Reflections on the New Inequality in America

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In an important article for *The New York Times Magazine* (November 19, 1995), Lester Thurow, a professor of economics at the Massachusetts Institute of Technology, presented some startling figures about the American economy. Starting with 1968 economic inequality started to rise. "Among men working full time...inequalities in earnings between the top 20 percent of wage earners and the bottom 20 percent doubled in the next two and a half decades. By 1973 the median wage for all men working full time began to fall." By 1993 men's earnings fell 11 percent, while the earnings of the top 20 percent grew steadily, and the real per capita gross domestic product (GDP) rose 29 percent. "By 1989, Thurow wrote, median real wages for women also began to fall. Since 1989, median household incomes have fallen more than 7 percent after correcting for inflation and family size."

Professor Thurow also points out that a similar sharp rise in inequality has occurred in the distribution of wealth. The total net worth of the top one-half of one percent of the population rose from 26 to 31 percent between 1983 and 1989. By the early 1990s, the top one percent of the population held more than 40 percent of our total wealth.

The decline of wages and household incomes is only one aspect of our economic malaise. "After World War II, white collar workers and managers came to expect lifetime employment, with rising wages, assuming their firms remained profitable." Blue-collar workers also expected and received real annual wage increases, even though they faced the prospect of occasional layoffs.

This implicit contract between workers and companies has been broken by "companies with high and rising profits that are nevertheless reducing wages, eliminating fringe benefits, and permanently laying off hundreds of thousands of workers from what had been society's best jobs."

Thurow points out that "The Republicans' balanced-budget plan essentially offers a return to Spencer's survival-of-the-fittest capitalism. It raises taxes on working Americans and lowers them for the wealthy. It shreds the safety net, apparently on the theory that individuals facing starvation will knuckle down and work. Fear will make them hold on so tightly to the economic trapeze that they won't fall off."

When we consider these new developments in our economy, we have to ask the important question, can America endure this widening inequality? Thurow notes "no one has ever tried survival-of-the-fittest capitalism for any extended period in a modern democracy, so we don't know how far rising inequality and falling real wages can go before something snaps."

In contrast with the snap in the Soviet Union, where there was an alternative, capitalism, we have no alternative banner to rise to. Thurow believes that a sudden social collapse is unlikely. Nevertheless he does consider the possibility of a

> vicious cycle of individual disaffection, social disorganization, falling incomes and a slow downward spiral, something like the long slide from the peak of the Roman Empire to the bottom of the Middle Ages. There were those in the Middle ages, for example, who knew everything the Romans knew about fertilizing crops. What later Europeans lost was the ability to get organized to fertilize. Without fertilization crop yields fell...the quality of life inevitably declined.

Thurow judges that today "we are refusing to make the investments in the modern equivalents of fertilization—education, infrastructure, research and development."

In the years after World War II we felt threatened by Communist governments. With the fall of those governments we may well have started to let down our guard. Thurow reminds us, however, that "Rome's downward spiral did not begin with an external defeat. It began with a period of uncertainty and disorientation."

Thurow ends his article with a warning that we cannot disregard.

> No one can know what will happen if inequality continues to rise and a large majority of our families experience falling real incomes. But if capitalism does not deliver rising real wages in a period when the total economic pie is expanding, its hold on the political allegiance of the population will be threatened. Similarly, if the democratic political process cannot reverse the trend to inequality, democracy will eventually be discredited. What we do know is that a large group of hostile voters who draw no benefits from the economic system and don't think the government cares is not a particularly promising recipe for economic or political success.

This concern with economic inequality was not included in the statement of the United States Catholic Conference administrative board of November 5, 1995 on Political Responsibility in the 1996 Presidential Elections. The statement listed alphabetically twenty areas of concern, but it did not include economic inequality. This omission is surprising since *Economic Justice For All: The Pastoral Letter on Catholic Social Teaching and the U.S. Economy* devoted an important section to this problem (sections 183-185).

Political leaders have been more concerned about problems of economic inequality and layoffs, by highly profitable American corporations, of professional and highly skilled workers and managers. It is hard to think of any other issue that has united political leaders as far apart economically and politically as Robert B. Reich, the Secretary of Labor in the Clinton administration (*The New York Times*, January 4, 1996), Senator Edward M. Kennedy (*The New York Times*, February 9, 1996), and Republican presidential contender Patrick J. Buchanan (*New York Times*, February 16, 1996).

Is there any political solution for this problem? Secretary Reich quotes a 1951 address that was typical of that era. Frank Abrams, Chairman of Standard Oil of New Jersey, said: "the job of management is to maintain an equitable and working balance among the claims of the various directly interested groups...stockholders, employees, customers and the public at large." Mr. Reich also quotes from *Fortune* magazine in that same year, reminding executives of their duty to be "industrial statesmen" who work for the good of their employees and communities as well as shareholders.

Mr. Reich asks "What has changed"? He answers, "competition." "American businesses have been transformed from comfortable and stable rivals into blood letting gladiators."

As Mr. Reich notes, in the future the federal government will have a more modest role in safeguarding the economic security of Americans. "How then to get the private sector to take more responsibility for their employees and communities"?

Reich believes that exhortation and eloquent moral appeals will be no match for the dispassionate edict of the market. Therefore, if we want corporations to be more socially responsible, the tax policies will have to be revised in order to favor companies that demonstrate such responsibility. In other words, companies have to be given an economic reason for being socially responsible. Reich concludes that, if we want corporations to put greater emphasis on the interests of their workers and communities, society should lead them to do that through enlightened tax policies and other economic incentives. As Reich suggests, in this era of much talk about smaller government, such steps seem warranted.

Senator Kennedy dealt with the same problem as he attacked corporate behavior in the nation's "quiet depression." Mr. Kennedy said that "the Government should use tax breaks and penalties to encourage companies to look out for their workers" (*New York Times*, February 9, 1996). He also proposed expanding antitrust laws to bar mergers that harm communities and workers, broadening labor laws to protect temporary workers, and barring government contracts to companies that have repeatedly violated their workers' rights.

Mr. Kennedy pointed out that, in the past, "Corporations reduced their work forces only when they were in trouble, but now, profitable companies are laying off good workers at a time of increasing sales, in an endless quest for ever fatter profits and ever fatter stock prices."

Mr. Kennedy called for using the tax laws to recognize corporate good citizens as "most favored companies," just as the U.S. Government gives tariff breaks to most favored nations. These companies should pay lower corporate taxes, he said, and incentives should be created to encourage investment in them.

In Mr. Kennedy's plan, businesses would earn "most favored company" status for their record in "creating jobs, avoiding layoffs simply to maximize profits, paying adequate wages, sharing gains, training and upgrading skills and providing decent health care and benefits."

Mr. Buchanan, in a debate in Manchester, New Hampshire on February 15, 1996, complained about the private sector "where people are losing their health care because big companies like AT&T are lopping off workers at 40 thousand at one fell swoop, and these folks go out into the private market and they don't carry their health care with them" (*The New York Times*, February 16, 1996).

When earlier recessions ended, people who were laid off in large measure got their jobs back again. The recent recession was different in that many jobs have been lost permanently. This underemployment of our most skilled workers, our managers, and the excessive compensation for top executives has created a festering sore in the economic body politic.

Lester Thurow's thoughtful *New York Times* article places on the table some pressing matters which demand the attention of our political and intellectual leaders. Patrick Buchannan's campaign for president drew attention to them, but they have recently been submerged. The very fact that political leaders as far apart as Secretary Reich and Senator Kennedy, on the one hand, and Patrick Buchanan, on the other, are thinking about and talking about the same problems offers hope that some bipartisan steps can be taken to enable the government to bring about greater equity in our economic system. Perhaps the Catholic Bishops, who did not rank this issue among their twenty most important problems for 1996, can be brought to draw from their Economics Pastoral the insights which would enable them to exercise leadership toward greater economic justice in America.