# Appendix I
# What Current Policies Would Mean for 2050

This appendix explains the calculations behind the extrapolation given in Chapter One. It projects the policies of the era of Market Capitalism from the year 2015 through to 2050. It shows that, on current policies:

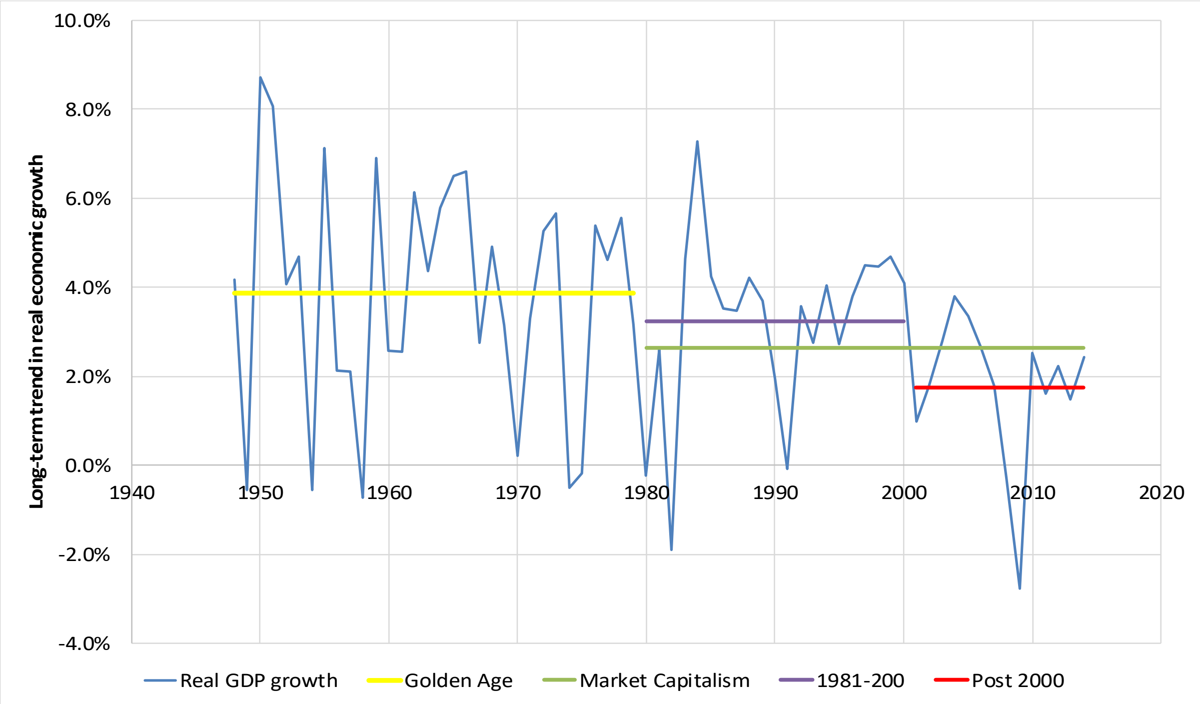
- Growth is unlikely to be higher than we have seen during the era of Market Capitalism – it will quite probably be lower;
- Priority will be given to the highest and lowest segments, squeezing the middle; and
- Most Americans will be living in or near poverty by 2050.

But it is important to remember that an extrapolation is not a forecast. The extrapolation ignores the fact that technology will have an enormous impact (see Chapter Five) during this period, and, critically, that if policies change, the outcomes will change too.

## Growth is unlikely to be higher than we saw during the age of Market Capitalism

The chart below shows the growth in real GDP in the US since the year 1948.

*Figure 1: US real GDP growth over time*




*Source: BEA*[1]

Average growth during the Golden Age of Capitalism was around 3.7%; during the age of Market Capitalism it has been around 2.7%.

And within the era of Market Capitalism, there has been a further slowdown. For the first 20 years, growth averaged around 3.2%; *since 2000 it has averaged only 1.7%.* The OECD long-term forecast for future US growth is around 2%[2].

For simplicity, we can ignore both the recent trends and the OECD, and say that future growth will be around 2.7%. (If we want to be more prudent we could assume that growth will be around 2%).

Unfortunately, not all economic growth translates into wage growth – as the population continues to grow, the benefits of growth must be shared more widely, and each person gets less. And if the share of GDP going to wages continues to decline, then of course wages rise less.

Population growth has been steady at around 1% *per annum*, so, for simplicity, we can assume that it continues at that rate.

The chart below shows what has been happening to the wage share of GDP.

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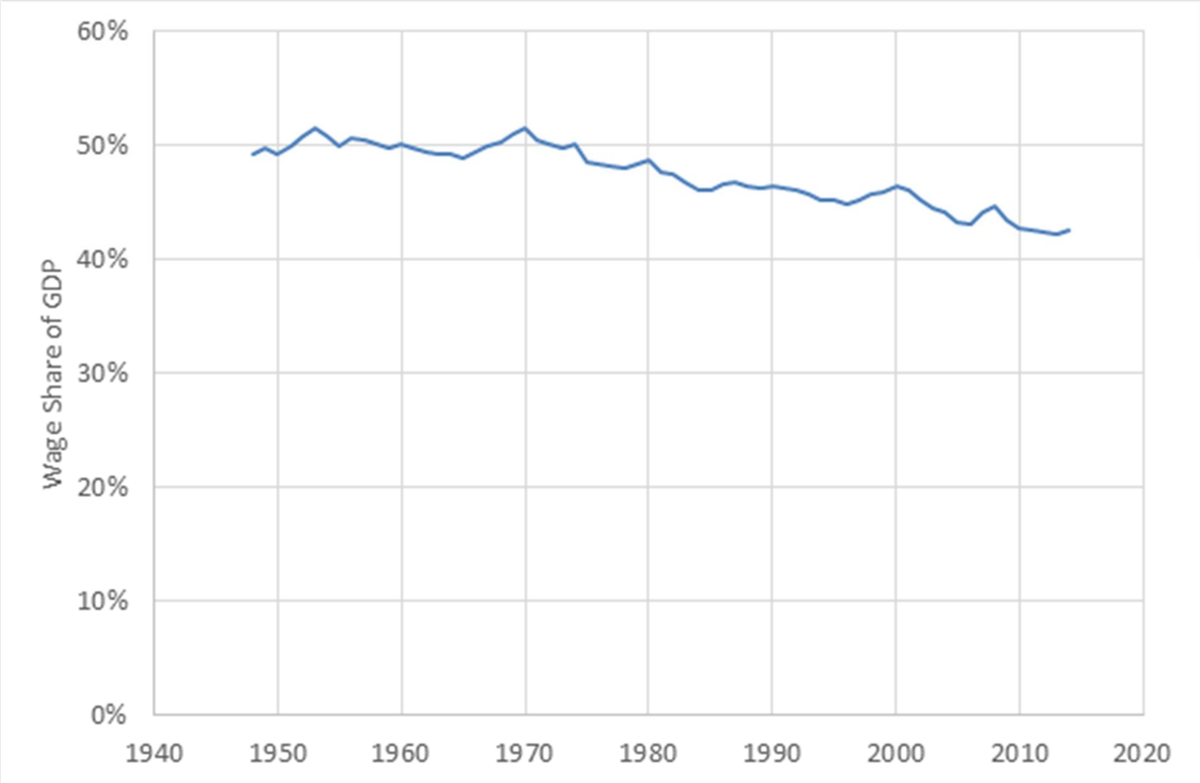
1 (Bureau of Economic Analysis, 2015)
2 (OECD, 2015)

*Figure 2: Wage Share of GDP*




*Source: St Louis Federal Reserve*[3]

From the end of the Second World War until the early '70s, the wage share fluctuated at around 50% of GDP. Since then, it has been a gradual decline, and is now in the low 40% range.

Since 1980, it has been declining with a compound annual growth rate (CAGR) of around -0.4% *per annum*. As you can see, this decline has been fairly steady for a very long time, so it is reasonable to assume that it will continue over the coming decades – an ever-smaller proportion of GDP will be paid as wages to those who earn their living through being employed[4].

On this basis, in our rosy scenario, average real wages will continue to grow at about 1.3%[5]. In fact, even if population growth is lower, as some forecast, and GDP growth also, as long as GDP per capita continues to grow at around 1.7% per annum, we should expect average real wages to continue to grow at around 1.3% as they have been doing.

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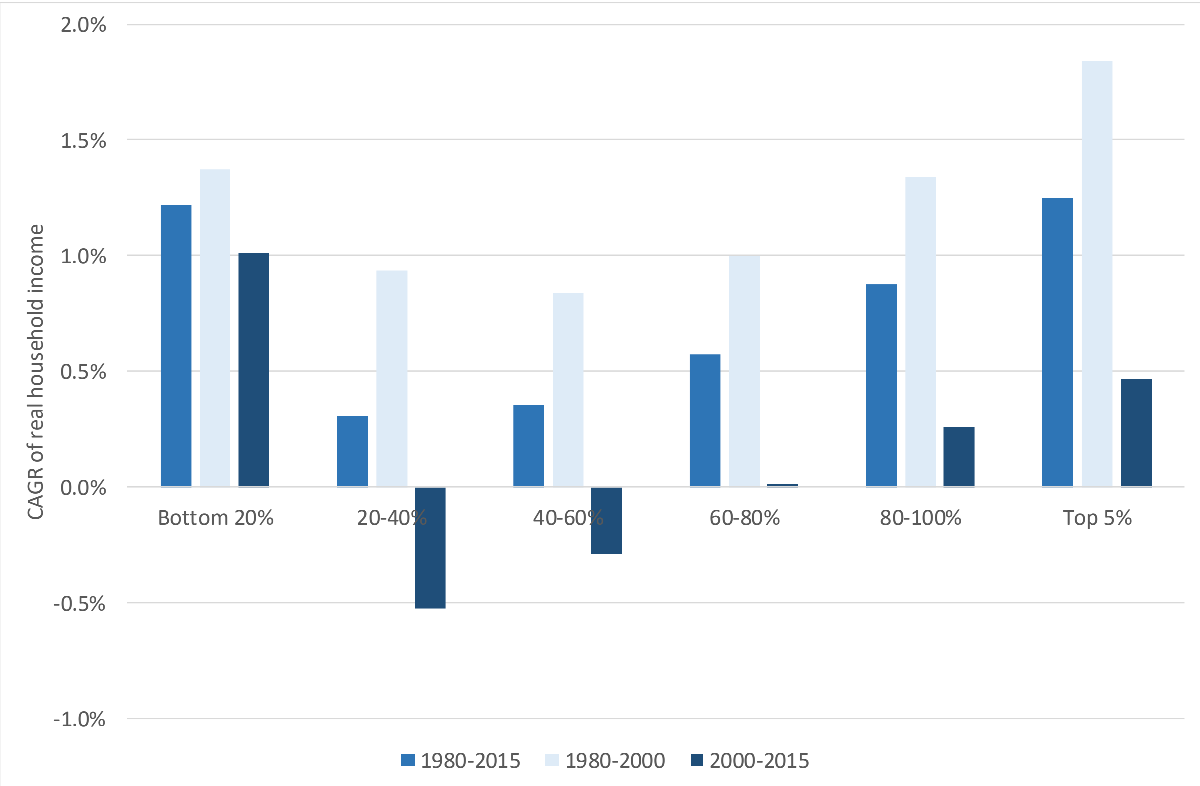
3 (St Louis Federal Reserve, 2016)
4 The rest goes to the owners of businesses, the self-employed and indirect taxes.
5 That is 2.7% growth in the economy, less 1% because the population continues to grow and less 0.4% because of the falling wage share.

## Priority will be given to the highest and the lowest segments

In both scenarios, then, average real wages will continue to grow at around 1.3% – but as we shall see in Chapter Three, lower growth is not the only cause of mass impoverishment: rising inequality is the other – and it is an even bigger factor.

The figure below shows how the pie has been sliced during the era of Market Capitalism. It shows the compound annual growth rate (CAGR) of real household incomes for each segment of the population.

*Figure 3: Analysis of real household income during the era of Market Capitalism*




*Source: Census Bureau*[6]

The graph shows the growth, or decline, in household income for different segments of the population both for the entire period 1980-2015 and for the two separate periods 1980-2000 and 2000-2015.

During the relatively buoyant period 1980-2000, the top 5% did best, followed by the bottom 20%.

6 (Census Bureau, 2018)

During the slower-growth period 2000-2015, the bottom segment did best, followed by the top 5%.

*Over all periods, it has been the middle segments who have done worst.*

Since 2000, this has meant falling incomes for around half the US population.

During the era of Market Capitalism, we can summarise the priorities of policy-makers as follows:

#1 – prevent the bottom segment from slipping too far below the poverty line;

#2 – keep the growth rate high for the upper segments;

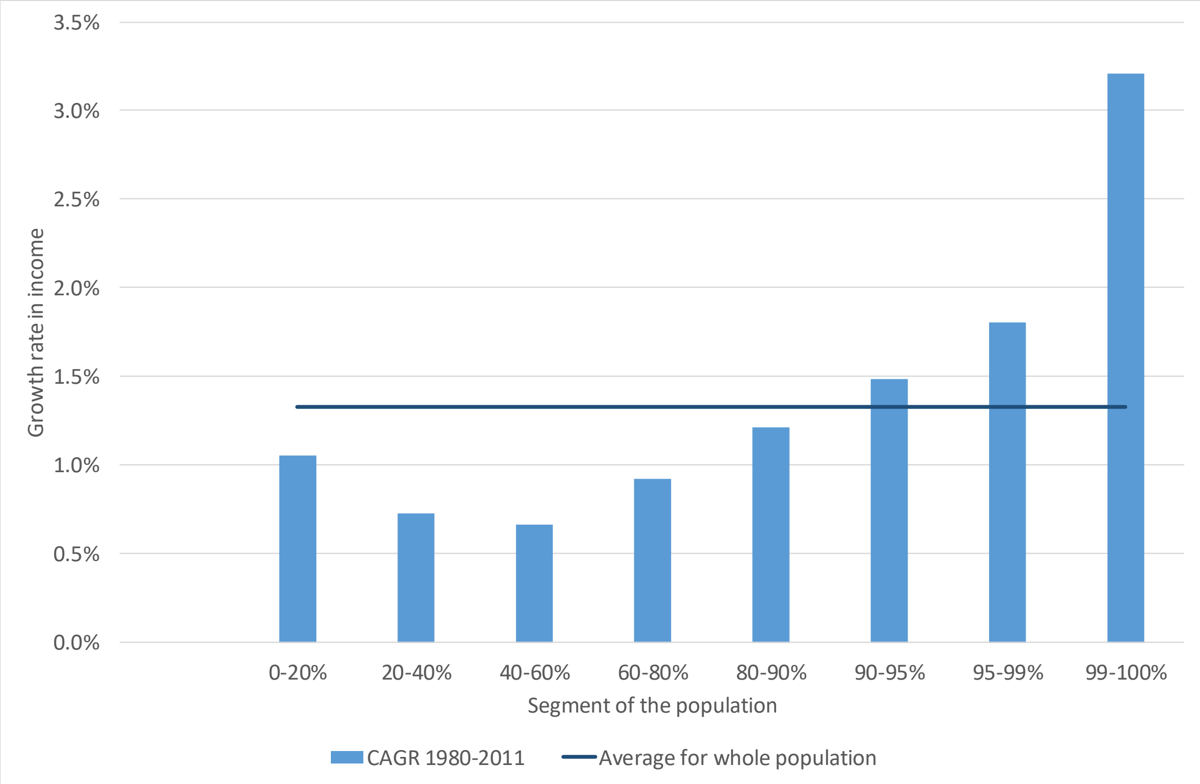
#3 – allow the middle segments to share whatever remains.

Unfortunately, the Census Bureau does not provide data allowing us to slice the upper segments more finely. But the Congressional Budget Office does.

The income data below are from the Congressional Budget Office and they include, as well as wages, government support for poorer families[7] – so the picture is slightly different from the Census Bureau data. The average pre-tax household income for the bottom 20% of the population, even with all this support, is around $27,000.

7 Social insurance benefits (Social Security, Medicare, unemployment insurance, and workers' compensation) and means-tested transfers, both cash and in-kind, such as Medicaid and Children's Health Insurance Program (CHIP) benefits, Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) benefits, and Temporary Assistance for Needy Families (TANF) cash assistance.

*Figure 4: Growth rate in real household income for each segment of the population, 1980-2011*




*Source: CBO*[8]

With this fine-grained breakdown of the upper segments, we can slightly refine our view of policy priorities:

#1 – prevent the bottom segment from slipping too far below the poverty line;

#2 – keep the growth rate high for the upper segments (the top 10% – but *most particularly the top 1%*);

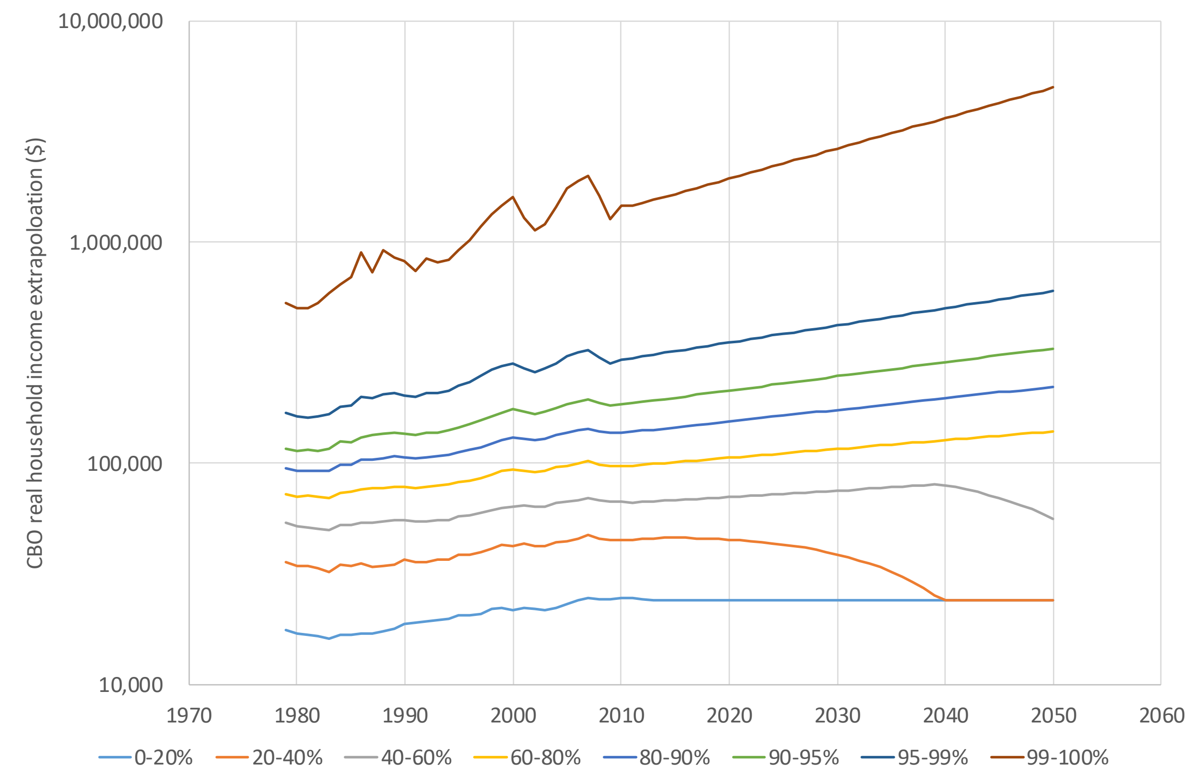
#3 – allow the middle segments to share whatever remains.

## Most Americans will be living in or near poverty by 2050

Let's assume that total growth in real income for the whole population will continue to average around 1.3% – and that politicians do not change their priorities.  Then a projection of the trends we have seen during the era of Market Capitalism means that, by 2050, the picture will look like this.

8 (Congressional Budget Office, 2014)

*Figure 5: Extrapolation of US income trends by segment*




*Source: Extrapolation of CBO data*[9]

The incomes of the upper segments will continue to grow faster than the total rate of income growth, and the difference must be funded by the other segments. The lowest segment will not be allowed to decline, which means that the middle segments will continue to absorb all the pressure.

By 2040, the bottom 40% of the population will be living on the edge of poverty. The average income of many American households will be $27,000, the same as the bottom 20% today. Even worse, around 100 million people will be living below the poverty threshold. And about 45 million will be in deep poverty.

And by 2050, the entire bottom 60% of the population will be under pressure.

Even though by 2050 the US as a whole will be far richer than it has ever been in its history, around half of the population will be living in or near poverty.

The US will continue to be one of the richest countries in the world but most of its citizens will be poorer than today, and many will be living on the edge of poverty. US civilisation will have failed.

9 (Congressional Budget Office, 2014)

## An extrapolation is not a forecast

The one thing we can be sure about is that this scenario does not reflect what will actually happen.  For it to materialise, there would have to be no significant change in policy and no major impact from the enormous technological changes which will almost certainly take place before 2050.

So, will the reality be better, or worse, than this?

The question can be split into two: 1) if we do nothing, what will happen?  2) are there policies we could adopt which would make it less likely?

Part 3 of this book explores the second question in detail.  Let's just take a moment here to think about the first.

In the absence of significant policy changes, these scenarios may be *over*-optimistic: they take no account either of the risk that shifting more resources to the wealthy slows economic growth as wealthier people save more and spend less as a proportion of their income than do less-wealthy people[10] or of the coming wave of technological innovations (see Chapter Five), which are likely to put enormous further pressures on the bottom 90%.

Conversely, of course, there might be positive surprises: new technologies might create more jobs than they destroy, income inequality might spontaneously stabilise or even reverse, GDP might grow much faster than expected.

These things are conceivable – but there is no recent evidence of them happening and no obvious mechanism to make them happen in the future.  And, as they say in the City, "*Hope is not a strategy.*"

10 (Dynan, Skinner, & Zeldes, 2004)