

Chapter 1

Equality, Morality, and the Health of Democracy

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THIS CHAPTER EMPHASIZES THE IMPORTANCE OF VALUES IN THE DEVELOPMENT of a politics that would seek to reduce inequalities. While it is important to show that the American distribution of income, wealth, and services has become more unequal, this alone is not enough. Unfortunately, expanded disparities in the command over resources do not lead automatically to efforts to reduce them. The political will to counter poverties and inequalities grows when unrest, policies to promote economic growth, and moral values converge. The first two pressures for reduced inequalities are not strong at this time. Consequently, it is particularly important to offer a normative case for the reduction of inequalities, demonstrating that their effects violate core American values. Two such key normative concerns are health and democracy, and this chapter sketches the evidence that inequalities undermine both.

THE GROWTH IN ECONOMIC INEQUALITIES

The 1980s produced a “surge” of economic inequalities (Plotnick, 1992, p. 42). The process started in the late 1970s or early 1980s and continued through the Reagan-Bush years with a pronounced redistribution to the rich. As political analyst Kevin Phillips (1993, p. xxiii) tells the story, the United States developed a “top one percent economy” that spewed out benefits primarily to the small numbers at the top of the pyramid. In his earlier best-selling book, *The Politics of Rich and Poor*, Phillips (1990) used the term

"centimillionaires" to refer to the new breed of exceedingly rich Americans who emerged in the 1980s, since "millionaires" did not adequately convey the income and wealth of this new breed. In his later book he termed the top quintile, who benefited significantly from the 1980s but not nearly as much as the upper 1 percent, "the fortunate fifth" (Phillips, 1993, p. 172). He declared that "economic polarization was becoming a reality in the 1990's" (Phillips, 1993, p. 192).

Using the ratio of the share of the top 20 percent to the share of the bottom 20 percent of households (adjusted for size and age), Plotnick (1992) found that "the Reagan years witnessed a sharp increase in inequality without precedent since 1920" (p. 34) and produced great hardship. In 1991 the largest number were receiving public assistance since the Depression of the 1930s and the food stamps rolls reached new highs. Plotnick (1992) concluded that "the average real income of persons in the bottom fifth of the adjusted family income distribution declined by about 2 percent between 1980 and 1988" (p. 38). Since this drop in the lowest income quintile occurred as real median income rose, inequalities expanded. Taking the bottom fifth as the poor—the standard used by most Western European nations—the real incomes of the poor actually declined during the 1980s.

This deterioration in incomes was particularly true for African Americans and single parent families, mainly headed by women. Thomas and Horton (1992, pp. 445–446) neatly summarized trends in family income as they affected African Americans: (1) race continued to have a negative effect on family income (after statistically controlling for a number of variables) in both 1968 and 1988; (2) race declined in importance in its effect on family income by a very modest amount from 1968 to 1988; (3) in both 1968 and 1988, the importance of race was stronger for higher-status African Americans than for lower-status African Americans; and (4) the negative effect of race was greater for married-couple families than for female-headed families. On this last point, it should be noted that in the shorter period between 1978 and 1987, black female-headed families fell from 59.4 percent of median white family income to 57.1 percent. (Center on Budget and Policy Priorities, 1988, p. 19).

Average weekly earnings of private-production workers (in 1982 dollars) decreased from \$315 in 1975 to \$264 in 1989 (Phillips, 1993, p. 21). Between 1965 and 1988, production workers' hourly wage increased four-fold (without adjustments for inflation), while chief executives' total compensation jumped seven-fold (Phillips, 1990, p. 181). The spread in wages between jobs has increased: in 1980, the highest paid 10 percent of American workers received 480 percent more than the lowest paid 10 percent; by

1989, the highest paid tenth's advantage had grown to 560 percent ("Rich Man," 1993, p. 71). The gap in earnings between higher and lower educated workers, which had declined in earlier periods, widened during the 1980s.

Wealth

In many ways, wealth (or assets) is a much better indicator of both present and future well-being and of inequalities than income, which is the flow of earned and unearned (e.g., dividends, governmental transfers) money resources within a year (Miller & Roby, 1970, pp. 67–68). Income can change dramatically from year to year, while assets tend to move less rapidly. Thus wealth is "a more stable indicator of status or position in society and represents stored-up purchasing power." It can be utilized in periods of need and provides "resources and status that can be passed on from one generation to the next" (Oliver & Shapiro, 1990, p. 131). As we shall see, wealth is even more concentrated than income.

Phillips (1993, p. 180n.) reports that the Federal Reserve Board estimated that the share of wealth held by the top one percent went from 31 percent in 1983 to 37 percent in 1989, revealing that this group garnered half of the additional wealth created in those years. He went on to make the discouraging point that young Americans are likely to "be the first generation to receive—or not receive—much of their economic opportunity from family inheritance, not personal achievement." In 1973, 56 percent of the wealth of those 35–39 years old "was given to them by their parents." In 1986, this figure rose to 86 percent and it is likely that the percentage will continue to rise (Phillips, 1993, pp. 190–192).

The usual measure of wealth is net worth (assets minus debts). Disparities in net worth are especially discouraging for African Americans and Hispanics; they are much greater than income differences. In 1988, households headed by black householders had a median net worth of \$4,169; those headed by Hispanics had a slightly higher median net worth of \$5,524, while those headed by whites had a median net worth of \$43,279 (U.S. Bureau of the Census, 1990; pp. 1–2). Differences in net worth are particularly acute among female-headed households: "for every dollar of (net worth) held by white female heads, black female heads average a mere two and one-half cents" (Oliver & Shapiro, 1990, p. 139).

For most Americans, their largest asset is their home, but this has limited use in generating future income and wealth. Consequently, Oliver and Shapiro (1990, pp. 136–137) also studied data on "net financial assets," which exclude home equity and vehicles but do subtract debts. The extent of

concentration of net financial assets is amazing: the top quintile of U.S. households possessed nearly 90 percent of these resources in 1983! Furthermore, the concentration of assets at the top is much greater for both net worth and net financial assets than for income: the median value of the net financial assets of the top one-half of 1 percent was 237 times greater than the median of the rest of the 99 percent of households. Racial differences in net financial assets are substantial: 30 percent of white households have zero or negative assets, compared to 67 percent of African American households in a similar state (Oliver & Shapiro, 1990, p. 139).

Despite this emphasis on net financial assets, home ownership is important. Even when controlling for demographic and social influences, "blacks are significantly less likely than nonblacks to be homeowners. . . . The finding that higher status blacks had significantly lower levels of homeownership than comparable nonblacks indicates that class does not supersede race in the area of wealth accumulation. . . . A likely consequence of disproportionately low levels of homeownership for blacks is the elimination of a primary means of wealth accumulation and intergenerational mobility for most black families" (Horton, 1992, p. 488).

Phillips (1993, p. 192) concludes that "economic polarization was becoming a reality in the 1990's." His term for this development is "excessive stratification," or "the triumph of upper America" (Phillips, 1990, p. 208, xxvii). Thus the 1980s were disastrous for William Ryan's (1981) goal of "Fair Shares."

Unfortunately, there is little political pressure to improve this lopsided income distribution. True, the proposal to increase taxes on the income of the wealthy receives some support but is likely to be offset over time by low tax rates on capital gains or their indexing against rises in their value due to inflation. Tax avoidance schemes that benefit the rich are likely to increase again after many were weakened by the tax changes of 1986. The net effect of taxation changes is likely to do little to reduce and may increase inequalities in the posttax distribution of income and wealth.

Services

Money income and wealth are key but not sole elements in Fair Shares. Services are now an important component of resources and the standard of living. As Ryan (1981) pointed out, universal public service services importantly contribute to lessening inequalities, for they add more to the resources of those at lower levels of the economy than to those at higher levels. Sadly, the 1980s saw a trend in the opposite direction: an appalling decline in access to and the quality of public services. Service inequalities grew as the

better-off could purchase services in the private sector as public services declined.

GAINING SUPPORT FOR CHANGE

The disturbing facts of widened income-wealth inequalities and their negative consequences will not automatically lead to efforts at rectification. A variety of actions—mostly but not exclusively at the federal level—will be necessary to make pronounced changes in income and wealth distributions. These changes include high employment policies, more progressive federal and state tax structures, industrial policies to promote economic activities that result in lessened inequalities; minimum wages; the promotion of unionization; expanded and improved public services (which are an important component of the command over resources) including health care, pensions, and schooling; and direct cash subsidies (e.g., improved Aid to Families and Dependent Children [AFDC] and earned income tax credits to low-wage earners).

It will not be easy to win support for decisive reductions in economic inequalities. Some inequality-lessening programs are expensive or disliked (e.g., AFDC). Others involve more extensive regulations of or interventions in economic affairs, which are often characterized as antibusiness and therefore a drag on economic productivity and growth. In developing a model for present change, we can learn from two periods when redistributive measures were adopted: the New Deal of the 1930s and the Great Society of the 1960s.

THE NEW DEAL AND THE GREAT SOCIETY

The short first period of the Roosevelt administration (I follow here the neglected analysis of Basil Rauch [1944] rather than Arthur Schlesinger, Jr. [1960], in the division of the New Deal periods) was devoted to shoring up business by blocking price cuts and promoting profits. Key measures were the National Industrial Recovery Act (NIRA), which encouraged companies in an industry to establish common prices; the Agricultural Adjustment Act, which put a floor under agricultural prices; and the expanded Reconstruction Finance Administration, which had been established in the Hoover administration but was assigned a bigger role in the Roosevelt administration as a lender to businesses. A lesser role was played by the Public Works Administration, which sought to stimulate the private construction industry by building government structures. The NIRA was declared unconstitutional,

however, and the first period measures had limited success in stimulating the economy.

The second period's actions were devoted more to directly expanding consumer demand: the Social Security Act, which dealt with pensions, unemployment insurance, and public assistance/welfare; the Works Progress Administration, which was based on direct government employment; and the Wagner Act, which promoted unionism. Unlike the innovations of the first period, these measures, now regarded as emblematic of the New Deal approach, had a redistributive bias. The incomes of the poor, the unemployed, and the factory worker were to be increased.

Why were such measures politically possible? One reason was the fear of unrest in the form of strikes and demonstrations. A second was the competition for the support of those attracted to the high pension benefit proposed in the Townsend Act. The third reason, I emphasize, was the widespread recognition that the economy desperately needed stimulation from consumer demand, which differed from the first New Deal's hope that investment spending would lead to consumer purchases. The Social Security Act in particular was regarded as an effective economic agent ("economic stabilizer" was the phrase that was used). Its expenditures for unemployment insurance and AFDC would rise when the economy was declining, thereby stimulating the economy when it needed stimulation. When the economy was growing rapidly, these outlays would decline, thus lowering the risk of inflation. The fiscal policy of deficits also promoted consumer demand by injecting more money into the economy than the federal government was taking out through taxation. (When political pressure led to the reduction of the deficit in 1937, a recession occurred.) Thus, the progressive New Deal measures and policies were acceptable—at least for a time—because they were regarded as having economic benefit.

I stress this economic backing for redistributive-type measures because the normative or value support for such actions was very clear. (I shall not discuss the limitations of the New Deal measures, particularly for blacks, which have become the focus of recent writing.) The awareness of extraordinarily high unemployment and the one-third of the nation that was ill-housed, ill-clad, and ill-fed, made visible by Franklin D. Roosevelt's eloquence, was basic to the feeling that something had to be done. People could not be left destitute, to make the best of desperate conditions, without any help from their government and fellow citizens. Unrest threatened, as marches, demonstrations, strikes, interruptions of farm sales, and other disruptive activities were widespread. In short, the New Deal's progressive period was fueled by economic and political considerations as well as by moral ones.