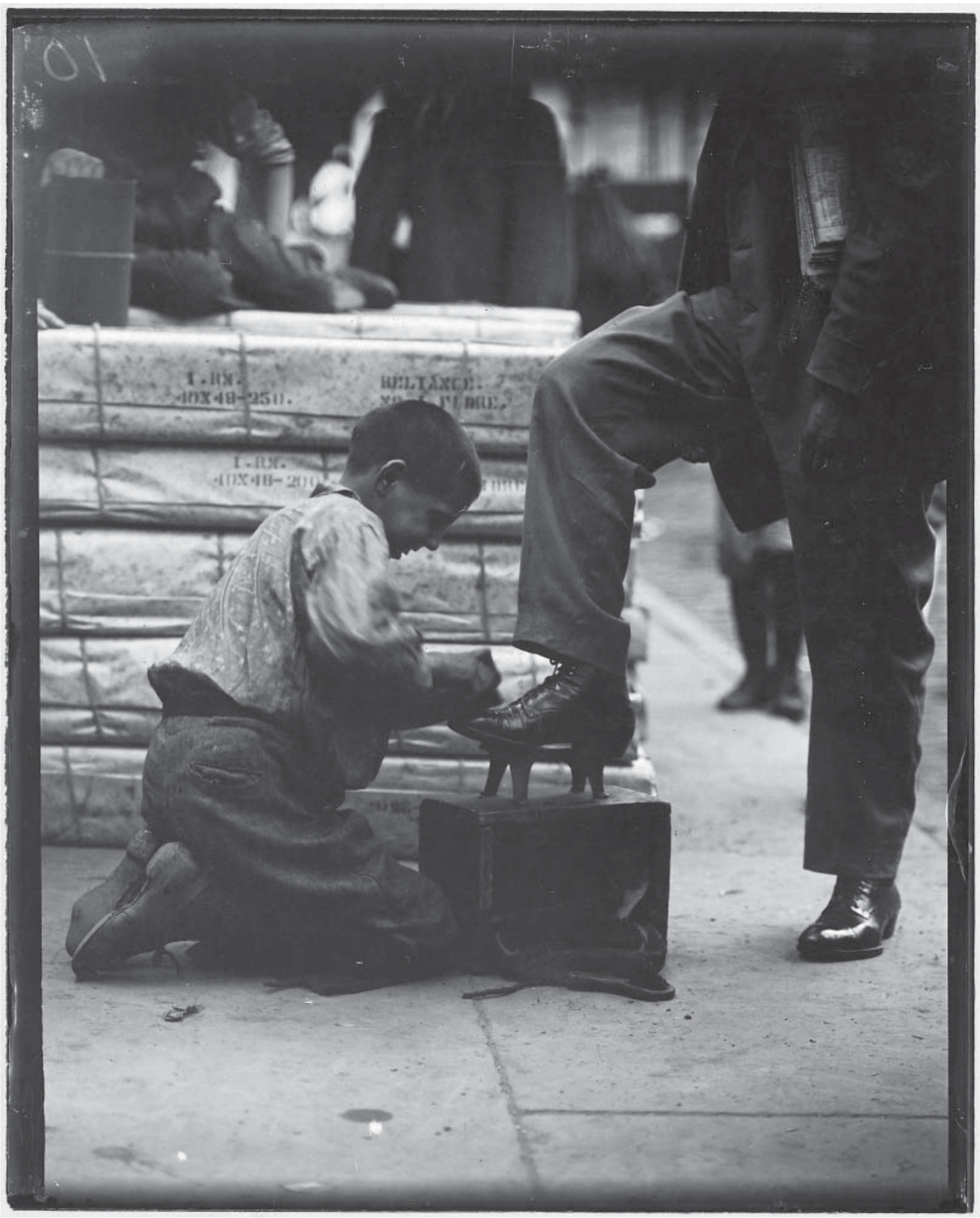

Bootblack, 1910; photo by Lewis Hine. National Archives and Records Administration via Wikimedia Commons.

Narratives of Inequality

JOHN SCHMITT

The Great Divergence:
America's Growing Inequality Crisis and What We Can Do About It
by Timothy Noah
Bloomsbury Press, 2012, 272 pp.

In September 2010, a full year before protestors occupied Zuccotti Park in New York City, Timothy Noah wrote a monumental ten-part series for *Slate* on the rise of economic inequality in the United States. The series earned Noah the 2011 Hillman Prize for Magazine Journalism and has now been updated, expanded, and published in book form as *The Great Divergence*. The book has created buzz, including reviews in the *New Yorker*, the *New York Review of Books*, the *New York Times* (weekday and Sunday), the *Nation*, and the *American Prospect*.

Noah canvasses a wide literature on the causes of inequality, and his book is an impressive synthesis. The problem is that he reports faithfully on what others have written about inequality, but he does not evaluate it critically. One part of his book is a persuasive account of the Great Divergence that puts politics at the center of rising inequality. Another part claims that rising inequality is primarily the byproduct of rapid technological change. These are two very different explanations that lead to radically different policies to reduce inequality. Neither Noah nor most reviewers of his book seem to be aware of the contradiction.

Noah is strongest in describing inequality. In a chapter titled "Rise of the Stinking Rich," he assembles a mass of relevant data: the top 1 percent received 21 percent of national income in 2008, up from about 10 percent before the Great Divergence got under way in the late 1970s; 61 percent of the top one-percent work in finance or the highest tiers of corporate management; the top 0.1 percent (minimum income cutoff of about $9 million per year) are a lot better off than those who are merely in the top 1 percent (minimum income cutoff of about $368,000 per year); and many more.

Noah correctly highlights the importance of Wall Street. In a sensible world, banking would be a fairly boring job involving channeling the savings of one portion of the population to investments made by the other portion of the population. This is basically what the financial sector did before financial deregulation got under way in the 1970s. But, since then, as Noah observes, finance has come off the rails. Under the guise of increasing efficiency, Wall Street's emphasis has shifted from traditional banking to short-term, highly leveraged trading for wealthy clients and banks' own accounts. Meanwhile, Wall Street firms transformed themselves from staid arrangements where partners stood to lose their own money if things went wrong to large corporations where top executives were more often than not betting with other people's money, backed up by the federal government's implied "too big to fail" guarantee. Republicans and Democrats alike pushed through the measures that made these and related developments possible. The repeal in 1999 of the Great-Depression-era Glass-Steagall Act, which served as a brake on some of the worst excesses, was only the most visible of these. The end result, in Noah's succinct phrase: "Wall Street ate the economy."

To explain how government policy since the 1970s channeled income and wealth upward Noah draws on *Winner-Take-All Politics* (2010) by political scientists Jacob Hacker and Paul Pierson. Noah provides a lucid summary of the process that built the basis for a comprehensive, trickle-up, economic policy regime. Key figures included Bryce Harlow, a Procter & Gamble lobbyist, whom Noah describes as "a founding father of the modern corporate-lobbying industry," and Lewis Powell, author (shortly before he was appointed to the Supreme Court in 1972) of the infamous "Powell memo" that laid out a plan to transform the Chamber of Commerce from a sleepy social club into a gargantuan policy lobby.

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Noah also blames the demise of the labor movement for rising inequality. The unionized share of the private sector workforce has gone from about one-third in the 1950s to just 7 percent today. Noah cites multiple academic studies that conclude that the decline of unions likely accounts for a fifth to a third of the increase in earnings inequality over the last three decades.

Noah makes an important contribution to this discussion by writing a clear explanation how the passage of the Taft-Hartley Act in 1947 set in motion the near-collapse of America's private-sector unions decades later. As Noah recounts, Taft-Hartley passed over a veto by Harry Truman, who called it a "shocking piece of legislation" that was "deliberately designed to weaken labor unions," after their substantial gains during the Great Depression and the Second World War. The Act immediately reduced the share of the workforce eligible to join a union, by denying any worker that performed any supervisory task the right to unionize. Initially, about 6 percent of workers were excluded, but this share has been expanded over the years by subsequent National Labor Relations Board rulings. The law also eliminated "card check" certification, which had allowed unions to establish their right to represent workers based on collecting signatures, typically without employers' even knowing a campaign was under way.

After Taft-Hartley, employers' could demand an election, giving them time to organize against the union. Eventually employers developed a battery of highly effective tactics wielded by an industry of "union avoidance" consultants. Taft-Hartley also banned "secondary boycotts" (where, for instance, workers ask consumers to boycott a grocery store selling grapes produced by a grower directly engaged in a labor dispute), the "closed shop" (where only union members could work in a unionized workplace), and "mass picketing" (where the sheer number of pickets block access to a unionized workplace in a dispute). Finally, Taft-Hartley made it easier for employers to replace striking workers on a temporary or a permanent basis—a tactic whose use in the private sector greatly expanded after Ronald Reagan famously fired striking air-traffic controllers in 1981.

Noah also puts a human face on what these legal changes have come to mean for workers trying to organize. He tells the story of Walmart's successful efforts to crush a union organizing campaign in one of its store's tire and lube shops. As soon as workers handed over signed cards to the NLRB signaling their desire to form a union, corporate headquarters sent in a team of union-avoidance specialists. They organized captive one-on-one and group meetings, subtly rewarded anti-union workers with promises of promotions and special treatment, and used administrative and disciplinary actions to punish those workers they'd identified as pro-union, including, one source said, the firing of a pro-union worker. Walmart also brought in six new workers to tip the scales of the election in the small unit, which originally consisted of fewer than twenty workers. Almost everything the company did was legal, and any illegal activity would have been punished with only a wrist-slapping from the NLRB long after the outcome of the campaign had been decided. In the end, the workers voted seventeen to one against unionization.

This is, so far, a compelling account of the Great Divergence. But, oddly, Noah goes on to insist that a slowdown in the growth of college graduates is actually the single biggest cause of the Great Divergence and possibly responsible, on its own, for more than half of the increase in inequality over the last three decades.

For his discussion of the role of college,

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Noah relies heavily on Harvard economists Claudia Goldin and Lawrence Katz, whose book *The Race Between Education and Technology* (2008) is the definitive study of educational trends in the United States in the twentieth century. Goldin and Katz describe the labor market as largely the result of a race between technological progress, which demands an ever more educated workforce, and the education system's ability to supply those educated workers (a formulation originally developed in the 1970s by Dutch economist Jan Tinbergen, who shared the first Nobel Prize in economics). When the education system produces well-educated workers faster than technology demands them, then the resulting glut of high-wage workers drives down their wages, lowering inequality in the process. (Many believe this happened in the 1970s when, after a surge in college completion, the wages of college graduates fell relative to those of high school graduates.) On the other hand, when the education system lags behind technology, the shortage of well-educated workers pushes up wages for these now scarce workers, increasing inequality. This, Goldin and Katz say, is what has happened in the United States over the last three decades, and it is at least half of the story in Noah's final assessment.

This is the standard view within the economics profession. The trouble is that it leaves little meaningful role for the power, politics, and policy that Noah so convincingly implicates elsewhere in his book. Goldin and Katz, for example, have written, "The rise and decline of unions plays a supporting role in the story, as do immigration and outsourcing. But not much of a role. Stripped to essentials, the ebb and flow of wage inequality is all about education and technology." In this standard account, the way to reduce economic inequality is to either expand educational attainment or create a more progressive tax and benefit system that redistributes income *after* the market has already had its say.

This attempt to graft a simple, technologically driven, supply-and-demand story onto the much broader and political account of *The Great Divergence* is the book's key flaw. Noah doesn't seem to appreciate that what he sees as complementary explanations—the decline of unions and the rise of technology—are in fact different explanations that lead to very different policies.

In most progressive accounts, the most important explanation for rising inequality is the decline in the bargaining power of workers relative to their employers. The decline in bargaining power can be traced to a series of mutually reinforcing policy choices that began at the end of the 1970s, just as inequality took off. As noted, the share of unionized workers in the private sector fell from almost one-fourth in the 1970s to about 7 percent today, while in the same period both major political parties blocked repeated efforts at labor law reform. The inflation-adjusted value of the minimum wage dropped 15 percent. Deregulation of the trucking, airline, telecommunications, and other industries put tremendous pressure on the wages and benefits of workers in those industries. Privatization of many state-and-local government activities, from school cafeteria workers to welfare benefits administrators, converted decent jobs with benefits into precarious employment. So-called "welfare reform" pulled the safety net out from underneath millions of women.

A series of trade agreements, starting with the North American Free Trade Agreement, put low- and middle-wage workers in direct competition with typically low-wage workers overseas. A dysfunctional immigration system increased competitive pressures on less-educated, U.S.-born workers, even as it left immigrant workers themselves with no rights or protections. And all of these policies played out against a background where unemployment was kept needlessly high, further undermining the bargaining power of workers. The brief four years at the end of the 1990s when the economy achieved and maintained full employment was the only period in the last three decades that produced sustained wage gains for workers at the middle and the bottom, clear evidence of the power of full employment.

One of Noah's accounts of the Great Divergence has elements of this progressive story. But, his allegiance to the economics profession (which he describes in the first chapter of the book as performing a "greatly underappreciated service") leads him to reject, discount, and ignore many of the elements of this version of events. Worse, because economists tend to approach each possible cause of inequality in isolation, by following their lead, he misses the thread that knits each of these distinct policies together: bargaining power.

Noah, for example, downplays the effect of globalization on rising inequality. Trade and outsourcing were not important factors in the 1980s and 1990s, he concludes, though they may have been played some role in the 2000s. Nor has immigration contributed much toward inequality. Noah remains agnostic on the role of the declining value of the minimum wage: "some experts judge [it to be] negligible and others judge [it to be] substantial." And he is completely silent on deregulation (outside the financial sector), privatization, the deterioration of the safety net, and the role of macroeconomic policy.

These differences of interpretation are important because they have big implications for how we might reverse the Great Divergence. In a concluding chapter called "What To Do," Noah offers up some sensible suggestions, including "reregulate Wall Street," "soak the rich" with higher taxes, and "revive the labor movement" through labor-law reform.

But, if most of the problem with inequality is related to the lack of college graduates, the main policy proposals should be aimed primarily at increasing the number of people with college degrees. To this end, Noah suggests that we "universalize preschool," in order to increase the share of young people ready for college work, and "impose price controls" on higher education, in order to make college more affordable.

The reference to preschool underscores the time required to address inequality if education is the main tool available. If we undertook today to increase college admission and completion rates, and we were wildly successful, we would start to see effects on the

CORRECTIONS

On p. 4 of the Summer 2012 issue, the credit line should read, Illuminated Inner Spaces I, Mixed Media on Paper, 30"x22", Copyright 2005, Anila Quayyum Agha.

On p. 72 of the Summer 2012 issue, the photographer's name is Ed David, not Ed Davis.

We regret the errors, which have been corrected online.

number of graduates four or five years down the line when the new crop graduated. Those new graduates, though, would represent only a small slice of the entire workforce, which would (in the standard story) still include too few college graduates. Even assuming substantial success, it would likely be many years more before the increased supply had a noticeable effect on inequality. Moreover, the mechanism by which this plan reduces inequality is through increasing the supply of college graduates and *thereby reducing their incomes* relative to less-educated workers—a part of the economics fine print that is rarely examined in these discussions.

The progressive account of inequality pushes us in a different direction. If the core problem is deterioration in the bargaining power of workers, then policies that restore bargaining power can address inequality fairly quickly. Raising the minimum wage, increasing unionization, strengthening the social safety net, restructuring trade agreements, fixing immigration policy, and a commitment to full employment would all shift the balance of power back toward workers. This increase in bargaining power could reduce inequality with a much smaller time lag, and independent of the number of college graduates.

Timothy Noah has written a mostly compelling account of the Great Divergence. But, his emphasis on technological change and an alleged shortage of workers with college degrees distracts and detracts from the real story. The book does best when Noah puts power and politics front and center where they belong.

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IN MEMORIAM

Horst Brand

Board member Horst Brand, who wrote for the first issue of *Dissent* in 1954, died as we were going to press. An economist retired from the U.S. Department of Labor Statistics, he continued to write for print and online publications. For almost six decades, his sharp analysis of economic and political issues graced our pages.

Visit our website to read a tribute by Michael Walzer and read his first article for *Dissent*, one that has stood the test of time.

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Patricia Cayo Sexton

As we went to press, word came of the death of our board member Patricia Cayo Sexton. Pat joined the *Dissent* board in 1972 and was an active member whose writing both in our pages and elsewhere made major contributions to the cause of labor and social justice. Visit our website: www.dissentmagazine.org for links to her work and for appreciations by William Kornblum and Lois Spier Gray.