

*Charles Noble*

## What John Kerry Won't Say about the "Two Americas"

by  
Charles Noble

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Campaigning with a running mate who has made his lament about the existence of "two America's" his political trademark, John Kerry promises to create real opportunities for ordinary Americans. But a careful reading of the 2004 platform suggests just how much further the Democratic Party has to go before it has a credible response to the economic forces ripping America apart. Certainly, any imaginable Democratic president would do less harm to the average American than the Bush administration already has - even if that Democratic did nothing at all. But even were Kerry's exceedingly modest proposals to be fully implemented (itself a rather unlikely prospect), they would do very little to bridge the growing gap between the rich and nearly everyone else.

### **The Growing Gap**

TO FULLY GAUGE THE LIMITS OF KERRY'S PROPOSALS, WE need first to understand the depth of the problem.<sup>1</sup> There are a variety of ways to measure economic inequality, but the simplest is to consider what the Census Bureau calls the "quintile" share of aggregate income, in other words how much of what all Americans earn goes to people in various positions on the income ladder. This methodology is straightforward: line up the approximately 109,000,000 American households in income size places; divide into five equal (in terms of the number of households) groups (i.e., quintiles); add up the total household income in each quintile; compare that total to the total income earned by all households. (A household consists of all people occupying a single housing unit, whether or not they are related.)

Do this simple statistical operation and several things jump out. First, upper-income households take home a wildly disproportionate share of

what Americans earn. The top fifth of households get fully half (50.1%) of the total, while the bottom fifth are left with a very measly 3.5%. The affluent (the top 5% of households) are doing especially well. This narrow slice of America took home nearly one-quarter of all household income in 2001. That America is a class society should shock no one. The U.S. has always tolerated far more economic inequality than conservative ideologues would ever admit. But things are getting worse fast. Since 1978, the share of the best-off households has increased nearly 15% while the bottom fifth's share dropped by nearly 19%. The top 5% have been especially fortunate. Their share has surged by 38%.

This is about more than Bill Gates and Donald Trump. Because most Americans actually earn very little, it takes less than many imagine to make it into the golden circle. A household income of just \$83,500 was enough to make it into the top 20% in 2001. Put another way, four out of five American households earn less than \$83,500 at a time when the costs of everything from housing to education to health care are skyrocketing.

When we do focus on the share of the very rich, the chasm between rich and poor is startling. According to the Congressional Budget Office (CBO), as the most robust economic expansion in decades was peaking in the late 1990s, the average after-tax income of the top 1% of American households (\$677,900), was 63 times the average after-tax income (\$10,800) of the poorest fifth. This top 1% took home almost as large a share of total income as did the bottom 40%. In other words, the richest 2.6 million Americans earned almost as much as the least well-off 100 million.<sup>2</sup>

But what about the leveling effect of those nasty federal taxes? This CBO report looked at *after-tax* income, in other words what people had left over *after* the progressive income tax had supposedly done so much harm to the overtaxed rich. When we take into account the distribution of wealth – another very good measure of who has what – we see an even wider gap: the wealthiest 1% of American households now own nearly 40% of *all* of the nation's wealth.<sup>3</sup>

This is not just a matter of statistics. Economic inequality strips people of real opportunity. It restricts access to health care and social services. It affects who's most likely to be a victim of a violent crime. It leaves

workers and the poor saddled with consumer debt that they will struggle all of their lives to pay off. It results in residential segregation by class which, in turn, makes for unequal schools and vocational opportunities. It leads people to take jobs that they hate, that expose them to serious risks, that might even kill them.

Nor is this just the fate of a small subset of unfortunate Americans who happen to find themselves at the very bottom of the income scale. Thirty six million people live below the official poverty line, and that line is exceedingly low: about \$14,500 for a family of three (single parent and two children), \$18,300 for a family of four (two parents and two children). But even these numbers underestimate the problem: by almost any measure, the bottom 40 percent—the 44 million households that make less than \$33,314 a year—is struggling. The middle class is suffering too. In fact, every quintile's share of total income *except the top fifth* has declined since 1978.

Meanwhile, the people who run corporate America have fared quite nicely. In 2002, the median compensation of the CEO's of the largest 100 companies was \$33.4 million. And nearly one-third of these honchos got \$50 million or more. This was at a time when the mean annual wage in the United States was just \$35,560 and many of the corporations that these CEOs were running were struggling just to turn a profit. Some would suggest that it's the nature of the beast, but It wasn't always this way: between 1970 and 2002, the ratio of the average compensation of top CEO's to the average worker's pay increased five fold.<sup>4</sup>

When we factor race and gender into the equation, things look even bleaker. People of color are far more likely than whites to be poor: the poverty rates of blacks and Hispanics are nearly twice as high as the white poverty rate. The poverty rate for black and Hispanic *children* is *more* than twice as high. Black and Hispanic median incomes are also substantially lower (around 2/3) than white median incomes, while black and Hispanic families have far fewer assets. The asset gap is especially striking: the median net worth of white families in 2001 was \$120,900—not in and of itself very impressive since it's mostly equity in houses and cars—while the median net worth of non-white families was a meager \$17,100. Women are also more likely than men to be poor, whether they live alone, or head single-parent families.

### Why Inequality is Getting Worse

THE LIMITS OF MSSRS. KERRY AND EDWARDS VISION IS CLEAR when we consider what's behind these trends and what it might take to reverse them. The bad news is that rising economic inequality in the U.S. is the result of some very powerful forces that are ripping societies apart worldwide. This is not to absolve the U.S. of responsibility for what is, in comparative perspective, a particularly harsh and unforgiving brand of capitalism. As is well known, there is a bigger gap between rich and poor here than in other Western democracies. The U.S. also has an exceptionally high poverty rate, particularly among children. In the mid-1990s, among members of the Organization for Economic Cooperation and Development (OECD), only Mexico's was higher – the U.S. even beat out Turkey for this singular honor. Only America refuses to extend health insurance to all citizens as a matter of right, leaving 45 million people without coverage.

Certainly, the failure to spend more on social purposes is one reason why inequality is greater here. Capitalism is everywhere a class society of course. But governments that spend more have a greater chance of equalizing income and opportunity because government programs can shield individuals from the play of free market forces—the very same forces that are the ultimate source of economic inequality. At 35.3%, the share of government in the Gross Domestic Product (GDP) is less than in any other advanced capitalist society and less than three-quarters of the European average.

Some have suggested that the U.S. government is smaller because America shares with other English speaking nations an “Anglo-Saxon” cultural preference for markets and individual initiative, and a corresponding antipathy to collective action. To be fair, the U.S. is more like the other English speaking democracies on these measures. But *even among this group*, it is at the low end of the spectrum.

The U.S. also spends a far smaller proportion of its GDP on specifically social purposes—the real test of whether government intends to do anything about inequality. The GDP share spent by the U.S. government on social programs is less than half of Sweden's; just slightly more than

half of Germany's; less than 60% of Great Britain's; just 80% of Canada's—the only rich OECD country that even comes close on this measure. By spending so much less on social programs, the U.S. makes sure that markets have the final say about who gets what.

Recent conservative policies have obviously made things worse. In particular, changes in marginal income tax rates in the U.S. in the last two decades combined with cuts in programs targeted on the most needy have reduced the tax burden of the very wealthy while leaving the poor more vulnerable.

But it's important to note that the U.S. is not the only capitalist society under siege and that recent tax and spending policies cannot entirely account for the rapid increase in inequality. The rich countries of the West have all been rocked by similar economic and political forces in the last few decades.

The economic problem is, no surprise, capitalism. Inequality is built into the structure of this system—only some people can own and run the economic behemoths that dominate a capitalist economy; most of the rest of us end up working for them. But today's hyper free-market version has made things much worse. Increased international trade (and the concomitant competition that comes in its wake) and the worldwide spread of new technologies have put enormous pressure on the wages and benefits of low-skill, blue collar and service sector workers. At the same time, people with scarce skills, or money to invest, have seen their incomes soar. Returns to education are especially important in the "new" economy. College graduates earn more and are less likely to be unemployed than people who've never been to college, and both groups are doing far better than people who've never graduated from high school. And compared to waged work, the returns to both capital and self employment have been rising considerably.

The political part has to do with changes that have made it nearly impossible to sustain the kind of reformist commitment that defined democratic politics for nearly a hundred years. From the late 19<sup>th</sup> century to the end of the 20<sup>th</sup>, liberal and social democratic governments sought to impose limits on the inequality resulting from unequal market incomes.

That's what the welfare state was about. Even the U.S. adopted spending and taxing programs to mitigate capitalism's worst effects.

But in the late 20<sup>th</sup> century, just as the problem got worse, the political will to challenge inequality began to wane. Political analysts have suggested all sorts of reasons for this ground shift, including the impact of heightened global competition on export-oriented economies, the aging of the population, sharper racial, ethnic, and language conflicts, increased immigration, and the political mobilization of corporate interests and the affluent against the taxes that fund costly social reform.

But whatever the precise mix of political causes, the effect is incontrovertible. As the political spectrum has shifted to the right, few governments have been willing to sustain, let alone renew, the effort to make capitalism more equal. To the contrary, in combination, these forces have ripped apart the political compacts between capital and labor that were forged in the aftermath of World War Two, putting enormous strains on government budgets and welfare state programs. Everywhere in the West, including in the social-democratic states of Northern Europe, efforts to equalize opportunity have faltered. Data collected by the OECD show the impact quite clearly. Throughout the West, upper-income groups typically receive a greater percentage of household income than they did thirty years ago. Not every country has suffered equally. Canada and Finland seem to have bucked this trend, while Denmark, Germany, and France have avoided the worst of it. But egalitarians are fighting an uphill battle everywhere.

### **What Can Be Done Now and Later**

Because politics is also at play here, we still have political choices to make—even in the U.S. What then would a progressive approach to inequality look like in America and what would it take to make it happen? The short answer is that it will require major changes on both the political and institutional fronts to stop, let alone reverse, the economic trends outlined above.

For one, the U.S. needs to spend more, not less, on the welfare state. This flies in the face of accepted wisdom in Washington, but as long as the fiscal instruments available to government (the various taxing and spending programs) remain even mildly progressive (because most benefit programs are means tested, they do), growing government is a good thing. Leaving markets alone to address people's needs will only drive incomes further apart. That doesn't always mean that New Deal or Great Society versions of "big" government are preferable; as a rule, it makes more sense to see government as a "partner," allowing grass-roots and other participatory movements to join with public authorities to make needed social changes. But in many cases, from education to job training, more spending *is* the answer. This is especially true if the U.S. is to finally have some form of national health insurance, or, equally important, real "welfare reform"—a welfare system that would provide poor parents who take jobs the income and support services they need to keep them and their children out of poverty.

The labor movement will also need to change. Without more workers in stronger and more militant unions, employees (organized and unorganized) will not be able to capture whatever productivity gains emerge from the new economy. Strong unions are not a panacea. For one thing, labor will have to take more seriously the fight for social programs, like universal health insurance, that matter more to non-unionized than to unionized workers. And even if labor were to grow stronger, it would still face an uphill battle. European unions, typically stronger than American unions, have also found it hard to resist these economic trends. But a more powerful American labor movement would be better able to fight against the growing dispersion of wages among workers and, equally important, fight for a more generous welfare state. If the labor movement is to grow, the U.S. also needs serious labor law reform, if only to make sure that the millions of workers who say that they want to join a union have the opportunity to do so.

In order to help the poor, the minimum wage must be increased substantially. The scandalous decline in the minimum wage's real value - from \$7.10 in 1970 to \$5.15 in 2000 (in 2000 dollars) - is one important reason that so many working families are poor. It's a simple problem with a straightforward remedy: a "living" not a "minimum" wage; \$12.00 an hour, not \$7.00.

To help the working and middle classes, the tax “reforms” of the last two decades must be reversed. The shameful redistribution of the tax burden downward must be a top priority of any progressive movement; it’s especially important to raise rates on upper income groups who have benefited mightily from three decades of economic growth but are no longer paying their fair share of the government’s bills. The left should also work for aggressive tax enforcement, closing loopholes that cost the federal government billions of dollars. Without real tax reform, expanding welfare state spending will not have the equalizing impact it once did. In turn, tax reform should be joined to a frontal assault on “corporate welfare” as well as a very hard look at military spending, which is too often just another public subsidy to the defense industry.

To deal with the impact of global trade on wages, the U.S. must coordinate “fair” trade policies with its trading partners, including less developed nations, in order to establish real labor and environmental standards. This would involve more than Kerry’s rhetorical assault on “outsourcing” and “Benedict Arnold” corporations. It would mean a substantial commitment to helping poorer countries develop their own economies and to support reform movements in those societies that are fighting to improve living standards for those workers too. Progress on this front would reduce pressure on everyone’s wages.

From this perspective, the Republican and Democratic contributions to the debate about economic inequality seem either willfully ignorant of the underlying reality or too ready to downplay what really needs to be done.

Not surprisingly, Republicans ignore the problem, arguing that more business investment will make everyone richer. Occasionally, one or another conservative will add some bromide about making this an “opportunity society”—Bush’s hauled this tired trope out again at the 2004 Republican National Convention to remind voters of his populist pretensions. But given what is happening in America today, the idea that sheltering investment income and corporate profits, partially privatizing social security, and creating Medical Savings Accounts will create greater opportunity for the poor and working class is laughable; these “reforms” will only worsen the class divide because the affluent will benefit disproportionately from them.

Even were the economy to grow as rapidly as the right promises it will, it would not in and of itself produce greater equality. Ignored is the fact that while the American GDP has tripled in real dollars since 1960, real wages have only risen about 50%.<sup>5</sup> The gap between the average household income in the top 1% and the average household income in the middle fifth more than doubled between the late 1970s and the late 1990s.<sup>6</sup> So much for free market miracles.

In fact, the right's job growth policies make matters worse. Bush's pro-investment tax cuts have made public spending in the U.S. less, not more, progressive by heavily skewing the pay out to the very wealthy: the top 1% of households are getting one third of the benefits.<sup>7</sup> Bush's cuts have also created a fiscal nightmare in which any future effort to reduce the burgeoning deficit will lead inexorably to demands to increase taxes on the working and middle classes (through, for example, a national sales tax) and/or to cut the safety programs that the average American depends upon (e.g., Social Security and Medicare).

Kerry is more forthright about the problem of inequality and has some good suggestions. Unlike Bush, he's willing to admit that "Americans are working harder, earning less, and paying more for health care, college, and taxes." Many of his proposals are also sensible.

To create good jobs and prepare Americans for them, Kerry offers a number of perfectly reasonable suggestions. He wants stricter enforcement of the environmental and labor standards found in existing trade agreements; an expansion of the Trade Adjustment Assistance program to help displaced workers; federal subsidies to increase research and development in new technologies and manufacturing; increased funding for K-12 schools and for day care; and a moderate increase in the minimum wage (to \$7.00). He also supports "card check" unionization to make it easier for workers to join unions.

To provide "affordable, high quality health care," Kerry proposes a number of incremental proposals that would expand coverage and maybe even lower some costs. He proposes to extend Medicaid coverage to all children; to allow re-importation of drugs from Canada; to allow HHS to negotiate drug prices with drug companies; to provide tax credits to help

small businesses pay for health insurance; and to relieve employers of responsibility for catastrophic health care (costing more than \$50,000) if they extend health care coverage to their employees.

To pay for all of this, Kerry proposes to repeal the tax cuts that Bush showered on families earning more than \$200,000 a year. The problem is that even taken together, these ideas are a modest response to a very large crisis. There is no suggestion that under Kerry the U.S. would alter its basic approach to economic growth, job creation, or income distribution. Rather, these proposals refocus, expand, better fund or otherwise adjust existing programs – despite very little evidence that any of these program, or even all of them in combination, could do much to close the growing gap between rich and poor. At best, we might hope to staunch the bleeding, but a real cure is not in the offing.

Making matters worse, Kerry also throws some rather bad ideas into the mix. To create “good paying” jobs, he wants to cut corporate income taxes. To help pay for new programs, he wants to adopt “pay as you go” rules on federal spending—budget rules that, if implemented, would likely force cuts in other equally deserving programs serving other equally vulnerable constituencies.

Corporate conservatives argue that even these modest proposals are foolish: any effort by labor or government to increase American wages will put American employers at a competitive disadvantage, resulting in further job losses. Higher wages and higher taxes are, they say, the reason why European unemployment rates are so much higher than those in the U.S.

But were America to take this high wage, high benefit path, other countries, both rich and poor, that compete with the U.S. might be able to avoid the ruinous wage competition that now threatens standards of living everywhere. In concert, “fair traders” might even be able to alter the rules of international trade in ways that could allow all countries to act more humanely, to take labor standards seriously, and to protect the environment.

Still, it is worth asking whether anything bolder than Kerry’s modest proposals are politically feasible at this time. Everywhere in the West,

even in political systems where the left is far stronger, movements advocating serious social reform are clearly on the defensive. No one in or near the U.S. government is prepared to take multinational corporations on directly. Cuts in defense are especially problematic in the midst of what is likely to be a never-ending and politically opportune War on Terror.

Nonetheless, the left should raise these issues every time someone talks about the “two Americas.” It’s not enough to empathize with the working poor or worry about shrinking opportunity for the middle class. We need to make clear the political-economic roots of this crisis and the impossibility of addressing it without structural reforms.

One place to start would be with the political institutions themselves. Unless the U.S. seriously limits the role of private money in politics, rolls back media concentration, and institutionalizes authentic, grass-roots participation in political decision making, no one in power is going to feel the need to do much more than talk about the two Americas.

### Notes

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<sup>1</sup> Unless otherwise noted, all data on income inequality by quintile, income shares of the top 5%, and changes in income inequality over time are taken from the U.S. Census Bureau series “Historical Income Tables – Households,” found at <http://www.census.gov/hhes/income/histinc/inchhtoc.html>. Data on poverty in the U.S. are from the Current Population Reports series, “Poverty in the United States” and found at <http://www.census.gov/prod/2003pubs/p60-222.pdf>. Data on income and poverty rates by race, gender, and education are taken from the *2003 Statistical Abstract of the United States*, found at <http://www.census.gov/prod/2004pubs/03statab/income.pdf>. Comparative data on income inequality and poverty in the West are from Timothy M. Smeeding. “Globalization, Inequality and the Rich Countries of the G-20: Evidence from the Luxembourg Income Study (LIS).” Prepared for the G 20 Meeting, Globalization, Living Standards And Inequality: Recent Progress and Continuing Challenges, Sydney Australia, May 26 – 28, 2002; Michael Forster and Mark Pearson. “Income Distribution and Poverty in the OECD Area: Trends and Driving Forces.” OECD

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Economic Studies no. 34, 2002/1: 7-39. Data on GDP shares are from data collected by the Organization for Economic Cooperation and Development at [http://www.oecd.org/statsportal/0,2639,en\\_2825\\_293564\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/statsportal/0,2639,en_2825_293564_1_1_1_1_1,00.html).

<sup>2</sup> I. Shapiro, R. Greenstein, and W. Primus. 2001." Pathbreaking CBO study shows dramatic increases in income disparities in 1980s and 1990s: An analysis of the CBO data." Retrieved September 26 2002 from LexisNexis Database (Current Issues Universe, R010-39) on the World Wide Web: <http://www.lexisnexis.com/ciuniv>.

<sup>3</sup> Edward N. Wolff. 1995. Top Heavy: A Study of the Increasing Inequality of Wealth in America. New York: The Twentieth Century Fund Press. P. 11; Charles E. Lindblom. 2001. The Market System. New Haven: Yale University Press. p. 122.

<sup>4</sup> [http://www.usatoday.com/money/companies/management/2003-03-31-ceopay2\\_x.htm](http://www.usatoday.com/money/companies/management/2003-03-31-ceopay2_x.htm). Accessed October 11, 2004; U.S. Department of Labor, Bureau of Labor Statistics: 2002 National Occupational Employment and Wage Estimates - All Occupations. [http://www.bls.gov/oes/2002/oes\\_00A1.htm](http://www.bls.gov/oes/2002/oes_00A1.htm). The ratio increased from 100 to almost 500. <http://www.newsbatch.com/econ-ceopay.html>.

<sup>5</sup> <http://www.newsbatch.com/econwagegdp.html>

<sup>6</sup> Measured as a ratio, which increased from 7.8/1 to 18.2/1. Shapiro, Greenstein, and Primus."Pathbreaking CBO study."

<sup>7</sup> Edmund L. Andrews. "Report Finds Tax Cuts Heavily Favor the Wealthy." The New York Times. August 13, 2004. <http://www.nytimes.com/2004/08/13/politics/campaign/13tax.html?hp>

*Charles Noble is the author of The Collapse of Liberalism: Why America Needs a New Left (Rowman and Littlefield), Chair of the Department of*

*Charles Noble*

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*Political Science and Director of the International Studies Program at  
California State University, Long Beach.*