Introduction: Economics and Occupy Wall Street

SURESH NAIDU

Whether and how Occupy Wall Street (OWS) persists are wide open questions. Nonetheless, it has given the income distribution its "moment in the sun." In a flip comment in 2008, I suggested to a Latin American colleague that the U.S. was not likely to respond to an economic crisis with a openly left-wing social movement. September 2011 thus surprised me; even though I knew OWS was being planned I dismissed it as another demonstration that would either get quickly locked up by the NYPD or just fizzle out. However, this was one protest that caught fire, and rapidly spread throughout the country. Its geographic reach was extensive: in Zuccotti Park, I met a visitor from Indiana who had been involved in starting "Occupy Kokomo" in his hometown (population 50,000). As shown in the graph in the second essay of this issue, the media lavished attention on OWS and inequality, bringing attention to financial regulation, the political influence of money, the burden of household debt, and a host of issues that had stayed off the American political radar throughout not just the Little Depression, but also the last generation.

I have no expertise on many of the issues raised by OWS. But by virtue of social networks and preferences, I found myself discussing these things often with Occupiers, running weekly economics teach-ins in Zuccotti Park with Maliha Safri. One thing that immediately became clear was the huge demand for economics knowledge that Occupiers had. Questions about interest and exchange rates, the federal reserve, unemployment, debt, the European crisis, the banking sector, the nature of money, who exactly were the 1 percent and what do you do to get there, all these things were asked by different folks every week. I recall describing search frictions in the labor market, and trying to talk the intuition behind IS-LM. Of course, there was a fair share of fringe economic theorizing (e.g., the abolition of money or demands to end central banking), but economists should take heart that there was no shortage of demand for their expertise among the young people camping in Zuccotti Park.

This issue of the *The Economists' Voice* is showcasing views around the issues OWS has raised. Leading the issue is an essay by Daron Acemoglu and James Robinson on "Is This Time Different? Capture and Anti-Capture of

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U.S. Poitics." The authors present an essay on the historical robustness of inclusive American political institutions. Building on concepts described in their forthcoming book *Why Nations Fail: Origins of Power, Prosperity and Poverty*, they describe patterns of political and economic inequality in the U.S. over the past 250 years, focusing on the late nineteenth century Gilded Age as an analogy with today. They argue that technological change can drive economic inequality, which can translate into increased political inequality. American institutions, however, are robust enough to nurture counter-movements, of which the Progressive movement was one and OWS may be another. The historical analogy and the time-scale is apt; many of the things demanded by the Progressive movement, such as the income tax or direct election of senators, were not enacted until much later, well after the movement had demobilized.

The next essay is by Arindrajit Dube and Ethan Kaplan. Dube and Kaplan take a view on Occupy Wall Street drawing on recent research in political economy and labor economics. They suggest that Occupy Wall Street is a re- action to two trends, one political and one economic. They suggest that the increasing inequality of the last 30 years has resulted in substantial differences the capacity of rich and poor to mobilize and exert political influence. They also suggest that the increase in upper tail inequality is not merely another instance of the skill-biased technical change or trade liberalization that have arguably driven wage-inequality, but rather an increase in the returns to capital. Politically targeting the 1 percent is thus different from targeting the 10 percent or the 20 percent, as the former is the population whose income depends more on the return to financial and physical capital than labor. The 1% vs the 99% better proxies for the functional, rather than the individual, distribution of income. They conclude by suggesting how an amorphous, non-policy focused movement such as OWS can nonetheless affect economic outcomes, either by creating common-knowledge about the taste for egalitarianism in the political realm, or by tightening the "outrage constraint" in the sphere of private compensation.

Maliha Safri investigates the economic organization of occupations past and present. This style of political activity does not conduct itself in an economic vacuum. Just as economists have taken to studying families, charities, and even hunter–gatherer populations as economic organizations, so too, argues Safri, can they observe the conduct of a protracted demonstration. Drawing on the history of large-scale strikes in the U.S. as well as more recent protests in Latin American and the Middle East, she discusses the economic allocations of basic necessities that must be in place in order to maintain a long-lasting, large scale political protest. Safri's article suggests the political protest itself is a type of economic organization, solving collective action problems.

Finally, Mike Beggs touches a professional nerve, asking why economics itself was a target of Occupiers examples include the Ec 10 walk-out at Harvard, the Occupy Economics video, and the AEA demonstrations. He unearths the last time social movements challenged mainstream economics, in the late 1960s, and the ensuing brawls of content and form that swept over the economics discipline. However, Beggs recognizes that economics is a very different animal than its 1960s incarnation, and chides those Occupiers that would believe that contem- porary economics is nothing more than right-wing ideology (not an uncommon view in Zuccotti Park). Nonetheless, Beggs argues that mainstream economics is not currently broad enough to discuss the counterfactuals about the basic structure of the American economy raised by OWS, instead limiting itself to feasible technocratic fixes that leave political institutions and the distribution of political power untouched.

These essays make no attempt to represent the diversity of viewpoints within either economics or the Occupy movement. Indeed, since being evicted, OWS has blossomed (or imploded, depending on ones' perspective) into a wide variety of political campaigns, ranging from organizing mass protests for the spring to drafting financial regulation proposals for the SEC and the Consumer Finance Protection Bureau (CFPB). The latter, dubbed "Occupy the SEC" consists of financial analysts, securities lawyers, and quantitative traders responding in painful detail to questions about the implementation of and loopholes in the Volcker Rule on derivatives trading. Others are working on crafting student debt relief legislation, perhaps backed by a student debt strike, or housing occupations to thwart foreclosures. Others are supporting labor unions engaged in disputes with employers, using tactics unavailable to unions constrained by National Labor Relations Board (NLRB) regulations. Some of these will fail, but perhaps some will succeed. The upcoming presidential election season will see plenty of Occupiers told to "get a job" by whoever wins the Republican nomination. In any case, OWS is currently undergoing a behind-the-scenes transition from jury-rigged protest organization to something perhaps more durable, and whether it survives the transformation remains to be seen. Its counterpoint on the right is not necessarily the Tea Party, but also organizations such as the American Legislative Exchange Council, which crafts and lobbies for pro-business legislation Occupiers' energy and enthusiasm perhaps cannot offset the resources and experience of established organizations, nor contend with police repression. However, regardless of what happens to OWS as a movement, it has made opening arguments in a political conversation about the basic structure of the U.S. economic system, one in which economists have much to contribute.

Is This Time Different? Capture and Anti-Capture of U.S. Politics[1]

DARON ACEMOGLU AND JAMES A. ROBINSON

Societies are molded by their institutions that determine both their levels of prosperity and how that prosperity is distributed within society. For most of its history the U.S. has had economic institutions which have been comparatively *inclusive* in the sense that economic opportunities have been open to most, the playing field has been level, and property rights have been secure. The inclusiveness of economic institutions has meant that the U.S. has been fully able to harness the talent of its citizens who have consequently experienced high rates of social mobility.

Obviously economic institutions were not inclusive everywhere in the U.S. The federal system allowed for institutional divergence and the Southern states had much more *extractive* institutions, with a tilted playing field in favor of elites and weak or absent property rights for many in society. Instead of opening economic institutions to everyone or allowing social mobility, extractive institutions restrict opportunities to a powerful few and block social mobility. The children of slaves were also slaves, slaves could not own property, had no opportunity for social mobility or the free choice of occupations or careers and it was even illegal to teach slaves to read and write in most Southern states prior to the Civil War (Margo 1991).

The roots of inclusive economic institutions in the U.S. lie in a long history of conflict and struggle. Going right back to the founding of the Jamestown colony in 1607 the Virginia Company wanted to create an extractive society especially after it realized it could not make money by exploiting indigenous peoples (too thin on the ground) or precious minerals (there were none). So instead it propagated its "Lawes Divine, Morall and Martiall" where private property was all but abolished and the settlers were forced into barracks and a draconian work regime. It did not work. The settlers ran away to the frontier and they began to organize to demand different institutions. This process culminated in the creation of the "headright system" in 1618 giving settlers access to land. Aspiring oligarchs tried again in Maryland, Pennsylvania and the Carolinas. For example, the Fundamen-

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tal Constitutions of Carolina laid out a rigid social structure with "leet-men" at the bottom with clause 23 noting: "All the children of leet-men shall be leet-men, and so to all generations." Not quite what Ronald Reagan had in mind when he talked in his farewell address about the "shining city on a hill."

Inclusive economic institutions were underpinned by inclusive political institutions. At the same time as the settlers in Jamestown won the headright system they gained/obtained self-government in the form of a Legislative Assembly which effectively enfranchised all adult white males. The Virginia Company had been unable to exploit the white settlers because in the New World the *de facto* distribution of political power was very broad, the creation of the Assembly institutionalized this inclusive distribution of political power. The inclusive political and economic institutions which developed in the colonial period continued into the nineteenth century. Even though the constitution disenfranchised women and blacks, by the 1820s all Northern states had universal white male suffrage and this spread to the South by 1850. Political rights were broadly distributed by world standards and it was this even distribution of political power that forced open economic institutions, breaking down monopolies (e.g., in banking, Haber 2010) and opening up the frontier to allow land to be equally distributed, as demonstrated by García-Jimeno and Robinson (2011) (see Keyssar 2009, for an overview).

The consequences of these inclusive institutions were that the U.S. became one of the most prosperous and technologically dynamic societies in the world (Sokoloff and Kahn 1990, on how non-elites were crucial for innovation). Not only was the U.S. prosperous it was egalitarian. The distribution of assets, income and opportunity generated by inclusive economic institutions was relatively equal.

Once created there is a natural tendency for inclusive institutions to persist – a virtuous circle where inclusive economic institutions spread opportunities, income and wealth more equitably which in turn helps sustain the broad distribution of political power and economic resources. Nevertheless, the system faced continual challenges, most obviously from the Southern states until the Civil War and the rapid economic success of the second half of the nineteenth century created fresh challenges. Though inclusive institutions might generate equality and economic progress, some can always benefit by taking institutions in a more extractive direction, by erecting barriers to entry and excluding people from profitable economic opportunities to create monopoly, and by undermining the property rights of others to defend and use their assets.

The economic growth of the second half of the nineteenth century, the Gilded Age, created a group of very wealthy new businessmen, the "Robber Barons." One of the most notorious was Cornelius Vanderbilt who remarked: "What do I care about the Law? Hain't I got the power?" (quoted in Josephson 1934, p. 15). Another was John D. Rockefeller, who started the Standard Oil Company in 1870 which by 1890 controlled 88 percent of the refined oil flows in the U.S. Contemporary cartoons depict Standard Oil as an octopus wrapping itself round not just the oil industry but also Capitol Hill.

The positioning of the tentacles of the octopus is significant. The wealth of the Robber Barons was created by their ability to take advantage of many new economic opportunities that emerged, often generated by new technologies like railroads. These men also quickly became adept at using this wealth to manipulate the political system to their advantage. Crucially, the Robber Barons captured the Senate, which was indirectly elected by state legislatures and they narrowed the distribution of political power. This process was satirized by the journalist David Graham Phillips in a series of articles under the rubric of the "Treason of the Senate" in the *Cosmopolitan* magazine starting in March 1906 (collected in Phillips 1953). Philips went state by state. First was New York Senator, Chauncey Depew, long a lawyer for the Vanderbilt family and their chief lobbyist in Albany for which he was eventually rewarded with a seat in the Senate. Phillips then moved to Rhode Island where the chief villain was Nelson Aldrich, none other than Rockefeller's son-in-law. Here he described not just how Aldrich played the same role for Rockefeller as Depew did for Vanderbilt, but also how the political institutions allowed this to happen, how "The apportionment of legislators is such that one-eleventh of the population … elect a majority of the legislature – which means they elect the two United States senators .. The Aldrich machine controls the legislature, the election boards, the courts – the entire machinery of the "republican form of government"."The increasingly extractive nature of political institutions allowed the Robber Barons to threaten the inclusive economic institutions which had made the U.S. so prosperous.

But the institutional equilibrium was more robust than it first appeared. The Gilded Age created a backlash in society in the form of the Populist and then subsequently the Progressive movements. The Populist movement emerged out of a long-running agrarian crisis, which afflicted the Midwest from the late 1860s onward (Sanders 1999). By 1892 rural interests had formed a coalition with organized labor and created the People's Party. At the founding of the party in Omaha, Nebraska they adopted the Omaha Platform, demanding specific policy changes, such as the introduction of an income tax, which until then had been deemed unconstitutional. More important it demanded a series of reforms in political institutions intended to undermine the aim of the political parties to "secure corruption funds from the millionaires." These included direct elections for senators, the introductions of ballot initiatives and referenda which they thought would improve democratic accountability.

These political movements slowly began to have an impact on political attitudes and then on legislation, particularly concerning the role of the state in the regulation of monopoly. They induced the creation of the Interstate Commerce Act of 1887, which created the Interstate Commerce Commission and initiated the development of the federal regulation of industry and the Sherman Antitrust Act of 1890

Though the Populists seriously declined after they threw their weight behind the Democrats, their reform agenda was taken up by the Progressives, a heterogeneous reform movement which had a more urban and intellectual base. The Progressive movement initially gelled around the figure of Teddy Roosevelt who became president in 1901. Prior to his rise to national office, Roosevelt had been an uncompromising governor of New York and had worked hard to eliminate political corruption and "machine politics." Roosevelt proposed that Congress establish a federal agency with power to investigate the affairs of the great corporations. By 1902, Roosevelt had used the Sherman Act to break up the Northern Securities Company, affecting the interests of J. P. Morgan, and subsequent suits had been brought against Du Pont, the American Tobacco Company, and the Standard Oil Company. Roosevelt strengthened the

Interstate Commerce Act with the Hepburn Act of 1906 and his successor, William Taft, prosecuted trusts even more assiduously, the high point of this being the breakup of the Standard Oil Company in 1910. Taft also promoted other important reforms, such as the introduction of a federal income tax, which came with the ratification of the Sixteenth Amendment in 1913.

The grassroots opposition was greatly aided by investigative journalists such as Phillips known as "muckrakers" who exposed the abuses of the Robber Barons. The most famous example being Ira Tarbell's 1904 book *History of the Standard Oil Company*.

These reforms to preserve the inclusive nature of U.S. political and economic institutions were effective in two ways. First they helped guarantee that the rapid economic growth that the U.S had experienced in the second half of the nineteenth century would be sustained. Second they succeeded in reversing the massive increase in inequality and the concentration of wealth which had built up in the previous half century.

More than a century after the Gilded Age, a new era of great opportunities, this time underpinned by advances in information and communication technology and globalization, has again coincided with a huge increase in economic inequality in the U.S. Part of this inequality is a byproduct of the structural transformation of our economy. For example, the technological developments that have swept the U.S. labor market can account for why the demand for workers with high school degree or less has plummeted. However, they cannot plausibly account for why the top 1 percent of Americans captured almost 25 percent of national income in 2007, up from 9 percent in 1974. For the 0.1 percent this has gone from 3 percent to 12 percent (Piketty and Saez 2003).

This rapidly increasing inequality is similar to that which emerged in the Gilded Age in the sense that it went along with not only economic growth but also an increasing capture of the political system by the wealthy (Bartel, 2010, Hacker and Pierson 2010). The capture of the political system has been facilitated by several other factors; the reaction of conservative and business groups to the "Great Society" programs of the 1960s and early 1970s and the increased taxes that paid for them; the decline of organized labor as an economic and political force; the rise of television as the main medium via which people get their political information, which made money much more powerful as a tool for determining the outcome of elections. The U.S. political landscape was also changed by the rise of fundamentalist Christians, casting their ballots mainly on the basis of normative issues. The co-optation of such voters by the Republican Party has given it greater freedom to propose economic policies favored by its other constituents, most notably the wealthy. The Democrats, often dragging their feet, have typically followed the money, if not in their rhetoric, in actuality in their policies on many important issues such as redistribution and regulation. The result of this cocktail of changes, greater inequality, greater power for the wealthy at unchanged levels of inequality, and greater political utility of the thing the wealthy had most of – money – created a new form of "inequality multiplier": as inequality increased the rich were able to push government regulation and policy in their favor, thus creating even more inequality. Just as in the Gilded Age, this trend threatens the inclusive nature of U.S. economic institutions.

Yet these dynamics have created another backlash from outside the traditional political parties in the form of the Occupy Wall Street

(OWS) movement. The occupiers style themselves as the 99 percent, those excluded from the 1 percent of the population who have snapped up the economic gains the U.S. economy has generated in the last 30 years. They are protesting about rising inequality, falling social mobility, the decline in the social safety net and the capture of politics by the wealthy, the financial industry and the large corporations. As they put it on their web page they are "fighting back against the corrosive power of major banks and multinational corporations over the democratic process."

The interests underpinning this group are different from those of the Populists and Progressives and so are their political strategies. For example, Progressives did not react to the control of the Senate by occupying the front lawn of "The Breakers" Vanderbilt's plush mansion in Newport, Rhode Island. However, it is not surprising that the specific tactics of OWS differ from those of the Populists and Progressives. If one looks at the evolution of social protests over the past few centuries there is continual change as social movements must alter their strategies in response to changes in the structure of the economy and society, in technology, and in the nature of political institutions. An obvious reason for the form that OWS protests have taken is the successful model of revolt in Egypt. The technology of the media and protests is also radically different. The spread of newspapers and literacy allowed modern mass protests to emerge in the eighteenth century, and we have seen the positive role that newspapers and independent muckrakers played in pushing forward the Progressive agenda. Today the emergence of the internet with Twitter and other social media is similarly important in facilitating the emergence of protest and shaping the form it takes.

Nevertheless, their aim is the same, to roll back the increasing threats to the inclusive nature of economic institutions in the U.S. To do this they recognize, as the Populists and Progressives did, that political institutions must be changed to remove the control of the wealthy over the agendas and policies of the main political parties.

Will they succeed in their aims? Or will it be different this time with the capture of U.S. politics now having become more ingrained and more systematic? Of course it is far too early to know the answer to this but the experience of the Populists and Progressives are interesting not just because they were complaining about the same things as OWS, but also because they were successful. Even if the tactics of and the interests behind OWS are different, lessons can be learned about what might make OWS likely to succeed. First, even if the Populists and Progressives mobilized outside of the traditional political parties, their agendas had an enduring impact on political and economic institutions in the U.S. because they were able to force the traditional political parties to take up many of their reforms. Though they did this partially through threatening the entry of an effective third party, this is probably not a necessary condition for such influence. Ultimately OWS will have to build bridges to sympathetic politicians in the mainstream political parties. From this perspective the statement on the OWS webpage that "we don't need politicians to build a better society" is probably short sighted.

Second, Populists and Progressives were successful because they formed a broad coalition. The Populist Party brought organized labor together with farmers and the Progressives added many middle class groups and intellectuals and were even more successful. OWS is similarly trying to reach out to organized labor, to environmentalists and extend into university campuses. It is not the exact details of the coalition that are important but the breadth.

Third, the role of the media will be critical in determining the success of the movement. The role of muckrakers during the Gilded Age notwithstanding, there is no necessity that the media will play a reformist role in society. For example, DellaVigna and Kaplan (2007) identified a "Fox news effect" whereby the spread of the conservative Fox news channel has a significant positive impact on the vote share of Republican candidates. Moreover, as we discussed above, one hypothesis about why U.S. politics has been increasingly captured by money is precisely the increased importance of television since the 1970s as a source of political information. It is not just the existence of media that matters but who owns it and what it is trying to achieve. In the light of this the use of the internet, owned by nobody, is probably critical.

Finally, the lesson from the Populists and the Progressives is that to succeed OWS must come up with a list of specific institutional and policy changes that will help to counterbalance the trends they have set themselves against. These will not be the same as those proposed 100 years ago, but they will be important for focus and for institutionalizing their successes. A cautionary tale here comes from the French student protests and occupations of May 1968 (Tarrow 1993). These were initially quite successful in putting politicians on the defensive in their demands for educational and social change. But the French students did not come up with specific proposals about how, for example, the educational system should change. The government responded first with large wage increases for trade unions to try to isolate the students and then with a proposed *loi d'orientation* ultimately an emasculated reform which was very far from what the students could have achieved if they had been more focused on the specifics and how to build a political coalition with insiders to get them. Such policies and reforms should focus on the really first-order issues, particularly how to reform the U.S. political system by making it less likely that the wealthy and other special interests can cement their capture of politics.

There is still room for being optimistic that this time it will not be different and that the anti-capture forces will be up to the challenge ahead of them. But this optimism depends fundamentally on the willingness of many citizens not to be complacent and stand up and be counted in defense of inclusive institutions. It is this that makes the OWS movement, despite its many flaws, a hopeful sign of the resilience of our institutions.

Letters commenting on this piece or others may be submitted at http://www.degruyter.com/view/j/ev?tab=services

NOTES

1. The concepts and arguments used in this paper borrow heavily from our forthcoming book Acemoglu and Robinson (2012).

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Occupy Wall Street and the Political Economy of Inequality[1]

ARINDRAJIT DUBE AND ETHAN KAPLAN

What is behind the rise of the Occupy Wall Street (OWS) movement? How should we think about its focus on income disparities between the top 1 percent and the bottom 99 percent? And finally, how might this incipient movement alter the distribution of wealth and power in the United States? In this essay, we consider these three inter-related questions and provide some initial answers.

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POLITICS: WHY NOW?

Inequality in the U.S. has risen dramatically over the past 40 years. So it is not too surprising to witness the rise of a social movement focused on redistribution. The more difficult question is why it took 40 years. It turns out that the U.S. provides a particularly stark example of the paradox where increased pre-fiscal income inequality may be associated with less redistribution (Meltzer and Richard 1981, Alesina et al. 2001, Campante 2011). For instance, the U.S. stands alone among the Organization for Economic Co-operation and Development (OECD) countries in experiencing an increase in pre-fiscal income inequality during the 1980s and 1990s and yet engaging in less redistribution (Kenworthy and Pontusson 2005).

One explanation of this paradox focuses on mobilization of political resources (Korpi 1983, Bradley et al. 2003). Greater inequality may reflect as well as exacerbate factors that make it relatively more difficult for lower-income individuals to mobilize on behalf of their interests. Over the past two decades we have seen the near disappearance of private sector labor unions, which historically have been the primary institution in the economic and political sphere pushing for higher wages and social insurance programs. This is particularly relevant given the wealth composition of donors to left versus right social movements. For example, entities like Americans for Prosperity funded by David and Charles Koch contributed towards the mobilization of the conservative Tea Party activists (Mayer 2010, Skocpol and Williamson 2002). Given the greater collective action problem on the left, relatively large expected gains from mobilization are needed to surmount the costs.

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Yet, even the economic crisis of 2007 did not initially produce a left social movement. We suggest that in part, this is due to the interplay between social movements and electoral processes. A belief that we have a well-functioning electoral process dulls the incentives for independent social movement activism. The election of Barack Obama as the president of the U.S., along with a solid Democratic majority in Congress, likely served such a role. Only after it became increasingly clear that the political process was unable to enact serious reforms to address the causes or consequences of the economic crisis did we see the emergence of the OWS movement.

By 2011, most of the banks that played a central role in the financial crisis had emerged largely unscathed. Profitability had been restored thanks to public guarantees and infusion of liquidity, and executive compensation proceeded to grow, not shrink, in the aftermath of the crisis. At the same time, the enactment of austerity at the state and local government level was exacting large costs on workers who had little to do with the economic crisis, and the federal government appeared to have no appetite for further countercyclical measures after the 2009 stimulus wound down.

This experience elucidated the extent to which the state had been captured by the elite. "Banks got bailed out, and we got sold out"—as a popular OWS slogan went—because apparently the very wealthy had an immense sway over both major political parties. The elite were not primarily actors, musicians or sports superstars: they tended to be CEOs, finance executives, and Wall Street lawyers (Bakjia et al. 2010). Their wealth came from ties to capital, and often it came from specific ties to financial sector profits. This power ensured that the deregulation of the financial sector would proceed unhindered during the 1980s and 1990s, that bank bailouts would come with few strings attached during the crisis, and that few redistributive social policies would be enacted. Besides the failure of the private market to generate broad-based prosperity, there was also government failure that prevented a policy response. Behind both failures was the immense growth in upper-tail inequality—surging income shares of the top 1 percent and the 0.1 percent. This was the context of the emergence of the OWS movement.

ECONOMICS: WHY THE 1 PERCENT?

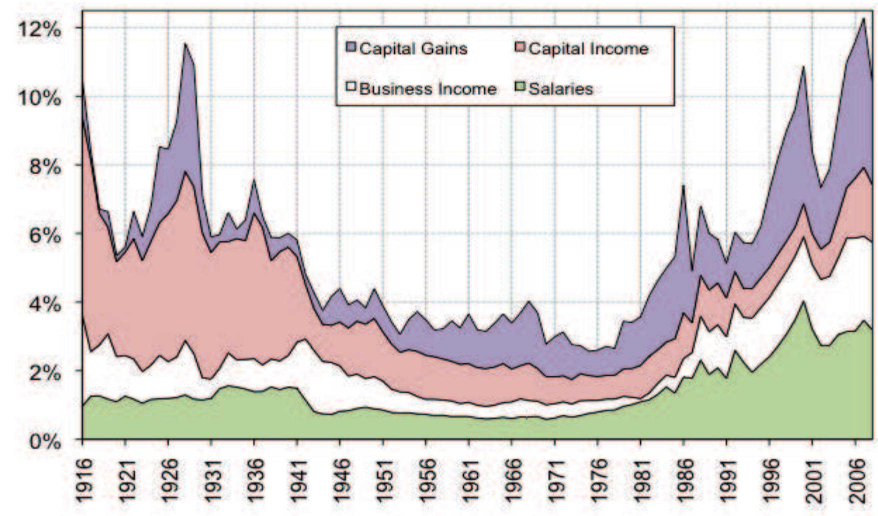
For some time, we have known that there has been an enormous explosion in income inequality in the U.S. to levels not seen since the 1920s. This increase in inequality since the early 1970s has been pervasive throughout the distribution of income. There have been large increases in the wage gap between those who have a college degree and those who do not, but there have also been large increases within each of these two groups. Economists have spent a lot of time trying to account for this increased inequality and have come up with explanations such as changes in technology, changes in labor market institutions, slowdowns in educational acquisition, and increases in globalization. However, less attention has been given to upper-tail inequality—the income share of the 1 percent or the 0.1 percent—as a separate phenomenon.

In part, this was due to the availability of data. As better income data became available, a stark picture emerged of incredible gains at the very top (Piketty and Saez 2003). In 1970, the top 1 percent made less than 10 percent of total pre-tax income. This was roughly in line with most European countries. However, by 2007, the share of the top 1 percent in pre-tax income had increased to 23.5 percent.[2] The higher up the distribution of income one looked, the more extreme was the inequality. For example, the income share going to the top 0.1 percent grew from 1.9 percent in 1970 to 8.2 percent in 2007 (Figure 1). Changes in tax policies amplified pre-tax earnings trends. Between 1970 and 2007, the top U.S. marginal tax rate dropped from 60 percent to 35 percent, while the maximum capital gains tax rate dropped from 32 percent to 15 percent.

During the 1990s and 2000s, most economists viewed the growth in the upper-tail inequality as largely representing the same phenomenon as the growth in wage inequality elsewhere—primarily a change in the demand for skills through technological change, with some role for policy. The fact that hedge fund managers were making a lot more than the median worker in the U.S. was thought to be the same phenomenon as an engineer making more than a janitor. When factors specific to upper-tail inequality were considered, the discussion was often about mechanisms amplifying the underlying growth in skill demand, such as the superstar theory. For example, the growth in firm size was offered as an explanation for the tremendous growth in CEO pay, as the CEO's actions were now multiplied over a larger base (Gabaix and Landier 2008).

Figure 1

Income Share and Composition of Top 0.1 Percent



Notes: Data is from 2008 Updates of Piketty and Saez (2003) posted at http://elsa.berkeley.edu/~saez/

Missing from all this was a discussion about how upper-tail earnings inequality could be better understood as an increase in the power of those with control over financial and physical capital. The exceptions were mostly outside of mainstream economics (e.g., Duménil and Lévy 2004). Consider three pieces of evidence. First, there has been a broad decline in the labor share of income from around 66 percent in 1970 to 60 percent in 2007.[3] Moreover, as measured, labor income includes compensation going to top executives—the modern day equivalent of the nineteenth century capitalist. The exclusion of their compensation would show a substantially greater drop in labor's share. Additionally, most of the growth in executive compensation has been capital-based, i.e., through stock options but appears in national accounts as labor income (Frydman and Molloy 2011).

Second, based on tax data, the majority of income at the top comes from capital-based earnings (capital gains, dividends, entrepreneurial income and rent). In 2007, this proportion was 62 percent and 74 percent for the top 1 percent and 0.1 percent, respectively (Figure 1).

Third, the biggest driver of upper-tail inequality—both in terms of capital and wage based income—was finance, the sector which governs the allocation of capital. Between 2002 and 2007, 34 percent of all private sector profits came from the financial sector.[4] Meanwhile, studies of financial sector pay setting suggest that the exorbitant finance premium in earnings was driven by financial sector profits (Philippon and Resheff 2009, Crotty 2011).

Overall, a focus on the 1 percent concentrates attention on the aspect of inequality most clearly tied to the distribution of income between labor and capital. This type of inequality is seen as being the least fair, as economic rents and returns to wealth are often perceived as unearned income (Atkinson 2009). Most people have very different notions of distributive justice over income perceived as being earned as opposed to being "found money," and this is borne out in a host of experimental studies (Thaler 1999, Cherry et al. 2002, Oxoby and Spraggon 2008, Durante and Putterman 2009). Therefore, OWS's focus on upper-tail inequality, as opposed to say the gap due to educational attainment, accords with what we know about social preferences on inequality.

POLITICAL ECONOMY: WHAT ARE THE CHANNELS OF CHANGE?

While it is far too early to assess the long-run impact of the Occupy movement, we think there are two likely channels through which OWS could affect the distribution of income. The first and most obvious way is by influencing public policy. The second mechanism is more subtle, but may be equally as important: shifts in norms that govern private-sector pay setting behavior.

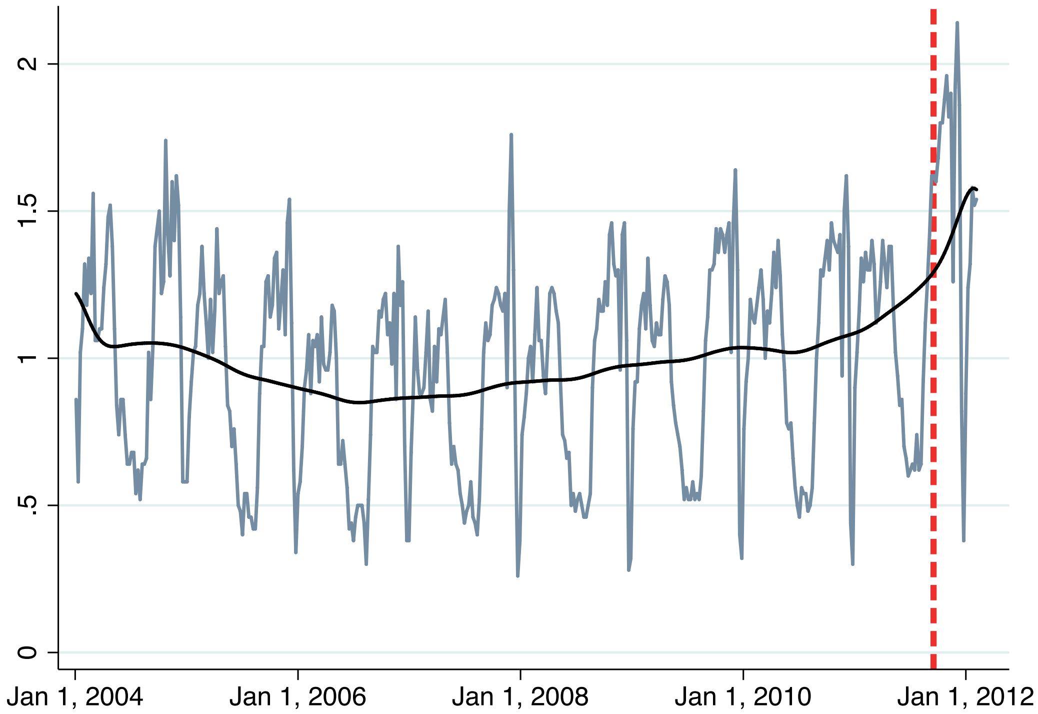
We think OWS has already begun to influence the public policy making process. President Obama, for example, seems much more willing to discuss inequality—as suggested by his speech in Osawatomie, Kansas in December 2011, and further his State of the Union address in January 2012.

How does a social movement affect politics? First, it provides information. Polling trends suggests awareness of conflict between the rich and rose dramatically by end of 2011, concurrent with the OWS movement. Over two-thirds of respondents in a Pew poll believed that there were "strong conflicts" between the rich and the poor—higher than in the past two decades.[5] Google search trends show a greater interest in "inequality" of late than any in previous period when data is available (Figure 2). The focus on inequality can have an effect through changing individual or higher order beliefs, and through increasing the salience of certain frames (e.g., "bankers' bonuses") in the public discourse. Of course, it is an open question whether any of this leads to longer-term policy shifts—especially challenging in a majoritarian setting (Iversen and Soskice 2006).

A second mechanism involves directly shifting pay norms. The literature on Social Structures of Accumulation has long argued that pay-setting

Figure 2

Google Trends on Searches for "Inequality"



Notes: The blue line represents weekly Google Trends on searches for "Inequality." The black line represents a lowess-smoothed trend. The vertical dashed line represents the beginning of the OWS encampment in Zucotti Park.

processes are epochal (see McDonough et al. 2010 for recent work from this perspective). A newer body of empirical work also suggests that such norms, while amorphous, may have historically anchored top pay (Piketty and Saez 2003, Levy and Temin 2007, Frydman and Molloy 2011). Even after the financial crisis, Wall Street bonuses remained high. However, the end of 2011 saw a sizeable reduction in bonuses for the first time in many years.[6] While it is difficult to directly link this to OWS, the reductions may reflect changes in financial executives' beliefs about what practices are socially or politically acceptable. A durable, but much more challenging, legacy for OWS would be to help restore the "outrage constraint" on top pay (Bebchuk and Fried 2003).

Does the Occupy movement portend a more egalitarian future? To a large extent, this will be determined by the persistence of activists and others in mounting additional challenges to the political and economic elite over the coming year. OWS organizers have staked out a claim. "Our finances are weak, but our spirit is strong. We are the 99 percent. Our spring is coming." The distribution of wealth and power in the United States may well depend on the accuracy of this political meteorology.

Letters commenting on this piece or others may be submitted at http://www.degruyter.com/view/j/ev?tab=services

NOTES

1. We wish to thank Kyle Meng, David Munroe, Suresh Naidu, Ceren Soylu, Sebastien Turban, Laurence Wilse-Samson, and Haishan Yuan for their comments.
2. World Top Incomes Database: http://184.168.89.58/sketch/
3. http://www.bls.gov/opub/mlr/2011/01/art3full.pdf
4. http://www.bea.gov/national/nipaweb/
5. http://www.pewsocialtrends.org/2012/01/11/rising-share-of-americans-see-conflict-between-rich-and-poor/
6. http://www.cbsnews.com/8301-201_162-57363402/bonus-season-not-as-festive-for-bank-ceos/

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The Economics of Occupation

MALIHA SAFRI

The oldest meaning of “occupy,” (*or occupare* coming from Latin), is “to take possession or seize,” and historically came to be linked to martial occupation, carrying a negative connotation that countries seek to avoid today even as they undertake it.[1] In the late fourteenth century, with the rise of craft and merchant guilds and their elaborate classification of work categories, occupation took on the meaning which is generally the first that comes to mind today: “employment,” or “what one does for work.”

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True to its etymology, Occupy Wall Street (OWS) assumed both sides of the meaning of the word: to take up the space, and to do work. Of course their squatting and claims over the space received more than ample media, police, and judicial attention. Perhaps less-reported are the various working committees of OWS: the library which organized and ran a free book-lending service, the kitchen committee which produced and distributed up to 4000 meals a day on peak protest days, the education and empowerment committee which organized and distributed well-attended lectures and daily free classes (one on popular economics at OWS NY which I co-taught every week), the facilitation committee which trained people in the art of running meetings, the press committee which handled the hundreds of reporters and media demands, the comfort committee that produced and distributed clean laundry and arranged beds and showers, the structure group that organized the eventual spokes council decision-making structure for the entire occupation, the technology committee that produced the infrastructure for communication, the janitorial committee charged with clean-up, and dozens of more committees. The architecture of OWS speaks to at least one of the movement’s basic points: how society can and does organize partial production and distribution of goods and services outside market mechanisms.

This is not unique to OWS. Historically, U.S. occupations have been associated with the tradition of sit-down strikes in factories: 1936 began with a momentous factory occupation and ended with an even bigger one. In January of 1936, 10,000 workers in Akron, Ohio, occupied factories from three distinct tire firms

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(Firestone and Rubber Co., Goodyear, and BF Goodrich), bringing national attention to Akron, as well as shifting the entire tire industry decisively towards unionization. But by the end of the year, the epic Flint autoworker sit-down strike would overshadow even Akron in the history books. In Flint, Michigan, GM's workers staged a 44 day occupation of factories despite a massive police assault. Within a month, GM, at that time the largest manufacturing firm in the world, was forced to recognize a unionized workforce. In 1937, some 400,000 workers participated in factory occupations (Green 1998). Between 1936 and 1939, U.S. workers occupied 583 plants, threatening massive disruptions for their employers and ultimately, their hegemonic position in the bargaining process (Ness 2011).

In many of these occupied plants, "strikers formed a 'new and special kind of community'," where there was a strong "feeling of solidarity" (Fine 1969). The Flint occupied plants each formed a little government, electing a mayor and strike committee that ultimately sought the consent of strikers for virtually all decisions. Committees were routinely established in occupied plants for food, recreation, information, education, postal service, sanitation, patrol and security, contact with the outside, and for their own "kangaroo courts" in which workers were sentenced for failing to report to assigned duties on the above mentioned committees (Fine 1969). The number of "sit-downers" fluctuated, but always coordinated closely with workers outside the plant who picketed, collected funds, and enlisted sympathy for the cause. In that, occupations (in factories and OWS) can be seen as constituted by layers of direct occupiers and those that sustain the occupation without living there.

Ultimately, the sit-down tactic (rather than a conventional picket strike) was adopted widely in that time, not for ideological reasons, but because the technique proved itself effective in forcing employers to the bargaining table. Occupied plants, as in Flint, were chosen strategically, and actually brought production to a halt across the spectrum of corporate holdings because the occupiers chose key plants that produced critical elements in the entire supply chain of parts. Rather than risk the removal of the equipment from strike to strike-free plants, workers chose occupation as a tool which "neutralized the arsenal of weapons" available to GM and other corporations (Fine 1969).

The tactic was so powerful, (Flint and other police forces flip-flopped on intervention since the strikers were not clearly breaking the law), that it had to be made explicitly illegal to prevent its deployment. The question was pushed to the Supreme Court, which ultimately sided against the workers. In 1939's *National Labor Relations Board vs. Fansteel Metallurgical Corporation*, the NLRB lost the right to force firms to rehire workers after a sit-down strike and factory occupation, if the NLRB had found that the factory had precipitated the strike and was at fault. Despite the fact that Fansteel had engaged in a string of illegal tactics to prevent unionization, the Supreme Court had ruled it was illegal for the workers to wage a factory occupation to achieve their demands, and essentially banned the use of the tactic. The Supreme Court weakened the National Labor Relations Act, by "elevating the property rights of employers over the organizing abilities of workers. This was a judicially imposed choice not mandated by the N.L.R.A." (Casebeer 2007). The openness to occupation tactics granted by the legislative act on labor relations was ultimately closed by the judicial branch in the U.S.

More recently, workplace occupations have resurged outside the U.S. In Argentina (after

2001) and Brazil (continuously since 1980), workers continue to come together in groups, often owed millions in unpaid wages by employers, occupy their former factories or farms, resist eviction often with the aid of entire neighborhoods in which they were located, and reinitiate production under worker control, management, and ownership. Both the Recovered Factory Movement in Argentina and the Movimento Sem Terra (landless rural worker movement)[2] in Brazil share a motto: "Occupy, Resist, and Produce." Neighborhoods provided immense material and moral support, turning out in mass numbers to prevent police eviction efforts, aiding in the sale of goods produced in the occupied factories, and so on. Again, one can identify the direct and indirect layers of support that contribute to the success or failure of an occupation.

While workplace occupations have the obvious economic effects of ceasing line production, (and then reinitiating it in the case of Argentinian and Brazilian recovered factories, clinics, hospitals, hotels, and farms), occupation sites also require economic infrastructure. They are not (only) political events with economic causes or consequences, but also methods of allocating scarce resources to given ends. The organizational solutions act as a running thread across Tahrir Square, Occupy Wall Street, South American recovered farms and factories and U.S. occupied plants. Despite the differences in political targets and constituencies, they all embody collectively organized production and distribution. Paying attention to the economics in and of these organizations and events might shed light on how to sustain them.

Letters commenting on this piece or others may be submitted at http://www.degruyter.com/view/j/ev?tab=services

NOTES

1. On the 10 year anniversary of U.S. entry into Afghanistan (October 6, 2011), Afghans marched through the streets of Kabul holding signs saying "No to Occupation," while American news outlets such as MSNBC put "Occupation" in skeptical quote marks as they reported on the protests.
2. See Hidalgo et al. (2010) for a discussion of the economic determinants of land occupations in contemporary Brazil.

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Occupy Economics

MIKE BEGGS

Occupy Wall Street has thrown off many sparks. One landed in academic economics. In November last year a group of Harvard students walked out on Greg Mankiw's introductory economics course. Later that day, the Harvard Political Review posted an open letter the dissenters had written to Mankiw:

> We are walking out today to join a Boston-wide march protesting the corporatization of higher education as part of the global Occupy movement. Since the biased nature of Economics 10 contributes to and symbolizes the increasing economic inequality in America, we are walking out of your class today both to protest your inadequate discussion of basic economic theory and to lend our support to a movement that is changing American discourse on economic injustice.

The main complaint of the dissenters, expressed in every paragraph, was bias: "There is no justification for presenting Adam Smith's economic theories as more fundamental or basic than, for example, Keynesian theory."

A trope began in the comments thread below: it was ironic that these ill-informed undergraduates had walked out on Mankiw, a leading light of the New Keynesians, thinking that he was an anti-Keynesian. Had they waited until next semester, when Mankiw's course turns to macroeconomics, they would have found the class steeped in Keynes, learning from someone who said this in the *New York Times* in 2008: "If you were going to turn to only one economist to understand the problems facing the economy, there is little doubt that the economist would be John Maynard Keynes."

After the walkout, Mankiw used another Times column to defend his teaching and textbook. He had learned his first economics from the epoch-defining text of Paul Samuelson, whose "own politics were decidedly left of center," and he turned out just fine. His text is widely seen as the successor to Samuelson's, and he sees himself as following Samuelson's path: to represent the mainstream. "If my profession is slanted toward any particular world view, I am as guilty as anyone for perpetuating the problem. Yet, like most economists, I do

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not view the study of economics as laden with ideology."

THE MAN IN THE MIDDLE

In his *New York Times* apologia, Mankiw wrote that the walkout of his own class triggered nostalgia for his own 1970s undergraduate days "when the memory of the Vietnam War was still fresh and student activism was more common." Economics was highly politicized, and nothing symbolized this like the figure of Samuelson himself. At that time he was the most famous living economist, a Nobel laureate, author not only of the dominant introductory textbook but the template for all introductory textbooks, and dean of the liberal technocratic economics that had framed policy debate since the 1940s. He was an establishment Democrat, having been adviser to Kennedy and Lyndon Johnson, and now he wrote a regular column for *Newsweek*. The neoclassical-Keynesian synthesis was fraying as unemployment and inflation climbed together. Samuelson was associated with the Phillips curve even more closely than Bill Phillips himself. He and everything he stood for were under attack – from two sides.

Everyone remembers the man on his right – Milton Friedman – whose columns alternated with Samuelson's in *Newsweek*. The challenge from his left is now less familiar. At the level of high theory, it took the form of a concerted attack in some of the discipline's top journals on neoclassical treatments of value, distribution and growth. The Cambridge capital controversies were so named because they revolved around technical problems with treating capital as an aggregate factor of production, and because the key protagonists were associated with Cambridge, England, on the critics' side, and Cambridge, Massachusetts, on the side of orthodoxy – with Samuelson and Robert Solow the main figures of the latter. They had peaked in the 1960s but ran on into the next decade, and seemed to have Massachusetts on the back foot, conceding the theoretical point but not its practical significance. The debate was much more important for the critics than for neoclassical economics itself. It consolidated and boost the morale of a school of economics that could present itself as a wholesale alternative to the mainstream, at least its equal in rigor and technical sophistication – in other words, not a bunch of cranks.

At the same time, a grass-roots movement for radical economics emerged on campuses, carried mainly by students and young academics. To them, Samuelson's textbook was the establishment. As Tiago Mata[1] describes, Harvard became an early battleground, thanks to a coalition of undergrads, grad students and untenured faculty, with the tacit support of some of the established professors. These included some big names indeed – not only John Kenneth Galbraith, but Nobel prizewinners Kenneth Arrow and Wassily Leontief. By 1973 orthodoxy had asserted itself in the form of tenure denials to MacEwan, Samuel Bowles, Herbert Gintis and Thomas Weisskopf. Only Stephen Marglin survived, having already received tenure before the storm.

Similar dramas took place on many campuses, and the fight for radical economics became a protracted war of position. Tenure was denied in one department, while another across town reached critical mass. Marxists, feminists and other radicals made common cause with others exiled from the kingdom of modernizing economics departments: the economic historians and historians of economic thought, the post-Keynesians, the institutionalists, even sometimes the Austrians. New conference circuits developed, and radicals tried to make themselves useful outside academia entirely – to activists, to unions, to their communities. Journals sprung up, many of which are with us today. Fortresses rose – at Sydney, at Amherst, at the New School for Social Research – and fell – most notably at Cambridge, England.

A BULWARK OF THE CENTER, NOT THE RIGHT

The misunderstanding in the Harvard students' open letter to Greg Mankiw about his relationship to Keynes reflects a widespread liberal layperson's view of the state of the discipline. The idea, reinforced by the recent public debates around stimulus, government debt and austerity, is that there is a scientific split within economics, which follows political lines: liberals are Keynesians, conservatives are anti-Keynesian. The conservative, anti-Keynesian side is thought to have been dominant in the years or decades leading up to the crisis, bearing some responsibility for it, while the liberal Keynesians were prophets in the wilderness. Figures like Mankiw are dissonant with this view. He is on the side of the devils: chair of the Council of Economic Advisers under President Bush, then official adviser to Mitt Romney. He is on the side of the angels: a self-proclaimed Keynesian, scourge of real business cycle theory, "saltwater" economist fellow to Paul Krugman, and member of the "reality-based community."

This vision of economics rests on two misconceptions. First, it underestimates the extent to which mainstream macroeconomics remained Keynesian through the 1980s and 1990s, in spite of the New Classical ascendancy. This is especially true of policy-oriented macroeconomics, where the need to be *useful* to policymakers sustained pragmatism and filtered out mere academic exercises. The latter might be ideologically helpful to conservatives in some arenas, but were at a disadvantage on policy terrain – in contrast to Milton Friedman, whose success depended on his adaptation to the fact that "we are all Keynesians now."

The second misconception is that Keynesian economics is necessarily a creature of the left. One testament to its error is Friedman's lasting mainstream legacy – evident everywhere from Ben Bernanke's acknowledged debt to the view of liberal econo-blog lynchpin Brad DeLong that "Friedman completed Keynes." Mainstream economics is a bulwark of the center, not the right. Macroeconomics has always been essentially technocratic. The great debates in macroeconomics revolve around the potential scope and limitations of policy instruments. Right and left fight for the central ground defined by policy effectiveness.

The budding economists of the Occupy movement have other fish to fry. They can make common cause with the liberals against the austerity-mongers, but their concerns go well beyond rational demand management. At the top of the list are inequalities of income, wealth and power – precisely the central issues for Occupy Wall Street and in the students' letter to Mankiw. These are issues which continue to be neglected by mainstream economics, precisely because there are no easy policy fixes. As Mankiw responded to his students, "Widening economic inequality is a real and troubling phenomenon, albeit one without an obvious explanation or easy solution."

The founding statement of the Union for Radical Political Economics, from 1968, did not criticize mainstream economics for being *wrong*, or for using misguided techniques or methodologies – in fact, it went out of its way to acknowledge "the value of some of the tools and concepts of modern economics." The complaint was not that mainstream economics was delusional, or biased to the right, but precisely that it was technocratic. It framed the economy as a technical problem to be solved with the correct application of scientific principles by policymakers. It had little to say about the truly burning problems of the day – "the economics of the ghetto, poverty in the American economy, international imperialism, interest-group analysis, the military-industrial-university complex… ." This was not because these things could not be analyzed, but because they were not amenable to policy solution, given the prevailing balance of power.

Paul Samuelson's textbook was, as Kerry Pearce and Kevin Hoover have described it, "above all a harmonist book." In this, it was in tune with the discipline it inducted students into. Like the invisible hand itself, it took seemingly antagonistic interests and transformed them towards a common purpose, and it never met a crisis it could not resolve with more rational use of policy instruments. This harmonist vision was the target of both the radicals and the 'post-Keynesian' dissidents.

Joan Robinson, captain of the Cambridge, England team in the capital controversies and perhaps the true anti-Samuelson, spent the last two decades of her life building bridges between her generation of dissident high theorists and the new generation of radical economists. The precise technical points of the Cambridge controversies were never the real issue – she had no illusions that the mainstream was a tightly constructed machine that would collapse to dust if a single part were removed. Nor was it the necessarily the case that theoretical orthodoxy signified reaction and heterodoxy radicalism – as illustrated in her generation by Oskar Lange and Friedrich Hayek.

But Robinson did argue that the fundamental problematic of neoclassical economics – the efficient allocation of scarce means to given ends – left it with blind spots concerning things of great social importance. It could not deal adequately with uncertainty and unstable, historical time in which equilibrium was always running further off into the future. Its basic "parables" (as Samuelson called them) misled about distribution, implying that it was settled by marginal productivity. Her quixotic attempt to tackle Samuelson on the other front with a 1973 textbook reversed the order of the typical curriculum, starting with distribution and growth and leaving the minor issue of relative prices to a single later chapter. Needless to say, given the tenor and unified commitment to abstraction of 1970s economics, the textbook, which was not without flaws, attracted few adherents.

Mainstream economics is now in some ways a different beast. It is more monolithic than most social sciences but less so than many outsiders think. Many flowers are blooming at the level of research, including political economy, behavioral economics, and economic history, and an overall turn towards the empirical. Indeed, the documentation of the 1 percent share itself is owed to one of the young stars of mainstream economics, Emmanuel Saez. The blogosphere has opened up a space in which genuine argument is thriving. But Robinson's criticisms still apply. The contemporary textbook, for which Mankiw sets the template, is not much different from the Samuelson model. "Politics," to the economist, still means "policy," meaning a tacit acceptance of the balance of social forces that set the bounds of reasonable possibilities. The fundamental questions about society raised by the Occupy movement are not going to be answered by a regression analysis – this much income inequality is explained by technology, that much by "globalization", another part by tax policy… . Economics must become a broader church; open itself up again to the grandest old questions of political economy – what is capitalism, where did it come from and what is happening to it? – and stop taking for granted that it has no problems a policy tweak could not fix.

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1. Mata (2009).

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