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Bottom-up economic theory

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Sunday, October 5, 2008

The Mother of All Bailouts may be necessary to unfreeze our capital markets, but it won't unfreeze the American economy.

Bailout or no bailout, we're heading into deep recession. One of the first initiatives that Congress and the next administration will need to take will be an economic stimulus package. But not even this will remedy the underlying problem: The earnings of most Americans haven't kept up with the cost of living. That means there's not enough purchasing power to keep the economy going.

Adjusted for inflation, the incomes of nongovernment workers are lower today than in 2000. They're barely higher than they were in the mid-1970s. The income of a man in his 30s is now 12 percent below that of a man his age three decades ago.

Per-person productivity has grown considerably over the past three decades and has continued to rise even in the lackluster recovery of this decade.

But most Americans haven't reaped the benefits of these productivity gains. The benefits have gone largely to the top.

The top 1 percent of American earners now take home about 20 percent of total national income. In 1980, the top 1 percent took home just 8 percent. Inequality on this scale is bad for many reasons, but it is also bad for the economy.

The wealthy devote a smaller percentage of their earnings to buying things than the rest of us because, after all, they're rich and already have most of what they want. Instead of buying, the very wealthy are more likely to invest their earnings wherever around the world they can get the highest return.

The last time the top 1 percent took home 20 percent of total income was 1928. After that, the economy caved in.

The underlying earnings problem has been masked for years as middle- and lower-income Americans found means to live beyond their paychecks. The first coping mechanism was to send more women into paid work. The percentage of American working mothers with school-age children has almost doubled since 1970, to more than 70 percent. But there's a limit to how many mothers can maintain paying jobs.

So Americans turned to a second coping mechanism - working more hours. Americans have became veritable workaholics, putting in 350 more hours a year than the average European, more even than the notoriously industrious Japanese.

But there's also a limit to how many hours Americans can work. So we turned to a third way of coping. We began to borrow. With housing prices rising briskly through the 1990s and even faster this decade, we turned our homes into piggy banks.

But now, with the bursting of the housing bubble, we're reaching the end of our ability to borrow, just as lenders have reached the end of their capacity to lend.

That means there's not enough purchasing power in the economy to buy all the goods and services it's producing.

We're finally reaping the whirlwind of widening inequality and ever more concentrated wealth.

The only way to keep the economy going over the long run is to increase the real earnings of middle- and lower-middle-class Americans.

The answer isn't to protect jobs through trade protection. That would only drive up the prices of everything purchased from abroad. Most routine jobs are being automated anyway.

Nor is it to give tax breaks to the very wealthy and to giant corporations in the hope they will trickle down to everyone else. We've tried that and it hasn't worked. Nothing trickled down.

The long-term answer is for America to invest in the productivity of our working people - enabling families to afford health insurance and have access to good schools and higher education, while also rebuilding our infrastructure and investing in the clean-energy technologies of the future. We must also adopt progressive taxes at the federal, state and local levels.

Call it bottom-up economics.

It would be a sad irony if the Wall Street bailout robs us of the resources we need to invest in average Americans and rebuild America from the bottom up.

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