Cambridge University Press
978-0-521-67755-4 - The United States since 1980
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Excerpt
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Turning Away: The United States Breaks Ranks

In November 2001, the representatives of more than 140 countries signed the Kyoto Protocol to the United Nations Framework Convention on Climate Change. The pact was intended to be a first step in combating global warming, a phenomenon that scientists were nearly universal in regarding as a major environmental threat.

The set of countries signing the agreement included every country in the European Union, Japan, Russia, China, and Canada, and almost every country in Latin America. The United States was not among this group. President Bush had earlier announced that he viewed the Kyoto process as fundamentally flawed and that the United States would not participate in further negotiations toward an agreement, except as an observer. In other words, as the rest of the world felt the need to confront a major environmental threat, the United States was sitting on the sidelines watching.

This sort of split could not have taken place in 1980. At that time, the United States was tightly intertwined in its cold war alliance. This meant both that the other countries within this alliance deferred to the leadership of the United States on major international issues and that the United States was committed to addressing important concerns that arose within this alliance. It would have been difficult to imagine an issue taking on the same importance across the industrialized world in the seventies, as global warming did in the nineties, only to be largely ignored by the U.S. government. The split on the Kyoto agreement and global warming was emblematic of how far the United States had moved from the other Western democracies in the years since 1980.

By 2005, global warming was not the only issue on which the United States found itself at odds with its traditional allies. The 2003 invasion of Iraq involved a break with many post–World War II allies, most importantly France, Germany, and Canada. In trying to push a hemisphere-wide trade agreement, the Bush administration finds itself confronting a brick wall of opposition in Argentina and Brazil, the two biggest economic powers in South America. In addition, there are a large number of international pacts regarding issues from the punishment of war crimes to restrictions on tax havens that are moving forward without the participation of the United States. Although the United States remained the world's preeminent military and economic power in 2005, it was increasingly isolated in international affairs, taking positions that many of its traditional allies found unacceptable.

Part of this divergence between the United States and the other wealthy countries undoubtedly reflects increasing assertiveness on the part of the other industrialized nations, especially the European countries that operate in an increasingly powerful European Union and no longer have any fears of the Soviet Union. But part of the divergence also reflects a lack of concern on the part of the United States. In 2005, the U.S. government did not feel the need to achieve some degree of consensus among its allies on major international issues. It was content to act unilaterally in ways that would have been hard to envision a quarter century earlier.

The changing international position of the United States reflects a changed domestic situation. The United States had a very different process of development and growth that always set it somewhat apart from Japan and Europe. However, the differences between the United States and the rest of the industrialized world in 1980 were far smaller than they are today by a wide variety of measures. In the period since the Great Depression, the United States had developed a welfare state that was less generous than the average across Europe but not qualitatively different. Like the European welfare states, the United States had a nearly universal system of retirement benefits. It had a national system of unemployment insurance for workers who had lost their jobs and a system of income support (welfare) that provided the basic necessities for the poorest families.

Furthermore, the United States still appeared to be moving in the direction of further expansion of the welfare state at the time. The Medicare program, which extended health care insurance to the elderly, and the Medicaid program, which provided health care to the poor of all ages, were important new welfare state protections added in the sixties – still the relatively recent past in 1980. For many, it seemed only a matter of time before the United States followed the path of the other wealthy countries in providing health care insurance to its entire population. Similarly, the Head Start program, established in the sixties, was a major extension of the state's obligation to provide child care and early childhood education, although only for a segment of lower-income children. Still, it was reasonable to believe in 1980 that this benefit would be extended to larger segments of the population in the years ahead.

This was not the course the country followed over the next quarter century. While there were still extensions of the welfare state in some areas, an explicit goal of much public policy in this period was to limit the expansion of the welfare state and in many cases to roll back prior gains. And this policy shift did not apply only to government social welfare programs. There was a larger agenda to tilt the playing field in ways that favored those at the top end of the income distribution.

During this quarter century, there were several successful national political campaigns around the themes of reducing tax rates for high-income families and cutting government benefits for low-income families. While these changes received the most attention, they were actually just a subset of a larger shift in government policies that had the effect of benefiting those at the top of the income distribution at the expense of those in the middle and at the bottom. This larger policy shift included areas such as trade policy, rules governing labor-management relations, and the deregulation of several key industries. The change in the ground rules affecting the market distribution of income has had a much greater impact on the country than the change in tax and transfer policy. It is essential to have a clear understanding of the change in these ground rules in order to appreciate the ways in which the United States was a different country in 2005 than in 1980.

Changing the Ground Rules and Tilting the Field

The years following 1980 saw changes in a whole set of economic policies, all of which had the effect of redistributing before-tax income upward. The policy areas include trade policy, immigration policy, rules governing labor-management relations, macroeconomic policy, deregulation of major industries, and the minimum wage. In each of these areas, the government adopted policies during this period that had the effect of weakening the bargaining power of workers in the middle and at the bottom of the wage distribution, thereby improving the relative situation of those at the top. The cumulative effect of the new policies was a massive upward redistribution of income. The share of national income that went to the richest 5 percent of families rose by more than one-third over this period.[1] The share of income going to the poorest 20 percent of the population fell by more than 25 percent.

Although the stated rationale for these policies was to increase economic efficiency (not to redistribute income upward), whether in fact they accomplished this outcome is in many cases debatable. It is worth noting that the economy did not perform exceptionally well during this period. The overall growth in gross domestic product (GDP) averaged 3.1 percent annually, compared to 3.7 percent in the period following World War II prior to 1980.[2] Productivity growth – the increase in output per hour of work, which is arguably the more meaningful measure – was also slower in the years from 1980 to 2005, rising at an average annual rate of 2.1 percent, compared to a 2.4 percent annual rate in the years from the end of World War II up to 1980.[3] While it can be argued that the economy would have done even more poorly without the shift in economic policy over this period, clearly this was not a period of exceptional economic growth overall.

It is also important to note that some policies that would have fostered growth but redistributed income downward were not pursued. This is most clearly the case with trade and immigration policy, where workers in higher-paying occupations, such as doctors and lawyers, were largely protected from international competition, but there are

[1] L. Mishel, J. Bernstein, and S. Allegretto, *The State of Working America 2004/2005* (Ithaca, NY: Cornell University Press, 2005), table 1.12.

[2] Bureau of Economic Analysis, *2005 Annual Revision of the National Income and Product Accounts* (Washington, DC: U.S. Government Printing Office, 2005), table 1.1.6 (Real Gross Domestic Product, Chained Dollars).

[3] These numbers are taken from the Bureau of Labor Statistics (BLS) measure of productivity in the nonfarm business sector. It understates the falloff in productivity growth in one important dimension. In the last quarter century, unlike the years from 1947 to 1980, a growing share of GDP has been used to replace obsolete equipment as an increasing portion of investment is devoted to short-lived computers and software. While the replacement of obsolete capital is essential for the economy, it provides no direct benefit in the form of increased living standards. The share of depreciation in output has increased at the rate of approximately 0.3 percentage points annually, which means that a net measure of productivity growth over the last quarter century would be approximately 0.3 percentage points lower than the 2.1 percent figure indicated by the BLS data. This means that there has been, on a net basis, a 0.6 percentage point decline in annual productivity growth, which has gone from 2.4 percent to 1.8 percent in the years since 1980.

other examples as well. (The mechanisms put in place during this period to redistribute income upward are discussed in more detail in the appendix to this chapter.)

In short, the government implemented a series of policies during this period that had the effect of shifting wage income upward. This was a predictable result of policies that placed downward pressure on the wages of a large segment of the labor force. These polices removed protections of various types for workers in the bottom three-quarters of the labor force and subjected these workers to increased international competition. While these policies were generally justified as increasing economic efficiency, no comparable drives for economic efficiency were directed toward the protections that benefited higher-income workers. This one-sided application of market forces had the effect of redistributing income from those who lost protection to those who were able to maintain it.

As a result, for most of the population of the United States, the quarter century from 1980 to 2005 was an era in which they became far less secure economically,[4] and the decrease in security affected their lives and their political attitudes. It is important to realize that this decrease was the result of conscious policy, not the accidental workings of the market.

The United States and the Other Rich Countries: 1980 and 2005

The combination of the upward redistribution of market income and the curtailing of government redistribution policies had the effect of making the United States look increasing different from the rest of the industrialized world by a wide variety of measures. Of course, the United States was not entirely alone in pursuing policies that redistributed income upward over this period. The political leadership in many other countries, most notably the United Kingdom under Prime Minister Margaret Thatcher, also sought to pursue policies that redistributed income upward. However, the opposition to such policies

[4] See J. Hacker, *The Great Risk Shift: The New Economic Insecurity and What Can Be Done About It* (Oxford: Oxford University Press, 2005), for a fuller analysis of the mechanisms that have increased economic insecurity for large segments of the U.S. population.

Table 1–1. *Trends in wage inequality (ratio of 90th percentile wage to 10th percentile wage)*

	1980–4	1995–9
Australia	2.9	3.1**
Austria	3.5	3.6***
Belgium	2.4*	2.3***
Denmark	2.2	2.2
Finland	2.5	2.4
France	3.2	3.1
Germany	2.9	2.9
Italy	2.3*	2.4
Japan	3.1	3.0
Netherlands	2.5	2.9
New Zealand	2.9	3.3
Sweden	2.0	2.3**
United Kingdom	3.1	3.4**
United States	3.9	4.6**
All non-U.S.	2.7	2.8

*Data from 1985–9.
**Data from 2000–1.
***Data from 1990–4.
Source: Organisation for Economic Co-operation and Development, *OECD Employment Outlook 2004*, table 3.2.

was generally more effective elsewhere than in the United States. As a result, the upward redistribution of income in the United States was sharper and the associated effects more deeply felt than was the case with most other countries.

Trends in Wage Inequality

Table 1–1 presents a simple measure of wage inequality for the United States and several other wealthy countries over the last quarter century. The table shows the ratios of weekly earnings (pretax) of full-time workers at the 90th percentile of wage earners to the earnings of workers at the 10th percentile. A worker at the 90th percentile is near the top of the wage distribution, with 90 percent of all workers earning less and only 10 percent of all workers earning a higher wage. By contrast, a worker at the 10th percentile is near the bottom of the wage distribution, earning less than 90 percent of all workers and more than just 10 percent. Therefore, this ratio is a good summary measure of the extent of wage inequality in an economy.

As can be seen, at the start of the period the United States had the most unequal wage distribution of any of the countries listed. The ratio of 3.9 to 1 means that a worker at the 90th percentile of the wage distribution earned 3.9 times more than a worker at the 10th percentile of the wage distribution. In other words, if a worker at the 10th percentile of the wage distribution earned $7.00 an hour in 1980 (which was approximately the wage for such a worker in 1980, measured in 2005 dollars), then a worker at the 90th percentile would have earned 3.9 times more, or $27.30. The next highest ratio is 3.5 to 1 (the ratio for Austria). Most of the countries in the table had a ratio of less than 3 to 1, with the non-U.S. average being 2.7 to 1.[5]

Although the United States started this period with a much more unequal distribution of wage income than other wealthy countries, its wage distribution became far more unequal in this period, whereas there was little change in the degree of inequality in other countries. By 2001, the ratio of the wage income for workers at the 90th percentile to the wage income of workers at the 10th percentile had risen to 4.6 to 1. This means that if a worker at the 10th percentile of the wage distribution earned $10,000 a year in 2001, then a worker at the 90th percentile earned $46,000.

This rise in wage inequality in the United States over this period pulled it further away from other wealthy countries. There was no consistent pattern in the trends for wage inequality in other countries, with the ratio for other countries rising by an average of just 0.1 percent. Some countries, like New Zealand and the United Kingdom, did experience a noticeable rise in wage inequality, but in other countries there was little change. Some countries, such as France and Japan, even had a small decline in wage inequality. No country had an increase in wage inequality as large as that in the United States.

In fact, Table 1–1 probably understates the extent of the divergence in wage inequality between the United States and other wealthy countries, since the income of workers even further up the wage distribution

[5] This is an unweighted average for the non-U.S. countries. This means that the number for a small country such as Denmark or Austria has the same importance as the number for a large country such as Italy or Germany.

rose more rapidly than it did for workers at the 90th percentile. From 1979 to 2003, the real average hourly wage for a worker at the 95th percentile rose by 31.1 percent, compared to an increase of 27.2 percent for a worker at the 90th percentile.[6] While there are no comparable data available for workers higher up the wage distribution in other countries, these data imply that a fuller measure of wage inequality may show even more of a divergence between the Unites States and other countries during this period.

Unionization Rates

Unions have always been much weaker in the United States than in the rest of the industrialized world, but the gap in union power increased substantially in the quarter century from 1980 to 2005. In other wealthy countries, unions continued to be central actors in the economy, representing a majority of the workforce in most countries. Other governments did try to diminish the power of unions over this period, but few were anywhere near as successful in this effort as the United States.

Table 1–2 shows the percentage of employees in several wealthy countries who were covered by collective bargaining agreements in 1980 and 2000.[7] The table shows that the United States ranked near the bottom in the percentage of workers covered by a union contract in 1980, edging out Japan by a percentage point. In the twenty years from 1980 to 2000, the percentage of workers covered by a collective bargaining agreement was nearly halved, falling from 26 percent in 1980 to just 14 percent in 2000. Most of other wealthy countries saw little change, with several European countries actually seeing some increase in coverage rates. (The big exceptions to this trend were New Zealand and the United Kingdom, both of which experienced sharp declines in their coverage rates.) By 2000, the United States had fallen

[6] Mishel et al., *State of Working America 2004/2005*, table 1.6.

[7] In the United States, there are very few workers who are not union members but who are covered by a collective bargaining agreement. However, in other wealthy countries, a very large segment of the workforce may fall in this category. This is due to the fact that in many countries a union contract can apply to a whole industry, even firms whose workers are not actually members of the union that negotiated the agreement. For this reason, it is more accurate to use the percentage of workers covered by a collective bargaining agreement rather than the percentage who are members of a union as a measure of union power.

Table 1–2. *Trends in collective bargaining coverage: percentage of workers covered by a collective bargaining agreement*

	1980	2000
Australia	80	80
Austria	95	95
Belgium	90	90
Canada	37	32
Denmark	70	80
Finland	90	90
France	80	90
Germany	80	68
Italy	80	80
Japan	25	15
Netherlands	70	80
New Zealand	60	25
Norway	70	70
Sweden	80	90
United Kingdom	70	30
United States	**26**	**14**
All non-U.S.	**71.8**	**67.7**

*Source:*Organisation for Economic Co-operation and Development, *OECD Employment Outlook 2004*, table 3.3.

below Japan in its union coverage rate and was even further below the average coverage rate for the other wealthy countries, which had changed little over this twenty-year period.

There is an important aspect to union coverage in the United States that is worth noting in the context of the sharp decline in coverage rates shown in the table. Unlike in most countries, in the United States most workers have "employment at will" contracts, meaning that they can be fired at any time by their employer without any cause.[8] The major exceptions are public sector workers, who generally only can be fired for cause, and workers in the private sector who are covered by union contracts. Because the decline in unionization rates was even

[8] It is illegal for an employer to fire a worker based on race, sex, and several other legally protected characteristics.

larger in the private sector than in the workforce as a whole, the share of the workforce subject to employment at will increased by even more than the decline in unionization rates.

In 1980, the union coverage rates in the public and private sectors were roughly equal, so that close to one-quarter of the private sector workforce was covered by a union contract. However, by 2004, the share of the private sector workforce covered by a union contract had fallen to less than 9 percent.[9] The portion of the workforce employed in the public sector remained roughly constant, at just over 18 percent throughout this period, which means that the percentage of the workforce that was protected from being fired at will fell over this period from approximately 39 percent in 1980 to just 25 percent by 2005.

Most employers will not fire a worker arbitrarily, especially if the worker has special skills that are difficult to replace. However, the fact that most workers risk being fired if they do anything that sufficiently angers their employer does place a substantial element of insecurity in their life. This is especially the case in a country such as the United States in which health care insurance is usually provided by the employer. A worker in the private sector who is not protected by a union contract knows that she may suddenly be without both an income and health insurance for her family if she gets her boss sufficiently angry. Very few workers in other wealthy countries ever experience this degree of insecurity.

Noneconomic Measures of Well-Being

It is not only by strictly economic measures that the United States moved apart from the industrialized world over the last quarter century. There are a wide variety of social indicators that show the United States moving further away in this period. This section deals with some key noneconomic measures of well-being.

Crime and Incarceration Rates. The United States already had a far higher incarceration rate than other industrialized countries in 1980. However, this gap widened dramatically as the number of people

[9] These data can be found in the Bureau of Labor Statistics, *Union Members in 2004* (Washington, DC: U.S. Government Printing Office, 2005), table 3, ftp://ftp.bls.gov/pub/news.release/union2.txt.