Building Shared Prosperity

Lawrence Mishel and *Nancy Cleeland*

For the better part of three decades, our country has been stuck on a single, simplistic idea about the economy: less government equals more prosperity. American leaders have sought to create a marketplace unfettered by rules and regulations. Let people fend for themselves, they said, and innovation and entrepreneurship will flourish, the economy will grow as never before, and the benefits will eventually lift the fortunes of all.

That was the promise. We have seen – and lived - the reality. From 1989 to 2006, the highest-earning ten percent of U.S. households collected over 90 percent of the nation's income gains. Today the top 1 percent of American families receives 23 percent of all personal income, up from just 10 percent in 1979. Corporate executives earn 275 times as much as average workers, compared with 27 times in 1973.

It's been a fine time to be a CEO or a hedge fund manager, in other words. But the great majority of Americans are less secure and hopeful than they were a generation ago. Jobs are disappearing. Real family incomes are falling. Retirement security is a fading ideal. Health care is becoming a privilege rather than an expectation. In the struggle to keep up with expenses (or avoid falling too far behind), Americans are working longer hours, borrowing more, and living closer to the financial edge.

By degrees, the United States has become a more economically unequal country than at any time since the 1920s, and the most unequal of all of the world's developed nations today. By that measure, in fact, we are drifting away from the relatively egalitarian pattern of Western Europe and the Pacific Rim countries – toward the orbit of Russia and Latin America.

This is not a safe path. Extreme inequality hobbles mobility, leaving poor and working-class Americans and their children with little chance to move into higher-paid and more rewarding jobs. The stress of constant financial worry among the majority stifles innovation and technological progress. In an economy that relies heavily on consumer spending, the shortage of disposable income makes a bad situation worse.

Our leaders used to understand the danger. "The welfare of each of us is dependent fundamentally upon the welfare of all of us," said a Republican president, Theodore Roosevelt, at a time not unlike our own, when the rich had been getting ever-richer while workers struggled with low pay, unsafe conditions, and the ever-present dread of falling off a financial cliff.

Bit by bit, against fierce opposition, the reformers of Teddy Roosevelt's day succeeded in enacting an early set of consumer and worker protections. But it took additional decades and a Great Depression before the country was ready to put solid legal weight behind the ideal of shared welfare. That happened when another Roosevelt - Teddy's Democratic fifth cousin - pushed through the landmark legislation that we remember as the New Deal.

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From the 1940s into the 1970s, leaders of both parties carried on the effort to promote broad-based economic security and opportunity. Although not all racial and ethnic groups benefited equally, the laws and programs that became the postwar social contract helped tens of millions of Americans enter a middle class that was the envy of the world.

Then came the harsh ideology (concealed in the sunny rhetoric) of the "Reagan Revolution." Since the early 1980s, Reagan and his heirs have hacked away at FDR's legacy. Years of deregulation, de-unionization, skewed tax policies, and lax enforcement of worker protections have tipped the scales in favor of corporate and financial insiders, and against the great majority of American workers and families. Those same policies have fed waves of financial speculation. In one of the most recent and destructive of these episodes, millions of Americans were talked into booby-trapped mortgages. Many now face the threat of losing their homes; others stand to lose much of their home-equity wealth.

Clearly, the economy will be the first order of business for the new leaders who take office in January 2009. Just as clearly, the old answers – the familiar mix of tax cuts and fiscal and monetary tinkering – will no longer do. But America needs more than a new set of economic policies; we need a new purpose for economic policy.

The mission before us is to build an economy of shared prosperity. That will mean taking steps to reduce economic insecurity and give Americans a chance to breathe easier and plan for the future without dread. Another key piece of a shared-prosperity agenda (discussed in the essay that follows) is public investment in our crumbling infrastructure, in education, and in job creation. Finally, we must shape a new brand of globalization that serves ordinary people in exporting and importing countries alike.

Most Americans grasp the need for bold action. Polls show a widespread recognition that the current economic model is not sustainable. But while the old mythology has failed disastrously on the ground, it still echoes powerfully in Washington and other centers of influential opinion; the push for an agenda of shared prosperity promises to be a mighty struggle. But the outcome will be worth struggling for: a world of less stress, more opportunity, greater mobility, more fairness, and renewed confidence.

And there is every reason to expect that an economy of shared prosperity will be a stronger economy, too. “We have always known that heedless self-interest was bad morals,” said Franklin Roosevelt, looking out on the damage wrought by the laissez-faire policies and corporate excesses of the 1920s. “We know now that it is bad economics.”

We knew it then, and we know it now. This time, America must not forget.

The stress of financial worry stifles innovation and technological progress.

Authors

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Prosperity Ideas

Addressing Key Roots of Economic Insecurity

Skyrocketing health care costs are hurting U.S. businesses as well as families and individuals. The current system denies access to some 45 million Americans while pushing costs higher than those in comparable countries. Employers faced with these rising costs are cutting benefits or passing on costs to their workers, who are increasingly foregoing health insurance altogether. Medical bills now account for half of all bankruptcies.

Retirement has also become increasingly risky for Americans, who can no longer count on the pension plans that were once a standard employment benefit. Today, a shrinking number of employers provide any sort of retirement plan, and those who do overwhelmingly favor personal accounts such as 401(k)s, which are managed by employees and often require matching contributions. Financially, the baby boomers are ill-prepared for retirement: more than one-third of those 55 and older have less than $25,000 in savings, and a growing number are dipping into retirement accounts to fund routine expenses.

This double dose of risk is bad news for the overall economy as well as the individuals involved. But there are ways to rebuild stability into these two important features of life. The Health Care for America Plan, detailed elsewhere in this book, combines employer-provided health insurance with a set of public plans to cover all Americans, at a net savings to national health spending. It reduces costs for responsible employers and puts all businesses on a level playing field.

A fix to retirement insecurity is also within reach. First, it should be recognized that Social Security, always designed as a supplement to retirement, is fully-funded for decades to come. Raising the earnings cap – now set at a low $102,000 – so that top-earners contribute a fair share would eliminate shortfalls down the line. The system was originally intended to draw revenues from 90 percent of all wages; that ratio should be restored.

In addition, a plan known as the Guaranteed Retirement Account (GRA), authored by economist Teresa Ghilarducci of the New School University and released by the Economic Policy Institute, would augment Social Security payments so that all Americans can retire in dignity. The accounts would be funded by employer and worker contributions with a guaranteed payout after retirement. The new system would cut tax subsidies that mainly benefit the very rich in order to provide the retirement contributions for low-income workers.

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-Theodore Roosevelt

Investing in Competitiveness

From the nation's earliest years, federal infrastructure projects — in such things as highways, railroads, electricity and water systems — have helped fuel economic growth while improving the quality of life for all. But such investments have been woefully inadequate for years. The American Society of Civil Engineers estimates it would take $1.6 trillion over five years to bring the nation's bridges, dams, sewer systems and other infrastructure up to good condition. Schools are also badly in need of public investment for repairs and maintenance. And we must invest money in broadband build out, so that all parts of the nation can participate in technology-related productivity growth.

In addition to improving public health and safety, these projects have the added benefits of stimulating the weakening economy and creating millions of good jobs. For example, a $20 billion investment in school repairs would generate an estimated 250,000 jobs. To make the most of this approach, we must ensure that all jobs associated with this public spending offer fair pay and benefits and policies that allow for work/life balance.

We can also rebuild the nation's important manufacturing base while improving the environment by promoting jobs in the area of renewable energy. Having a comprehensive green job strategy involves not only doing the work, but ensuring that the components used to generate energy from the wind, the sun and other alternative sources are made domestically. With the right policies, the United States can have a revitalized manufacturing sector that brings with it good jobs, rapid innovation and environmental sustainability.

Reconnecting Pay and Productivity

Productivity has risen 20 percent since 2000, and yet most benefits of that economic growth have gone to the very rich, while typical workers' incomes have stagnated or declined. The growing disparities reflect the declining power of workers to demand their fair share of growth. There are a number of practical steps to restore the necessary economic balance between employers and employees.

One is to restore the ability of workers to freely join unions by passing the Employee Free Choice Act (EFCA), which permits unionization if a majority of workers sign union cards. The benefits of union membership are clear: members earn 14 percent more on average than non-members and are far likelier to have a pension plan and health insurance.

The federal government also has an important role in this area. The Labor Department must return to vigorously enforcing and improving the laws that govern wages, hours, overtime premiums and occupational health and safety. The minimum wage should be raised to match half the average wage (as it once was) and maintained at that level.

More fundamental, we as a nation should set a goal of full employment, which in itself will empower workers. It is no coincidence that income grew and poverty rates fell across all population groups in the late 1990s, when a roaring economy created millions of jobs and briefly drove unemployment rates down to historic lows.

Trade and Prosperity: Home and Abroad

American workers are losing ground in the global marketplace, where corporate interests have trumped all others in rulemaking for international trade. The United States has shed 7 million jobs tied to trade since the late 1970s, when imports began to grow faster than exports. Changes in technology and economic policy have facilitated the movement of jobs offshore, and now some 50 percent of all manufacturing production of U.S.-based companies is located in foreign countries. As outsourcing expands, globalization's losers extend well beyond the least-educated and unskilled. The idea that trade's negative impacts could be reversed with job training and education clearly has not been borne out.

A serious response to these trends must begin with public investment at home– supporting education, job assistance and innovation. Meanwhile, we should declare a strategic pause in trade agreements, and insist that any future agreements include provisions for enforceable labor rights. Another key step is to enforce current trade policies and to eliminate perverse tax incentives that favor overseas investments, and consider instituting value-added taxes that favor exports over imports, as other nations do. Finally, we should promote a more stable and equitable global financial system.

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