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America's Ruling 1% Creates Inequality for All

By Naomi Wolf

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The last documentary film that used dry charts and statistics to make an abstract argument about a global issue and nonetheless became a pop-culture hit was former U.S. Vice President Al Gore's "An Inconvenient Truth." But the hit of this year's Sundance Film Festival was a low-key affair called "Inequality for All," in which Robert Reich, former labor secretary under President Bill Clinton, explains how rising income inequality and the demise of the middle class is causing so many Americans to suffer.

With President Barack Obama recently taking up some of these themes in his second inaugural address, it is worthwhile to examine the message of "Inequality for All" more closely. The film's charts are not boring but actual showstoppers: Reich makes the point that the mid-1940s to the mid-1970s were decades of relative income equality, which corresponded with overall affluence. The last time income inequality in the United States was as deep as it is now was immediately before the 1929 stock market crash.

But the past 20 years have witnessed a spike in the difference between the top earners and the middle class. The "1 percent" really are living in a stratospheric bubble. As journalist Chrystia Freeland said, a metaclass of global plutocrats is emerging. They are people who have little in common with the rest of us.

"Inequality for All" makes the case that the wealthiest 1 percent simply cannot consume enough, no matter how hard they try, to generate the revenue that an affluent middle class could. The secret to a strong economy is to invest in education, strengthen household incomes with a decent minimum wage and strong unions and raise skill levels, thereby generating sustained consumer demand. This, Reich argues, is the "virtuous cycle" that we see in strong economies such as Germany, in which workers are highly skilled and educated, unions are protected and the middle class has leisure and money to spend.

Reich also persuasively describes the "vicious circle" — with falling wages undermining consumer demand and leading, in turn, to shrinking output — that has made the U.S. economy fragile and boosted social instability. He analyzes a middle class that is skating on the thinnest of ice, with employment coming at the price of lower wages and benefits. Moreover, millions of middle class American homes are underwater, meaning that the mortgage is more than the home's underlying value.

The film interviews one of the rich, a charming millionaire who owns a pillow company and points out that he and his fellow rich guys and their families simply cannot spend enough to offset the lost demand of a strong middle class. In fact, the richest save rather than spend their dollars and send them around the globe in transnational hedge funds rather than using them to create more jobs at home.

So the "trickle-down" story that the middle and working classes are told every election cycle in the U.S. is simply not true. Those wealthy people's untaxed dollars stay in hedge funds and out of the revenue stream. The cost to social programs, infrastructure and public schools puts stress on the middle class, whose members end up poorly educated, work long hours in dual-career, ill-paid jobs and lack leisure time and money to spend.

Are we stuck with this vicious circle, which advocates of laissez-faire globalization have told us for 15 years is an inevitable consequence of the "invisible hand"? Or could Reich's retro prescriptions, which he has affirmed for decades, be taken up again? Could they bring back the affluent years of the early Clinton era, when it seemed as if domestic policies could actually influence and even benefit the U.S. economy?

I asked Reich what three policy prescriptions he would give to a U.S. president and Congress today, especially drawing on the lessons of other countries. "I'd like to see what we did so successfully in the first three decades after World War II, when prosperity was widely shared." That means large investments in public education, including higher education, substantial investments in infrastructure, funded by a highly progressive tax, and strong labor unions.

"Anyone who thinks these policies are no longer feasible in a global economy," Reich told me, "hasn't looked at modern Germany, which features all of them and where the median wage is higher than ours."

It sounded great, but it also seemed to contradict the conventional wisdom, according to which cut-rate labor in Pakistan or Mexico is the inescapable death knell for $25-an-hour union jobs with expensive benefits.

"How do you keep U.S. labor unions strong if Mexico, for example, undercuts U.S. hourly wages?" I asked. Reich replied in more detail: "Strengthen labor unions in industries sheltered from global competition — workers in retail chains, hotel chains, restaurant chains, child care and elder care and hospital workers. Attract manufacturing and manufacturing engineering back to the U.S. by improving the skills and productivity of U.S. workers, as Germany has done for German workers. And encourage trading partners to improve their own wages and labor standards — for example, by requiring in all trade treaties that a country's minimum wage be half its median wage."

Is this agenda feasible in the U.S. today? To be sure, one would have to mend the broken political system first. But looking at the affluent German middle class from the U.S., where a quarter of jobs pay wages that place workers at or below the poverty line, Reich's recommendations seem worth fighting for.

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