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ECONOMIC NEWS UPDATE

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7 September 2006

“The top fifth of American households claimed 50.4% of all income last year, the largest slice since the Census Bureau started tracking the data in 1967.” So reported The Wall Street Journal just one day before the Commerce Department announced that second-quarter corporate profits were 20.5% higher than a year ago and accounted for 12.2% of gross domestic product (GDP), the highest level in forty years. Throw in reports of layoffs at Ford, GM, Intel, and decisions in the nation’s boardrooms to reduce the value of workers’ pensions while preserving those of executives and board members, and you have some reason to wonder whether the famous American dream has not turned into a nightmare.

Something is definitely going on that has many observers of the American scene more than a bit worried, this writer included. Since the 2001 recession year, the economy has grown by almost 12% while the income of the median household -- the point at which half of American households have more, and half less -- has declined by 0.5%. Last year, earnings for full-time workers

actually declined -- by 1.8% for men, and 1.3% for women.

There are a lot more numbers bearing on the question of who is doing well, and who is not. Some of them are less gloomy than those I have just presented. For example, although hourly wages fell in each of the last nine quarters, total compensation, including benefits, rose. Remember, too: the income figures do not include the value of food stamps and other programs such as public housing subsidies, school lunch programs and Medicaid, all of which increase the living standards of those near the bottom of the income heap.

That said, there is no question that income distribution is becoming a matter of concern, and a political issue, in America, a country in which calls to man the barricades of the class war have historically fallen on deaf ears. It was Al Gore, in his 2000 presidential campaign, who played the class card and was trumped by George Bush’s call for tax cuts, even though those reductions befitted upper- and well as lower-income families. And it was, John Edwards who tried to parlay his tale of

“Two Americas,” one consisting of the exploitive rich, the other of the exploited poor, into a presidential nomination in 2004 and failed, settling for a back seat on John Kerry’s campaign train wreck.

That was then, and this is now. Center-left think tanks and opposition politicians are not the only ones expressing concern about trends in income distribution. Federal Reserve Board Chairman Ben Bernanke recently told a congressional committee, “We want everybody in this society to participate in the American dream. We want everybody to have a chance to get ahead. And to the extent that incomes and wealth are spreading apart, I think that is not a good trend.”

Two developments are causing observers such as Bernanke some concern. The first is the growing sense that the rich are getting richer, something that no one save a few hard-line lefties ever objected to, so long as the poor were also getting richer. Now it seems that they aren’t. Or, at least so far in the recent recovery they haven’t.

The second problem relates to the core of the American Dream -- social mobility. An oft-told joke in America is that a European (in pre-Thatcher days, we said “British”) worker, seeing his boss drive through the gates in a Rolls Royce, would want to scratch it, whereas an American worker would think, “Some day I will own one of those.”

That worker might be reexamining his position. Writing in the Financial Times, economics professor Jacques Mistral, of the *Conceal d’Analyse Economique* and a senior fellow at Harvard’s Kennedy School of Government summarizes recent studies as follows, “...The situation of a son is more than ever likely to be dictated by

his father’s social position than by his own merits. ... If your parents are rich, the likelihood of your being rich is as high as the probability of your being tall if your parents are tall....”

So what is going on in America? One thing is massive immigration by tens of millions of poor, unskilled workers. As they enter the work force, taking on largely menial jobs at wages too low to attract American workers but a king’s ransom by the standards of the clapped-out Mexican economy, they pull average wages down. Some of these workers and their children eventually move up the income ladder, witness the mowers and hoers my wife and I know in Colorado who now own their own nurseries. But many never do, partly because, unlike previous waves of immigrants, they return home before improving their skills and wages, having accumulated enough money to buy a home or farm or business in their native land.

Another fundamental force at work is globalization. In recent years over one billion unskilled, low-paid workers have entered the international work force -- good news for consumers, bad news for American workers sewing shirts and turning out trainers. Meanwhile, globalization has opened an international market for talented managers, driving up the demand for such executives and, hence, their salaries. Result: a widening gap, and one that government-operated retraining programs have failed to narrow substantially.

All is not lost, however. Ed Lazear, chairman of the President’s Council of Economic Advisers, says that hourly earnings have very recently begun growing to catch up with gains in productivity. Bernanke agrees: “I do

think wages will rise. I'm a little surprised they haven't risen more already."

Not only have real wages started to rise, but Americans are taking steps to reduce the so-called education premium that accounts for some of the increased inequality. Diana Furchtgott-Roth, a colleague at the Hudson Institute since leaving the Labor Department, where she served as chief economist, says, "Our challenge is to get more people to take advantage of educational opportunities ranging from apprenticeships to universities." One-million more Americans are now enrolled in institutions offering two-year programs of advanced education and training than was the case a decade ago. To borrow from the title of a popular sitcom recording the rise of the black middle class, they will soon be "Movin' on Up."

Xiuyue Zhu, a Hudson Institute colleague, provided valuable data support



THE SUNDAY TIMES

A version of this Update appeared in
The Sunday Times (London)