The benefits of unregulated free enterprise are greatly exaggerated by prevailing claims made on behalf of American business by pundits, the popular press, broadcast media, and the vast majority of elected officials in the United States. The pressures to embrace the commonly held beliefs espoused about the American economic system are so strong that since the onset of the cold war—and more particularly after the fall of the Soviet Union—contrary views are rarely printed in the USA. Thus, it somewhat surprising that John Galbraith’s book on the crisis in American pay was not only printed, but also was well received by a substantial number of influential scholars and opinion makers.

For decades before 1970, the United States government was able to promote technological progress while maintaining a stable relationship between rich and poor. Frequently, government spending made technological progress feasible, starting with government contracts during the War of 1812, which pioneered the system of inter-changeable parts, and continuing through government subsidies for railroad expansion, medical breakthroughs, radar, computer technology, and aerospace technology. All of these efforts benefited American business and the American public. During those years, the country became a truly middle-class society. However, working-class individuals often found that the American economic system did not provide equal access to opportunity. Instead, the system operated much like a handicap race in which some individuals were given a head start, through advantages of social class,
political connections, racial preferences, or geographic and educational preferences.

Nowhere were the advantages more evident than in wage scales. During the New Deal, labor unions became legal, and collective bargaining narrowed the gap between rich and poor, helping to entrench the middle-class. But, starting the 1970s, the influence of labor unions declined sharply and, during the Reagan years, the vacuum was filled by quasi-monopolies and policies that punished the poor and favored the wealthy. Income redistribution heavily favored the wealthy. While welfare payments, unemployment insurance, and veteran's benefits slowed the shift of wealth to the very rich, those benefits were more than offset by social security taxes (a regressive, flat tax with an upper limit on the amount taxed) that favor the wealthy, personal interest payments (particularly interest payments on credit card debt) that took from the poor for the benefit of the rich, and wage rates that lagged far behind productivity gains.

The Reagan conservatives argued that skills shortages, and not government policies, created new patterns of income distribution. This turns out to be a politically comfortable, but spurious argument. Rising inequalities in wage structure were neither inevitable nor mysterious. Its principal cause was bad economic performance shared unequally, and imports from low-wage countries made worse by economic policy. The ostensible private, free-market character of the changes in wage structure was an illusion. Relative wages were primarily a matter of public policy, albeit policy governed in large measure by private interest and private pressures, frequently hidden from public view. Public policies before 1970 favored a middle-class society, but not so later on. One must read this well-informed book to get the entire story.

The politics of inequality is mainly about transfer payments, including tax policy, because transfer payments are mediated by the state. The basic issue of income equity surfaces most visibly in bitter discussions about taxes, government budgets, welfare, and entitlement programs. The rise in interest income for the wealthy was the most important source of transfer payments during the period from 1977 to 1997. Rising private debt among those in the lower half of the income scale resulted in income gains for the rich.

The consequences were profound. More equal societies have less poverty. As Galbraith points out (p. 3), “a high degree of inequity causes the comfortable to disavow the needy.” “It increases the social and the psychological distance separating the haves from the have-nots, making it easier to imagine that defects of character or differences of
culture, rather than an unpleasant turn in the larger schemes of economic history, are at the root of the separation.” While economic equality blurs the distinctions between persons, a large gap between rich and poor locks people into casts.

According to Galbraith,

The notion that equalizing skills will equalize incomes rests on a confusion—a confusion between equality in access to lottery tickets and equity in the value of the prizes. It is one thing for a program to hold out, subsidize, and support new chances for individuals to compete on the educational and career ladders. It is something different to promise that the ladder itself will become shorter and wider as a result of an increase in the numbers crowding their way up the rungs. It is something entirely different to suppose that each new entrant and reentrant in the educational sweepstakes will enjoy a chance of success equally high as those who have already entered and won.

The idea that equalizing skills and allowing free labor markets work will recreate the middle-class solidarity of the 1950s is preposterous, as Galbraith makes clear.

The structure of wage scales, adversely affected by the decline in influence of labor unions, is at the heart of America’s continuing problem of income disparity. Without powerful labor unions, the nation needs increases in the minimum wages to bring balance to the system, but this remedy is frequently blocked by efforts to redistribute tax burdens to benefit the wealthy, continued hostility to trade unions, and indifference to preserving the real value of the minimum wage.

Galbraith goes on to explore monopoly power, patterns of industrial change, supply side economics, interest rates, inflation control without unemployment, and the implications of free trade. He challenges the cliches of economics and forces the reader to go beyond glib explanations for an understanding of economic inequalities and potential problems for American democracy.

This provocative, eye-opening book should be widely read.

Keith McClellan
Oak Park, MI 48237