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Why the Rich Are Getting Richer

American Politics and the Second Gilded Age

Robert C. Lieberman
ROBERT C. LIEBERMAN is Professor of Political Science and Public Affairs at Columbia University and the author of Shifting the Color Line: Race and the American Welfare State.

The U.S. economy appears to be coming apart at the seams. Unemployment remains at nearly ten percent, the highest level in almost 30 years; foreclosures have forced millions of Americans out of their homes; and real incomes have fallen faster and further than at any time since the Great Depression. Many of those laid off fear that the jobs they have lost -- the secure, often unionized, industrial jobs that provided wealth, security, and opportunity -- will never return. They are probably right.

And yet a curious thing has happened in the midst of all this misery. The wealthiest Americans, among them presumably the very titans of global finance whose misadventures brought about the financial meltdown, got richer. And not just a little bit richer; a lot richer. In 2009, the average income of the top five percent of earners went up, while on average everyone else's income went down. This was not an anomaly but rather a continuation of a 40-year trend of ballooning incomes at the very top and stagnant incomes in the middle and at the bottom. The share of total income going to the top one percent has increased from roughly eight percent in the 1960s to more than 20 percent today.

This is what the political scientists Jacob Hacker and Paul Pierson call the "winner-take-all economy." It is not a picture of a healthy society. Such a level of economic inequality, not seen in the United States since the eve of the Great Depression, bespeaks a political economy in which the financial rewards are increasingly concentrated among a tiny elite and whose risks are borne by an increasingly exposed and unprotected middle class. Income inequality in the United States is higher than in any other advanced industrial democracy and by conventional measures comparable to that in countries such as Ghana, Nicaragua, and Turkmenistan. It breeds political polarization, mistrust, and resentment between the haves and the have-nots and tends to distort the workings of a democratic political system in which money increasingly confers political voice and power.

It is generally presumed that economic forces alone are responsible for this astonishing concentration of wealth. Technological changes, particularly the information revolution, have transformed the economy, making workers more productive and placing a premium on intellectual, rather than manual, labor. Simultaneously, the rise of global markets -- itself accelerated by information technology -- has hollowed out the once dominant U.S. manufacturing sector and reoriented the U.S. economy toward the service sector. The service economy also rewards the educated, with high-paying professional jobs in finance, health care, and information technology. At the low end, however, jobs in the service economy are concentrated in retail sales and entertainment, where salaries are low, unions are weak, and workers are expendable.

Champions of globalization portray these developments as the natural consequences of market forces, which they believe are not only benevolent (because they increase aggregate wealth through trade and make all kinds of goods cheaper to consume) but also unstoppable. Skeptics of globalization, on the other hand, emphasize the distributional consequences of these trends, which tend to confer tremendous benefits on a highly educated and highly skilled elite while leaving other workers behind. But neither side in this debate has bothered to question Washington's primary role in creating the growing inequality in the United States.

IT'S THE GOVERNMENT, STUPID

Hacker and Pierson refreshingly break free from the conceit that skyrocketing inequality is a natural consequence of market forces and argue instead that it is the result of public policies that have concentrated and amplified the effects of the economic transformation and directed its gains exclusively toward the wealthy. Since the late 1970s, a number of important policy changes have tilted the economic playing field toward the rich. Congress has cut tax rates on high incomes repeatedly and has relaxed the tax treatment of capital gains and other investment income, resulting in windfall profits for the wealthiest Americans.

Labor policies have made it harder for unions to organize workers and provide a countervailing force to the growing power of business; corporate governance policies have enabled corporations to lavish extravagant pay on their top executives regardless of their companies' performance; and the deregulation of financial markets has allowed banks and other financial institutions to create ever more Byzantine financial instruments that further enrich wealthy managers and investors while exposing homeowners and pensioners to ruinous risks.

In some cases, these policy changes originated on Capitol Hill: the Ronald Reagan and George W. Bush tax cuts, for example, and the 1999 repeal of the Glass-Steagall Act, a repeal that dismantled the firewall between banks and investment companies and allowed the creation of powerful and reckless financial behemoths such as Citigroup, were approved by Congress, generally with bipartisan support. However, other policy shifts occurred gradually and imperceptibly.

Hacker and Pierson's second important point is that major policy shifts do not always happen in such obvious ways. Many of the policies that have facilitated the winner-take-all economy have just as often come about as a result of what Hacker and Pierson call "drift," which occurs when an enacted policy fails to keep up with changing circumstances and then falls short of, or even subverts, its intended goal. The American system of separated powers -- with its convoluted procedures and bizarre rules, such as vetoes and the filibuster -- is especially conducive to drift, particularly compared to more streamlined parliamentary systems in other countries that afford majorities relatively unimpeded dominance over the policymaking process. Policies in the United States, once made, tend to be hard to overturn or even to modify.

Sometimes drift occurs through simple neglect or inertia. An example is the phenomenon known as "bracket creep," the process by which prior to the indexing introduced in 1981, inflation pushed incomes into higher tax brackets. But

Hacker and Pierson particularly zero in on instances of intentional policy drift, when policymakers deliberately sidestepped or resisted available policy alternatives that might have reduced inequality. Allowing corporate executives to be compensated with stock options is one such case; stock-option compensation tends to bend incentives toward the short-term maximization of share prices rather than planning for long-term growth. Consequently, such compensation has allowed top managers to capture jaw-dropping gains despite their companies' often dismal performances. The long-term cost of corporate failure is borne not by CEOs and their executive minions, of course, but by rank-and-file employees, who get laid off when companies need to cut costs and whose pension investments are wiped out when companies' stocks sink.

In the 1990s, the Financial Accounting Standards Board, which regulates accounting practices, noticed this practice, correctly predicted the damage it would do to the economy, and then sought to curtail it. But Congress, spurred on by the lobbying efforts of major corporations, stopped the FASB in its tracks. As a result, Americans spent the 1990s and the first decade of this century living under 1970s accounting rules, which allowed top executives to more or less help themselves and, through the mutual back-scratching habits of corporate boards, help one another.

Similarly, labor law has failed to keep up with the times. Policymakers have repeatedly failed to enact reforms that would have accommodated new union-organizing techniques and empowered unions to counter the growing power of business to resist labor's demands. In this realm, the United States is running a twenty-first-century economy under 1940s rules. A clearheaded understanding of the power of drift in policymaking puts the Republican congressional minority during President Barack Obama's first two years in a fresh light. Obsessive obstructionism is not just a symptom of general crabbiness; it is a shrewd and sensible part of a larger strategy to enrich corporations while gutting long-standing protections for the middle class.

The dramatic growth of inequality, then, is the result not of the "natural" workings of the market but of four decades' worth of deliberate political choices. Hacker and Pierson amass a great deal of evidence for this proposition, which leads them to the crux of their argument: that not just the U.S. economy but also the entire U.S. political system has devolved into a winner-take-all sport. They portray American politics not as a democratic game of majority rule but rather as a field of "organized combat" -- a struggle to the death among competing organized groups seeking to influence the policymaking process. Moreover, they suggest, business and the wealthy have all but vanquished the middle class and have thus been able to dominate policymaking for the better part of 40 years with little opposition.

THE BUSINESS BACKLASH

In pursuing this argument, Hacker and Pierson revive the old academic tradition of pluralism to shine a bright light on some of the pathologies of American politics. The contemporary study of American politics emerged from pluralism, the post-World War II view that in the shadow of the two totalitarianisms of midcentury Europe -- communism and fascism -- democracy could be rendered stable and progressive through a politics of mutual accommodation among relatively evenly matched groups. Rather than titanic conflict between workers and capitalists, so the argument went, pluralist democracy would produce solid incremental policy changes that would inch American society forward toward security and affluence. The dramatic and decidedly nonincremental events of the 1960s and 1970s -- the civil rights movement, the Vietnam War, and broader cultural upheaval -- punctured this view.

Critics of pluralism began to note its limitations, emphasizing the primacy of individual motivations rather than group affiliations. Since then, the study of American politics has largely turned away from questions of organized interests and their role in policymaking and has focused instead on the ways in which individual attitudes and behavior combine to produce policy. Yet if one assumes that people vote based on their economic interests and that election outcomes influence policy through something like majority rule, how can one account for a generation of policies that promoted the interests of the wealthy few at the direct expense of everybody else?

Another critique of pluralism is that it underestimated the lopsidedness of political organization. As the great political scientist E. E. Schattschneider wrote in 1960, "The flaw in the pluralist heaven is that the heavenly chorus sings with a strong upper-class accent." Schattschneider, it turned out, did not know the half of it. To most observers, the 1960s seemed the height of American liberalism, and the decade's policy developments -- upgrading the basic New Deal package of social protection and labor rights to include extensive protection of civil rights and civil liberties and additional benefits such as limited health insurance -- seemed to bear out this view. But to business elites, the 1960s marked the nadir of their influence in American society, and they did not react passively. The era saw the stirrings of a conservative counterrevolution marked by ideological, political, and organizational developments, and particularly by the political awakening of business.

American conservatives, increasingly empowered by effective organization and lavish funding from their patrons in the business community, began to actively resist the politics of pluralist accommodation. Rather than accepting the basic contours of the New Deal and the Great Society and seeking to adjust them step by incremental step, conservatives assumed a newly confrontational posture and turned their efforts toward dismantling the legacies of Franklin Roosevelt and Lyndon Johnson.

The economic crisis of the 1970s, which heralded the end of a generation of U.S. economic dominance, helped their cause by laying bare the limitations of the New Deal order. The country's economic and social policy regime -- which relied heavily on the private provision of important social protections, such as pensions and health insurance -- may have been adequate for a globally dominant industrial economy that generated 30 years of widely shared growth and stable employment for millions of industrial workers. But in the 1970s, it began to prove thoroughly inadequate for an era of globalization, deindustrialization, and economic dislocation, as displaced workers found themselves unable to rely on the government for economic protection. This, in Hacker and Pierson's parlance, was policy drift on a massive scale.

Ascendant conservatives seized on this state of affairs to argue that the whole New Deal edifice of social protection, financial regulation, progressive taxation, and civil rights should be dismantled rather than reinforced. Beginning with the Carter administration, the expanding business lobby successfully defeated proposal after reform proposal and aggressively promoted an opening round of tax cuts and deregulation -- mere down payments on the frenzy to come.

CURING THE DISEASE

If there is a flaw in their telling of this grim tale, it is that Hacker and Pierson perhaps underestimate the actual discontent of the American middle class over the period they discuss. In the 1960s and 1970s, Americans came increasingly to distrust their government, and not without reason. Their leaders had led them into a distant war that proved unwinnable and tore the country apart; a criminally corrupt president was exposed and forced to resign; cities were going up in flames, exposing the deep racial rift that remained in American society despite the triumphs of the civil rights movement. Democrats and Republicans began to diverge on racial issues. The Republicans became the party not only of the wealthy but also of the whites (no Democrat since Johnson has received a majority of the white vote in a presidential election).

Even in the age of Obama, racial inequality remains an acute and intractable problem, and the forces of racial resentment, mingled with legitimate discontent over the government's abandonment of the middle class, infect American politics down to the present day (as the Tea Party movement's more lurid fulminations suggest). So by the late 1970s, dissatisfaction with the state of the government, politics, and policy was rampant across the board, among the wealthy and the middle class alike, and the conditions were ripe for a turn against the political status quo. Conservatives, on behalf of the wealthy, were ready with ideas and organization to seize the moment. Progressives and the middle class were not, and so began the spiral toward the winner-take-all game that Hacker and Pierson describe.

Like many social critics, Hacker and Pierson are long on diagnosis and rather short on treatment. Not surprisingly, they emphasize rebuilding the organizational capacity of the middle and working classes as the place to start repairing the infrastructure of American politics, neither a terribly precise prescription nor a route to a quick cure. But if they are right -- and theirs is a compelling case -- the task of restoring some sense of proportion and balance to the winner-take-all political economy is essential if the American body politic is to recover from its current diseased condition.

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