Inequality and Democracy

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When I was a boy in the 1950's, "equality" was central to the public discourse. The word was seemingly everywhere. Equality before the law was widely thought of as an unquestioned good, charged with positive associations. Equality was an unquestioned component of American greatness, and of its democracy. We experienced it directly. Almost all of us went to public schools, drove on free and quite extraordinary public highways, and got our federally subsidized polio shots. Our GI parents went to college on the government dole and our teachers got federal subsidies for their education after Russia launched Sputnik.

Not all was ideal. Inequality of health care was never adequately or objectively discussed. That millions of African Americans were originally, and for a long time thereafter, excluded from this equality was still the nation's stunning hypocrisy. But in the 1950s, America was at least beginning to address this central tragedy more directly. "Separate but equal," the prevailing idea that justified legalizing school segregation, was disturbing because it clearly meant separate but unequal to a nation committed in its traditions to equality as a principle. Without that tradition, legal racism would have had an even more extended life.

But if equal rights before the law was an accepted principle of democracy, what can we say about economic equality and democracy? In this period, political and economic equality unmistakably went hand in hand. In fact, the association between political and economic equality made the very idea of equality fine and noble for us. In the 1950s, for example, civil rights clearly implied equality of economic opportunity, and equal economic opportunity implied a middle class life. It was a glorious time for the economy. Incomes grew for all levels of workers on average in America in these years, and the income distribution, which narrowed significantly during World War II, remained that way and even improved slightly for the next twenty-five years. The benefits of this most rapid period of growth in American history-at the least, on a par with the more uneven growth of the late 1800s-accrued to a new middle class.

Naivete still abounded about how widespread prosperity was. In 1962 Michael Harrington's landmark book, The Other America, awakened the nation to convincing evidence that a large proportion of the population was still poor. Much of the nation was in truth appalled precisely because equality was a central American value. With the rise of a counterculture and eventual antagonism toward the prosecution of the Vietnam War, America was no longer thought blemish-free, and the fight for equality, or at least rough fairness, became imperative in many spheres. Relatively few disputed that poverty implied unequal opportunity. The majority increasingly favored programs that were outright grants to the poor, which went against the grain of much of American history. In the past, we typically (with a few exceptions) only gave money to those who already worked or sacrificed for their country-Social Security, unemployment insurance, and war veterans. Now, there were new programs, such as expanded welfare and Medicaid, that simply handed out money with relatively few qualifications. The commit ment to equality in these years extended to the new feminists, marked by a threshold book, The Feminine Mystique, and it was again not confined to matters of civil rights for women. The wide gap in pay for the same work became a key issue in the struggle for equality.

Times are entirely different today, and regrettably so. Political discussion about economic equality has essentially become a taboo. Social Security is no longer the third rail of politics; equality is. Congressmen and senators are cautioned against discussing it because it sounds like class warfare to the public. A wide range of people believe they are put at an unfair disadvantage by affirmative action, welfare, a minimum wage, and other social programs designed to level the playing field. Ironically, the aversion to discussing equality intensified as inequality of incomes and wealth increased over twenty years to levels not seen since the 1920s.

Where does income and wealth inequality start to impinge on civil and political rights, and on America's long commitment to equality of economic opportunity? Where does it both reflect a failure of democracy and contribute to its weakening? There is a good argument to be made that we are already there.

The past few decades are not the first period in which the nation devalued equality. In the second half of the 1800s and in the 1920s, economic inequality rose rapidly. It was accompanied by a contraction of American ideology that limited the nation's focus to the individualistic components and excluded the egalitarian aspects of the national character. Social Darwinism was the simplistic individualistic philosophy of the day in the late 1800s. Survival of the fittest was a natural law with which government should not interfere, its advocates argued. In the 1920s, there was again a momentary return to rough individualism. Rates for the relatively new income tax were slashed, for example.

In the national mythology, if Americans are left to their own devices, to fall and rise according to their talents, the simple values of early America will reassert themselves and all will be well. If there is more inequality as a result, that merely reflects the abilities and tenacity of individuals, not a failure of the nation. The dominant ideological tenet of the time held that, left to their own devices, most Americans would do well.

Was this ever true? There was plenty of poverty in early America, a strong landed plutocracy, and by any modern standards, times were difficult for most. But compared to conditions in the Old World, the romantic notions about opportunity in early America were based in a large measure of fact. Equal rights did mean in the 1700s and early 1800s, to a greater extent than ever before, equal economic opportunity, even if mere self-sufficiency for most. And self-sufficiency meant political independence that was entirely new for most whites. Many people today fail to realize that equality was a reigning principle of the early 1800s and even the colonial years.

America's truest assertions of equality were not made by the Founding Fathers. Romantic ideas about their democratic intentions have never been the same since the historian Charles Beard's effective, if exaggerated, portraits of this propertied class. The quest for equality for whites only rose to its summit in the early 1800s. But by then it was a powerful force. "Most striking to European observers was a newly strident assertion of equality," wrote Charles Sellers in The Market Revolution, Jacksonian America, 1815 to 1830. "All whites insisted on being referred to as `gentlemen' or `ladies.' Dress was no longer a clue to class." Now everyone could be addressed as "Mr." and "Mrs." Speaking of white society, Gordon S. Wood simply declared in The Radicalism of the American Revolution that "by the early nineteenth century, America had already emerged as the most egalitarian, most materialistic, most individualistic and most evangelical Christian-society in Western history." It was only in the late 1800s that incomes became disturbingly unequal again.

Consider the vast political changes of the early 1800s. Universal white manhood suffrage (some states were also turning their attention to female suffrage, but none adopted it until after the Civil War, still well before the federal amendment of 1919) was achieved in almost all states by the 1820s. It was not attained in Europe or England for another generation. Primary schooling was made free to all. States changed laws to protect debtors, often the relatively poor, against their rich creditors. Charters to establish corporations were opened to most if not all white comers, rather than held for the elite. The Supreme Court, packed by President Andrew Jackson, struck a permanent blow against elitist monopoly in the Charles River Bridge case, by allowing a competitive bridge to be built nearby. Eventually, almost any white man, not just the privileged, could get a corporate charter. The federal government pursued vigorously the right of Americans to own their own piece of land, even to the extent of supporting squatters' rights.

The simplistic claims of some modern economists that property rights are the central pillar of capitalist development do not survive a serious look at American history. One person's property rights was another person's broken property rights. Such institutions were necessary but they evolved with economic growth and democratic principles; they did not simply exist beforehand. Thus, the yearning for and belief in equality, if critical to the new and exciting consensus about social justice in these early years, was also critical to a dynamic and competitive economy that utilized the abilities of as many citizens as possible.

By contrast, the oppression of the large black minoritythe denial of either political or economic rights, including private property-hurt the Southern economy. If it had abandoned slavery sooner, the American South would probably not have remained essentially an undeveloped nation for so long because it would have had a strong internal market to support manufactures and new technologies, and it would have fully utilized the working capacity and talents of its population. Instead, vitality remained in the North and West. The belief that cheap slave labor-the ultimate inequality, we might say-was anything more than a momentary economic boon to America is, I believe, fundamentally wrong. It deprived the nation of a huge amount of domestic buying power, social capital, and talent. The South's poor economy until only recently is a good historical example of how extreme economic inequality and unequal rights, represented by ongoing low wages for whites and blacks well after the Civil War, undermine growth.

The irony is that if equal rights were the simple state of nature, there would be little concern. But someone is always taking away one's rights, and someone must be there to protect them. Through government, early Americans learned to equalize their opportunities. Through government, democracy worked to open up this plentiful economy to the nation's masses. But in the great sentimental national nostalgia, government would remain the enemy. Equality was about destroying aristocracy, and government was always intent, it seemed to early Americans, on preserving aristocracy. Andrew Jackson captured it in a single paragraph. "It is to be regretted that the rich and powerful too often bend the acts of government to their selfish purpose," he said in vetoing the legislation to renew the national bank's charter. "Distinction in society will always exist under every just government. Equality of talents, of education, or of wealth cannot be produced by human institutions. There are no necessary evils in government. Its evils exist only in its abuses. If it would confine itself to equal protection, and, as Heaven does its rains, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing." In this one man, perhaps more than any other, resided the contradictions of America. Great democrat, landowner and capitalist, slave owner and Indian slayer, he passed equality on to the nation in a serious if narrow way. Protect equality of economic opportunity, he argued, but that included opportunities for the poor. Lincoln at last enlarged the definition of equality to include all Americans.

But the economy changed after those largely agricultural years. Government had a new rival for abuse and power-big business. Many eventually acknowledged that government was necessary to protect workers and other citizens from the power of big oil, big steel, and new giant manufacturers of all kinds. Before the Civil War, the largest mill had some three hundred workers. Henry Ford's largest factories had tens of thousands. Some robber barons were worth hundreds of millions of dollars-and Rockefeller, $1 billion-when workers earned a few hundred dollars a year.

But it took a generation to mobilize government to take action. Exhausted morally by the Civil War, the nation industrialized without any government check. Wages grew in these post-Civil War decades, but the economy fell into deep crevices, which were painful to workers. This was not a world Jackson or Lincoln could have imagined, nor did America fully understand its changes until the 1890s.

America's egalitarian tradition reasserted itself with Republican Theodore Roosevelt and Democrat Woodrow Wilson. Progressive income taxes were passed, women got the vote, new worker protection laws were implemented, monopolies were broken up, and a fairer central bank, the Federal Reserve, finally created.

The progressive tradition enlarged in the New Deal, and was retained even by Republicans after World War IL To the fundamental question-when is the government equalizing rights and opportunities, and when is it equalizing outcomes?-the nation gave an intelligent answer. Schools were desegregated, highways equally free to the rich and poor connected the nation, GIs received federal support for college, Social Security was repeatedly expanded and strengthened, voting rights were guaranteed for blacks, a war on poverty was undertaken, Medicare was passed. All of this was done in the name of equal opportunity.

When the economy's growth slowed in the 1970s, Americans began to see expensive social programs as a cause of their own travails. In the straitened times, equality as an ideal began to lose its appeal. Instead of meaning growing opportunities to prosper, as it did in early America, it had come to mean sacrifice and higher taxes and limited opportunity.

We have now entered another period of ideological contraction and narrow yearnings similar to the Social Darwinism of the late nineteenth century and the economic individualism of the 1920s. Today, we have new but similar ideological rationalizers. The issue of income inequality is now mostly left to the economists, it seems to me, many of whom have justified it by arguing that income inequality reflects an increasingly technical and complex economy, in which the better educated are naturally paid much more. In a globally competitive age, it is said, American business has little choice but to compete this way. Not surprisingly, some economists are also the chief new critics of democracy itself, claiming essentially that attention to social needs by the masses results in unaffordable government spending rather than needed capital investment. A common claim today is that nations, especially developing nations, need economic development before they need either democracy or a sense of equality. Surely, the importance of simple measures of democracy, such as voting itself, has been exaggerated. But as the economist and philosopher Amartya Sen poignantly points out, freedom is an end in itself.

Economics is not the only social science that is increasingly justifying inequality. The Bell Curve, written by Charles Murray and Richard J. Herrnstein and published in 1994, was unusually popular if widely discredited. It claimed a genetic basis for African American sociological differences. But even some more responsible social biologists with less obvious an ax to grind often now argue that unequal economic outcomes reflect our Darwinist selves, and are therefore merely natural. The return of the argument that nature trumps nurture has been vigorous. Let us face the awful truth that people are unequal in ability, we are now frequently told. The way some, though by no means all, practice it, social biology is a new, improved Social Darwinism. Democracy might well be about protecting inequality in such a world, goes the argument.

There is also a new fashion in the telling of political history itself that reflects the tendencies already evident in the public discourse. John Adams is now raised above Thomas Jefferson. Forget the Alien and Sedition Acts Adams supported, or his often expressed fear of the democratic masses, or how our history might have been substantially more elitist had Jefferson not become president in what was rightly called "the revolution of 1800." Adams, we are told, was a good and loving man of great character and considerable and consistent intelligence, unlike Jefferson, the arch defender of equality in principle, who had personal flaws, intellectual inconsistencies, and owned slaves. Maybe his flaws were even as bad as Bill Clinton's.

Today, then. America accepts its growing inequality equably. Yet the increase in income and wealth inequality since the late 1970s is striking. In 1979 the top 5 percent of earners made eleven times more than those in the bottom 20 percent. Now they earn nineteen times what the bottom quintile earns. The top 10 percent earn 40 percent of total income in America: They earned only about 30 percent from the 1940s to the late 1970s. We are now back to the income-distribution levels of the 1920s. In terms of wealth-homes and financial assets such as stocks and bonds (less debt)-the top 1 percent have 40 percent of all assets, again about the same as in the 1920s.

Some of the skewing toward the wealthy has been the result of capital gains on stocks during the extraordinary bull market of the late 1990s, which are temporary. If we include only wages, salaries, government payments, rent, dividends, and interest, however, we find that income became highly unequal, anyway. Families in the top 20 percent earned ten and a half times what families in the bottom quintile earned in the 1970s.

Forbes magazine's four hundred richest Americans were almost ten times richer in 2002, on average, even after the market crash, than the four hundred richest were in 1982. The economy grew by only three times over this period, and typical family incomes only doubled. In 1982, when the list was started, it required only $50 million to make it; in 2002, it required $550 million. The average net worth was almost $2.2 billion. Kevin Phillips, author most recently *of Wealth and Democracy,* figures that ten thousand families in 2000, at the height of the market, were worth $65 million. A quarter of a million may have been worth $10 million or more.

The CEOs, of course, ate their cake and had it, too. In the late 1970s, the average CEO made twenty-five times what the average worker made each year. By 1988, that ratio had soared with the stock market and the enormous Reagan tax cuts. The CEO now made nearly one hundred times what the typical worker made. By 2000, with stock options and a bull market like no other, the CEO made five hundred times on average what the typical worker made.

Phillips and others point out that the last twenty years or so are a period much like the late 1800s, the era of the robber barons. But, in fact, there is a disturbing difference. When such fabulous wealth accrued in the past, such as in the late 1880s and the 1920s, the economy grew rapidly. Wages on average rose handsomely, even if unevenly, over these years for most levels of workers. So did the typical family's net worth. Rising revenues enabled the nation to afford a federal government that ultimately minimized worker abuses and established new regulations for trade and markets. A case could at least be made that rising inequality was a price worth paying for rapid economic growth-a case I nevertheless think is wrong. Had incomes been more equal and abuse less prevalent, I believe that the economy would have grown still faster.

Since the rise of inequality in the recent era, however, the economy grew unusually slowly with the exception of the late 1990s. Even including the rise in wages in the late 1990s, average wages in 2002 were still only slightly higher than they were in 1973. Male workers bore the brunt of this decline. As they grew older and more experienced, nearly half of them lost ground over twenty years and another 10 percent made almost no gain-an extraordinary failure unprecedented in American history over so long a period of time. Women, by contrast, experienced fairly rapid wage increases, but they were still earning less than men, often when they were doing the same job. Businesses clearly substituted lower-wage women for men in these years. But this did not explain the decline in the average wage for all workers. And, even with so many spouses working, family income rose at an unusually slow rate. It could no longer be argued that rising inequality was worth the price, as it could have been argued in the late 1800s and the 1920s, because the economy raised the standard of living for all others. In the last quarter century, this was not true.

Arguably, the accrual of individual wealth in this period was as extreme as in the Gilded Age, although comparisons are difficult to draw. By the late 1990s, the great fortunes were surely much larger than they were, comparatively speaking, in the 1920s or 1960s when the American economy as a whole did far better. When we analyze the data further, we find more disheartening news. Average retirement wealth rose over this period, but highly unequally. The economist Edward Wolff calculates that retirement wealth actually fell between 1983 and 1998 for well more than half of America's families. Childhood poverty rates are simply alarming. Every way they can be calculated, whether in absolute terms or by comparison to median or high incomes, a higher proportion of children live in poverty in America than in any other developed nation. Nearly one out of five children grow up in poverty in America, compared to one in twelve in much of Europe. Moreover, the gap between better off and poor children, according to economist Timothy Smeeding, was significantly wider in America than almost everywhere else in comparably advanced nations. Only British children were almost as disadvantaged.

The pressures of inequality are by now quite severe. The strain on working people and on family life, as spouses have gone to work in dramatic numbers, has become significant. VCRs and television sets are cheap, but higher education, health care, public transportation, drugs, housing, and cars have risen faster in price than typical family incomes and in many cases, such as higher education, health care, and drugs, much faster. Life has grown neither calm nor secure for most Americans, by any means. Only in the late 1990s did all levels of workers do well, but they still had not compensated for falling behind in the prior twenty-odd years.

Some argue that Americans did better all along than the data indicated. For a while, some even argued that inequality did not rise, a claim now totally discredited. But the data are clear and, furthermore, anecdotal evidence vastly supports the stagnating economic indicators.

Yet most Americans have accepted slow-growing or stagnating wages and widening inequality with little complaint about the economy, business, or the traditional guarantees of equal opportunity before the law. A key question is: Why?

There are a few possible explanations. By the 1970s, America was exhausted by the modern liberal social policies of Presidents Kennedy and Johnson, even though they worked better than was recognized. Welfare programs created dependencies, but poverty was dramatically reduced, racism was seriously circumscribed, good education was made widely available, Medicare was created, and under President Nixon, Social Security was seriously enhanced. Incomes had become much more equal over these early post-World War II decades.

The bigger source of moral exhaustion was probably the Vietnam War, a mostly liberal venture. By the time it ended, the nation seemed tired of government. And the prosecution of the war was not equal. As noted, it fell largely on young working-class men to fight. The educated easily escaped the draft.

But set against this moral political exhaustion, I think it was mostly slow economic growth, high inflation and interest rates, and lost jobs that turned the nation against its long-standing progressive attitudes. The nation had to apportion a pie that was growing much more slowly - that was simply much smaller than Americans had come to expect it would be, based on their history and traditions. Government was now easily portrayed as the cause of, not the solution to, economically tightened conditions. To many, equality now meant taking from those who worked to give to those who didn't, taking from the working class who were not disposed to higher education to give to those advantaged young people who were, helping people of color at the expense of people who were white. In the past, equality meant that most people's opportunities were expanded. But working people were now suffering, and they needed a scapegoat or two. Business escaped blame partly because government had dominated the previous period. We were tired of government. It did indeed wage an unpopular war and develop expensive new social programs. Moreover, businesspeople were not making fortunes in the 1970s. Profits in general were poor. The stock market stagnated at 1960s levels. There was less obvious cause to direct anger at them.

Ultimately, financially straitened workers did not want to pay more taxes; to the contrary, they wanted to pay less. Beginning in the difficult 1970s, victimized by both high inflation and deep recession, and before Ronald Reagan's large tax cut of 1981, the electorate rewarded politicians who promised tax cuts. Proposition 13, for example, passed in California in 1978. (Californians now pay among the least of any state's citizens for public education per pupil.) A stressed people believed what was easiest to believe and most compatible with low taxes. The economy had stalled in good part because government was too big and people lost their resolve, their work ethic, and their self-reliance-or so they were told, and they were ready to believe the claims. The fight for equality seemed to many to be destructive and financially costly. It was complicated by America's racial composition. With slow growth and higher unemployment, racial antagonism rose in America. Blacks in particular, and the social programs designed to benefit them, could be more easily blamed for economic stagnation.

Finally, as noted, the social sciences gave comfort to the national apathy over inequality and misunderstandings about the consequences of slow economic growth. The pay gap between those who had a college education and those who merely had a high school diploma was large. Even liberals talked about new -analytical requirements for workers that many simply would never be able to grasp, even if they went to college. Thus, inequality was said to be a result of natural forces in a more technical and sophisticated economy. Economists even argued that the high unemployment rates and looser labor markets - of the twenty-five years between 1970 and 1995 were essentially "natural." If government tried to reduce unemployment and tighten labor markets, it would result in self defeating inflation.

If all these claims were true, a natural response from government might have been to help educate the disadvantaged and provide more benefits to the unemployed. Some economists favored this, and I would still argue it is essential. But laissez-faire economists dominated the era and argued such programs were simply inflationary and created dependencies. Little was done for the poor who almost invariably went to bad schools, subsidies for college did not rise appreciably, and unemployment insurance was rather dramatically reduced since the 1980s, not expanded. The minimum wage was left unchanged until fairly recently, and thus declined substantially in value after inflation.

In fact, the claims of mainstream economists turned out to be exaggerated. In the late 1990s, inequality stopped growing, not because people were more educated, but mostly because labor markets were tight. Apparently, analytical skills and free trade, if influential, were less the cause of income equality than "screening" was. When demand was slack, business hired better-educated people or those with social skills, habits, and backgrounds similar to their own. Similarly, unemployment fell well below the so-called natural rate but it did not generate inflation. And part of the cause of inequality was a new social norm--call it an attitude-for which economists have little room in their models. (With the rise of information and behavioral economics, which are often at odds with mainstream models, this is changing.) The movements toward making businesses mean and lean came at the expense of workers. It became a fashion of sorts to lay off workers and hold wage gains down, a fashion that began with the hostile takeovers of the 1970s, in which companies were bought with enormous loans from willing banks, and then costs were cut drastically, mostly by firing workers, to pay for the debt service. The habit became ingrown and continues in the early 2000s.

And the worker has had few champions in Washington in this era. To the contrary, organized labor was losing power. The influence of corporate money and the rising power of lobbyists had a great deal to do with an agenda that led to reduced regulations, few government protections, and a general drift toward privatization, even of pension plans and potentially Social Security itself, which has long been one of the two or three greatest equalizing social programs in American history. High wage costs were anathema, but high costs of capital were just fine. The most admired company in America until the 2000s, General Electric had aggressively cut its workforce and wage bill but borrowed prodigiously. Its profits grew but its return on capital was mediocre.

America faced a fundamental change in economic circumstances in those years. Growth had slowed and inflation had undermined the normal functioning of the markets. Adjustments were necessary. But the large-scale adoption of private policies that led to declining and stagnating wages and inequality was neither inevitable nor optimal. For all these reasons, America is now more unequal than at any time since the 1920s, and it has happened with hardly any discussion.

A fundamental question for Americans is whether the inequality in outcomes since the 1980s reflected an inequality in opportunity in these decades. In other words, did it amount to a direct challenge to one of our basic ideals? I think it did. What stands out most is childhood poverty. When one out of five children is so disadvantaged, and another one in five is nearly poor, one simply cannot argue that opportunity is equal in America. The parents of these children are typically at work, they do not get decent childcare, and early education is out of the question. Their standard primary schools are almost always below average. Measures of education quality across America are not as bad as they are often reported to be. But there are huge pockets of inadequate education in poorer and working-class neighborhoods. Some other economies also produce large numbers of poor children. In France, for example, as high a proportion of children are poor as in America. But their significant government social programs raise the lower levels to acceptable standards. Because schools are financed locally in America, poverty and poor education have become a vicious circle. Money matters. As the Nobel Prize-winning economist George Akerlof points out, the evidence is considerable that money spent in these schools has productive results.

Further, as economies become more complex and change in other ways, burdens on people change as well, and they fall on them unequally. Not only the poor, but those in the middle now bear these burdens, and slow-growing incomes for the wide middle of America make opportunity unequal. In recent times, the so-called New Economy of the 1990s placed even more emphasis on education. This economy has created greater need for public childcare because spouses have to go to work. Its demand for worker flexibility means that as workers lose jobs, they also lose pension and health-care benefits. These are all "dis-equalizing" circumstances to which the government should respond but has not.

To the contrary, it has gone energetically in the other direction, creating inequalities rather than ameliorating them. Consider the litany. The rise of defined-contribution pension plans, which supplanted old-style defined-benefits plans, helped corporations reduce their contributions but, it turns out, only the better-off were better off with them. The middle- and lower-income workers did worse. If Social Security is privatized, elderly incomes will become significantly more unequal. The march toward deregulation and privatization-partly, but only partly, necessary-often favored the well-off at the expense of middle- and lower-income workers. The nation in these years steadfastly refused to raise the minimum wage until relatively recently. America did not seriously enforce worker safety regulations. It did not support laws to enable labor unions to organize. It found no way to provide health insurance for the nearly 20 percent of people who were not covered. It did not strengthen accounting regulations, even when the Securities and Exchange Commission tried to, beaten back by angry legislators who were lectured to by their investment-banking and accounting-industry campaign supporters. CEOs took tens of millions of dollars, workers lost their savings. The government did not adopt new protective regulations, even after the debacle of Long-Term Capital Management. It wholeheartedly supported regulation-free capital flows around the world, even when they were a primary cause of the Asian financial crisis. It reduced the coverage of unemployment insurance significantly. It reduced tax rates dramatically for upper-income workers. In general, as noted, it allowed a financial movement on Wall Street to emphasize job cuts as the best path to profitability; taking on debt was not discouraged. Many economists exalted the restraint on wages but said nothing about over-investment in high technology and telecommunications and absurdly romantic securities speculation. The Federal Reserve under Alan Greenspan was far more concerned about wage increases than about a stock-market bubble.

Let me be clear that some of these changes were necessary. Profits were probably too low in the 1960s and '70s, wages too high. Some federal programs were poorly thought out. Private business had become more sophisticated and government direction and sometimes even oversight were often no longer necessary. Some social programs will inevitably get more expensive, especially as the population ages, and therefore the nation has to deal with how to pay for them. International competition had toughened, and required leaner and more flexible companies. In general, tax revenues no longer grow as rapidly because the economy grows more slowly, so ultimately we can afford less. But the movement was carried too far, and government's role as a protector of equal opportunity and equal rights was often abandoned. The results showed up in falling wages, slow-growing family incomes, and rising inequality. It is not just the bottom 10 percent who have fared poorly. The lower 50 percent have, and in some ways, even the lower three quarters are more strained than at any time in the post-World War II era. International competition from low-wage nations, a more sophisticated workplace, and slow growth all contributed to me-quality. But government did not perform its traditional role of a counterforce to balance these other factors, and often exacerbated inequality in the name of self-reliance and limiting regulation in general.

What, then, is the case for equality in a democracy? Equal political rights may remain the most important issue. They are an end in themselves. But in practice, fairly equal economic outcomes have helped guarantee equal political rights. Nowhere has this been more true than in the American experience. The original source of political equality was not a simple social contract arrived at through agreement or revolution. Of course, John Locke's ideas mattered, and the European Enlightenment emboldened the Western world and valued the individual and his or her rights. But in America, the primary source of political equality was access to land. It was not an accident that Jefferson promised land to the thousandth generation when he purchased the Louisiana Territory. Land was not an issue of wealth to him but an issue of spreading political power.

Our current acceptance of inequality is dangerous for at least four reasons. First, it is unjust socially and may eventually generate spreading, if unarticulated, discontent, which will seek further scapegoats. Second, contrary to much conventional wisdom, inequality undermines economic growth because it limits the strength of demand, the optimism of a nation, and the capacity for people to educate themselves. Even now, only 60 percent of families own a PC; in contrast, by 1955, 90 percent of families had a television set, which was relatively much more expensive then. Wages were not sufficient to support booming demand in the late 1990s; consumers borrowed at record levels. Contrary to conventional wisdom of the moment, high levels of inequality imply generally low wages, and low-wage economies are generally inimical to growth. They do not create an internal market for goods and services on a sufficient scale to make production efficient. In *Why Economies Grow, I* argue that, historically, growing internal markets are a major source of economic growth, and perhaps the most important source. In fact, almost all economies that have taken off historically, such as those of the Netherlands in the 1600s or Britain in the 1700s, have been more egalitarian than those of their competitors. These domestic markets are themselves often the most important stimulants to capital investment and technological innovation. As British economic historian J. H. Habakkuk argued long ago, low wages do not provide incentives for business to invest in modern equipment or to train and provide private services for their workers. America's South, as economist Gavin Wright has shown time and again, beginning with his book *Old South, New South,* is still dominated by low-wage industries. Slow growth, in turn, invariably hurts lower-level workers more than the rest.

Third, unequal incomes can in themselves mean unequal opportunity. Poor families and even median-income families often cannot afford to live in neighborhoods that will provide their children with a decent education; they cannot get quality childcare when they have to work, and they cannot get adequate health care for the family. Costs of being middle class today-the costs of health care, education, transportation, and housing-have far outrun the incomes of the typical family, not merely those of the poor. Serious inequality of incomes and wealth already reflect unequal opportunity. Today, more than ever before, opportunity means a competitive education, and typically a decent higher education. But America probably has the most unequal education system in the developed world, supported by local tax revenues that reflect the incomes of the community. Vouchers are typical of the current response: They will save a few and discourage many, and on balance, will lead to more inequality. Those in the bottom half of America also cannot afford the best health care. They have jobs that do not provide health benefits. Poor health undermines equality of opportunity as well.

Fourth, inequality can lead to a skewing of political power toward elite interests. The congressional turn toward deregulation and lower taxes, many observers argue, is a function of the growing importance of money in politics. New well-financed think tanks supported by conservatives spread an ideology about the unimportance of equality and the dangers of government. Reforms, even of accounting principles, are beaten back by aggressive lobbyists with millions of dollars of campaign funds. Rightist foundations spend tens of millions of dollars to fight ideological battles. Most distressing, the growing numbers of those who do not vote in America are dominated by the least well off.

In my view, inequality means exclusion, and the nation needs something like a new social contract that emphasizes both inclusiveness and change. New programs should include a higher minimum wage, a still more expansive earned income tax credit, and serious savings subsidies for college. Efforts to universalize health care are critical, yet hardly addressed. Serious public investment must be directed toward equalizing education locally. Ideally, open discussion of how a high-wage economy can promote rather than impede growth will begin to change social norms about the expendability of workers. Campaign-finance reform should be enacted to minimize the growing political power of rich people and corporations.

The nation must also recognize that times change. Americans used to look forward, not backward. We built canals, railroads, primary and then high schools, public universities, vast public health systems to sanitize cities; we regulated business and put down a vast highway system. In retrospect, we think all this was inevitable, that
the decisions made were obvious. But they were all reactions to change by an open and optimistic society. Now we scorn government responses to change. We look back, unwilling to risk. If we confronted change, we would emphasize new ideas. This means family-friendly policies like flexible hours and high quality day care. In a changing economy, with an increasingly expendable labor force, corporate benefits should be made portable.

A new New Deal? Of sorts, yes. Can we afford it? There are limits. But such programs can enhance economic growth, while reinforcing our long-held beliefs in equality. After a period of soaring incomes for the wealthy, higher progressive rates on very high incomes are entirely in order to pay for part of what we need. The preponderance of economic research suggests high marginal rates do not impede economic growth by undermining incentives for the wealthy.

But none of this is politically possible without a reinvigoration of fundamental principles. Our democracy is no longer working as it should. The influence of moneyed corporations has never been higher. But the most vigorous democracies are essentially about equality-in the case of America, about equality of civil rights and equality of economic opportunity in a complex and changing environment. Democracy is not about making economic outcomes equal. Americans want everyone and anyone to be able to make a fortune. But when outcomes are as skewed as they have been, it is clear that something in the process is badly wrong. Sustaining democracy may now depend on maintaining a vibrant spirit of national equality. If equality-let's call it inclusion, because that is what it is-were again the passion of the people, as it was two centuries ago, we might accomplish what is necessary. I doubt there is any true democracy without such a passion.