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Inequality and American Decline

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Iraq was one of those wars where people actually put on pounds. A few years ago, I was eating lunch with another reporter at an American-style greasy spoon in Baghdad's Green Zone. At a nearby table, a couple of American contractors were finishing off their burgers and fries. They were wearing the contractor's uniform: khakis, polo shirts, baseball caps, and Department of Defense identity badges in plastic pouches hanging from nylon lanyards around their necks. The man who had served their food might have been the only Iraqi they spoke with all day. The Green Zone was set up to make you feel that Iraq was a hallucination and you were actually in Normal, Illinois. This narcotizing effect seeped into the consciousness of every American who hunkered down and worked and partied behind its blast walls—the soldier and the civilian, the diplomat and the journalist, the important and the obscure. Hardly anyone stayed longer than a year; almost everyone went home with a collection of exaggerated war stories, making an effort to forget that they were leaving behind shoddy, unfinished projects and a country spiraling downward into civil war. As the two contractors got up and ambled out of the restaurant, my friend looked at me and said, "We're just not that good anymore."

George Packer is a staff writer at *The New Yorker*. This essay is adapted from a Joanna Jackson Goldman Memorial Lecture on American Civilization and Government that he delivered earlier this year at the New York Public Library's Cullman Center for Scholars & Writers.

The Iraq war was a kind of stress test applied to the American body politic. And every major system and organ failed the test: the executive and legislative branches, the military, the intelligence world, the for-profits, the nonprofits, the media. It turned out that we were not in good shape at all—without even realizing it. Americans just hadn't tried anything this hard in around half a century. It is easy, and completely justified, to blame certain individuals for the Iraq tragedy. But over the years, I've become more concerned with failures that went beyond individuals, and beyond Iraq—concerned with the growing arteriosclerosis of American institutions. Iraq was not an exceptional case. It was a vivid symptom of a long-term trend, one that worsens year by year. The same ailments that led to the disastrous occupation were on full display in Washington this past summer, during the debt-ceiling debacle: ideological rigidity bordering on fanaticism, an indifference to facts, an inability to think beyond the short term, the dissolution of national interest into partisan advantage.

Was it ever any different? Is it really true that we're just not that good anymore? As a thought experiment, compare your life today with that of someone like you in 1978. Think of an educated, reasonably comfortable couple perched somewhere within the vast American middle class of that year. And think how much less pleasant their lives are than yours. The man is wearing a brown and gold polyester print shirt with a flared collar and oversize tortoiseshell glasses; she's got on a high-waisted, V-neck rayon dress and platform clogs. Their morning coffee is Maxwell House filter drip. They drive an AMC Pacer hatchback, with a nonfunctioning air conditioner and a tape deck that keeps eating their eight-tracks. When she wants to make something a little daring for dinner, she puts together a pasta primavera. They type their letters on an IBM Selectric, the new model with the corrective ribbon. There is only antenna television, and the biggest thing on is *Laverne and Shirley*. Long-distance phone calls cost a dollar a minute on weekends; air travel is prohibitively expensive. The city they live near is no longer a place where they spend much time: trash on the sidewalks, junkies on the corner, vandalized pay phones, half-deserted subway cars covered in graffiti.

By contemporary standards, life in 1978 was inconvenient, constrained, and ugly. Things were badly made and didn't work very well. Highly regulated industries, such as telecommunications and airlines, were costly and offered few choices. The industrial landscape was decaying, but the sleek information revolution had not yet emerged to take its place. Life before the Android, the Apple Store, FedEx, HBO, Twitter feeds, Whole Foods, Lipitor, air bags, the Emerging Markets Index Fund, and the pre-K Gifted and Talented Program prep course is not a world to which many of us would willingly return.

The surface of life has greatly improved, at least for educated, reasonably comfortable people—say, the top 20 percent, socioeconomically. Yet the deeper structures, the institutions that underpin a healthy democratic society, have fallen into a state of decadence. We have all the information in the universe at our fingertips, while our most basic problems go unsolved year after year: climate change, income inequality, wage stagnation, national debt, immigration, falling educational achievement, deteriorating infrastructure, declining news standards. All around, we see dazzling technological change, but no progress. Last year, a Wall Street company that few people have ever heard of dug an 800-mile trench under farms, rivers, and mountains between Chicago and New York and laid fiber-optic cable connecting the Chicago Mercantile Exchange and the New York Stock Exchange. This feat of infrastructure building, which cost $300 million, shaves three milliseconds off high-speed, high-volume automated trades—a big competitive advantage. But passenger trains between Chicago and New York run barely faster than they did in 1950, and the country no longer seems capable, at least politically, of building faster ones. Just ask people in Florida, Ohio, and Wisconsin, whose governors recently refused federal money for high-speed rail projects.

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We can upgrade our iPhones, but we can't fix our roads and bridges. We invented broadband, but we can't extend it to 35 percent of the public. We can get 300 television channels on the iPad, but in the past decade 20 newspapers closed down all their foreign bureaus. We have touch-screen voting machines, but last year just 40 percent of registered voters turned out, and our political system is more polarized, more choked with its own bile, than at any time since the Civil War.

There is nothing today like the personal destruction of the McCarthy era or the street fights of the 1960s. But in those periods, institutional forces still existed in politics, business, and the media that could hold the center together. It used to be called the establishment, and it no longer exists. Solving fundamental problems with a can-do practicality—the very thing the world used to associate with America, and that redeemed us from our vulgarity and arrogance—now seems beyond our reach.

THE UNWRITTEN CONTRACT

Why and how did this happen? Those are hard questions. A roundabout way of answering them is to first ask, when did this start to happen? Any time frame has an element of arbitrariness, and also contains the beginning of a theory. Mine goes back to that shabby, forgettable year of 1978. It is surprising to say that in or around 1978, American life changed—and changed dramatically. It was, like this moment, a time of widespread pessimism—high inflation, high unemployment, high gas prices. And the country reacted to its sense of decline by moving away from the social arrangement that had been in place since the 1930s and 1940s.

What was that arrangement? It is sometimes called "the mixed economy"; the term I prefer is "middle-class democracy." It was an unwritten social contract among labor, business, and government—between the elites and the masses. It guaranteed that the benefits of the economic growth following World War II were distributed more widely, and with more shared prosperity, than at any time in human history. In the 1970s, corporate executives earned 40 times as much as their lowest-paid employees. (By 2007, the ratio was over 400 to 1.) Labor law and government policy kept the balance of power between workers and owners on an even keel, leading to a virtuous circle of higher wages and more economic stimulus. The tax code restricted the amount of wealth that could be accumulated in private hands and passed on from one generation to the next, thereby preventing the formation of an inherited plutocracy. The regulatory agencies were strong enough to prevent the kind of speculative bubbles that now occur every five years or so: between the Great Depression and the Reagan era there was not a single systemwide financial crisis, which is why recessions during those decades were far milder than they have since become. Commercial banking was a stable, boring business. (In movies from the 1940s and 1950s, bankers are dull, solid pillars of the community.) Investment banking, cordoned off by the iron wall of the Glass-Steagall Act, was a closed world of private partnerships in which rich men carefully weighed their risks because they were playing with their own money. Partly as a result of this shared prosperity, political participation reached an all-time high during the postwar years (with the exception of those, such as black Americans in the South, who were still denied access to the ballot box).

> Like any era, the postwar years had their costs. But from where we stand in 2011, they look pretty good.

At the same time, the country's elites were playing a role that today is almost unrecognizable. They actually saw themselves as custodians of national institutions and interests. The heads of banks, corporations, universities, law firms, foundations, and media companies were neither more nor less venal, meretricious, and greedy than their counterparts today. But they rose to the top in a culture that put a brake on these traits and certainly did not glorify them. Organizations such as the Council on Foreign Relations, the Committee for Economic Development, and the Ford Foundation did not act on behalf of a single, highly privileged point of view—that of the rich. Rather, they rose above the country's conflicting interests and tried to unite them into an overarching idea of the national interest. Business leaders who had fought the New Deal as vehemently as the U.S. Chamber of Commerce is now fighting health-care and financial reform later came to accept Social Security and labor unions, did not stand in the way of Medicare, and supported other pieces of Lyndon Johnson's Great Society. They saw this legislation as contributing to the social peace that ensured a productive economy. In 1964, Johnson created the National Commission on Technology, Automation, and Economic Progress to study the effects of these coming changes on the work force. The commission included two labor leaders, two corporate leaders, the civil rights activist Whitney Young, and the sociologist Daniel Bell. Two years later, they came out with their recommendations: a guaranteed annual income and a massive job-training program. This is how elites once behaved: as if they had actual responsibilities.

Of course, the consensus of the postwar years contained plenty of injustice. If you were black or female, it made very little room for you. It could be stifling and conformist, authoritarian and intrusive. Yet those years also offered the means of redressing the very wrongs they contained: for example, strong government, enlightened business, and activist labor were important bulwarks of the civil rights movement. Nostalgia is a useless emotion. Like any era, the postwar years had their costs. But from where we stand in 2011, they look pretty good.

THE RISE OF ORGANIZED MONEY

Two things happened to this social arrangement. The first was the 1960s. The story is familiar: youth rebellion and revolution, a ferocious backlash now known as the culture wars, and a permanent change in American manners and morals. Far more than political utopia, the legacy of the 1960s was personal liberation. Some conservatives argue that the social revolution of the 1960s and 1970s prepared the way for the economic revolution of the 1980s, that Abbie Hoffman and Ronald Reagan were both about freedom. But Woodstock was not enough to blow apart the middle-class democracy that had benefited tens of millions of Americans. The Nixon and Ford presidencies actually extended it. In his 2001 book, *The Paradox of American Democracy*, John Judis notes that in the three decades between 1933 and 1966, the federal government created 11 regulatory agencies to protect consumers, workers, and investors. In the five years between 1970 and 1975, it established another 12, including the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Consumer Product Safety Commission. Richard Nixon was a closet liberal, and today he would be to the left of Senator Olympia Snowe, the moderate Republican.

The second thing that happened was the economic slowdown of the 1970s, brought on by "stagflation" and the oil shock. It eroded Americans' paychecks and what was left of their confidence in the federal government after Vietnam, Watergate, and the disorder of the 1960s. It also alarmed the country's business leaders, and they turned their alarm into action. They became convinced that capitalism itself was under attack by the likes of Rachel Carson and Ralph Nader, and they organized themselves into lobbying groups and think tanks that quickly became familiar and powerful players in U.S. politics: the Business Roundtable, the Heritage Foundation, and others. Their budgets and influence soon rivaled those of the older, consensus-minded groups, such as the Brookings Institution. By the mid-1970s, chief executives had stopped believing that they had an obligation to act as disinterested stewards of the national economy. They became a special interest; the interest they represented was their own. The neoconservative writer Irving Kristol played a key role in focusing executives' minds on this narrower and more urgent agenda. He told them, "Corporate philanthropy should not be, and cannot be, disinterested."

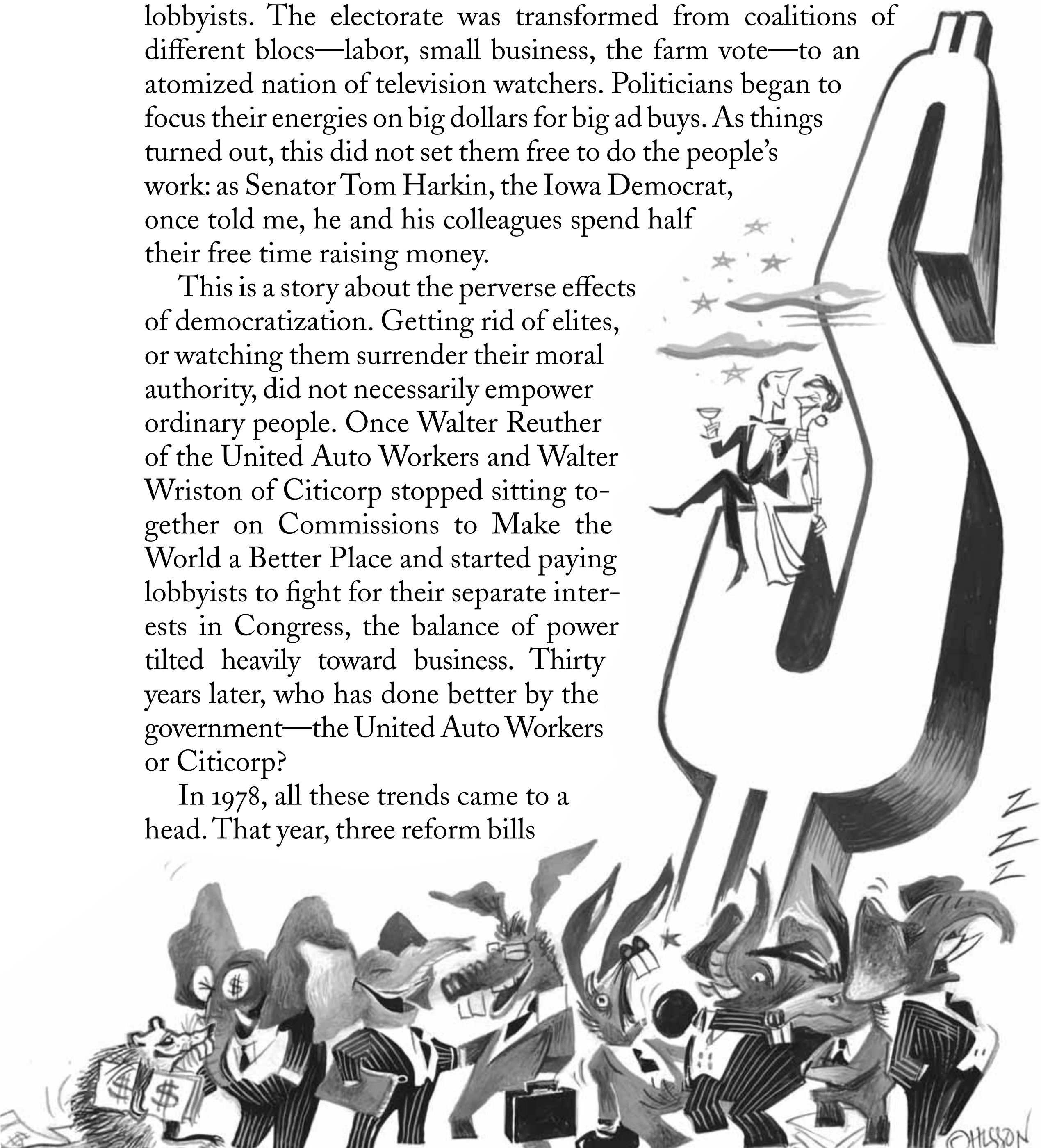
Among the non-disinterested spending that corporations began to engage in, none was more interested than lobbying. Lobbying has existed since the beginning of the republic, but it was a sleepy, bourbon-and-cigars practice until the mid- to late 1970s. In 1971, there were only 145 businesses represented by registered lobbyists in Washington; by 1982, there were 2,445. In 1974, there were just over 600 registered political action committees, which raised $12.5 million that year; in 1982, there were 3,371, which raised $83 million. In 1974, a total of $77 million was spent on the midterm elections; in 1982, it was $343 million. Not all this lobbying and campaign spending was done by corporations, but they did more and did it better than anyone else. And they got results.

These changes were wrought not only by conservative thinkers and their allies in the business class. Among those responsible were the high-minded liberals, the McGovernites and Watergate reformers, who created the open primary, clean election laws, and "outsider" political campaigns that relied heavily on television advertising. In theory, those reforms opened up the political system to previously disenfranchised voters by getting rid of the smoke-filled room, the party caucus, and the urban boss—exchanging Richard Daley for Jesse Jackson. In practice, what replaced the old politics was not a more egalitarian

new politics. Instead, as the parties lost their coherence and authority, they were overtaken by grass-roots politics of a new type, driven by direct mail, beholden to special interest groups, and funded by lobbyists. The electorate was transformed from coalitions of different blocs—labor, small business, the farm vote—to an atomized nation of television watchers. Politicians began to focus their energies on big dollars for big ad buys. As things turned out, this did not set them free to do the people's work: as Senator Tom Harkin, the Iowa Democrat, once told me, he and his colleagues spend half their free time raising money.

This is a story about the perverse effects of democratization. Getting rid of elites, or watching them surrender their moral authority, did not necessarily empower ordinary people. Once Walter Reuther of the United Auto Workers and Walter Wriston of Citicorp stopped sitting together on Commissions to Make the World a Better Place and started paying lobbyists to fight for their separate interests in Congress, the balance of power tilted heavily toward business. Thirty years later, who has done better by the government—the United Auto Workers or Citicorp?

In 1978, all these trends came to a head. That year, three reform bills



were brought up for a vote in Congress. One of the bills was to establish a new office of consumer representation, giving the public a consumer advocate in the federal bureaucracy. A second bill proposed modestly increasing the capital gains tax and getting rid of the three-Martini-lunch deduction. A third sought to make it harder for employers to circumvent labor laws and block union organizing. These bills had bipartisan backing in Congress; they were introduced at the very end of the era when bipartisanship was routine, when necessary and important legislation had support from both parties. The Democrats controlled the White House and both houses of Congress, and the bills were popular with the public. And yet, one by one, each bill went down in defeat. (Eventually, the tax bill passed, but only after it was changed; instead of raising the capital gains tax rate, the final bill cut it nearly in half.)

Like an odorless gas, inequality pervades every corner of the United States and saps the strength of its democracy.

How and why this happened are explored in Jacob Hacker and Paul Pierson's recent book, *Winner-Take-All Politics*. Their explanation, in two words, is organized money. Business groups launched a lobbying assault the likes of which Washington had never seen, and when it was all over, the next era in American life had begun. At the end of the year, the midterm elections saw the Republicans gain 15 seats in the House and three in the Senate. The numbers were less impressive than the character of the new members who came to Washington. They were not politicians looking to get along with colleagues and solve problems by passing legislation. Rather, they were movement conservatives who were hostile to the very idea of government. Among them was a history professor from Georgia named Newt Gingrich. The Reagan revolution began in 1978.

Organized money did not foist these far-reaching changes on an unsuspecting public. In the late 1970s, popular anger at government was running high, and President Jimmy Carter was a perfect target. This was not a case of false consciousness; it was a case of a fed-up public. Two years later, Reagan came to power in a landslide. The public wanted him.

But that archetypal 1978 couple with the AMC Pacer was not voting to see its share of the economic pie drastically reduced over the next 30 years. They were not fed up with how little of the national income went to the top one percent or how unfairly progressive the tax code was. They did not want to dismantle government programs such as Social Security and Medicare, which had brought economic security to the middle class. They were not voting to weaken government itself, as long as it defended their interests. But for the next three decades, the dominant political faction pursued these goals as though they were what most Americans wanted. Organized money and the conservative movement seized that moment back in 1978 to begin a massive, generation-long transfer of wealth to the richest Americans. The transfer continued in good economic times and bad, under Democratic presidents and Republican, when Democrats controlled Congress and when Republicans did. For the Democrats, too, went begging to Wall Street and corporate America, because that's where the money was. They accepted the perfectly legal bribes just as eagerly as Republicans, and when the moment came, some of them voted almost as obediently. In 2007, when Congress was considering closing a loophole in the law that allowed hedge fund managers to pay a tax rate of 15 percent on most of their earnings—considerably less than their secretaries—it was New York's Democratic senator Charles Schumer who rushed to their defense and made sure it did not happen. As Bob Dole, then a Republican senator, said back in 1982, "Poor people don't make campaign contributions."

MOCKING THE AMERICAN PROMISE

THIS INEQUALITY is the ill that underlies all the others. Like an odorless gas, it pervades every corner of the United States and saps the strength of the country's democracy. But it seems impossible to find the source and shut it off. For years, certain politicians and pundits denied that it even existed. But the evidence became overwhelming. Between 1979 and 2006, middle-class Americans saw their annual incomes after taxes increase by 21 percent (adjusted for inflation). The poorest Americans saw their incomes rise by only 11 percent. The top one percent, meanwhile, saw their incomes increase by 256 percent.

This almost tripled their share of the national income, up to 23 percent, the highest level since 1928. The graph that shows their share over time looks almost flat under Kennedy, Johnson, Nixon, Ford, and Carter, followed by continual spikes under Reagan, the elder Bush, Clinton, and the younger Bush.

Some argue that this inequality was an unavoidable result of deeper shifts: global competition, cheap goods made in China, technological changes. Although those factors played a part, they have not been decisive. In Europe, where the same changes took place, inequality has remained much lower than in the United States. The decisive factor has been politics and public policy: tax rates, spending choices, labor laws, regulations, campaign finance rules. Book after book by economists and other scholars over the past few years has presented an airtight case: over the past three decades, the government has consistently favored the rich. This is the source of the problem: our leaders, our institutions.

But even more fundamental than public policy is the long-term transformation of the manners and morals of American elites—what they became willing to do that they would not have done, or even thought about doing, before. Political changes precipitated, and in turn were aided by, deeper changes in norms of responsibility and self-restraint. In 1978, it might have been economically feasible and perfectly legal for an executive to award himself a multimillion-dollar bonus while shedding 40 percent of his work force and requiring the survivors to take annual furloughs without pay. But no executive would have wanted the shame and outrage that would have followed—any more than an executive today would want to be quoted using a racial slur or photographed with a paid escort. These days, it is hard to open a newspaper without reading stories about grotesque overcompensation at the top and widespread hardship below. Getting rid of a taboo is easier than establishing one, and once a prohibition erodes, it can never be restored in quite the same way. As Leo Tolstoy wrote, "There are no conditions of life to which a man cannot get accustomed, especially if he sees them accepted by everyone around him."

The persistence of this trend toward greater inequality over the past 30 years suggests a kind of feedback loop that cannot be broken by the usual political means. The more wealth accumulates in a few hands at the top, the more influence and favor the well-connected rich acquire, which makes it easier for them and their political allies to cast off restraint without paying a social price. That, in turn, frees them up to amass more money, until cause and effect become impossible to distinguish. Nothing seems to slow this process down—not wars, not technology, not a recession, not a historic election. Perhaps, out of a well-founded fear that the country is coming apart at the seams, the wealthy and their political allies will finally have to rein themselves in, and, for example, start thinking about their taxes less like Stephen Schwarzman and more like Warren Buffett.

In the meantime, inequality will continue to mock the American promise of opportunity for all. Inequality creates a lopsided economy, which leaves the rich with so much money that they can binge on speculation, and leaves the middle class without enough money to buy the things they think they deserve, which leads them to borrow and go into debt. These were among the long-term causes of the financial crisis and the Great Recession. Inequality hardens society into a class system, imprisoning people in the circumstances of their birth—a rebuke to the very idea of the American dream. Inequality divides us from one another in schools, in neighborhoods, at work, on airplanes, in hospitals, in what we eat, in the condition of our bodies, in what we think, in our children's futures, in how we die. Inequality makes it harder to imagine the lives of others—which is one reason why the fate of over 14 million more or less permanently unemployed Americans leaves so little impression in the country's political and media capitals. Inequality corrodes trust among fellow citizens, making it seem as if the game is rigged. Inequality provokes a generalized anger that finds targets where it can—immigrants, foreign countries, American elites, government in all forms—and it rewards demagogues while discrediting reformers. Inequality saps the will to conceive of ambitious solutions to large collective problems, because those problems no longer seem very collective. Inequality undermines democracy.