Inequalities Hit Middle Class

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It's almost ludicrous to try to summarize, in just a few columns, the major trends in the U.S. political economy over the past generation. But that's our effort here, undertaken to provide some context for decisions about Wisconsin's future.
This context, it should be said, doesn't control what we do, but it does provide the environment. And that environment is relevant not just because what happened nationally happened here as well - so understanding it can help us better understand our own position - but because, being national, it cannot be changed by us directly.

We can't, for example, change the policies of Congress or the Federal Reserve, even though they significantly constrain our options. Nor can we change our relative size, meaning that no matter what level and distribution we achieve here of income, wealth and opportunity, it will have little impact on national numbers - which will continue to affect us here.

This said, let's say again that the national political economic environment does not control us. Different state strategies can be chosen within it. Already there is enormous variation across states in how they organize themselves and how they fare. There is likely to be even greater variety in the future. Wisconsin needs to get on the right side of that variation, and can. What we do here may not only improve ourselves, but may set an example of reform for the nation, in this state's proud Progressive tradition of being in the right place first.

So much, however, for windup. Here (and in the next column or two) are five things that have happened in America in the past generation - since the early 1970s - that have defined our political and economic experience.

Wage stagnation and growing inequality: The most basic measure of economic performance in a society calling itself "democratic" is the degree to which the prosperity of that nation is shared and, thus, is supportive of the "general welfare" and broadest exercise of effective citizenship. And on this basic measure, the U.S. performed quite well during most of its modern history. From 1896 to 1973, for example, real average wages grew 2 percent to 3 percent annually, doubling incomes each generation. While income and wealth inequality were massive, there really was a rising tide - through recessions, depressions and world wars - that from generation to generation did indeed lift all boats.

Since the early 1970s, however, this pattern of "shared prosperity" has been reversed. Wages and family incomes stagnated or declined for approximately 80 percent of the population and, especially since the mid-1980s, wealth has become much more concentrated. Over the past 20 years, in fact, better than 70 percent of all income gains in the U.S. have been captured by the top 1 percent of households. The same 1 percent have seen their share of net U.S. financial assets grow to a staggering 50 percent, or more than that held by the bottom 95 percent of households combined.

This change in the American economic distribution - at odds with our own history, and at odds with the recent history of other capitalist nations - is, as might be expected, most extreme at its tails. For example, the percentage of our population living in absolute poverty swelled during the period; its ranks include millions of workers with full-time jobs. Wage losses for lower-end workers easily ran 20 percent to 30 percent over the period. And in one recent 12-year period (1983-95), the net worth of the bottom 40 percent of American households declined by a whopping 80 percent. Near the bottom of the economic ladder, the U.S. also fell behind other rich nations. Incomes of full-time workers in the bottom 10th of our labor force fell to less than two-thirds of those of their European counterparts generally, and 40 percent of their German ones.

At the other end of things, in just the past few years (1997-99) the wealth of the Forbes 400 richest Americans grew by an average $940 million each. That's an average increase in wealth of $1,287,671 per day. Expressed in wages earned over a 40-hour week, that would be a wage of $225,962 an hour - or 43,876 times the $5.15 per hour minimum wage still earned by tens of millions of full-time workers.

But the rich getting richer and the poor getting poorer may not be the most important part of this story. The centerpiece of it, suggested by these numbers but worth emphasizing, is that the new experience of stagnating wages and stagnant or negative growth in wealth, and the insecurity that follows, were not just a phenomenon of the "worst off" among American families. They extended into the very heart of middle class American life, changing it profoundly.

Perhaps as importantly, the fundamentals of our economic growth, and the organization of our labor markets, underwent crucial changes. Productivity growth dropped off from its long-term historic average of 2 percent annually, and its postwar average of 3 percent, to hover around 1 percent or even less annually. And in our labor markets, the nature of jobs changed. It was not merely that many jobs were paying less than in the past. What had once been a relatively marginal phenomenon - confined principally to younger workers - came to define a vast share of the adult workforce: Jobs didn't go anywhere, even over much of a working lifetime, in terms of increased income and security. The nature of work itself had changed in fundamental ways.

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. COWS is sponsoring "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. Go to www.sustainingwisconsin.org for more information.