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Inequality and Its Discontents

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Abstract

In the last two decades, the income and security of the individual middle class worker has declined and the gap between the rich and the poor has widened. We will examine those policies that strengthened the middle class after World War II, which included strengthening the bargaining power of labor. We will proffer suggestions for reviving the middle class now with particular focus on empowering labor. We will offer suggestions for the role of the practitioner in this endeavor.

INEQUALITY AND ITS DISCONTENTS

The Threatened Middle Class

Inequality in Income and Wealth: the U.S. over Time

During the last two decades, inequality has been increasing with the income/wealth gap between the rich and the poor steadily augmenting (Kawachi & Kennedy, 2002; Krugman, 2007; Piketty & Saez, 2003; Reich, 2007). Today's income distribution statistics mirror the statistics of the gilded age (1877-1900) made infamous by the robber barons (Krugman, 2007, p. 16). The share of total income (excluding capital gains) for the highest ten-percent was 44.3% in 2005, similar to the 1920 statistic of 43.6%. Moreover, the highest 1% of Americans earned approximately the same percentage of the nation's total income in 2005 as in 1920, with both figures at roughly 17%. Piketty and Saez (2003, 2006), illustrate graphically (see Figure 1) how the level of the nation's total income captured by the very rich has fluctuated over the century peaking in the gilded age and at the present time.

Today's income equality contrasts sharply to income distribution during the 1950s and l960s. Beginning in 1973, "the affluent sections of society" began pulling away sharply from the poor and middle class (Kawachi & Kennedy, 2002, p. 22; Wolff, 1998). Data collected by the U.S. Census Bureau appears in Table 1 (Jones & Weinberg, 2000). Table 1 illustrates that while the share of aggregate income held by the lowest fifth actually grew slightly from 4.0 to 4.3 percent between 1967 and 1980, after 1980 the percentage of the pie captured by the poorest quintile declined. In contrast, while the wealthiest 1/5 of households captured 43.8% of all earned income in 1967, their share of the pie had risen to 50.4% by 2005. What happened to the middle quintile? The middle quintile (i.e., those earning an average of $46,301 in 2005) also lost ground, declining to 14.6 percent of aggregated income in 2005 from 17.3 percent of aggregated income in 1976. It should be noted that disparities in income distribution have grown even as American workers have become more productive (Kawachi & Kennedy, 2002; Krugman, 2007; Sawhill & Morton, 2007).

We have been talking about how aggregate income is distributed among tiers of income earners in the society. We can also examine how adjusted dollar earning have fluctuated over time. In contrast to the dismal times during the Great Depression, median household income in 2005 dollars roughly doubled from $22K to 44K during the period from 1947 to 1973 (Krugman, 2007, p. 54). By the mid 1950s, almost half of all families fell comfortably within the middle range, earning between $4000 and $7,500 after taxes in 1953 dollars (Krugman, 2007, pp. 36-37). While family incomes have held steady in adjusted dollars over the last several decades, it should be noted that most households now have two income earners in contrast to the 1950s when women did not work (Palley, 1998, p 63). Moreover, the incomes of even college graduates have declined by 5% from 2000 to 2004 (Krugman, 2006). Coupled with the decline in earnings over time, employee benefits have eroded over the last several decades and job insecurity has risen (Hacker, 2006; Kawachi & Kennedy, 2002; Krugman, 2006; Uchitelle, 2007).

While income "refers to the flow of dollars over a year," wealth is "the net dollar value of the stock of assets minus debts held by a household at one point in time" (Kawachi & Kennedy, 2002, p. 24). Wealth has become even more concentrated in fewer hands than income (Kawachi & Kennedy, 2002; Reich, 2007). Beginning in the 1970s, according to Reich (2007, p. 114) "the nation's richest one percent – comprising roughly one and a half million families in 2004 – have more than doubled their share of total national wealth". On current estimates, the wealthiest one percent of American society owns 48% of the nation's financial assets, and 39% of the nation's total assets, including real estate (Wolff, 1998).

Prior to the recent stock market crash, the last two decades have been a profitable time for those enjoying returns on stocks and investments (Reich, 2007). But again, it has been the richest Americans who have benefited from returns on investments. According to Palley (1998, p. 58), the top 1% of households own 49.5% of all stocks while the top 10% owns 86.3% of all stocks. These disparities extend to other types of investments as well. The top 10% of wealthiest households with incomes at or in excess of $352,000 own 90% of stock shares, bonds, trusts, business equity and about ¾ of non-home real estate (Wolff, 1998). The extent to which the recent decline in the value of real estate and stocks, (which still continue to fluctuate) will distort this picture is too early to assess. However, it is clear that the disparity in stock ownership magnifies the earned income disparities between the rich and the poor.

Comparing the U.S. to Other Industrialized Countries

The Gini index measures intra-national inequality using a scale from 0.00 to 1.00, with 0 indicating uneven distribution across families and 1.00 signifying even distribution among families (Ohmer & DeMasi, 2008). Practically, an index of between .40 and .49 is interpreted as serious inequality. While the Gini Index for the U.S. was 0.34 in 1967, it rose to 0.47 in 2004, the highest among a number of selected industrial nations (U.S. Census Bureau, 2005). The Decile Ratio is another way to assess distribution of aggregate earnings in a country. The decile ratio uses the income of a person in the top 10% of the population as the numerator with the income of a person in the bottom 10% as the denominator, with both figures having been indexed to the median income level in the country (Kawachi & Kennedy, 2002, p. 25). As seen in Table 2, the U.S. exhibits the highest level of inequitable income distribution on this indicator as well. The United States is an extreme case compared to other industrialized nations, with an index of 5.7 compared to the lowest index of 2.8 in Denmark (Brandolini & Smeeding, 2007).

The proverbial American dream signifies the opportunity to move from a lower economic status to a higher one given personal initiative. How is the American dream faring today contrasted with the rest of the world? Examining the correlation between parents' and children's income as an indicator of relative mobility, data show that a number of countries, including Denmark, Norway, Finland, Canada, Sweden, Germany, and France have more relative mobility than does the United States (Corak, 2006). In addition, when measuring mobility using the "transition rate out of poverty between one year and the next, economic mobility was lower in the United States (13.8 percent) than in France (27.5), Germany (25.6), Ireland (25.2), the Netherlands (44.4), and Sweden (36.8) in the mid 1980s" (Kawachi & Kennedy, 2002, p. 166).

Policies and Protest Movements that Expanded the Middle Class in the United States

In the next section of this paper, we will consider how a large middle class was created in this country during the New Deal and after World War II. We will take a brief digression to consider the case of African Americans who were largely ignored by some of the legislation that strengthened the middle class after World War II (viz., the GI bill and FHA housing loans). We will briefly discuss how the current African American middle class arose. Both for the society in general and for African Americans in particular, we argue that a middle class was created largely as a result of government interventions which strengthened the position of labor.

The period after World War II through 1972 expanded the size of the middle class and narrowed the gap between the rich and the poor. Goldin and Margo (1992) report that wage inequality began to decrease with the passage of the First New Deal legislation in 1933, but the

"Great Compression" continued throughout the 1940s. Was the "invisible hand of the market" to borrow Adams Smith's metaphor, the cause of the emergence of the healthy middle class? Many economists have argued that post World War II legislation and governmental policies played a major role in the emergence of the middle class (Krugman, 2007; Levy & Temlin, 2007; Murolo & Chitty, 2001; Piven, 2006). This legislation bolstered the bargaining position of labor, increased marginal tax rates on the wealthy, and placed advanced education and home ownership within the reach a board spectrum of Americans.

Unions before the Depression. From 1990 to 1920, organization of labor occurred in cities and among mine workers. Union membership peaked in 1920 at 5 million members (almost 20% of the industrial labor force) after the mobilization of WWI. Organized labor met fierce resistance. Private security firms (e.g., the Pinkertons) or sometimes government troops (e.g., the Pullman Strike of 1894), crushed organizing drives and strikes (Murollo and Chitty, 2001; Piven, 2006). Court decisions almost always backed employers in labor-management disputes in the 1920s and early 1930s. Unemployment during the depression created a labor surplus, weakening the bargaining position of workers. By 1933, union membership had declined to less than 10 percent of the non-agricultural labor force (Krugman, 2007).

The First New Deal. With the advent of the Great Depression, unemployment rose to unprecedented levels. In response, the First New Deal was passed in 1933. The first New Deal, which established the National Recovery Administration (NRA), was intended as only token support to unions. The real objective of NIRA was to revive the industrial sector by diminishing excessive competition between companies (Murolo & Chitty, 2001). In collaboration with the business community, the newly created National Recovery Administration (NRA), formulated new codes of conduct that regulated production quotas, product standards, prices and labor conditions. Section 7A of NIRA gave workers “the right or organize and bargain collectively…free from the interference, restraint or coercion of employers” (Murolo & Chitty, 2001, p. 193). Although businesses never intended to comply with section 7A, and the federal government initially did nothing to enforce business compliance, labor unions used the language in Section 7A to help launch major organizing drives in the last half of 1933. Hundreds of thousands of new members joined unions. The United Mine Workers adapted the phrasing of Section 7A to proclaim on recruitment flyers and hand bills that “the President wants you to join a union” (Murolo & Chitty, 2001, p. 195), and quickly signed-up 300,000 new members shortly after NIRA passed. By the end of 1933, over 750,000 new union members had been recruited across industries; this represented unprecedented union growth in the midst of the depression (Murolo & Chitty, 2001). Thus, the first New Deal had unintended consequences that bolstered the bargaining position of the unions.

Union membership continued growing into 1934 and so did labor unrest in the form of strikes. The 1933-34 organizing drives resulted in 3,500 strikes with another 2,000 strikes in 1935. Several strikes were large, multi-state, uprisings capturing national attention. In September 1934, over 400,000 textile mill workers from Alabama to Maine walked off the job. This was the largest strike in US history. The primary worker demand was for the federal government to force the textile mills to comply with NIRA regulations prohibiting obstructions to the formation of unions. On September 21, Roosevelt agreed to appoint new officials to enforce NIRA and asked for workers to end the strike. The strike ended, but companies continued to ignore NIRA. In many southern mills companies refused to re-hire returning workers. The strike’s defeat constituted labor’s biggest loss in 1934 (Murolo, & Chitty, 2001). In contrast to the unsuccessful textile strike, other large strikes of 1934—Auto-Lite workers in Toledo, Stevedores in San Francisco, and truckers in Minneapolis--won many of their demands (Murolo & Chitty, 2001).

What was accomplished by the First New Deal? Goldin & Margo (1992) argue the minimum wages in NIRA were "probably" the cause of inequality beginning to decline after 1933. However, Piven (2006) places more emphasis on strikes, protests, and widespread labor unrest as instrumental factors in reducing inequality. The NIRA was declared unconstitutional by the Supreme Court in May of 1935, ending the First New Deal.

The Second New Deal. In 1935, with the Depression still very deep (14% unemployment), the Roosevelt administration decided to align itself more closely with labor. New strategies were needed. The Second New Deal legislation included the National Labor Relations Act (NLRA), the creation of a National Labor Relations Board (NLRB) (to enforce the NLRA), and the creation of the Works Progress Administration (WPA).

Compared to NIRA, the NLRA went much further in support of workers' rights to organize. The NLRA specifically prohibited employer tactics employers previously used to defeat organizing drives. (These tactics had included "using threats, coercion, or restraint against an organizing drive;… discriminating against union members in hiring, firing, or job assignments;…, and refusing to bargain with a union voted in by the workers", Murolo & Chitty, 2001, p. 201). Moreover, those enforcing NLRA regulations were mandated to be "impartial government members" who were not partisan to labor or business (Levy & Temlin, 2007, p. 25).

Whether the Second New Deal was instrumental in ending the Great Depression is an open question. What is not in dispute is that the Great Depression ended following the next huge government employment program: World War II.

World War II. With a labor shortage created by enormous numbers going into the military and diversion of goods from the consumer markets to the needs of the military, huge inflationary pressures were anticipated. In 1942, shortly after Pearl Harbor, Roosevelt revived the National War Labor Board (NWLB) that had been in place during WWI. This agency arbitrated labor management disputes to prevent war time strikes and work stoppages. During WWII, the NWLB supported workers rights to organize, bargain collectively, and earn living wages (Krugman, 2007). Union membership almost doubled during WWI. Roosevelt's NWLB established wage controls in many industries to ward off the inflationary pressures of war time labor shortages. These wage controls raised the wages of lower paid workers and compressed wage differential between high paid and low paid workers both within and between industries (Goldin & Margo, 1992; Krugman, 2007).

The post-war period. All of the activity from New Deal legislation, robust union organizing, militant labor strikes and protests, WWII wage controls, increased taxation on the richest Americans reduced inequality and expanded the middle class. The zeitgeist had changed. In 1950, we witnessed a new paradigm between business and labor called the "Treaty of Detroit". The "Treaty of Detroit" was the label given by *Fortune* magazine in 1950 to the landmark labor contract between the United Workers union and General Motors (GM) (which had been notoriously anti-union for decades). This precedent setting contract included automatic cost of living adjustments to wages, pay increases tied to productivity gains, a pension plan, and an agreement by GM to pay half the cost of comprehensive health care. Some concessions went to management: management got more control over production and investment policies (Levy & Temlin, 2007). Between 1948-1950, similar concession had been made to workers, and in 1949, GM's the company posted record profits. The new arrangement between labor and GM turned out to be a win-win for labor and GM's bottom line. The empirical evidence suggested that record profits and generous wage and benefit packages could co-exist. After a bitter strike at Chrysler the GM-UAW contract was quickly replicated among the "Big Three" auto makers and became a precedent in union-management contracts across many industries (Levy & Temlin, 2007; Moberg 2007).

Reflection on the ebb and flow of unions. Organized labor and membership in labor unions grew dramatically from the 30s to the 50s peaking in 1957 at 17.7 million (Troy, 1965). According to the Economic Policy Institute (Mishel & Walters, 2003), unionized workers earn 20% more than their non-unionized counterparts. The differential between union versus non-union wages is even more pronounced for minorities and women (Sklar, Mykyta, & Wefald, 2001). Not only does membership in unions directly increase compensation for members, but high levels of union membership indirectly affect compensation in open-shop companies who find that to attract and keep good employees they have to raise wages and benefits to compete with unionized firms (Krugman, 2007). In addition to increasing wages, because unions represent large voting blocks, they are instrumental in organizing support for auxiliary issues such as affordable housing, better education, better unemployment benefits, civil rights, etc. (Shulman, 2007). As union membership declined after 1950 to its present level of 11% (Krugman, 2007, p. 18), so did the size and security of the middle class.

Other Factors that Contributed to a Growing Middle Class in the 20th Century

*FHA and VA housing loans***.** While a militant labor movement was probably the strongest change-agent in creating a middle class (especially among blue collar workers), other policies and social movements helped expand the middle class. Home ownership is widely considered a hallmark of being middle class. In the 1930s, only 40% of families in the US owned their own home. The Federal Housing Act passed during the first New Deal in 1934 provided Federal Housing Authority (FHA) insurance to encourage the private sector to provide mortgages to families who otherwise would not qualify for a traditional mortgage. Between 1940 and 1980, the percentage of American families owning their own home almost doubled (Chevan, 1989). Moreover, the GI Bill of 1944, included similar mortgage insurance for veterans. Between 1944 and 1952, 2.4 million homes were purchase with the help of Veteran's Administration Insurance (U.S Department of Veteran's Affairs, 2008). The FHA and VA programs insured about one-third of all homes purchased during the 1950s (Sklar, Mykyta, & Wefald, 2001, p. 149).

GI Bill & education benefits. While labor unions were responsible for expanding the middle class to include blue collar workers, policies that made higher education more attainable and affordable also contributed to a larger, more affluent middle class. In 1944, Roosevelt signed legislation which allocated federal funding for the educational expenses of 7.8 million World War II veterans. Few federal policies are considered more successful than the GI Bill. Not only did the GI bill enable many veterans to move into the middle class but the benefits of the GI bill continue to accrue (as evidenced by high SAT scores) to the descendants of those who received GI bill funding (Tillery, 2008). As America emerged as an industrial, high-tech economy, the GI Bill produced the skilled workforce required to operate in the high tech economy. The increase in worker productivity witnessed in the post World War II period (Krugman, 2007), is in large measure attributable to having a well trained workforce (Dickens, Sawhill, & Tebbs, 2006).

It is difficult to assess the degree to which fear of organized demands from returning GIs contributed to the passage of the GI bill. By the end of World War II, populist attitudes and concern about the modal person had probably grown as a result of experiencing the depression and the rise in unions. However, many remembered the tent city of World War I Veterans protesting the failure of the delivery of promised bonus benefits 12 years after the war. (The tent city was dispersed by Eisenhower and McArthur). The Department of Veterans Affairs own website (see http://www.gibill.va.gov/GI Bill Info/history.htm) says the urgency of the 1944 GI Bill “stemmed from a desire to avoid the missteps following WWI when veterans got little more than a $60 allowance and a train ride home.” The VA website offers empirical support for Piven’s (2006) hypothesis that progressive legislation in the USA is directly or indirectly related to protest and disruption. Congress’ desire in 1944 to avoid the debacle of 1932 had much to do with the prompt passage and signing of the GI Bill.

Racism in GI Bill and housing policies. The benefits which accrued to white Americans as a result of the GI Bill and FHA and VA housing loans left out African Americans (Jackson, 1985; Tillery, 2008). FHA and VA loans went overwhelmingly to white applicants. While African Americans were eligible for FHA and VA loans, most banks were unwilling to underwrite mortgages in either black or integrated neighborhoods. (The process was called “redlining” and, though it was discriminatory, it was legal for many years, Jackson, 1985, p. 208-214). Since most middle class wealth is related to equity in homes (Wolff, 1998), it also contributed to racial disparities in wealth that persist to this day.

Emergence of the African American Middle Class

The migration of African Americans from southern farms to northern cities between 1910 and 1970 changed the demographics and social structure of U.S. society (Lemann, 1991). Despite the discriminatory practices toward minorities in the wider society, small numbers of African American-owned businesses catering to southern migrants emerged in cities such as Chicago and New York’s Harlem before World War II (Jackson & Stewart, 2003). Howard

University graduated African American Scholars. Eminent individuals such as Percy Julian and Zora Neal Hurston made significant contributions to Chemistry and Art. A. Phillip Randolff organized the Brotherhood of Sleeping Car Porters into an effective union in 1925. Despite these glimmers of African American middle class, most African Americans remained poor until the emergence of a middle class following the passage of Civil Rights legislation between 1959 and 1978 (Collins, 1983). The African American poverty rate declined from 55.1% in 1959 to 30.6% in 1991. As the poverty rates declined, the proportion of middle and upper class African Americans increased. Families with incomes greater than $35,000 grew from 5.9% of African American households to 14.8% of African American households between 1967 and 1991 (Katz-Fishman & Scott, 1994, p. 575). Without government legislation and enforcement of the legislation, it is unlikely that middle class expansion would have occurred during this time period, although some scholars argue that other factors contributed to this expansion as well (Donohue & Heckman, 1991). We now consider seminal institutions and developments established by Civil Rights Legislation.

The Equal Opportunity Employment Commission (EEOC). The EEOC was established to monitor enforcement of Title IV of the Civil Rights Act of 1964 that prohibited discrimination in wages, hiring, and promotion. Private firms with 100 or more employees reported on the number of minority workers they employed. Initially, the EEOC was limited in scope to the processing of complaints and investigating cases under litigation. In an effort to expand the EEOC's role, Congress granted the commission power to initiate civil suits in 1972 (Collins, 1983, Donohue & Heckman, 1991). Following this expansion in responsibility, companies that reported under EEOC requirements opened jobs to African Americans at a faster rate compared to firms not required to report (Brimmer, 1976).

Office of Federal Contract Compliance (OFCC) and Affirmative Action. The OFCC was established through Executive Order 11246 in 1962. Federal contractors were required to develop "affirmative action plans" to increase the number of persons of color (and later women) who were employed by federal contractors. Sanctions for contractors that did not comply included loss of eligibility to receive federal contracts, fines paid to the government, and compensation in back-pay to aggrieved individuals (Donohue & Heckman, 1991). The Office of Minority Business Enterprise was created to increase federal contracts with minority-owned businesses. The Interagency Council of Minority Business Enterprise was created to coordinate these procurements.

*The War on Poverty***.** During the 1960s War on Poverty, the number of federally funded social welfare organizations increased and became a source of employment for African Americans. Community Action Programs specifically sought to employ indigenous persons to administer federally funded programs. The expanding social service bureaucracy led to a disproportionate increase of African Americans working in federal, state, and local government. Between 1960 and 1970, the proportion of African American managers in the public sector increased 67 percent compared to a 15 percent increased for white managers. Wages in the public sector were higher than those in the private sector (Collins, 1983; Lemann, 1989).

Reflection. The expansion of the African American middle class correlated with a change in legislation and government policy. Similar governmental initiatives had precipitated the emergence of the middle class in white America following the depression. Both developments bolster the conclusion that spontaneous market forces alone may not be sufficient to bolster the middle class. Rather, choices that people make through their elected officials bring about change.

Where to Now?

Thus far, we have established that the size and security of the middle class has been jeopardized since the 1970s. We have enumerated those policies that effectively created a middle class in the United States following the Great Depression. Drawing on the lessons of the past, we now focus on government initiatives that can return this nation to its former status as nation in which most of the people are members of a secure middle class.

With the collapse of the world's financial sector in the fall of 2008, a global recession/depression threatens the world. Galbraith (2008a; 2008b) argues that monetary policy alone (i.e., lowering interest rates by the Federal Reserve and saving the banks) will not be sufficient to avert disaster. The government must inject currency into the economy spending money to employ people. Given the imperative of a government stimulus package, opportunities for strengthening the position of labor and reinvigorating a middle class have fortuitously arisen. Questions remain regarding where to direct the employment of individuals and how to ensure that employment will result in sufficient consumer demand to keep the capitalist machinery working. We argue that fiscal policy should be directed to improving the American educational system, to rebuilding infrastructure, and to developing alternative sources of energy. Since government will be funding job creation, we can learn from the government's role in invigorating the position of organized labor during the New Deal. Government funding for new jobs should be contingent on mandatory living wages and strengthened bargaining position of unions.

Globalism

Some acknowledgement of the global economy is required here. In the l990s, India, China, and the former Soviet block joined the global economy doubling the world labor pool from 1.46 billion workers to 2.93 billion workers (Freeman, 2007). Trade agreements such as NAFTA have facilitated the free movement of labor in the form of immigration as well as the exchange of products. During the 1950s, when the middle class was strong, American industry had little competition. American industry could grant concessions to labor and pass costs along to consumers. Businesses did not have to compete on price (Reich, 2007). With competition on pricing at cut-throat levels attributable to the global economy, businesses have moved production to nations with lower wages in order to lower prices. However, with reports that China is currently being abandoned for cheaper workers in Cambodia (Bradsher, 2008), businesses seem to be running out of laborers who work cheaply. In terms of American policy, the goal should be to turn the world into markets (and not just for sales of American cigarettes). To advance the cause of creating markets in Asia, South America, India, and Africa, trade agreements should be tied to living wages for workers in their respective countries.

Economists have applauded free trade: trade allows individual countries to specialize in those sectors in which they have a competitive advantage with the overall effect of local economies of scale achieving greater productivity (Krugman & Obstfeld, 2006). Initially, the assumption was that America's highly skilled labor pool would position America to enjoy a competitive advantage in the high technology sector of production (Freeman, 2007). However, by 2005, both Korea and European Union had a greater proportion of their citizens in universities. In the future by 2010, China will graduate more science and engineering Ph.D.'s than the United States. Presently, China has a burgeoning niche in nanotechnology. Moreover, if work can be sent via the internet to a person offshore --which includes about 10% of employment in the United States--then tasks can be delegated to a lower wage worker in India or

China (Freeman, 2007). For America to remain competitive in high technology sectors, money must be spent on education.

Where to Create Jobs

A strong case can be made for funneling funding into education. Better educated individuals are more productive. A highly educated work force is a big incentive to businesses pondering over where to locate production (Thurow, 2003, p. 36). America needs to provide low cost education to all citizens. The GI bill did a great deal to create more productive workers. Jim Webb has argued for a GI bill for returning Iraq veterans. Although a GI bill would be a start, it cannot have the same effect as it did after World War II because World War II involved such a large percentage of the population as soldiers. Thus, a GI bill for everyone is required. Moreover, individuals who are displaced because of the global economy, should be retrained in a needed skill (Thurow, 2003). Young children should be in daycare, not only as a support to families, but also because Head Start programs expand the capacity of children to learn once they get in grade school and will later contribute to economic growth (Dickens, Sawhill, & Tebbs, 2006). American needs to invest in a highly skilled work force and this investment will require hiring more educators.

Fiscal policy intervention should be coupled with employing Americans in jobs that will improve the productivity in the long run, that is, building roads, bridges, infrastructure. Government spending on infrastructure has gone from four percent of government spending in 1960 to two percent in 1998 (Palley, 1998). By investing in improvements in infrastructure, America could employ those truly disadvantaged minorities who have been left out of the larger economy (Wilson, 1996). Moreover, the productivity of labor (i.e., the capacity to produce more at a lower cost) would improve. Decreasing the number of unemployed should increase the bargaining position of labor and increase wages (Palley, 1998).

Oil prices have currently declined probably as result of decreased demand occasioned by the current global recession. The temporary decline in the price of oil does not imply that the imperative of developing alternative sources of energy has abated. For national security, America must lessen its dependence of foreign oil. For purposes of saving the planet, global dependence of fossil fuels must be stopped. Finally, many argue that the world supply of oil is running out-- period (Cohen, 2007). Research and development of alternative sources of energy needs to occur. Better uses of extant energy sources (e.g., electric cars, more efficient heating systems, better insulation, mass transit systems) need to be developed. Madrick (2007) argues that costs of research and development on new technology won't be borne by private investment because "returns to such investments are typically diffused throughout the society". Government has to assume responsibility. Massive investment must occur. These investments can be expected to increase employment as well as creating a new niche for America in the global economy.

Strengthening Unions

Thus far, we have argued for policies that will employ more people and will increase the productivity of those who are employed. Economists have argued that wage levels are coupled to the productivity of workers. However, during the current past two decades the productivity of the American worker has increased without a commensurate increase in wages (Dew-Becket & Gordon, 2005; Krugman, 2007; Levy & Temlin, 2007; Sawhill & Morton, 2007). We have learned that more than "the invisible hand of the market" is required. Looking to the lessons of how the middle class was expanded following World War II instructs that policies are needed to strengthen the bargaining position of labor. The Justice Department should enforce the NLRB, which makes it illegal for employers to prevent employees from organizing. Employers in violation of the law pay fines and punitive damages. Aggrieved employees should receive back-pay and those who file legitimate claims should be reinstated while their cases are adjudicated (Sklar et al., 2001, p. 152).

Unions as well as other organized groups such as ACORN strive to pass living wage legislation. We need a “real living wage” minimum wage law. If government funding expands the creation of new jobs, minimum wage legislation would set a floor for the wages offered for these new jobs (Shulman, 2007).

A Role for the Practitioner

The past presidential election is witness to the vital role of the practitioner in changing American policy. Acorn registered thousands of new voters. Without these new voters, Obama would not have been elected. The reader has undoubtedly recognized that many of our recommendations for fiscal policy have been endorsed by President-Elect Obama. In order to implement these policies getting them through a senate where filibuster is still possible, continuing support from organizations such as Acorn will be needed. Practitioners can continue to recruit people who can be called upon to contact senators and representatives. Along with creating organizations of activists, it will be critically important to monitor the precise terms of stimulus packages to ensure that protections for labor are included.

With unprecedented numbers of Americans losing their jobs as a result of the current recession coming atop of job losses attributable to globalization, a new practitioner role seems likely to emerge. Matching displaced workers with jobs created by government stimulus packages seems to be a more efficient mechanism than allowing people to find their own way through the employment maze, haphazardly matching skills with vacancies. The practitioner tasked with matching persons to jobs could also ensure that new workers are apprised of their right to join the union. Tactics formerly used by employers to discourage unionizing (see Sklar et al., 2001, p. 152) can be circumvented.

The present economic crisis offers opportunities for creating a better America with a stronger middle class. Strengthening union membership and mandating a “living-wage” minimum-wage are vital components to seizing the opportunities for creating more equitable America. Social work practitioners must continue to organize politically to ensure that the promised stimulus packages really will result in a stronger middle class.

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Table 1: Distribution (in percentages) of all earned income across various quintiles: 1967 to 2005

Income Quintiles	1967	1970	1975	1980	1985	1990	1995	2000	2005
Lowest Quintile	4.0	4.1	4.4	4.3	4.0	3.9	3.7	3.6	3.4
Second Quintile	10.8	10.8	10.5	10.3	9.7	9.6	9.1	8.9	8.6
Middle Quintile	17.3	17.4	17.1	16.9	16.3	15.9	15.2	14.8	14.6
Fourth Quintile	24.2	24.5	24.8	24.9	24.6	24.0	23.3	23.0	23.0
Highest Quintile	43.8	43.3	43.2	43.7	45.3	46.6	48.7	49.8	50.4

Notes: 2005 average income: $10,655 for lowest quintile, $27,357 for second, $46,301 for middle, $72,825 for fourth, and $159,583 for highest.

Source: U.S. Census Bureau (2005). *Current Population Survey, 1968 to 2006 Annual Social and Economic Supplements*

Table 2: Measures of Income Inequality: The U.S. compared to Selected Industrial Countries

Country	Gini Index 2004	Decile Ratio 2000
United States	**0.47**	**5.7**
United Kingdom	0.36	4.6
Australia	0.35	4.2
France	0.33	3.4
Germany	0.28	3.4
Sweden	0.25	3.0
Japan	0.25	4.2
Denmark	0.25	2.8

Source for Gini Index: United Nations Human Development Report, 2004;

Source for Decline Ratio: Brandolini & Smeeding, 2007, p. 30

Table 3. New Deal & Post War Policies That Reduced Inequality, Contributed to Income Compression & Helped Build a Large Middle Class in the US

Movements, Interest Groups, organizations	Policy & Year Passed	What policy or institution Changed?	Direct or Indirect Outcomes
Labor	National Industrial Relations Act (NIRA) Passed 1933, declared unconstitutional in 1935	1. gave federal govt. control over employer-employee contracts 2. created first minimum wage	1.Unions and collective bargaining flourished 2. wages & prices increased, avg. hours worked per week went down
	National Housing Act (1934)	Created the Federal Housing Administration Which began insuring housing loans (FHA loans) for families that would not otherwise qualify for a private bank loan	Homeownership for middle income families began rising and continued gradually rising for the next 60+ years
Labor	National Labor Relations Act (NLRA) 1935	1. formally endorsed rights of labor unions 2. limited employer tactics to obstruct union organizing 3. re-established $.25/hour minimum wage	1. unions continued strong growth; union membership tripled between 1933 and 1938, and doubled again by 1947[get raw numbers here]
Labor	Works Progress Administration	1. created jobs paid by government money	1. By 1936 over 3.4 million people were on payroll at WPA jobs

	(WPA) 1935		
	Social Security Act 1935	1.created unemployment insurance, Old Age Assistance, disability insurance, Aid to Dependent Children	Reduced extreme poverty for senior citizens, unemployed workers, the disabled, and children with single parents
	Federal Income Tax (1936)	Increased top income tax rate to 79%	Lowered net income for people in the highest tax bracket
Labor	National War Labor Board 1942	1. Set wage caps in many key industries 2. arbitrated labor-management disputes 3. made employer contributions to employee benefits packages non-taxable as wages 4. created dues check-off system	1. one effect of wage caps was to raise the wages of lowest paid workers much more than higher paid workers 2. dues check-off allowed unions to collect dues via payroll deduction; this simplified and improved unions' ability to collect dues from members
	Revenue Act of 1942	Taxed significant wartime earnings, but did not tax employer contributions to pensions and health insurance	1. created tax incentives for companies to offer more generous benefits packages, (although employers didn't like this they complied and realized generous benefits discouraged union organizing)
American Legion, veterans organizations	Servicemen's Readjustment Act of 1944	Commonly known as the GI Bill; provided education, home loan, and unemployment benefits to WWII Veterans	By 1952 the GI Bill had paid for the education of 7.8 million veterans and backed 2.4 million low interest home loans
	Treaty of Detroit	Landmark contract between	1.Ford & Chrysler adopted

Labor	1950	General Motors and the United Auto Workers union; created pension plan, Cost of Living increases, comprehensive health insurance`	essentially the same contract and it was widely copied throughout large industries; 2.considered the contract that set the standard for relatively peaceful labor-management relations and shared prosperity; 3 workers received wage and benefit increases tied to production; management received labor peace and improved ability to control long range planning and production

Note: Data in Table draws from Goldin & Margo, 1992; Krugman, 2007; Levy & Tremlin, 2006; Murollo & Chitty, 2001

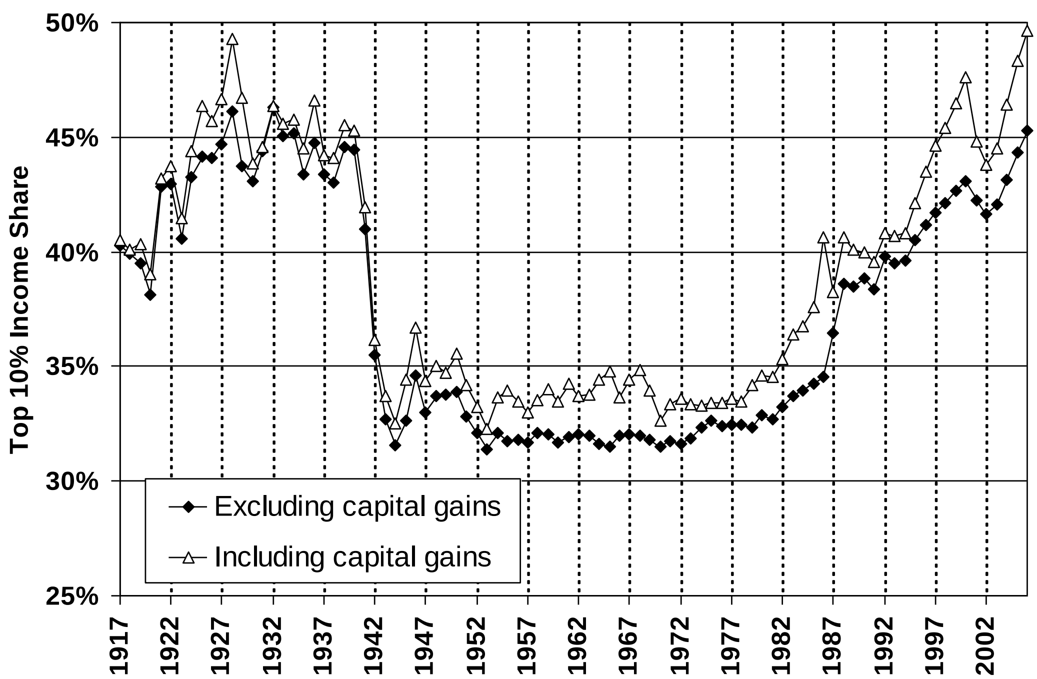

Figure 1

The Top Decile Income Share, 1917-2006

Notes: Income is defined as market income (and excludes government transfers).

Source: Piketty and Saez (2003), series updated to 2006; http://elsa.berkeley.edu/~saez/TabFig2006prel.xls