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Mark L. Melcher
President
melcher@thepoliticalforum.com

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THE "REICH CURVE." A NOBEL PRIZE FOR THE LABOR SECRETARY?

Mark L. Melcher
Stephen R. Soukup

Bob Dole was widely ridiculed by the media several weeks ago when he said, in response to Pat Buchanan's blathering about American jobs being exported abroad, that he didn't realize that economic security and trade were going to become such a big deal in the primary debates.

Frankly, I thought his position was perfectly understandable. After all, he's old! In fact, in deference to his age, I think the liberals in the press should have ignored his statement altogether instead of publicly deriding him. The illustrious economic seer Ted Koppel told Dole that he just "didn't get it." Talk about "ageism." Whew!

I say give him a break, for goodness sake! He's ancient, after all. How, one wonders, could the press expect someone who lived through the Great Depression to understand how truly terrible today's economic circumstances are? Someone as old as Dole probably looks around at life in America today and thinks things are pretty good. Jheez! What are you going to do Bob, sing "Hey buddy, can you spare a dime?" Give me a break!

In his dotage, it is clear that Dole didn't realize that it is only all right with the media to agree with Clinton that the economy is "the healthiest we have seen in three decades," so long as he also agrees with Clinton and Buchanan that the "average worker" is in terrible, terrible trouble, suffering from extraordinary, Kafkaesque angst, due to the policies of the evil, greedy, rich, white managers of corporate America, who hate their employees and want to get rid of them so they can make all the money themselves.

You see, old people like Dole have trouble with "new ideas" like this. Take for example the newly introduced "Reich curve." My guess is that Dole will never, I repeat *never*, truly understand this amazing new economic concept. What, you ask, is the Reich curve? Well, you know, of course, about the infallible Phillips Curve, which holds that there is an inverse relationship between unemployment and inflation? The Reich curve, recently unveiled by and named after Bill Clinton's esteemed Secretary of Labor Robert B. Reich, holds that there is an inverse relationship between economic growth and economic security.

You don't understand? Well, it is probably because you're old. Listen and try to concentrate! Reich put it this way in the *Washington Post* on Friday, March 8. "At some point, a large number of Americans," he said, "are going to vote in favor of economic policies that sacrifice growth to preserve their economic security." (I'm not making this up.)

You still don't understand? Well, I don't know what to tell you. The press corps apparently understood it quite well. In fact, it seems to have made so much sense to them that few (none actually) recognized that new economic ground had been broken, that no economist in history had ever stumbled on this truth, that not since Mandeville concluded early in the 18th century that "private vices" lead to "publick benefits" has so astounding a new economic concept been revealed. We must sacrifice economic growth for job security, Reich says! What a mind! A Nobel prize must await!

In defense of Dole, I should say here that he is not the only one around today who is so dumb he believes that the average working stiff in American today is doing pretty well. Amity Shlaes, a member of the *Wall Street Journal's* editorial board, actually makes this silly argument in public, in the February issue of *Commentary*. According to Shlaes, in an article entitled "Doom, Gloom and the Middle Class," America is not becoming a nation of "winners and losers," as Reich maintains. Nor is it, as Reich says, a society characterized by "rising profits, rising productivity, and a soaring stock market but employee compensation heading nowhere."

Shlaes argues that people who make these claims wrongly use median wage as the main index of economic health and "equality." Median wage, he says, is "simply too narrow and circumscribed a figure," and is "certainly less reliable than per-capita GDP, a figure which, as it happens, has risen steadily."

The following paragraphs continue Shlaes' argument. To get serious for a moment, this is terrific piece. In my opinion, every Republican, including Bob Dole, should get their hands on this article, read it carefully and memorize the concepts set forth in it in anticipation of endless White House bleating throughout the coming year that the wonderful and healthy economy, which results from Clinton's wise policies, is not being enjoyed as it should be by "working Americans" because of evil Republicans like Newt Gingrich who love "rich" people and hate "the poor."

> In the most rudimentary sense [those who claim that wages have not kept up] are correct: since 1973, the median real wage, a figure adjusted for inflation, has dropped a bit. But 'wage' is itself an increasingly inadequate term for compensation. In recent decades, the great shifts upward in compensation for most people have occurred not in wages or salaries but in benefits or transfer payments. Such non-wage compensations, the part of the average employee's total pay package that is not counted in the falling-wage debate, rose from 5 percent in 1948 to 18 percent in 1994; according to at least one calculation, the effect was to increase hourly compensation per worker in that period from $9.02 to $19.80 in constant dollars.

> The strongest critique of the falling-wage argument has been issued lately by Michael Boskin, former chairman of the Council of Economic Advisers . . . A commission created by the Senate and headed by Boskin has reexamined the Consumer Price index (CPI) . . . and has concluded that the inflation figures used by economists for recent decades have been much too high . . . if we base ourselves on Boskin's newly calculated rates, it turns out that earnings for male workers did not fall by 12 percent over the last two decades, they rose by 14 percent. Similarly, the number of Americans below the official poverty line, according to these figures, is half the previous estimate.
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> Lest this seem like so much sleight-of-hand, there is confirmation from other quarters as well that reality is not what our gloom-mongers tell us. The economists John Sabelhaus (of the Urban Institute) and Joyce Manchester (of the Congressional Budget Office) have compared the income-and-consumption pattern of baby-boomers in 1989 with that of their parents in the early 1960's. Although the older generation benefited from a (probably one-time) windfall in the appreciation of housing, the younger group had accumulated more wealth than its parents at the same age, and its per-capita income was also higher, by a full 55 percent. Hardly grounds, in short, for sitting on a low stool and grieving over "what we had."

Shlaes points out that when economic doom and gloomers tire of the median wage argument, they turn to another trusted weapon in the armory of the income wars, namely distribution tables. But these, he says, produce even greater distortions.

> By definition, income-distribution figures depict a rigid world of winners--the top decile or quintile--and losers--the bottom decile or quintile. It is true that in the years since 1973, those in the top decile, the "winners," have made greater gains than those in the bottom, largely because of the premium placed by high-tech societies like ours on education. But higher earners have also assumed a bigger financial responsibility for the "losers." When Congress lowered tax rates, more Americans got richer, and those increasingly rich Americans paid a higher share of taxes; this in turn enabled the government to spend more money on the poor, who also got richer.
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> Indeed, spending for the poor is itself a factor that affects the meaning of income-distribution figures. When such figures first began to be compiled many decades ago, those in the bottom quintile, or decile, lived on what they earned, and little else; the poor were indeed very poor. But then came the War on Poverty. As even Danziger and Gottschalk pause to note, the legislation of the 60's far outdid the New Deal in scope and outlay; between 1965 and 1975, spending on social-welfare programs more than doubled, from 4.7 to 10.1 percent of Gross National Product (GDP). Since then, and particularly under Presidents Bush and Clinton, a cash-rebate program, the Earned Income Tax Credit (EITC), has been put in place for the working poor; this program has ballooned so dramatically that the Treasury sent out $20 billion in EITC checks in the first nine months of 1995 alone.
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> Little of this is reflected in income-distribution tables. It is, however, reflected in the purchasing power of the U. S. poor. As the economist Bruce Bartlett has noted,

> Americans in the bottom quintile spend just about twice the income they officially report . . . The U.S. still has poverty, but it is substantially different from what went by that name before the Great Society.
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> Mobility plays a role as well. The picture that emerges from income-distribution charts is as static as Upstairs, Downstairs, but in fact America is an enormously fluid society. As Isabel Sawhill, a Clinton appointee, has documented, the much-reviled Reagan years were themselves very mobile ones, with millions of citizens moving up and down the income ladder. Tax-return data from 1979 to 1988 show, according to an analysis by the Joint Economic Committee, that 86 percent of those in the bottom quintile moved up, and 40 percent of those in the top two quintiles moved there from farther down.
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> Finally, there is, as Robert J. Samuelson correctly notes, the issue of history. If . . . one regards history as having effectively begun on V-J day, the downward trend of the median real wage does indeed look significant. But in the context of the larger movement of the century, it is a tiny bump on what is basically a straight line. And indeed, in that larger context, America today is about as "equal" as it was in 1945. The true high point of inequality in this century occurred in the Roaring 20's: in 1925, the rich took in 30% of all income as compared to under 20 percent today.

From an economic standpoint, Shlaes' arguments are comforting. But on the political front there is considerable evidence, not the least of which is Buchanan's success in the primaries, that a large share of the nation's blue collar workers don't buy it, and are as full of angst and class envy as Buchanan, Clinton and Reich apparently believe them to be.

If this is indeed the case, then Democratic politicians should do very well with these voters in November. But popularity with this unhappy crowd could be a mixed blessing in the long run. How, one might ask, will Clinton and Reich ever make these people and their families happy, given the fact that their standard of living has been subsidized to the tune of some four trillion dollars of government borrowing since 1980.

Part of Shlaes' article is devoted to a terrific new book by the aforementioned Robert Samuelson entitled *The Good Life and its Discontents*, in which the *Newsweek* and *Washington Post* columnist argues that, in the words of Shlaes, "Thomas Jefferson's nation of yeomen has become a land of perpetual dependents." If we include Medicare, energy assistance, and Social Security, Samuelson points out, fully 51 percent of American families already receive some form of federal payment.

According to Samuelson, the government can no longer afford to continue this pattern. He says that the government has made more commitments than it can possibly keep. Samuelson's bottom line, as stated by Shlaes is as follows: "The American dream . . . is an all-but-permanent fantasy, killed by the conviction that 'ultimately, everyone is entitled to everything.'"

I am reasonably optimistic that a majority of Americans realize that they are enormously fortunate to be living in the United States in the closing days of the 20th century; that capitalism has been good to them and to their families; that their standard of living and economic security has actually improved greatly during the past few decades; that jobs are created by investment and that investment can only occur if people are allowed to save; that opportunities to succeed through hard work and thrift still abound. In short, I am optimistic that the Clinton, Reich, Buchanan message of class envy and economic despair will not play well come November.

But I should admit here, as I have in previous articles, that I am not particularly confident about my ability to gauge what the nation's baby boom generation really believes about life and government. In an article in the September 18 issue of *The Weekly Standard*, Author Noemie Emery provides a note of caution that I think is worth considering. Describing the baby boomers as a Lost Generation "done in not by war, but by peace," Emery says the following:

> Born post-war, and post-atom, their wars were either cold or small. Post-Depression, they were spared true privation. Post-penicillin, post-polio, they were borne by medicine past the infectious diseases that had borne off the old, and the young. They came in on a tide of material plenty: inventions, gadgets, and toys. Born safe--born healthy--they were not yet born happy: Into the void cleared by the absence of exterior challenge flowed an intense preoccupation with the self. The generation with the least to complain of became the most intensely self-pitying, the most easily frightened, the most readily fazed.
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> In the absence of real ills, small ones became giant, or were invented completely. The generation without struggle invented the Midlife Crisis. The Identity Crisis. The Crisis of Meaning. Age was a crisis. So were Relationships. Normal transitions became awesome hurdles, consuming acres of newsprint. Finding oneself became a life's work. Given the world, the boomers turned inward, defining external events by their personal impact.

We'll see.