book entitled Fault Lines) that during a financial crisis the state should not save the banks, and by all means not their owners and managers, but only their clients, and most specifically their small-scale savers (Rajan, 2010; Botos, 2012). He clearly stated: financial institutions are enterprises, and they cannot be extrapolated from the market, as special subjects, where an undertaking may be successful or may fail. They may fail as well, if they manage their business poorly. Guarantees should only be given for the money of common men, who have been asymmetrically under-informed, and for the smaller financial institutions managing their deposits. Large-scale savers should not be given any either! They are able to pay for the expertise required for appropriate risk management (Rajan, 2010; Botos, 2012). Large banks should think twice with whom they make business transactions, and they should be aware that their lending may entail losses, if risks are assessed incorrectly. The inviolability of banks has become a sort of taboo in the discipline of finance, which has apparently been abused and is still being abused by relevant player today. The challenging of this view is extremely difficult, even if such highly respected financial experts were in support of it, because it hurts significant interests.

Whenever state assistance has been given thus far, those concerned have always referred to public interests (Rajan 2010; Stiglitz 2013). But we must see that small-scale savers are actually protected in banks by deposit insurance! However, large investment banks that were the subjects of the recent bailout operation in the US do not represent such units in production financing that would have predominant chain reaction effects on payment systems. Consequently, the bailouts provided to banks did not serve the interests of the whole of the economy or that of society, but mainly the interests of the owners and managers of the banks. These meant nothing else but massive wealth and income transfers to the 1 per cent.

Accordingly, bank bailouts only further deteriorated the already insupportable income inequalities in the US. On top of everything, this was done lawfully by using the ideology that this sacrifice serves the interest of the entire economy.

Richard Posner, who demonstrated the legal operation of the mortgage loan mechanism in 2009, made it absolutely clear that the financial innovations and financial techniques were clearly suitable to underestimate risks. These were suitable to pretend that on the face of it everything was done in full compliance with professional rules, only to end up with a huge mountain of risk and eventually forcing the state to stand behind them (Posner, 2009).

Whereas in fact, it was only a giant-sized operation implemented in the interest of the top 1 per cent. How else could the resources transferred by the Fed (Federal Reserve) at 0 per cent interest rate viewed as than a gift of the nation, from which banks buy government securities, and for the possession of the modest but legitimate yields thereof these institutions were practically not required to make any efforts at all? How else could we interpret a legal regulation that gave priority to derivatives in the order of payables in case of bankruptcy over the payment and satisfaction of wages, the state and the clients? Why were CDSs (Credit Default Swap) given such strong protection, when these played a major role in the breakout of the current economic crisis? What "great contribution" did these innovations give to the competitiveness of the American economy? According to the opinion of a highly influential figure in business life, derivative financial instruments are nothing but "financial weapons of mass destruction" (described by Warren Buffet, quoted by: Stiglitz, 2013, p. 337) (The above statement was not a quote from some armchair scientist, but from one of the most successful financial moguls*!)* So what is the explanation for the fact that legislators placed derivatives embodying these techniques under such exceptional regulatory scheme?

There are no answers to these questions. Average people would not even ask such questions, because they are unaware of their significance. The industry refers to the analogy with the Great Depression. However, in the meantime it fails to consider how different the situation is in our globalised world compared to old times, in particular, as a consequence of the free flow of capital. In any event, we can establish the fact that the bank bailout policy advocated for by the Fed does not serve the interests of the 99 per cent. It definitely widened the income gap.

MONETARY POLICY VERSUS EMPLOYMENT POLICY

The picture drawn of the American banking system and of the Fed's policy is not very positive. However, it is even more distressing if we juxtapose the monetary policy of the 'independent' central bank and the aspects of employment policy claimed to be so important by the government.

The steady economic growth attributed to the central bank's policy by the supporters of monetarism was in fact '*jobless*' growth.[4] This has already been pointed out by Rajan (Rajan, 2010). The economy was inarguably growing steadily without major fluctuations. That is why the Chairman of the Fed referred to this era as the decades of Great Moderation. However, only profit had its share of the new added value created, and not those making their living from work. The policy advocated for by the Fed only concentrated on holding down the inflation by keeping the base rate low. The issue of employment was set aside. When it did start to deal with this issue, there was not much to be gained by it. Indeed, the economic policy steps suggested by the Fed focused on the "higher flexibility of the labour market". In practical terms, it meant the reduction of social protection. The term 'higher flexibility' is just a polite way of referring to wage reductions. In other words, the monetary policy advocated for forced an intervention into an important segment of the real economy. This took place at a time when the problems faced by the economy were caused by low aggregate demand. To put it in another way: reverse growth ended in the past decades, when even those earning wages could have a share from the profits of improved productivity (Dardot – Laval, 2013).

Furthermore, the central bank's policy demanded the lowering of the deficit by claiming that excessive distribution may entail inflation risks. Whereas, as we referred to this earlier, capacities were unused and purchasing power was low. Public expenditure, if transformed into consumption through welfare channels, boosts demands, which was and is urgently needed in the US. The preservation of cash stability highlighted by the Fed in essence represented the interests of the '1 per cent'. They usually refer to the fact that pensioners and wage earners are most affected by inflation, therefore, it is given No. 1 priority among all other issues. However, this reasoning is not plausible, as the US *Social Security* Administration adjusts its allowances to the inflation rate. If wages are increased in proportion to inflation, wage earners do not suffer any disadvantage. Of course, this remains a question to be seen. Anyway, excess demand arising from wage increases is by far not the only reason for inflation. To a large extent, it is imported inflation resulting from the increased prices of energy sources and foodstuffs. If energy and food prices increase by 20 per cent, wages must actually be decreased to hold the inflation rate down at the desired level.

[It was not understandable how it was possible to disregard the cost impacts of the global price explosion in the nineteen seventies *(cost-push inflation)*, and to basically blame wage increases *(demand-pull inflation)* for the wave of inflation at the time. This is when the monetarist economic policy was brought to life with a proposal that "a smaller state is good because a welfare state only spends excessively". In fact, however, in the seventies investors refused to accept that sellers had to pay more for natural assets. Such costs were passed on, charged only to the accounts of people living on wages. Is it a surprise then that it triggered a response of a wage war?]

Reagan's actions against communism, therefore, turned into a fight against large groups of the capitalist world living on wages and salaries. It created an ideology for the reduction of wages, referring to the fight against the "Empire of the Evil", thus stabilising and even increasing profit. While the Fed fought against inflation by raising the base rate, it temporarily yet significantly held back growth (and also employment). Nevertheless, as it placed huge public orders for research and provided grounds for military lobbies, the setback was soon overcome. The situation was different in the countries that were affected by the impacts of the rate hikes in the US. Such countries, also including Hungary, were hardly able to recover from their higher interest rate debts. (Hungary in fact has not recovered to this day.)

Nonetheless, the reverse is also true in the impact mechanism of monetary policy. The economy cannot grow and employment cannot increase by reducing interest rates to minimum alone. As an old example says, you can take the bucket to the horse, but you cannot force the horse to drink from it. You cannot boost growth by ignoring the options of the real economy: if there is no growing market, there is no growth. There is nothing to invest into. The rate of investment in the US was not even high, in fact had been extremely low for a very long time.

It is therefore almost incomprehensible why the monetary policy controllers expected the rate cuts to generate new investments (and indirectly additional employment), when even the existing capacities are hardly used (Stiglitz, 2013). You first need solvent demand and a purchasing market before cheap loans can generate investments. Even if there were demand, only moderate growth could be expected on the labour market given the low capacity utilisation. Investments would be unlikely. Even if there were investments, these would primarily focus on optimising the size of labour force. The precise reason for that is the same as explained by Rajan: overly cheap loans distorted the cost ratios of living and dead labour and, and it makes more financial sense to use cheap investment opportunities to get rid of the workforce that causes a burden. (Botos, 2013)

The real estate bubble was another consequence of that rate cutting policy. One Hungarian economist said after the crisis that the bubbles did not include actual income, only blown up incomes, which is true, therefore it should not hurt if the market bursts these. Speculators would lose something they never owned. However, this argument does not always stand. In one of his earlier books written after the dot-com crisis, Stiglitz had already made a reference to the fact that pension funds had lost the majority of their investments due to policies that resulted in bubbles (Stiglitz, 2004). It is difficult to say that the pensioners' losses are not even worth a shrug.

The financial crisis in 2008 also had similar effects, because "toxic assets", the re-packaged "senior" securities promising a sound investment were also devalued (Posner, 2009). These were the assets into which pension funds also invested in good faith. That is why pensioners did not receive compensation from anyone, on the grounds that they had lost their money due to the decision of the pension fund. According to the market rules, the investor bears the risk. However, ultimately, the state somehow consolidated the losses of the banks (with a few exceptions), at taxpayer expense. Pension funds, however, did not receive any compensation. With the arrival of the financial crisis, government securities were downgraded. That meant that even prudently saving pensioners who took no risks (investing into government securities) lost out! Through their investments, they transferred income to the state (by investing into government securities). However, those amounts or parts of these were lost to them... In other words, "that money went to the banks in the form of bail-out transfers" (Stiglitz, 2013, p. 305).

DIAGNOSIS AND THERAPY

It is often mentioned that the Fed was successful in reducing inflation and in the implementation of the *quantitative easing* policy. However, we must ask the question: How is success measured? Does success mean that the richest 1 per cent have even better financial standing? Would this be the objective of an 'independent' institution? Who is the 'independent central bank' actually independent from? I believe that it is impossible to judge the success of the policy of a public institution without defining public good.

If public good refers to the good of the whole of society, we cannot be satisfied with US monetary policy. As a result of the Fed's policy, the additional benefits are concentrated at the 1 per cent.

What can be done to reduce the income and wealth differences in American society?

According to reputable American financial experts, whose works I tried to follow in this study, a reform is unavoidable. That reform would involve economic and political tasks alike.

The economic tasks consist of two main parts.

- First of all, the role of the financial sector must be reviewed. The excessive risk appetite of financial institutions must be reduced. The "too large to fail" sizes should be eliminated at banks and at financial institutions. Banks should also be allowed to fail. Financial institutions undertaking excessive exposures should not be bailed out with taxpayer funds because that would only encourage them to take further moral hazards (Rajan, 2010; Stiglitz, 2013). Banks should be made more transparent, preventing financial institutions secured by the state assuming surety for them. Attempts must be made to prevent unacceptable burdens being imposed on consumers by financial institutions in the credit card system on each occasion when the cards are used. Usury interests should also be prevented. The bonus system needs to be reviewed, so that they do not incentivise as much as they do currently for shortsighted bank business policies and related excessive exposures.
- Offshore banking centres should also be eliminated because nothing in this world justifies their existence, other than the interests of stakeholders to avoid the provisions of legal regulations. This process is very slow because there are huge counter-interests at work in its prevention. The Competition Act must be strengthened and stricter provisions are also

required in corporate governance (e.g., by making sure that banks cannot use corporate assets for their own benefit without limitation). The owners and shareholders should be allowed to have final say on the utilisation of such assets. The Bankruptcy Act also requires improvement, especially in view of the large number of housing loans and student loans that borrowers are unable to repay. Each loan transaction requires two parties, but one of them, the borrower has much less adequate information. Creditors must also take responsibility for the consequences.

▸The distribution of assets by the state and corporate bailout practices must be eliminated. Employees of bankrupt companies need to be assisted in finding new jobs, but this is not the same as saving the owners and management of these companies. The practice whereby companies do not pay for the actual costs of their activities, including e.g. the cost of environmental protection, and charging it to the community should also be stopped. (So that later the "experts" financed by them, i.e. press workers, should not be able to talk about the excessive spending of the welfare state.)

▸The tasks of the political reforms also include equal access to justice. Today, there is a veritable "arms race" in progress in the practice of the American law. The weapon is money, and the stake is who can afford for a better lawyer. In this fight, the average Americans will always lose against rich companies and entrepreneurs. The restructuring of the tax system is also a political issue. In a fairer and more just society, each individual should have a share of public debts according to their cost-bearing capacity. No decisions that cut welfare expenses should be forced on the community. This leads to burdens being shifted to the 99 per cent. Over the past decades, the progressivity of the American tax system has been decreasing. There are many exceptions and therefore it is even less progressive than it would seem at first glance. The restoration of a meaningful estate tax would help in the prevention of a new oligarchy or plutocracy and so would the elimination of the preferential treatment of capital gains (Stiglitz, 2013, p. 343).

Naturally, as indicated, these steps are not easy to implement. Precisely because the legislation is trapped by the interests of the '1 percent'. It is very difficult to achieve that legislators supported by the rich adopt decisions against the interests of the rich. Similarly, it is also difficult to achieve that legislators should vote for the amendment of these provisions. The limitation of campaign funds also failed before the Supreme Court. What would be the fate of a proposal limiting manipulation in electoral districts or unlimited modification options in legal regulations? Could electoral participation be strengthened with a legal obligation as they did in certain northern countries or in Australia? All these efforts are worth nothing unless the average citizens recognise their own interests. The big question is whether the processes could be made more transparent and understandable to them. How far would the idea go that the media, which earns substantial profit from campaign advertisements, should be limited in that activity?

Public good is based on the Universal Declaration of Human Rights. In addition to civil rights, this declaration also emphasises economic rights, ownership rights and the economic rights of everyday people. *Alexis de Tocqueville* said that *self-interest properly understood* was the main component of the ideology of the American society. This means that the self-interests of others must also be respected. This is the only way the public good can be the common denominator.

And should anyone think that our statements concerning the flagship have nothing to do with Hungarian reality are mistaken.

Notes

[1] Clinton's campaign slogan was: "It's the economy, you fool!"

[2] Stiglitz has held important economic policy-related offices in the past few years, including the position of Vice President of the World Bank, as well as his membership in the advisory boards of several US presidents – during the Clinton administration, he was actually the Chairman of the advisory board. At the same time, he has also reached extraordinary heights in his academic career. He is a professor at Columbia University, and a member of the Royal Society. He is a Nobel Laureate, and the Chairman of IEA (International Economic Association), the author of a report requested by the UN, the so-called "Stiglitz Report", and is the expert of the international monetary system, GDP calculation, climate economy and of social policy issues. And we still have not mentioned all his offices, recognitions and functions. He is a thinker with a strong sense of social responsibility.

[3] Robert J. Gordon's writing was published in the NBER Working Papers series in February 2014 under the title: The Demise of US Economic Growth. Thomas Piketty's book (Capital in the 21st Century) is also focused on the unequal distribution of wealth in the developed world. (It was published in French in 2013, in English in 2014, and then in Hungarian by Kossuth Kiadó in 2015 under the title Tőke a 21 században (Capital in the 21st Century). Dani Rodrik's work entitled The Globalisation Paradox was also published in Hungarian in 2014 (published by Corvina Publishing House), not long after its English language publication in 2012.

[4] An article has recently been published about this issue written by Bettina Martus. Public Finance Quarterly, 2015/2

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