Wealth and Power in the U.S Out of Whack

written by Michael Hirsch | November 19, 2013

Growing Income Disparities 'Danger to System,' says Former Clinton Labor Secretary
(A mixed review of Robert Reich's documentary 'Inequality for All')

Robert Reich, the intellectual giant, stands 4 foot 11 inches tall, dripping wet. He jokes about it. He comfortably drives a Mini Cooper and once co-hosted a talk show with terrifically tall and terrifyingly conservative (except by Tea Party standards) ex-Wyoming Sen. Alan Simpson (the show was called "The Long and the Short of It"). The author of 13 books, he served in the Ford, Carter and Clinton administrations—the later posting as secretary of labor from 1993 to 1996, a post he resigned from after losing one last intramural battle to Treasury secretary and Wall Street princeling Robert Rubin. Among his better senior hires: labor leaders Karen Nussbaum(SEIU Local 925) and Joyce Miller (Amalgamated Clothing and Textile Workers). His presentations come with equal parts easy-to-assimilate detail and a self-deprecating, wry humor.

The peppery Reich considers himself a center-left liberal, which may explain why he didn't publicly rebuke Clinton's ending of welfare as we know it. "I have never been a member of the Communist Party," he tells one television interviewer without prompting, but in his graying years he has become a leading critic of cascading income inequalty in the United States .

His 2010 book, Aftershock: The Next Economy and America's Future, and the recent documentary, "Inequality for All," based on the book and his presentations to standing room-only lecture-hall classes at the University of California-Berkeley — whose number of graduate assistants alone could explain any rise in the Bay Area employment rate — are damning indictments of a corporate system that impoverishes tens of millions even as it sabotages its own capacity to grow the capitalist system. Anyone interested in understanding the hypertrophic gap separating the super rich from not just the poor but also middle-income households should see this film. Better still, read the book. The picture he draws of a widening class divide and a growing plutocratic threat to democracy is perfect in detail. (Here's one nibble: how many of us knew, for example, that the U.S. ranks 64th among nations on the inequality scale — only slightly better than several war-ridden West African nations. I did, and only because TV's John Stewart showcased that fact, courtesy of Reich.)

That's just one sobering fact among scores Reich reveals, as he asks "How much inequality can we have and still have capitalism?" That theme works in the film the way creepy music does in a monster flick. You know some rough beast is slouching toward center stage, and you know it by its works.

But beware: Reich is no socialist. He says he loves capitalism, but thinks it can be fixed if only the rich understand that income inequality and the loss of buying power are bad for them, and that vast income and wealth disparities — translated as declining purchasing power — are themselves the cause of economic crises and the precursors to the social order's demise. That's a social order over which they rule.

That frame is problematic. Leaving it in the realm of bad ideas and not seeing exploitation as an intrinsic and systemic necessity, one for which, as Marx said of the captains of industry, "Accumulate, accumulate, that is Moses and the prophets," is beyond sad. Urging the super rich to adopt a self-correcting methodology lies, from a socialist standpoint, somewhere between the naive and the delusional. And I mean that with respect. Reich at least sees the problem.

His main point — correct as far as it goes and argued with his characteristic flair — is that so-called middle class Americans (that term, of course, is a horror) are responsible for 70 percent of U.S. spending, and that consumer buying is the engine driving the economy. So they, and not the captains of industry, the economic royalists and the Wall Street stock manipulators, are the real job creators of the real economy. But to fulfill that function they need more purchasing power, which means higher salaries that enable them to be active and aggressive consumers. It is they who gin up demand, allow industry to hire and pump up tax collections. Hoarding wealth, offshoring investments and giving the rich tax-rate treats is a threat to the system itself.

It's the incapacity of a middle class to consume enough that causes economic busts. It's wages stagnating or declining even as the cost and number of necessities, including decent child care for working families, healthcare and housing compound the sort of pricey life-style choices previous generations never had, that is the problem.

For Reich, the essence of the New Deal was creating the conditions where the majority could spend more. It meant a jobs program to create demand to get the sluggish capitalist behemoth up to speed. That's wisdom not only the Englishman John Maynard Keynes understood but also FDR's Federal Reserve chief Marriner Eccles, the Morman banker and businessman extraordinaire, who sold Roosevelt on the idea that, as Reich puts it, "excessive spending has nothing to do with the 1929 collapse." It was, instead, the lack of spending by the many.

It was, as Eccles saw it, "the vast accumulation of income in the hands of the wealthiest people in the nation, which siphoned purchasing power away from the rest." It's also what led to the 2007 Great Recession, Reich says, as he demonstrates that the greatest disparities in wealth in US history were, and not by coincidence, in 1929 and 2007.

Film maker Jacob Kornbluth even trots out a billionaire to acknowledge these home truths. Nick Hanauer, founder of Seattle-based venture capital company Second Avenue Partners, runs among his many holdings a successful pillow company, though his real money came from his ground-floor investing in Amazon.com and the myriad tech companies he later sold off to Microsoft. Running against his own class's grain, Hanauer supports public education, considers his low income-tax rate preposterous, and decries the self-congratulatory rubbish behind the label "job creator."

"When somebody calls themselves a job creator, they aren't describing the economy, although that's what it sounds like. What they are really doing is making a claim on status, privilege and power," Hanauer tells Kornbluth in the film. He argues that "only the middle class and the poor are job creators. It's their spending that makes it happen." He even reinforces Reich's argument that the wealthy alone can't spend the economy into a permanent recovery. "Even the richest individual has no need to buy thousands of pillows," Hanauer says.

So what's wrong with this? What Reich doesn't get, or can't acknowledge, is that the idea that workers are worth their hire didn't just come out of scripture or because Marriner Eccles persuaded FDR and Treasury Secretary Robert Morganthau to intervene in 1933 — and he and they doubtless did — but because a militant social movement was making demands that the social order needed contained if not also housebroken. Instead, Reich lectures and writes as though greed and inattention were the problems and not abiding class interest.

That's not to challenge Reich or Eccles or even Lord Keynes' veracity, but to show that their ideas were listened to precisely because enough of the corporate class got it that they otherwise had no alternative but either turn toward liberalism or embrace fascism. (For them, socialism was never an option.)

Even that understanding was scarcely universal; many, like Ford and the DuPonts, were ready to endorse fascism, some enthusiastically. As Kim Phillips-Fein shows in Invisible Hands: The Businessmen's Crusade Against the New Deal, key sections of American capital never bought into the kind of decent sharing commonly taught in kindergarten, nor were FDR's Depression era policies successful in themselves in doing what Eccles hoped they would do. It was war spending and the U.S. coming out of World War 2 uncontested as an imperial power that allowed for the sort of booming economy that grew a middle class. The "social compact" that allowed income inequality to narrow, including The Treaty of Detroit, which briefly established high wages for auto workers and labor peace for the Industry, had little to do with an enlightened elite and everything to do with U.S. business having little competition abroad. That all ended in the 1970s.

Reich is also frustratingly weak on just how to get capital's overlords to become more like him. He wants unions to grow and workers' wages to rise, fearing a "political polarization" that will threaten their ability to rule. But there's no strategic implication coming out of his analysis for those most harmed by the great wealth and power divide. He doesn't talk the language of class struggle but only of suffocated buying power, as though the income disparities were not the outcome of a rapidly proletarianizing nation.

That may be too much to expect. Reich would never say, in the words of The International, that "The emancipation of the working class is the task of the workers alone." Still, it's stunning that a former top federal administration official, now carrying the university title Chancellor's Professor of Public Policy has so little to say about which human agencies could turn even his good-natured policy recommendations into facts on the ground.

[Note: If I haven't dissuaded you from seeing "Inequality for All" — and it should be seen; its strength outweighs its weaknesses — it's readily available. Released for general viewing in late September and still in wide circulation, it will go on sale in DVD and Blue-Ray format in January, as well as on VOD. Netflix will feature it later in the year. Go HERE for more information, including access to lesson plans and discussion guides.]

Michael Hirsch, a New Politics *board member, is a New York-based political and labor writer. This piece originally appeared on the DSA blog.*