Robert Kuttner

Fewer Fruits For Our Labors

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Let's pause this Labor Day to reclaim the original purpose of the holiday—to honor work and working people. We owe ourselves not just a well-earned long weekend, but a reflection on who is receiving the rewards of work and why.

One of the best-documented recent trends is the stagnation of living standards for most people. For two decades, most of the income gains in the United States have gone to the richest 20 percent and most of that to the top 5 percent.

Honest people can disagree about the cause and cure of this trend, but only a fool or a knave would deny it is occurring. Yet the political right regularly cooks the statistics with think tanks, congressional reports and op-ed columns attempting to obscure what most people know from their household budgets.

The political stakes, of course, are enormous. If the whole turn to the right since 1981—the attack on government, on regulation, on unions, on progressive taxation, the unleashing of speculation—has served only to enrich a few, then the entire exercise loses legitimacy with the voters. If on the other hand, most Americans are benefiting and only a few losers are falling behind because of their own sloth, then the conservative revolution can march triumphantly onward.

Here are the essential facts on living standards:

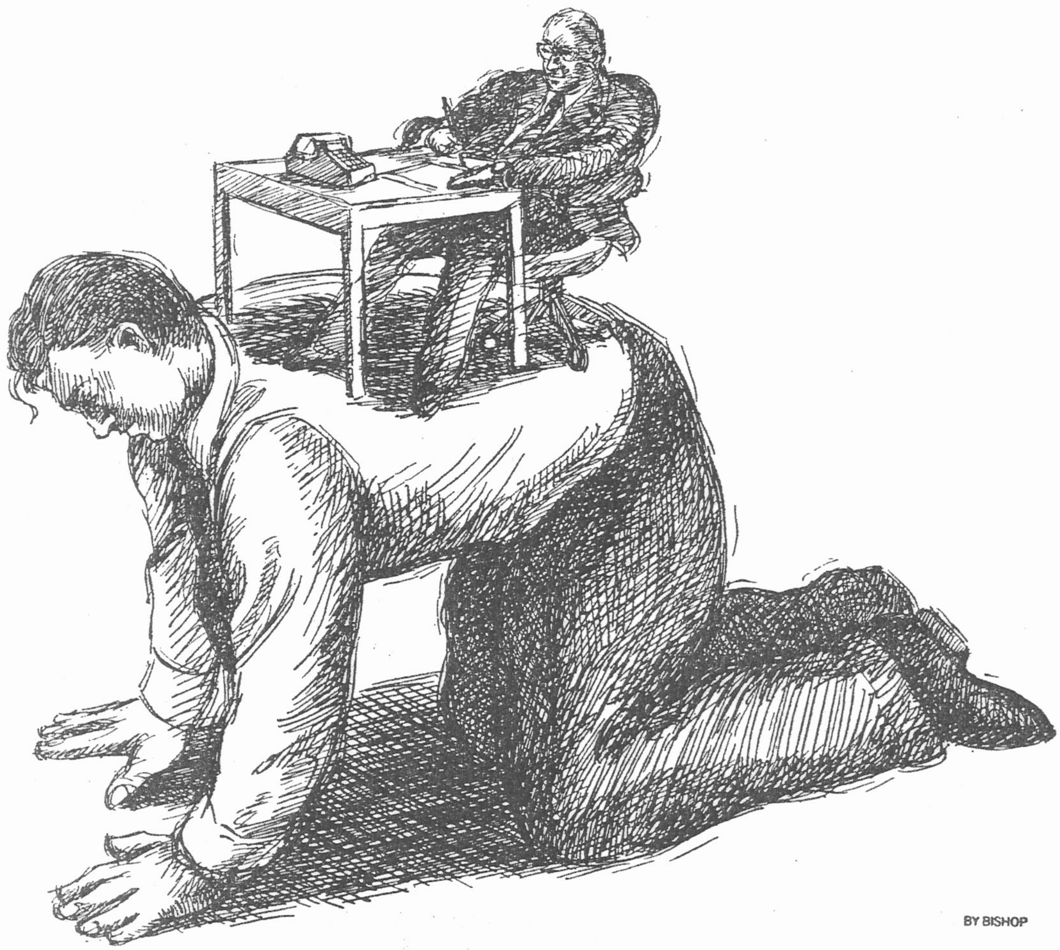
- Productivity is rising, but the median wage is declining. Between 1989 and 1993, productivity-per-hour worked rose about 1.2 percent a year, while the median wage declined about one percent a year.

In 1994 productivity increased a healthy 2.5 percent, while median pay adjusted for inflation fell. So far in 1995, productivity has been increasing at about twice the rate of pay and benefits to workers.

- Since paychecks are the main source of income, the distribution of income is becoming steadily more unequal. That's true whether one takes individual income or household income as the measure.

In 1979 median household income was $38,250. In 1993, adjusted for inflation, it was $36,950. During that period, the economy grew by 35 percent. Somebody was getting the benefit of that increased real wealth, but it wasn't the typical family. Moreover, many families have maintained purchasing power by having two spouses work more total hours, cutting into leisure and family time. So the income statistics understate the real drop in living standards.

- Profits and stock markets are soaring, while the real incomes of the bottom 80 percent of Americans continue to fall.



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■ Wealth is becoming even more concentrated than income. Between 1983 and 1989, the top one percent captured 62 percent of newly created wealth.

Obviously, these realities do not reflect well on the Reagan revolution or the ambitions of its successor Gingrich revolution. Conservative true believers, therefore, are in a relentless campaign to spin the statistics.

For example, conservative polemicist David Frum, in a recent op-ed article in the New York Times, claimed that the widening of the income distribution is good news, because more people are graduating from middle class to rich. This is fantasy.

Frum's "evidence" is that more families today have incomes of more than $75,000 than did in 1975. But this is hardly surprising, since the economy has grown significantly in 20 years. What Frum doesn't say is that nearly all of that growth has gone to the top fifth, that income is more highly concentrated today than at any time since the Great Depression and that more people have lost income than have gained it.

More surprising is a recent Wall Street Journal op-ed piece by Herbert Stein, a respected conservative economist who was Richard Nixon's chief economic adviser. Stein's target is the divergence between wages and productivity.

Stein demonstrates (accurately) that *average* earnings have lagged behind average productivity gains only slightly. Using this statistic, Stein then tries to dispatch the entire controversy.

But Stein is slaying a straw man. He is too good an economist not to know the difference between a median and an average. The problem is what's been happening to the typical paycheck, not the average.

For example, suppose a company employs four workers at $25,000 and the boss pays himself $100,000. The average wage is $40,000 ($200,000 divided by five people). Now suppose that business booms, and the boss raises his pay to $220,000 while cutting his employees' pay to $20,000. The average wage rises to $60,000. Pretty impressive—the average is up 50 percent—except that four out of the five people are now worse off.

This trend, writ large, is what's been destroying the American dream for most families. What to do about the paradox of a rising economy and falling living standards ought to be at the heart of political debate this Labor Day. And whenever the right tries to cook the numbers, we need to demand another menu.