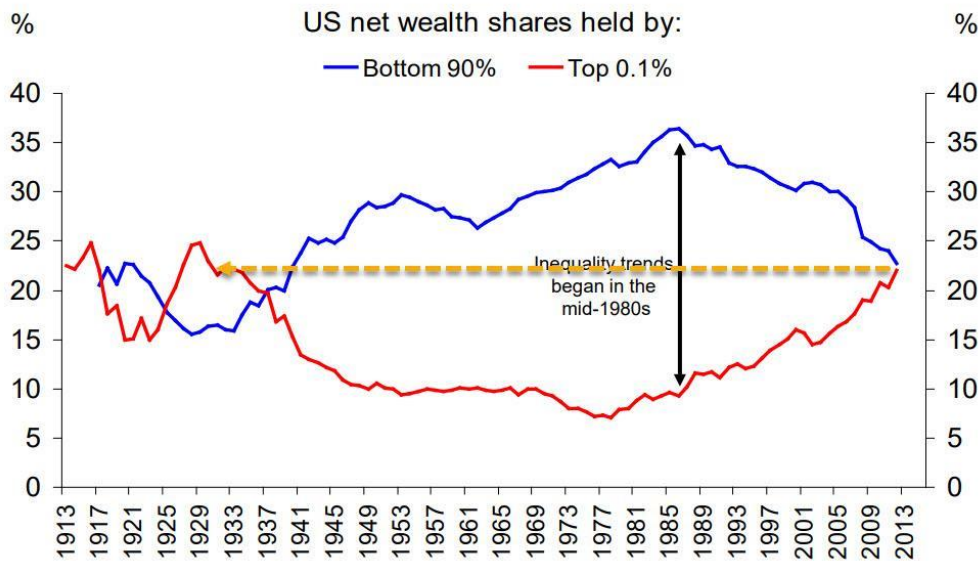


It's Official: The United States Is Now A Banana Republic

From Zerohedge, 19 November 2019

In some ways, we sympathize with Neel Kashkari's concern about the unprecedented wealth inequality that has emerged in the US in recent years and which has resulted in a slow, methodical and relentless destruction of the US middle class ... or rather make that *precedented* because there was another time when the top 0.1% had amassed as much wealth and it was just before the Great Depression.

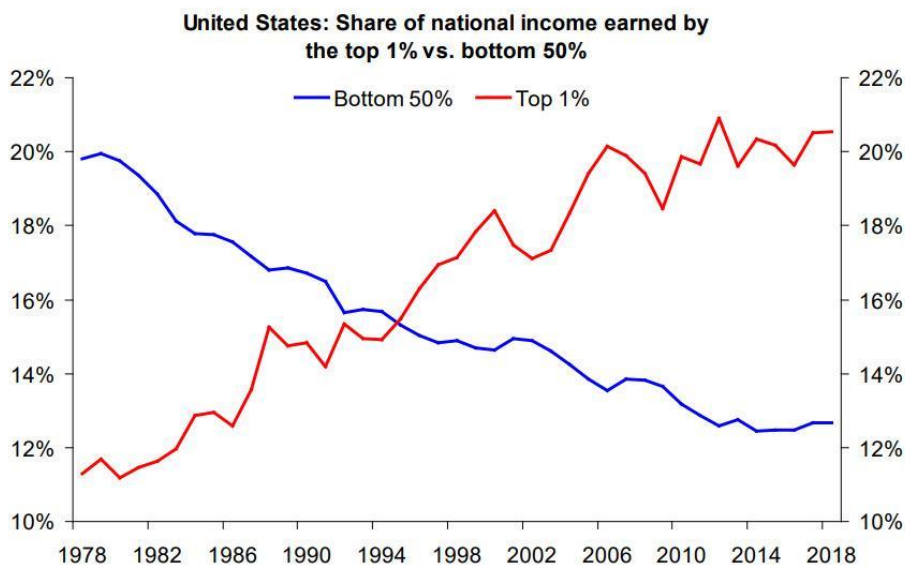
US: Top 0.1% owns as many assets as the bottom 90%



Source: The World Wealth and Income Database, DB Global Markets Research

After all, who hasn't seen charts such as these showing the tremendous divergence in income earned by America's Top 1% at the expense of the middle and lower classes:

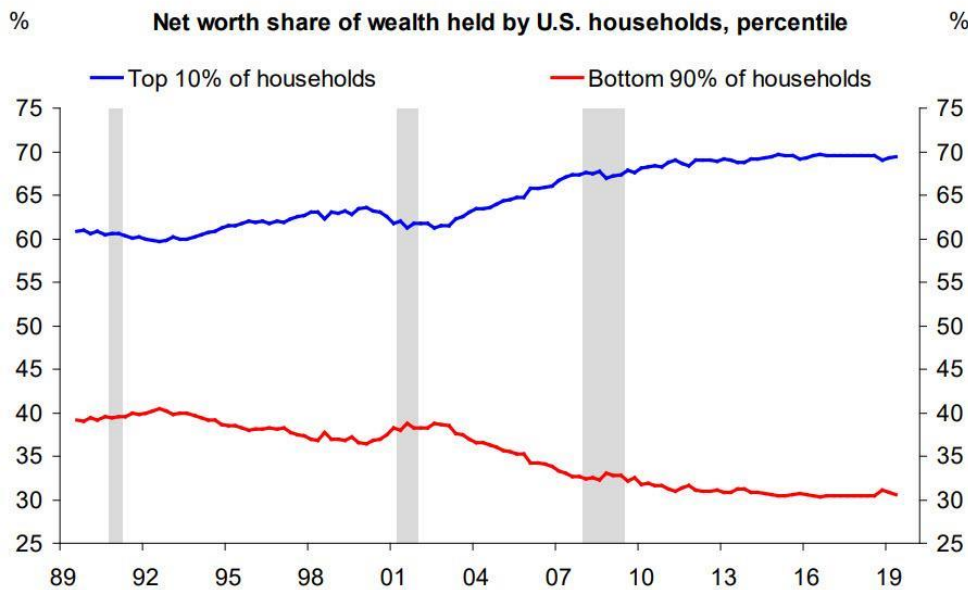
Share of income earned



Source: Saez and Zucman (2019), <https://taxjusticenow.org>, DB Global Research

Or that the top 10% now own 70% of all the US wealth, the same as the middle and lower classes combined...

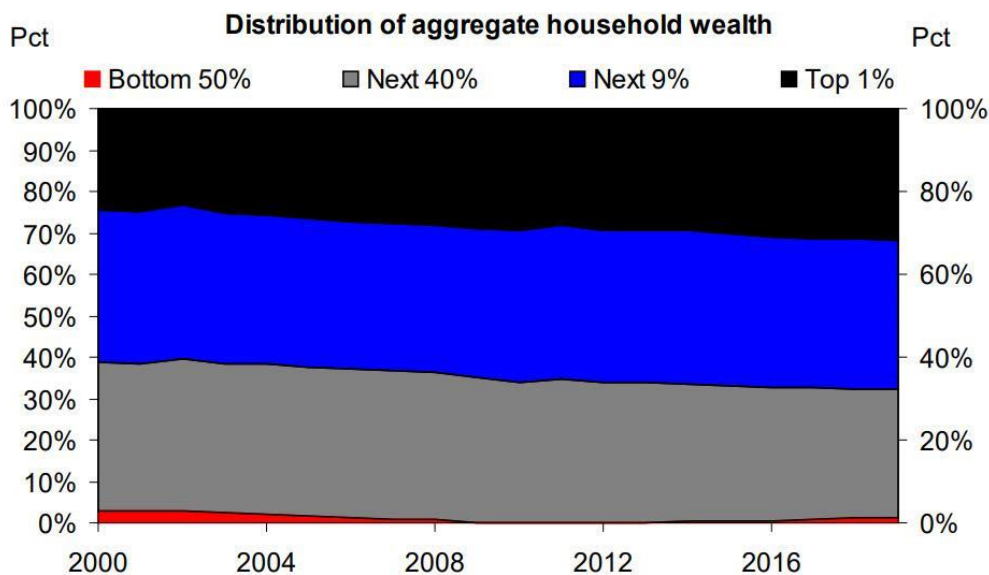
Top 10% own 70% of all wealth



Source: FRB, Haver Analytics, DB Global Research

... up 10% from the 60% of wealth they controlled at the start of the century.

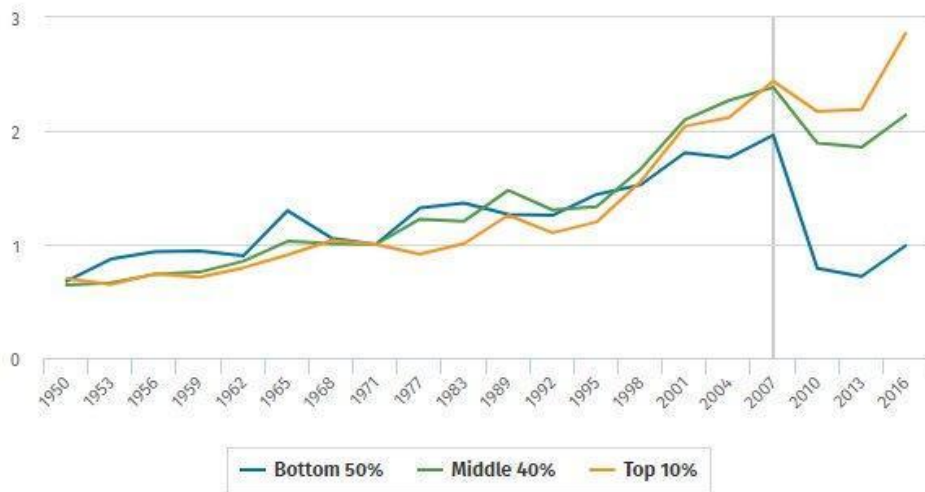
The 10% richest households in the US used to own 60% of all wealth. Now they own almost 70%



Source: FRB, DB Global Research

Yet we find Kashkari's "jaw-dropping" virtue signalling proposal to grant the Fed wealth redistribution power not only laughable but absolutely terrifying: after all it was the Fed's ZIRP and QE that was behind the greatest wealth redistribution in the past decade...

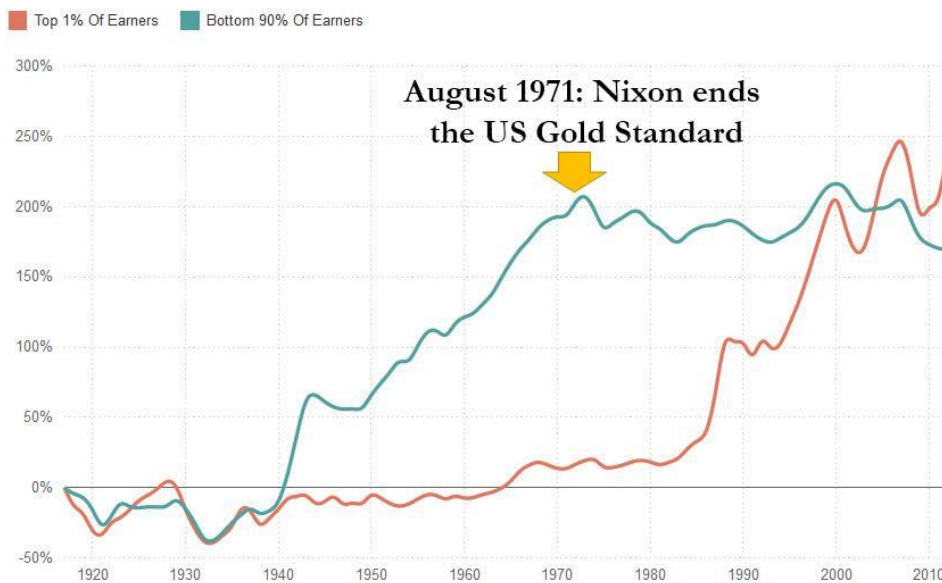
Growth in Household Wealth, 1950-2016



Notes: Lines show growth rates for different wealth groups, with blue for the bottom 50 percent, green for the middle class (50th percentile to 90th percentile), and orange for the top 10 percent. All time series are indexed to 1 in 1971. Vertical line indicates financial crisis.
Source: Authors' calculations

... a redistribution that started almost 50 years ago, when [Nixon decided to end the Fed's biggest nemesis](#) - the US gold standard - launching an unprecedented increase in income growth for the "Top 1%", even as the income of the "Bottom 90%" has remained unchanged ever since 1971.

Income Growth, From 1917-2012



For those confused, Rabobank's Michael Every put it best: of course the Fed can redistribute wealth but "**that redistribution has been from the poor and middle-class to the rich, not the other way round.**"

And so, over a decade after the start of the biggest monetary and wealth redistribution experiment in history intermediated by the world's central banks, we find ourselves in a place where Deutsche Bank writes that at the very top of its Top 20 risks for 2020 is none other

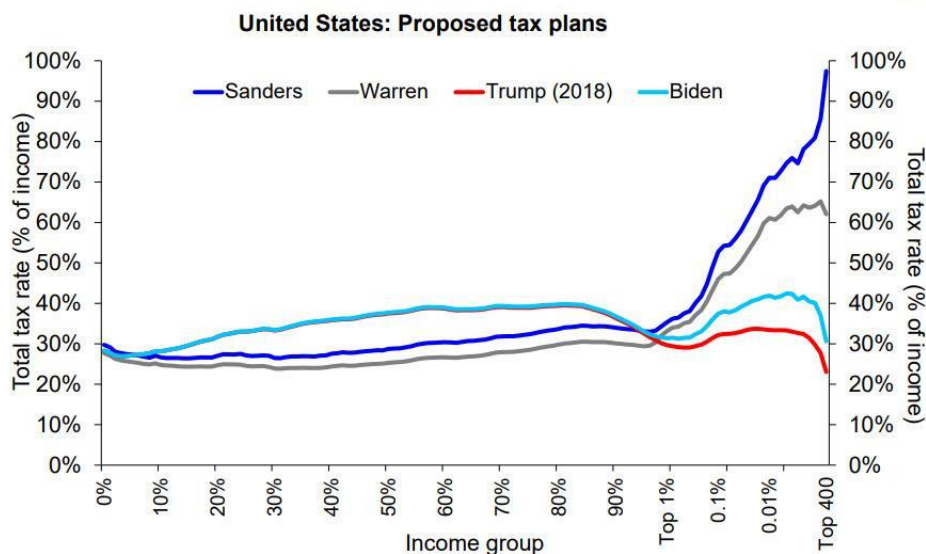
than the "continued increase in wealth inequality, income inequality and healthcare inequality."

20 risks to markets in 2020		ZH
1.	Continued increase in wealth inequality, income inequality, and healthcare inequality	
2.	Phase one trade deal remains unsigned, continued uncertainty about what comes after phase one	
3.	Trade war uncertainty continues to weigh on corporate capex decisions	
4.	Ongoing slow growth in Europe and Asia triggering significant US dollar appreciation	
5.	Impeachment uncertainty & possible government shutdown	
6.	US election uncertainty; implications for taxes, regulation, and capex spending	
7.	Antitrust, privacy, and tech regulation	
8.	Foreigners lose appetite for US credit and US Treasuries following Presidential election	
9.	MMT-style fiscal expansion boosts growth significantly in US and/or Europe	
10.	US government debt levels begin to matter for long rates	
11.	Mismatch between demand and supply in T-bills, another repo rate spike	
12.	Fed reluctant to cut rates in election year	
13.	Credit conditions tighten with more differentiation between CCC and BBB corporate credit	
14.	Credit conditions tighten with more differentiation between CCC and BBB consumer credit	
15.	Fallen angels: More companies falling into BBB. And out of BBB into HY.	
16.	More negative-yielding debt sends global investors on renewed hunt for yield in US credit	
17.	Declining corporate profits means fewer dollars available for buybacks	
18.	Shrinking global auto industry a risk for global markets & economy	
19.	House price crash in Australia, Canada, and Sweden	
20.	Brexit uncertainty persists	

Why is Deutsche Bank concerned? Because there are two distinct points in history when wealth was as unequally distributed - the last time was just before the Great Depression (see top chart). The time before that? Right before the French revolution, as a result of which most of the French "Top 1%" at the time lost their heads, so to speak.

To be sure, the issue of wealth and income inequality is shaping up as the most sensitive topic not only during the Democratic primary race, but the entire 2020 presidential race, with one of the most salient questions emerging who can tax the richest the most.

Comparing income tax plans for presidential candidates

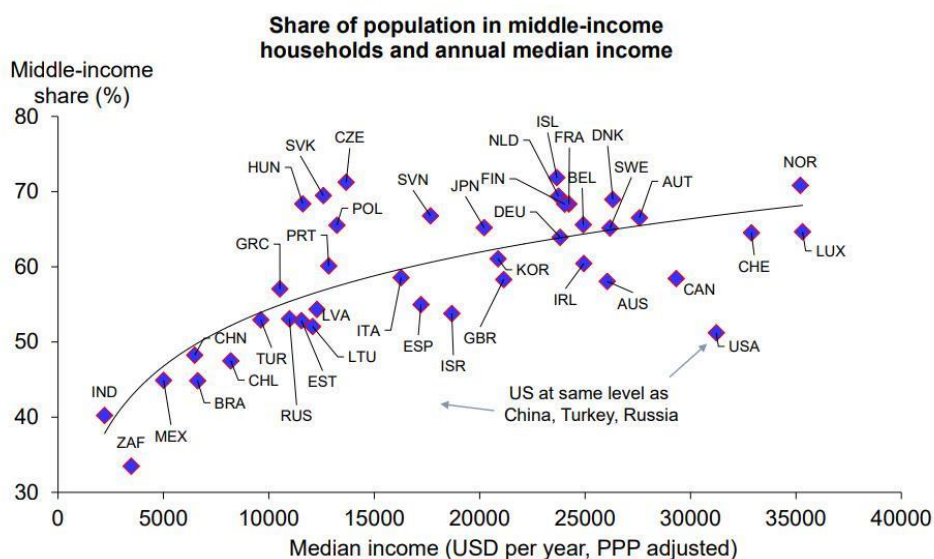


NEVER MISS THE NEWS THAT MATTERS MOST

Unfortunately, as we are about to show, it may already be too late to fix the US: as the following stunning chart shows, ***the US is already effectively a banana republic if one defines such a nation as one which has a small but ultrapowerful and unaccountable kleptocracy which gets richer year after year by stealing from the rapidly shrinking middle class.***

Here is the problem: while the US has one of the highest median incomes in the entire world, with only three countries boasting a higher income, it is who gets to collect this money that is the major problem, because as the chart also shows, **with just a 50% share of the population in middle-income households, the US is now in the same category as such "banana republics" as Turkey, China and, drumroll, Russia.**

Rich countries tend to have a bigger middle class, except the United States



Note: Middle-income classes and median incomes are defined relative to equivalised household disposable income. The middle-income class comprises individuals in households with incomes that are between 75% and 200% of the median.

Source: OECD report "Under Pressure: The Squeezed Middle Class" (2019), DB Global Research

What is just as stunning: according to the OECD, more than half of the countries in question have a more vibrant middle class than the US.

So the next time someone abuses the popular phrase "*they hate us for our [fill in the blank]*", perhaps it's time to counter that "they" may not "hate" us at all, but rather are making fun of what has slowly but surely become the world's biggest banana republic?

And it has not Russia, nor China, nor any other enemy, foreign or domestic, to blame... except for one: **the Federal Reserve Bank of the United States.**