The Economic Illiteracy of Bernie Sanders

In a recent piece for the *Guardian*, Bernie Sanders protests the dehumanizing exploitation of workers currently employed by Disneyland, which is owned by the Walt Disney Company. What starts as a few heart-throbbing anecdotes about individuals struggling to make ends meet readily segues into the usual narrative blending anti-capitalist banalities with mishandled economic data.

From wage depression to untaxed corporate profits, the Marxian holograms are as colorful as ever. Wiping the tears and sweat of the oppressed and downtrodden with cheap economic memes has a certain tortured heritage to it. But the uniquely frustrating brilliance of Sanders lies in his theatrical acuteness for distortions and inaccuracies. In his piece, he shifts between methodologically different scales and measures and drops context-free “data bombs” intended to shock and awe. His entire thesis is one opaque mixture of substance and hyperbole.

Instead of focusing on the local and specific case of Disneyland economics, I would rather visit the broader discussion points pertaining to the economic conditions of the American worker. Sanders makes several claims that need to be carefully explored, as many pieces of crucial information are missing from his case against industrial capitalism.

Income Growth

> *“In the midst of a ‘strong’ economy and low unemployment, wages for average workers have not gone up by one penny after*

> *adjusting for inflation over the last year."*

Wage growth is an economically gradual process that is more accurately gauged over decades rather than months. Trying to capture such lengthy timescales through the flash of a year is futile. In the past, Sanders has often spoken about the *long-term* behavior of wage depression, which is far more meaningful for the discussion at hand.

To this end, wages alone ignore the surplus value of non-wage inputs, such as benefits and transfers. According to a 2013 report from the bipartisan U.S. Congressional Budget Office (CBO), household incomes for the bottom and middle three quintiles have edged up by 49 and 40 percent, respectively, since 1979.

Upon first glance, the CBO numbers and Sanders' purported wage slump seem somewhat contradictory. This apparent paradox is resolved through another consideration. Unlike traditional income surveys, the CBO employs a more comprehensive measure over *all* available resources: market income, post-tax income, and benefits. Ergo, wages greatly underestimate the cumulative value of labor resources. Sanders' narrative of economic stagnation is just misleading here.

Expenses

> *"Further, the Federal Reserve recently found that over 40% of the American people do not have $400 in disposable income to pay for an unexpected financial expense like a medical emergency or car repair."*

Note that Sanders suddenly adjusts his economic metric from *gross income* (pre-taxed, benefit-free wages) to *disposable income* (after-taxes and benefits). This is equivalent to an engineer reporting different units to describe the same dimensions. The curious reader may wonder why Senator Sanders casually rotates from one yardstick to the other. My guess is probably because appreciating economic resources of income groups over time spoils the "wage stagnation" narrative. Make no mistake, this low standard of objectivity is just the grease one needs in the crises manufacturing industry.

As for the [Federal Reserve's] disheartening "40 percent" figure, there is more to the story than meets the eye.

First, Sanders neglects to mention that the share of Americans who can cover their expenses has actually *increased* since 2013, from 50 to 59 percent. Therefore, what we are actually witnessing is an upward curve of progress, which fits nicely with the reality of an American middle class that has accumulated significantly more economic power over the past four decades.

Second, the way the statistic is presented gives the impression that onerous expenses require defaulting on payment altogether. The logical implication of this confusion is that people have no choice but to skip out on their bills.

However, according to the report, the vast majority of those unlucky 40-percenters struggling to balance their sheets through "cash or its equivalent" will resort to secondary options of payment. These include:

1. Putting the expenses on a credit card
2. Borrowing money from a friend or family member
3. Using a bank loan or line of credit
4. Using a payday loan, deposit advance or overdraft
5. Unable to pay for the expense at the moment
6. Some other method

While the urgency of these choices renders them far from ideal, only one actually results in a deficit of payment. This desperate "nuclear option" (5) corresponds to 29 percent of struggling respondents. In other words, 29 percent of the 40 percent (12 percent total) of all adults with a fixed amount of income resources were unable to pay their monthly expenses. Either in ignorance or in guile, Sanders misleadingly presents the 40 percent figure as if it represents the actual 12 percent of those surveyed who can't produce $400 on a whim.

Furthermore, the survey was conducted over the course of two months in 2017. The question posed was if one is able to pay an *immediate, unexpected* expense such as a car repair or medical bill. Because markets are locally stochastic, resources are more volatile over shorter timescales. In fact, the survey notes that there may be a mismatch between monthly and annual income levels, which is probably why 30 percent of respondents reported income fluctuation *sometime* during the year.

We should not fuss too much about income volatility. According to the U.S. Census Bureau, about one-third of Americans will experience at least two months of poverty over a four-year period. However, *less than 3 percent* of the population will subsist under those homogeneous conditions for all four years. In short, poverty is less afflicting across longer periods of time, and resource fluctuations are more disruptive over shorter increments of time. That is because economic circumstances are almost never stationary. By the law of fractions, there will always be some proportion of Americans who cannot absorb their expenses all the time.

It seems Sanders wants to convince his audience that productive labor is being exploited by the corporate overlords of the wealthy 1 percent. Hence, economic choice is just an illusion, outcomes are binary, and the market is really a zero-sum trap of the powerful and powerless.

Wealth Dynamics

> *"At a time when the three wealthiest people in America own more wealth than the bottom half and corporate CEOs have seen their incomes skyrocket, as 52% of all new income goes to the*

top 1%, we must create a moral economy which demands that if you work 40 hours a week, you do not live in poverty."

For starters, I am flabbergasted by what a "moral economy" is supposed to mean. An economy is the sum total of all commercial, financial, and productive activities of the commonwealth. It does not contain a moral component. It is purely a numerical meter of human transactions.

Corporate CEO incomes may have soared. However, turnover among the wealthy is quite high, as income categories are fluid and dynamic entities. For instance, the [Internal Revenue Service](#) (IRS)—hardly an organ of anti-taxation propaganda—reported that over the last 20 years, 70 percent of the 400 wealthiest tax-heads in America retained their affluent status for no more than one year. Only 3 percent resided there for a decade or more. Another study by [Cornell University](#) shows that 11 percent of Americans will enjoy the top 1 percent of the income ladder for at least one year. However, more than 90 percent of them will fall off the rung within a decade.

This profile of income fluidity is further corroborated by after-tax income trends over the course of a just few years. According to an analysis from the [Brookings Institution](#), between 2007-2009, the top income percentile endured net losses upwards of 30 percent. In contrast, middle incomes contracted by less than 2 percent. One will notice that this time frame coincides with the financial crisis of 2007. Hence, the wealthy elites not only suffered considerable shortfalls, but lower-income households were well also shielded against spontaneous shocks from the market.

Going beyond income mobility, the CBO data reveals another factual blindspot: While the top 20 percent received 52 percent of pre-taxed income, they paid 70 percent of federal taxes. With the bottom four income groups, the balance was reversed. To put it another way, the wealthy are handing more money to the government than they are earning from the market economy.

Market Welfare

Thanks to the bountiful output of the productive sector, there is a handful of goods and services to go around. But this does not even capture the privileged status we hold in the greater global economic landscape. In fact, according to the Organization for Economic Cooperation and Development (OECD), America spends abundantly more on private social benefits (e.g. healthcare and pensions) than any other nation in the world. This means that in terms of resource redistribution across the private sector, we lead the world in market altruism. Liberal democratic capitalism is not as "atrocious" as the Bern would have you believe.

Furthermore, the Tax Cuts and Jobs Act expands the middle-class subsidy regime even more charitably. Income credits for families with children and joint standard deductions from taxes are now two-fold higher than before. On the other hand, deductions for top earners have been capped on personal items and business expenditures. Excessive corporate debt can no longer be financed by the tax authorities, thereby progressively stratifying the revenue pyramid even more. In other words, working family incomes will continue to climb at the expense of wealthy producers—or what Sanders calls a "tax giveaway to the rich."

As it turns out, the ultrawealthy don't just sit on their cash like a bunch of greedy "wage robbers." Tabulations from the Bureau of Labor Statistics (BLS) reveal that 60 percent of Americans receive medical care and retirement benefits from the private sector. Moreover, the largest companies not only allocate more quality-of-life benefits (e.g. assistance programs) to their workers than smaller businesses do—85 percent vs. 27 percent of employees—but they also contribute to the lion's share of job creation. Over the last decade, nearly 50 percent of added jobs sprung from the largest firms (250 or more employees); 22 percent was accounted for by smaller firms (fewer than 50 employees).

When private and public spending levels are combined, America is the second-highest global spender on social benefits, lagging just behind the French welfare state. This is consistent with the OECD's database on global household median disposable income (adjusted for household size, taxes, and public cash transfers), placing U.S. earners in the top-four tier of nations.

Similarly, the Pew Research Center ranks U.S. household incomes second-highest in the world. Based on their figures, if global poverty were normalized to the American median standard of living, European middle classes would shrink by 10 percent.

But who cares about any of that? A few sentimental anecdotes and some vague "40 percent" statistic are enough to arouse the pitch-forkers. Afterall, "40 percent" sounds so numerical and objective that no one can deny it—yet so vague and unelaborated it is almost meaningless.

There is not a statistical water the crises-mongers cannot muddy. Citing authoritative sources like the Federal Reserve supplies an inflated qualification to their convolutions, but this slicing and mincing of complex data structures downsized to some edible soundbite is just the stock-in-trade of the class warfare industry. A ranting demagogue from Vermont is currently its loudest solicitor.

—

This article was originally published on FEE.org. Read the original article.