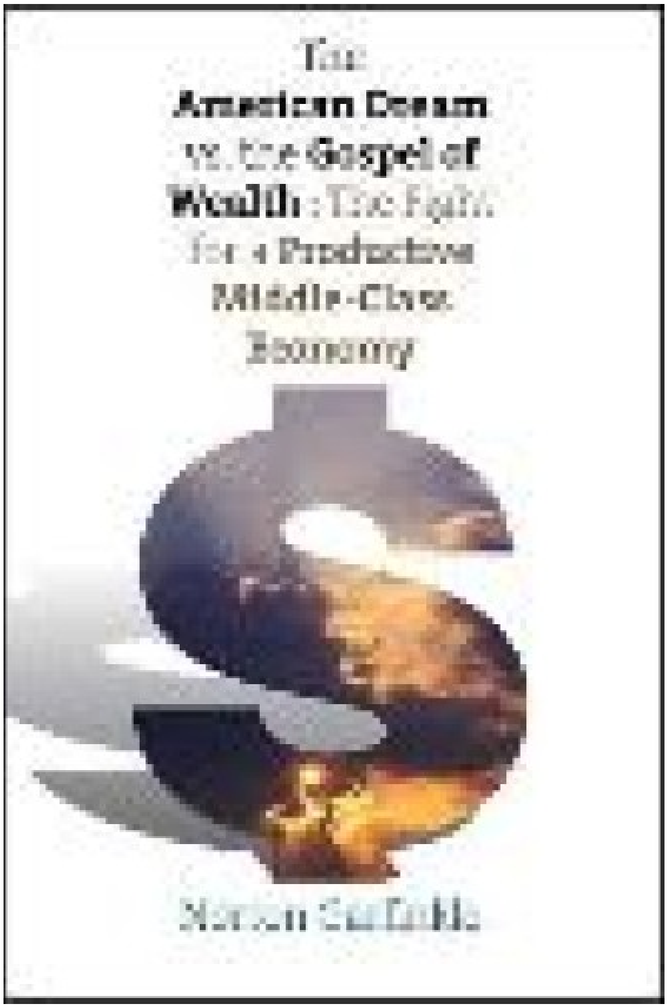
Squeezed out

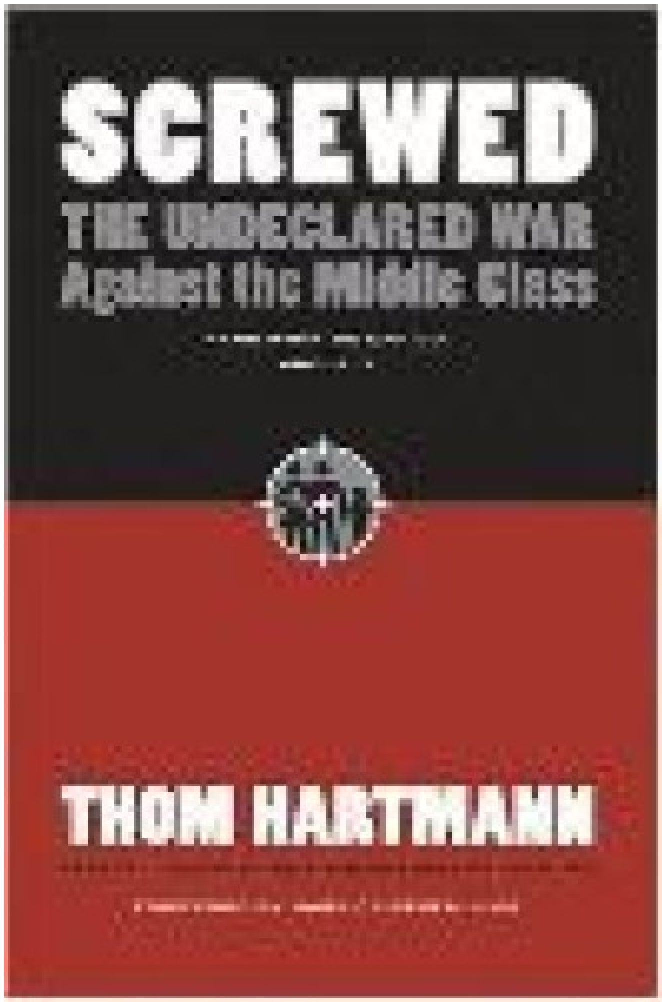
By Gar Alperovitz in the January 9, 2007 issue

In Review



The American Dream vs. The Gospel of Wealth: The Fight for a Productive Middle-Class Economy

Norton Garfinkle
Yale University Press



Screwed: The Undeclared War Against the Middle Class

Thom Hartmann
Berrett-Koehler

Most people find it all but impossible to believe that the future may be truly different from the past. Before the American Revolution, most Americans thought that they would continue to be British citizens forever, with or without a few minor reforms. Their expected future was largely a projection of the past. Most found it impossible to grasp that the difficulties they faced meant that they were entering an era of fundamental change.

Two recent books on problems facing the middle class illustrate the extraordinary difficulty of thinking beyond traditional categories. Norton Garfinkle and Thom Hartmann outline the economic pains facing middle-class Americans as wages stagnate, manufacturing jobs disappear, pensions are cut back, medical costs rise, property taxes skyrocket and college tuition soars. Costs have increased faster than incomes have risen (if they have risen at all).

A generation ago the typical one-earner family spent 54 percent of its income on the basics of housing, health insurance, transportation and taxes. Today such expenses—plus child care, which enables both parents to work—consume 75 percent of the family's combined income. Tuition at public four-year universities has risen more than 175 percent in the past decade and a half. Out-of-pocket health costs for a married couple with children exploded from $1,125 per family to $3,755 between 2000 and 2003 alone.

Meanwhile, real hourly wages have essentially stagnated for three decades, going down and up fractionally, depending on inflation rates. Those planning for retirement face ever greater restrictions: the number with traditional private "defined benefit" pension plans fell from 30.2 million in 1984 to 23 million in 1998.

Both books propose traditional, general remedies. Garfinkle's most substantive contribution is a rather moderate and academically informed critique of supply-side economics and of tax cuts for the rich. While he also favors more spending on education, Medicare and Social Security, his emphasis is almost entirely on demand-side economics—mainly tax cuts for the middle class that would spur consumption and also help stimulate greater economic growth.

Hartmann, an Air America radio host, offers a much more popularized (and populist) attack on tax and other policies which overwhelmingly favor the economic elite. He offers a laundry list of well-known alternative strategies, including living-wage legislation, progressive taxation, a new energy policy, and expanded government spending on Social Security, universal health care, and public education. He also calls for major changes in trade policy: he wants the U.S. to pull out of all the multilateral trade treaties (WTO, NAFTA, CAFTA) and impose leveling tariffs on work done overseas so that the cost of offshore labor is kept at least as high as a living wage in the U.S.

It is possible to challenge specific points in both books. Garfinkle, for instance, offers little beyond a macroeconomic strategy; Hartmann's text contains many factual errors (AT&T was broken up under Reagan, not Carter; trucking was deregulated under Carter, not Reagan). A truly monumental weakness in both books is the absence of any serious discussion of race, either in social and economic terms or in terms of political analysis.

The biggest problem, however, is that neither book moves beyond the traditional progressive programmatic agenda. I share their authors' concerns, but neither recognizes that we are moving into a political era in which what worked in the past can be of only limited importance—even when there are major changes in who controls Congress.

It helps to remember that most important reforms that benefited the middle class did not come about primarily through politics as usual. What produced Social Security, minimum-wage legislation, the 40-hour work week, the National Labor Relations Board, the Tennessee Valley Authority, the Security and Exchange Commission and many other achievements was the massive economic and social crisis of the Great Depression. And what gave real power to the union movement, which helped reduce inequality in the postwar era, was first the crisis of the Depression and then the crisis of World War II. The political and economic response to the war produced what economists call "the great income distribution compression"—a reduction of inequality which has steadily unraveled in recent decades.

Furthermore, what allowed Lyndon Johnson to jam Medicare through Congress in 1965 was the Goldwater election debacle in 1964, which caused a 76-vote shift in the House of Representatives. (I served as a legislative director to Senator Gaylord Nelson in those years, and I recall the almost giddy quality of Democratic politics—until people realized that the brief Great Society moment was based on a political aberration.)

The political-economic context has since changed in a way that makes significant programs to assist the middle class difficult to pursue no matter which party is in charge. One change is the decline in the political power of organized labor. Union strength peaked at a little over 35 percent of the labor force in the mid-1950s; it now accounts for under 8 percent of the workforce in the private sector (and for 12.5 percent of the total workforce)—and those figures are falling.

Even more significant is the political realignment that has shifted power to Republicans over the past 40 years. As Lyndon Johnson predicted, passage of civil rights legislation handed the South over to the Republican Party.

Adding to the difficulties facing traditional strategies of helping the middle class are the enormous economic problems caused by globalization—or rather, caused by the way in which corporate and other political elites who have benefited from these changes have dealt with globalization. (There is no reason why—if the country's politics were different—increased global trade could not be accompanied by policies which would ensure adequate job protection, training and so on.)

With the Democrats regaining control of Congress, some of the reforms urged by authors like Garfinkle and Hartmann may be enacted. But very large structural obstacles stand in the way of enacting social programs that involve substantial public expenditures or corporate regulation. Modest legislation may or may not be approved, but the long-term trends toward relative and absolute inequality have not been, and are unlikely to be, reversed until major changes in the underlying political context occur.

Long-term trends of environmental decay also have not been, and are unlikely to be, reversed. And long-term trends in the reduction of corporate taxes and taxes on the wealthy similarly have not been and are unlikely to be reversed; long before the era of George W. Bush, marginal tax rates fell—from 91 percent in the Eisenhower era to 70 percent under Nixon to 39.6 percent under Clinton. The marginal rate is currently 35 percent. The corporate share of the federal tax burden has also declined steadily and dramatically—from 35 percent in 1945 to around 10 percent in recent years.

Although the near-term prospects for trend-altering change through traditional strategies are poor, there are reasons to believe that the longer term is not without hope for very different kinds of policies. To begin with, the U.S. remains the wealthiest nation in the history of the world. The economy today produces the equivalent of $170,000 for each family of four. Conservative projections suggest that this number will almost certainly double, and then double again, over the course of the next several decades. Given this wealth, there is no reason why every American family cannot be assured a decent, stable and even bountiful future.

The distribution of America's extraordinary economic resources will become an unavoidable issue in coming years. The U.S. is by far the most unequal of all the advanced nations. The top one-fifth of the citizenry commonly garner for themselves half of all household income. The top 10 percent alone gets just under 40 percent. Detailed estimates by economists Thomas Piketty and Emmanuel Saez indicate that a mere 1 percent at the top received just under 20 percent of income in 2004—far more than the bottom 100 million Americans taken together. In 1980 the average CEO earned 42 times the pay of the average worker; in 2004, the CEO earned 358 times as much. One may fine-tune these numbers in a variety of ways, but the central point is obvious: some form of radical populist—not liberal or moderate—tax policy will be required to address this inequality.

Traditional “progressive” tax strategies have often burdened people in middle-class suburbs to pay for programs benefiting poor central city residents—an approach which has enabled people like Karl Rove to devise divide-and- conquer strategies that undermine traditional political alliances. The alternative is for 90-95 percent of the population to unite in favor of policies that challenge the central concentrations of income.

There are signs that this can happen. In recent years a strong majority in California approved tax increases for people making more than $1 million and earmarked the proceeds for mental health programs. New Jersey has enacted legislation taxing those making more than $500,000, designating the money to offset property taxes that fall disproportionately on the middle class and the poor. In Connecticut, a recent poll found 77 percent of voters, including 63 percent of Republicans, in favor of a tax on those making more than $1 million. As the overarching fiscal crisis deepens, many other states are beginning to look in this direction.

The issue of wealth ownership is also likely to come to the fore. Wealth ownership is even more concentrated than income. A mere 1 percent owns just under half of all corporate and other productive business wealth. A mere 5 percent owns 70 percent of such wealth. Even many thoughtful conservatives understand that such concentrations of wealth undermine democracy. There are signs here, too, of new possibilities for broadening wealth ownership, in part through new institutional arrangements. Also, wealth-related job creation strategies must be expanded. One noteworthy straw in the wind is that many states have refused to go along with the federal reductions in estate taxes.

Beneath the radar, other important, nontraditional reform movements are under way. For instance, roughly 11,000 companies are wholly or substantially owned by employees. More people are involved in such firms than are members of unions in the private sector. More than 4,000 nonprofit neighborhood-benefiting community development corporations are at work building housing and creating jobs. Both Democratic and Republican mayors have begun to establish municipally owned public companies to make money to help support community services (and often to solve environmental problems). Numerous quasi-public land trusts that stabilize middle class and other housing costs now exist. Cities and states regularly invest directly in job-creating efforts, often using large-scale public pension assets. In Alaska, the public Permanent Fund invests oil revenues and provides each citizen with significant dividends from public wealth ownership. In Alabama and many other states the public pension fund invests pension wealth in a broad range of activities which help provide middle-class and other jobs. Applications of the principles involved in these and other strategies are beginning to be fleshed out in ways that suggest longer-range wealth-shifting programs which could benefit the middle class.

We can learn something about long-term change from other eras. Black Americans in the South faced formidable and seemingly impossible challenges during the first half of the 20th century, but they ultimately built a movement that secured civil rights for all. Signs of serious feminist activity were not easy to detect between 1920, when the vote was achieved, and the early 1960s, but the women’s movement brought about one of the most important cultural revolutions in history. The environmental movement here and elsewhere seemed all but impossible—before it achieved the important gains of the 1960s and 1970s.

Middle-class Americans and those who seek to enter the middle class are likely to continue to face economic and social pain. Confronting this reality directly may allow people to ask deeper questions and to lay the programmatic groundwork for real change.