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The Case of the Vanishing Middle Class

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Timothy Noah's *The Great Divergence* deftly explores the roots and resurgence of American inequality.

Did Timothy Noah catch a wave or anticipate one? In 2010, Noah, a longtime public-policy reporter now at *The New Republic*, wrote a ten-part series in *Slate* about American economic inequality. This was at a time when the most discussed issue in U.S. politics was how much government Tea Partiers aimed to slash and how quickly we must balance the budget—even in the face of the worst downturn in eight decades. Then, about a year after the *Slate* series, Occupy Wall Street and its proxies around the country seemingly awakened the nation to the vast disparity of wealth between the top 1 percent and the rest of us. This was just in time for *The Great Divergence*, Noah's expanded book on the subject, to refer to the movement in an introduction.

On the other hand, important ideas may lie dormant for ages, unacknowledged beyond a few specialists—and then, suddenly, they pervade “the air around us,” as an old professor of mine used to say. So it is with the issue of inequality, whose current salience is also a victory for a liberal intellectual/media infrastructure that has developed over the past 20 years. Even as it became the conventional wisdom of Washington centrist elites like David Brooks, *The Washington Post* editorial board, and the Sunday network pundits to fret about debt and deficits, this alternative establishment of intellectuals, academics, writers, and engaged professionals—notably the economists' duo of Thomas Piketty and Emmanuel Saez, the political--science team of Jacob Hacker and Paul Pierson, and the journalist Thomas Edsall—had been preparing the case that inequality is the defining issue of our time. One distilled result of these efforts, to which Noah gives full and generous credit, is his superb new book.

The story told here is, as Noah himself puts it, “not principally a story about the poor.” It was bad to be poor in 1979; it's bad now, too, but not so dramatically worse. The major difference is the chasm that has opened between today's middle class and the rich. It would be impossible to list all the changes in American life since 1928, the country's previous inequality high point. But in at least one important way, it might as well *be* 1928 again. In that year, the richest 1 percent held 24 percent of the nation's income. Holdings at the very top declined to as low as 9 percent by the 1970s. But by 2007, the top 1 percent again held ... 24 percent (yes, the 1 percent's share is just slightly lower after the recession—the rich have more to lose—but it will rebound with the economy).

While other advanced democracies have experienced similar trends, the U.S. situation is more profound, and worsening faster. Noah also discredits the reassuring hokum that American social

mobility—the enabling national fairy tale that any one of us can go from “rags to riches”—acts as a counterbalance. Perhaps a century ago but no longer. As Noah puts it, italics his: “*Almost (arguably every) comparably developed nation for which we have data offers greater income mobility than the United States.*”

What caused this disparity? Noah is our unpretentious Detective Columbo, walking us through theories of the case. There are many suspects to interrogate, and there turn out to be not one but two crimes to solve. First, how did the “stinking rich” (Noah’s glib phrase for the top one-hundredth of 1 percent of the population making more than \$9 million annually) get to be so, well, stinking rich? The answer has a lot to do with pre-tax earnings. Restraining social norms once enforced by a strong labor movement have waned, and corporate executives now take turns bidding up one another’s salaries via enormous stock options untied to company performance. (All this happened while banks were being deregulated, Wall Street partners won massive windfalls as old firms went public, and bankers started to take high-risk, high-reward gambles with clients’ money.) What Noah lambastes as “unequal government,” always sympathetic to the plight of the rich, helped too. For the top one-tenth of 1 percent—those making at least \$1.7 million per year—the effective tax rate has declined by 25 percent since 1979.

Second, how did the middle class stagnate? Unlike in the *Slate* series, and perhaps wisely, Noah’s book offers no unscientific guesstimate as to which factor caused what percentage of the problem. But his reading of the data dismisses some theories and holds others for further questioning. Continued racial and gender discrimination are not the villains. African Americans today are doing almost exactly as well (or not well) as they were in 1979; women have cut nearly in half their income deficit relative to men, in part because men’s incomes failed to rise equivalently. Similarly, the rage against immigration found among Tea Party adherents has almost no basis in economic data. Unskilled immigrants may reduce somewhat the income of the 13 percent of the native-born workforce lacking a high-school degree, but even here, the costs borne are far too small to account for the big-picture shift. As for oft-blamed computers, they have indeed upped the demand for higher-skilled workers and helped to eviscerate occupations like bank teller. But Noah’s divergence started before the computer boom, and it actually “slackened” for a spell, he says, as “businesses stampeded to the Internet” during the 1990s.

Finally, Noah arrives at his prime suspects. Relying on Harvard economists Claudia Goldin and Lawrence Katz, Noah argues that for the first time since the spread of public schools, the education system has been unable to “increase the supply of better-educated workers sufficiently to meet demand.” As schools fell behind, the American labor movement—particularly in the private sector—all but died. This deprived workers, union and non-union alike, of the negotiating leverage necessary to maintain the link between their steadily increasing productivity and their wages.

Throughout, Noah reminds us—in a good way—that he’s not a social scientist or academic but a journalist who can synthesize reams of complex material (and even write wittily about it). A lot of the pleasure here comes from his mini-biographies of figures in what might be called the history of American struggles over money and power. In the volatile period from the mid-19th century until the Great Depression—a time of the rise of monopoly corporations and the great industrial and banking

fortunes of Rockefeller, Carnegie, and Morgan—America experienced enormous income inequality. But the country did also permit some of the social mobility that we’re taught is our birthright. Noah tracks the power of mobility as animating creed in the careers of two writers: Horatio Alger, the idea’s famous 19th-century bard, and James Truslow Adams, born into money himself and a freelance historian of New England, who coined the iconic phrase “the American dream” in 1931, even as the Depression took its terrible toll.

Adams wasn’t just talking about money, though. He imagined a “dream of a social order in which each man and each woman shall be able to attain the fullest stature of which they are innately capable.” Following World War II and pretty much through the 1970s, Adams’s dream could almost be said to have come true. But a battle for the future was under way. Noah gives us a couple of its gladiators. The first is Walter Reuther, the creative and militant president of the United Auto Workers (UAW) who stands at the high-water mark of American unionism and its power to support millions of middle-income Americans during the postwar era. In Noah’s telling, Reuther is the embodiment not just of postwar labor’s strength but also its fragility. He wanted to win more for the unions than just boxing them into the narrow context of collective bargaining; he wanted them at the forefront of public policymaking and decisions about the economy. But Reuther’s innovative vision—of a UAW dedicated, almost in full partnership with auto companies, to building a worker- and consumer-friendly business model—fell on deaf ears in Detroit. Thus even at its peak, organized labor and its most brilliant leader could not persuade American companies to enter into industry--labor managerial collaboration similar to arrangements in Western Europe.

The time of Reuther, who died in a plane crash in 1970, was almost precisely followed by the prime of the less well-known, but perhaps equally influential, Bryce Harlow. Sage aide to Dwight Eisenhower and Richard Nixon and a lobbyist for Procter and Gamble, Harlow effectively founded modern corporate political lobbying in the 1970s. As early as 1962, Noah quotes him warning a trade-group audience: “Our principal occasion for alarm ... is the role of our Federal Government in accelerating the drive for equality.” Harlow himself had the skills of a great organizer and marketer and used them in defense of a beleaguered but still powerful corporate America. Thanks in large measure to his efforts, business defeated a Ralph Nader–supported federal agency for consumer advocacy, a reform bill that would have made labor organizing easier by penalizing corporations in violation of the National Labor Relations Act, and several other major pieces of business and environmental regulation. Harlow’s other lasting legacy is his creation of the Business Roundtable, which brought the principals of large corporations into direct strategic discussion.

Noah tells his stories in pithy prose. I worked in the labor movement for more than 20 years and often described its ongoing deterioration, but I hadn’t thought to characterize the virtual disappearance of private-sector unionism and its influence the way Noah does. In noting that private-sector union density today is no higher—under 7 percent of employees—than it was in the year Franklin Roosevelt became president, he vividly writes, “It’s as if the New Deal never happened.” Reading this, I had an epiphany about the world we had lost: the world of Reuther standing behind Martin Luther King Jr. on that stage in August 1963 or whispering in the ear of Lyndon Johnson, so alarming the titans of the nation’s most important industry that then–auto executive George Romney called him “the most dangerous man in Detroit.” Liberals often comfort themselves that modern conservatives, despite their

best efforts, haven't yet "rolled back" the New Deal. But in the important case of savaging labor unions, the strongest counterweight to big business's drive to redistribute wealth upward, modern conservatism has indeed, as Noah shows, rolled back the New Deal.

What of the larger problem Noah surveys? How will it be solved? Rules of the genre demand that he suggest solutions in his final chapter. He's got smart ones, ranging from somewhat plausible under Democratic governance (universal preschool, a more progressive tax code, a publicly funded infrastructure program) to what seem, barring a transformed political culture, impossible (imposing price controls on college tuition, breaking up the big banks, repealing the 1947 Taft-Hartley Act that so sharply curtailed labor). As often happens in policy advocacy books, this is the point where the visceral power of the author's description of a great wrong dissipates into something more abstract—a scholarly brief rather than a bracing polemic.

Noah concludes *The Great Divergence* by saying, "We can do better." The "we" in that sentence is the book's putative audience: well-educated members of the professional cultural elite. But how? As it stands now, Occupy Wall Street is but a pebble in the ocean compared to the great strikes and mass movements like the populism of the 1890s and the birth of industrial unionism in the 1930s that paved the way, once upon a time, for a more economically just America. Sympathetic intellectuals articulated back then the determination and anger of these ordinary Americans, too, but they were not the "we" who changed the country. No, millions of outraged citizens *compelled* the few-though-powerful—business chieftains, policymakers, and politicians—to ratify a series of political and economic reforms that staved off greater social conflict.

Today's army of liberal intellectuals, writers, bloggers, and academics (led by the indefatigable Paul Krugman—and it is no surprise that Krugman is frequently alluded to here) is necessary but insufficient. In a telling aside, when speaking of the lack of bargaining power most workers have today, Noah admits that "a couple of years ago I worked out with my cleaning lady what I would pay her. Here's how the negotiation went. I told her what I would pay her. She said, 'OK.'" As the abolitionist and social reformer Frederick Douglass said, "Power concedes nothing without a demand." At times in the past, such demands were thunderously made, and those who held power finally conceded some of it. Noah has done what he can, but the great divergence won't end until a lot more people like his cleaning lady start loudly saying, "No, it's not OK at all."