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The Growing Wage Gap  
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Democratic squabbling is not confined these days to policies regarding torture, terrorism and the Iraq War. To the Republicans' delight, many Democrats, led by organizations like Third Way, which describes itself as a policy center to help progressives connect with moderates, are arguing that middle-class Americans have done just fine economically for a few decades. As one Third Way economist puts it, "What progressives generally say about the economy is unrelentingly pessimistic...[and] simply flat-out wrong." The Third Way and like-minded Democrats argue that the middle-class electorate will only be repelled this November by the pleas of some Democrats for more aggressive economic policies to aid the working and middle classes. Most Americans, they claim, are not experiencing the economic pressure progressives say they are, and want only modest new proposals for help.

Who is simply flat-out wrong? Large pockets of Americans have done poorly over the past thirty years. Typical black families earn only about 60 percent of what white families do, most of the gains of the last generation coming in the late 1990s. Women, whose wages have risen fairly consistently from low levels, still earn only 80 percent of what men do. The recent stagnation of wages may be most disturbing. Despite the nation's rapid economic growth in the past five years, a typical household's income is lower today than it was in 2000.

But the most serious victims of the economy of the past thirty-odd years have been men and high school graduates. The erosion of their economic prospects has been consistent and demoralizing. The median wage of all men, discounted for inflation ("real" median wages), remains lower today than it was in 1973. The median is the typical worker, right in the middle of the pack. This is bad enough. But the median male worker with only a high school diploma earns 14 percent less today, after deducting for inflation, than the median worker did in 1973.

The Third Way approach is that you'll be just fine if you go to college. But as the invaluable new edition of *The State of Working America* (Economic Policy Institute) points out, the real median wage for male college graduates is up only 12.8 percent over this period. This is a trivial gain over so long a period. Can Democrats maintain with a straight face that so slight a gain means median workers are doing well? Economic historians have shown that typical incomes grew three times as fast throughout America's industrial history, and still more rapidly in the golden age after World War II. And hours worked generally declined.

What apparently gives Third Way Democrats solace is that real median incomes for two-worker households are up about 20 percent since the late 1970s. But this, too, is a modest gain by historical standards, most of it achieved in the late 1990s. And it is largely the consequence of spouses working more hours.

If spouses hadn't worked more, incomes at the median would have been up only about 9 percent-again, a trivial gain. Median family income for households with one male worker did not rise at all in this period.

One common response to the disappointing gains--among Republicans and quite a few Democrats as well--is that the remarkable new products of recent decades compensate for stagnating wages. This is misleading and betrays a lack of historical perspective. Americans enjoyed comparably and arguably more remarkable new products for much of the nineteenth century and throughout the twentieth. There were the sewing machine, cheap textiles, the kerosene lamp, the bicycle, the telegraph, the steamship and the railroad of the nineteenth century, to name but a few. There were the car and revolutionary electric appliances like the refrigerator, washing machine, record player, telephone and radio in the 1920s and '30s. There was the television revolution in the 1950s and '60s, as well as air-conditioning, inexpensive plastic products of all kinds, jet travel, a government-funded national highway system that opened the suburbs to the budding middle class and, by the 1960s, a significantly expanded Social Security system and a new national healthcare system for the elderly known as Medicare.

In general, health outcomes improved more rapidly over the course of the twentieth century--with the new urban sanitation systems of the early part of the century, antibiotics and vaccines, and more access to treatment--than they do now, despite recent medical miracles.

But through these periods, as noted, real median incomes rose far more rapidly than they have for the past three decades. Thus, families could buy new products that soon became necessities for a middle-class life, such as the car and telephone; buy more of the products they wanted; keep up with the rising costs of most services; and even take the weekend off. This was the American dream.

The rapid rise in the cost of education, healthcare, drugs and other key products in recent decades has created additional problems for those whose incomes have risen only slightly. Many key services are simply out of reach. Many costs associated with education and healthcare, for example, are up by four to five times since the early 1980s, compared with a doubling of consumer prices in general.

If men and high school graduates were truly frustrated, why didn't they vote for the Democrats in droves? Analysts have concocted many explanations for this electoral mystery. The most direct may be not that most Americans had minimal financial difficulties but that enough of them were convinced by politicians, political scientists, economists and influential businessmen back in the inflationary 1970s and '80s that the principal source of their economic problems was big government, taxes and irresponsible social programs. Many Democrats all too readily fell into line.

But unfettered markets have failed to make good the promises of their advocates. Effective new government policies are now the only way to relieve workers' broad economic frustrations, rebuild their damaged confidence and improve their lifetime security. In the long run, the winning strategy for Democrats will be to restore confidence in government, not deny the true state of the economy.

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