AMERICAN SOCIETY

HOW IT REALLY WORKS

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CHAPTER 1
PROLOGUE: VALUES AND PERSPECTIVES

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This Book revolves around three broad kinds of questions:

- What *kind* of society is this?
- How does it really *work*? Why is it the way it is?
- In what ways does it *need changing* and how can those changes be brought about?

The first of these questions is largely *descriptive*. In order to know what kind of society this is we will have to compare it with other societies and describe its central institutions. This will involve both identifying some of the things which make the United States a very specific social world, but also things that it shares with other contemporary societies.

The second question is more *analytical and theoretical*. Our job will be to explain a range of attributes of American society, not simply describe them. We want to open the “black box” of different institutions and see how they work, what consequences they have. To do this we use both empirical findings and key elements of theory drawn from sociology, political science and economics.

The third question is heavily *ethical and political*. It involves coming to terms with values and visions of the moral standards that should be embodied in American society. Answering this question will inevitably be highly charged politically and morally, since there are sharply contending moral standards by which social institutions can be judged. What we hope to do is clarify as best we can the implications for such moral and political issues of the existing realities of American Society.

Writing a book on contemporary American society, intended primarily for people who grew up there, poses an interesting challenge. In order to grow up and live in a society, people have to learn a great deal about how it works, about the rules of the game, and about the nature of the society in which they live. In the ordinary course of experiencing the social world, everyone also develops theories, even if they are partial and incomplete, about why their society is the way it is. Most of the readers of this book are already at least amateur experts on its subject matter. They have ideas about what kind of society this is, and explanations for many specific questions we will explore in this book:

- Why is poverty a persistent problem in the USA?
- Why is there a consensus among the major political parties that taxes should be kept relatively low?
- Why does money seem to have so much influence in American politics?
- Why there are many fewer women then men professors, corporate presidents and politicians?

- Why do cities find it hard to control urban sprawl?
- Why does the American military engage in military actions is so many far-flung places around the world?

Of course, having a view on something is not the same as having an accurate view. The special challenge of writing a book about contemporary American society is that we will inevitably confront strongly held beliefs by many readers which we believe to be incorrect. Our task, therefore, is not simply to impart a body of information about contemporary American society, but to argue for a particular way of understanding and explaining the facts we present.

Part of this endeavor is simply about rational argument and good evidence. Instead of relying on colorful anecdotes for our data, for example, we will use verifiable facts, representative survey data, and other sources of reliable information. Instead of using data in an undisciplined and selective way in argument, we will do our best to make logical claims and justified inferences. But part of this is also about the key values we bring to this work. While we will do our best to approach these problems in as objective a manner as possible, our values inevitably help determine the questions we think are important. In broad, abstract terms, these values are not particularly controversial, although they are fraught with controversy once they are given concrete institutional meaning. Since these values underlie much of our analysis, we feel we owe it to readers to be as clear as possible at the outset about them.

Four values

The agenda of this book is shaped around four core social values that most people in American society affirm in one way or another: economic efficiency, freedom, fairness, and democracy**.** In the most general terms, here is what we mean by each of these values:

- *Economic efficiency* – The idea that the economy should generate rational outcomes, effectively balancing costs and benefits in the way resources are used.
- *Freedom* – The idea that people should be able to live their lives, to the greatest degree possible, as they wish. This means people should be free from coercive restrictions imposed by others and as much as possible have the capacity to put their life plans into effect.
- *Fairness* – the idea that people should be treated justly and that they should have equal opportunity to make something of their lives without unfair privileges and unfair disadvantages.
- *Democracy* – the idea that our public decisions should reflect the collective will of equal citizens rather than of powerful and privileged elites.

Most people in American society value these things and most people would agree that it is reasonable to judge our institutions in terms of how well they achieve these values. These are not the only values that people feel are important for evaluating social institutions – we can all easily name others, for example the value of community or a sense of belonging. And from time to time, other values will figure in our discussions. But most of the discussion will revolve around these four.

Kinds of Disagreements

Now, while in very general terms most people affirm these values, there are sharply different ideas about how well American society lives up them. Much of the debate between the left and the right of the political spectrum, between progressives and conservatives, in fact, centers on such disagreements. These disagreements tend to be of four main sorts:

First, people disagree about precisely *what is meant by each of these values***.** Consider democracy. Does democracy simply mean “majority rule” or does it mean active involvement of citizens in political participation, public discussion and decision-making? Or take fairness: is fairness just a question of removing various forms of direct discrimination against people, for example, discrimination based on race or gender or religion, or does fairness mean that everyone really has an equal opportunity in life, which would mean drastically reducing economic disadvantages some people face?

Second, people disagree in their assessment of *the actual performance of our institutions*. Conservatives, for example, generally believe that the American style market economy is a wonderful machine for generating efficient, rational economic outcomes; progressives point to lots of irrationalities, waste and inefficiencies generated by markets.

Third, people disagree about *the relative priority of different values*. For example, while progressives and conservatives both believe in the values of freedom and fairness, in cases of conflict among these values, progressives tend to be more attentive to fairness concerns, and conservatives to freedom ones. Thus progressives are generally more willing to justify taxation of the wealthy on grounds of broader fairness, while conservatives are more likely to argue that taxes, except those necessary to protect society and enable markets to function, restrict individual freedom in unacceptable ways.

Fourth, people disagree about *how much things could really be improved*. Thus, conservatives may acknowledge that American democracy may fall far short of the ideal of government of the people, by the people and for the people, but they tend to feel that there is not much that can be done about this, or, even more pessimistically, that efforts to improve things generally make things worse, whereas liberals believe that American democracy could be revitalized with appropriate institutional change.

Overall, then, conservatives tend to believe that American society measures up pretty well with respect to these particular values, and where it does not, there is not a lot that could be done to improve things, whereas liberals are much more critical of the existing reality and feel that much could be done.

Our views about realization of these values in contemporary America

We place ourselves on the left of the political spectrum. We feel that American society has tremendous potential, but that it falls far short of what it could be. And specifically, in terms of these values we believe the United States does not measure up anywhere near as well as it could:

- *Efficiency*: While the American market economy is highly productive and innovative, it also generates pervasive irrationalities and inefficiencies because it is not subjected to sufficient social regulation. Examples which we will discuss include environmental degradation, health care failures, inadequate job training, and wasteful and inefficient transportation systems.

- *Freedom*: While compared to most societies in the past, and many other contemporary societies, people do have a great deal of individual freedom in the United States, the large inequalities in material conditions of life, the existence of significant levels of poverty especially among children, and the excessive emphasis on using resources for private consumption rather than public goods curtails the real freedom of many people.
- *Fairness*: While certain oppressive forms of discrimination have been reduced in recent decades, we remain a society which provides far from equal opportunity for its citizens. In particular, the levels of wealth and income inequality in the United States today generate massive unfair privileges and disadvantages which interact with continuing advantages and disadvantages linked to race and, to a lesser extent, gender.
- *Democracy*: The rules of the game of elections in the United States, especially when combined with the pervasive role of money in generating access to the political system, have profoundly undermined American democracy.

To push forward these values, then, means confronting the basic institutions of our society and trying to change them. If we really want to realize these values in practice we must aspire to more than simply tinkering with our social institutions, but strive for fundamental change.

This vision has deep roots in American culture. The values of democracy, freedom, economic rationality, and fairness have been a central part of struggles that have marked American history even while the realization of these values has been crippled and deflected by the nature of power, property and privilege in this society. The political perspective which animates this book is not a rejection of American values, but rather seeks to realize the great promise for humanity and justice that is part of the American dream.

THINKING SOCIOLOGICALLY ABOUT AMERICAN SOCIETY

This is a book of sociology, and many readers may wonder “what is sociology?” Well, there are many answers to this question and we won’t try to present a general review of the alternatives here. But it may be helpful to give a rough sketch of what it means to study something “sociologically”. Here is one way to understand this: The myriad of actions in which we as conscious, choosing persons engage are *governed by rules.* However, unlike the rules of nature which govern the motions of the planets, these are rules which are changed by the actions they regulate. Our activities are rule-governed, but also our activities produce and transform the rules that govern those activities. Sometimes the changes in social rules are the result of *deliberate* actions by people – as when we change a law; sometimes rules change as the *unintended consequence* of actions. The central task of sociology is to understand how rules generate their effects, how people respond to the rules within which they live, and how the rules change over time. This may all seem trivial and obvious, but it is also quite profound. And it turns out to be a very complex matter indeed to figure out how these rules work and how, out of their interactions, the social facts we observe get produced.

There are many different ways that sociologists and other social scientists approach the problem of studying social rules, their consequences, their interactions, and their development. And while the debates in social science are not always framed precisely in these terms, many of the disagreements revolve on how rules are understood and studied. In very general terms, the analysis of this book revolves around six basic aspects of the problem of understanding social rules and how they work.

1. Rules are enforced. There are consequences for breaking rules. If you dress badly for a job interview, you are unlikely to get the job; if you steal from a store, and get caught, you get arrested. The enforcement is variable: some rules are consistently and systematically enforced; others loosely and erratically enforced. But to call something a social rule means that there is some kind of enforcement connected to it.

2. Varieties of Rules. There are very different kinds of rules. Among the most important types are *laws* and *social norms*. Laws are, most simply, rules that are backed by the power of government in their enforcement. Social norms are much broader in application. They sometimes include morally weighty principles, like telling the truth, but they also include things with little clear moral content, like dress codes and "good manners." Some of these rules are enforced by officials and authorities, others are enforced informally. And when they are internalized, we often enforce them on ourselves. The fact that a social rule is incorporated deeply into our habits and preferences, and that a significant part of their enforcement is self-administered (through guilt, shame, a feeling of awkwardness, and the like), does not mean that they cease to be rules.

3. Rules are frequently not neutral. Many rules benefit some people over others, and some kinds of rules impose real harms on some people. This idea is obvious in some contexts. In sports the rules of game give advantages to some sorts of people over others. Consider the height of basketball nets. But it is also true in society: many of the "rules of the game" that govern our economic, social, and political interactions give advantages to some kinds of people over others. Of course, not all rules strongly benefit some people over others. The social rules that tell us on which side of the road to drive benefit everyone. But many important rules do serve the interests of some people over others, and understanding such rules will be a major concern this book.

4. Power and Rules. Rules are protected by power, but this power is also governed by rules. People who strongly benefit from an existing set of rules will try to defend those rules. *Social rules will tend to be stable when they confer power on the people they benefit*. This is one of the central problems in sociological analysis. In some situations this point is obvious. In the American South before the Civil War the rules of economic life enormously benefited slave owners at the expense of slaves. The rules were enforced coercively by the Southern state. And slaveowners, who benefited from those rules, used their power to defend the rules. For a very long time these rules were stable precisely because they conferred power on those actors who had the greatest interest in defending them.

5. Inconsistency of rules. The rules that make up a society need not be coherent or consistent. Some rules contradict others and in general it is impossible to fully follow every social rule. Societies are not like a finely tuned machine in which all of the parts must fit together smoothly for the machine to work. In many social contexts people muddle through coping as best they can with contradictory pressures generated by inconsistent social rules. The social norms that govern the way men and women are supposed to behave, for example, are quite inconsistent with the rules that govern how you get ahead in a career, and many women experience this inconsistency as a source of considerable strain in contemporary American society.

6. Change of rules. Because of these inconsistencies and contradictions, rules can become quite unstable. There are historical moments when rules of the game are contested, and very rare moments when they are contested in a fundamental way. More often rules change by gradual erosion and metamorphosis.

So, to understand different aspects of social life what we need to do is figure out the rules, understand how they work, how they are enforced, how they fail to be enforced, how they fit together or fail to fit together, who benefits and who suffers, and what processes may be generating change in the rules. This is what we will be doing throughout this book.

CHAPTER 2
WHAT KIND OF A SOCIETY IS "AMERICAN SOCIETY"?

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The starting point for our exploration is to understand precisely what *kind* of a society we are talking about when we refer to "contemporary American society"? But first, what exactly does it even mean to ask the question: "What kind of society do we live in?" This kind of question has a pretty clear meaning when it comes to living organisms. Suppose you are walking through a woods and you come across a strange animal. Everyone knows what it means to wonder, what kind of a creature is this? For animals there is a well-established set of questions one would ask: Does it have a skeleton? Does it breathe air? Is it warm-blooded? These are not just random questions; they come from a very developed scientific framework rooted in evolutionary biology, which tells us what sorts of questions we need to ask in order to properly classify a strange unknown creature within the range of variation of living things that have been studied by biologists. The same thing can be said if you come across some peculiar, as yet unknown substance and you want to know what kind of a substance it is. Chemistry has a periodic table of elements and a powerful and elegant scientific theory of how these elements get combined into the fantastic variety of molecules that make up the physical world. After a careful chemical analysis of the substance you will have a systematic answer to the question, "what is this?" Of course, it could turn out that the questions we asked were unsatisfactory and produced contradictory answers, or no answers at all, and this would provoke some rethinking of our classification menu. Discoveries of new species and new elements can lead to new understandings of the underlying logic of classification. But at least in both of these bodies of knowledge there is a broad consensus on how to classify the things in the world.

Social science is not as developed as evolutionary biology or chemistry, and there is certainly less consensus about what are the most salient characteristics of a society that one needs to identify in order to answer the question "what kind of society is this?" Think of the problem this way: Suppose, you were dropped into another country today — Japan or Sweden, Guatemala or Nigeria, or into the United States in a different era — 1710, 1810, 1910? Suppose, though, that everyone talked exactly like Americans do today. What would tell you that you were not in the contemporary United States? What would you look for? If you were blindfolded, what questions would you ask? Which questions would be more important than others?

This chapter will explore our answers to the general question "what kind of society is this?" Some of these may seem obvious, but they are worth noting in order to situate the United States in the world, comparatively and historically. Others may be less familiar. We will organize our answers under a number of quite general headings -- technology, economy, inequality, politics, militarism, gender, social cleavage, immigration, culture, violence. In the chapters that follow we will provide much more detail on many of these topics, but it will be helpful from the outset to sketch the salient characteristics of each in order to get a general descriptive picture of American Society.

1. Technology

Many people believe that the core technology that a society uses in economic production is the most important single characteristic that distinguishes one society from another. If you take all of human history and all of the societies that have ever existed and wanted one single piece of information that would tell you something of central importance about what it means to live in that society, technology would certainly be a good candidate. It matters hugely whether the means of production in a society are simple hand tools or complex power driven machines, whether food is acquired primarily through hunting and gathering or through machine-intensive and chemically-enhanced large-scale agricultural.

We are a technologically advanced industrial society moving towards what is sometimes called post-industrialism or the knowledge economy or the information society. What precisely does it mean to say that we have a "high" level of technological development? The main idea here is that the techniques we use to produce things are highly productive: it takes fewer inputs to produce a given amount of output than it did in the past. There was a time, not so long ago in historical terms, in which nearly all people had to spend most of their time producing food in order for everyone to have enough to eat. Today in the United States less than 2% of the labor force has to work in agriculture to produce more than enough food for the 300 million people who live in this country. That is what is meant by "high productivity" and developed technology.

As an economy becomes more and more productive, human time is liberated for various new activities. When we say that we are becoming a "post-industrial" society what we mean is that most people now earn their living by producing services of various sorts rather than physical things. But of course, this is only possible because we produce physical things so productivity. Human life is no less dependent on food now than 40,000 years ago. The difference is that human time is vastly less absorbed in the activity of producing food.

It is important to remember how recent a development this is and how different from most of the world it is. Two empirical indicators of these changes are especially striking: the shift from rural to urban living, and the transformation of the occupations people have in order to make a living. In 1860 around 80% of U.S. population was rural and about half of labor force was in agriculture. This is still basically the case in the world's two most populous countries at the beginning of the 21st century: in India 60% of the labor force works in agriculture (2003) and 71% of the population live in rural areas (2007); in China the figures are 43% (2006) and 58% (2007).[1] By the 1940s the majority of Americans lived in cities and a bit under 20% worked in agriculture. Today we are overwhelmingly an urban society and less than 3% are employed directly in agriculture (see Figure 2.1).

-- Figure 2.1 about here --

2. The Economy

When we talk about "the economy" we are talking about all of the ways in which people produce the goods and services used and consumed in a society. Economies vary in many different ways. One of these we have already mentioned as a distinct category: technology. But there are a range

[1] CIA, *The World Factbook* (https://www.cia.gov/library/publications/the-world-factbook/) and The World Bank, *World Development Indicators 2009*

of other very important features of the American economy that systematically shape the kind of society we live in. What kind of economy does the United States have today? A number of features are especially salient: It is a type of *capitalism*, dominated by *giant corporations*, with *weak unions*, and relatively *weakly regulated markets* which exist in an increasingly *globalized system of economic interactions*. Let us look at each of these characteristics in turn.

Capitalism

Sometimes people simply say that the United States has a "market economy" or a "free market economy," but it is more precise to say that the American economy is *capitalist* economy. That means three three things need to be true:

1. *Markets for Exchange*. Production is organized for the market rather than for immediate use by the producers. This means that things are produced in order to be sold rather than to be directly consumed by the people who produce them or to be made freely available to others. This is the difference between a growing food on a farm rather than in a family garden.

2. *Private ownership and control of investment.* The firms which organize production are privately owned rather than owned by a public body like the state or a city or a community. The private owners of these firms can buy and sell those firms in markets. As owners, they also have freedom to dispose of their property as they see fit. Crucially, that includes property they allocate to future economic activity, or investment.

3. *Markets for Labor.* The people who work in firms are hired on a labor market to work in firms as employees; they are not themselves the owners of the firm. There are, of course, within capitalist economies, some worker cooperatives – worker-owned and run firms – but these are special, interesting cases of noncapitalist firms operating within capitalism. If all firms were fully owned by their employees then the economy would no longer be an instance of capitalism.

The world has not always had capitalist economies. Until five hundred years or so ago, in fact, capitalism was rather rare, occupying at most small niches in economic life. The United States has also not always really been fully capitalist. At the time of the American Revolution at end of the 18th century while the new country definitely had a market-oriented economy, it was not pervasively capitalist. Perhaps 65% or so of the labor force outside of the South was self-employed as small farmers owning their own farms and means of production, and in the South many laborers were slaves.[2] Only a small minority of people earned their living by selling their labor. A hundred years later in the period after the Civil War capitalism was certainly well underway and constituted the dynamic force in the American economy, particularly once the process of industrialization took off. Still, in the 1870s, over 40% of the labor force was still self-employed. While slavery was abolished in the South, many ex-slaves had become sharecroppers and in many ways still operated under severe forms of direct coercion rather than as free laborers. So even though capitalism was well established in much of the country and a

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[2] In 1800, about 70% of the free labor force worked in agriculture (calculations from data in Stanley Lebergott, *Manpower in Economic Growth: The American Record Since 1800*. New York: McGraw-Hill, 1964, p. 102 and 510). Consistent self-employment data are only available from 1900, but we can assume that almost all the free labor force employed in agriculture was self-employed in 1800.

class of industrial workers was developing, capitalism did not yet completely pervade all aspects of American economic life.

By the early decades of the 20th century the U.S. had become deeply capitalist: a clear majority of the labor force owned no property and worked for wages, although until the latter decades of the century most adult women were still not in the labor force and thus were not fully integrated into capitalist economic activity. Now, in the 21st century only around 8-12% of the labor force are self-employed.[3] Most people, men and women, must seek employment, get hired and work in a hierarchal organization in order to obtain their living.

To understand the nature of the economy in American Society, it is not enough to say that the economy in capitalist. Capitalism comes in many varieties. Sometimes capitalism is characterized by many small firms competing in local and regional markets. Sometimes capitalism is strongly regulated by the state. Sometimes workers in capitalism have their basic economic welfare guaranteed by an "affirmative state" that provides them with a strong and secure "safety net." Sometimes the employees in capitalism are very well organized into collectivities called "unions" so that their relationship to employers does not depend just on their power as an individual person on the labor market, but on the collective power of the union.

The U.S. is a very specific type of capitalism. The following are some of the salient characteristics of the variety of capitalism in Contemporary American society.

Gigantic Corporations

United States Capitalism is dominated by huge, mega-corporations. Here are some striking facts:

- The top ten U.S. firms in the Fortune magazine list of 500 largest firms had combined revenues in 2008 of almost $2.1 trillion. If these ten firms were a country, they would constitute the 8th largest economy in the world, ranked just after Italy. (Table 2.1) The total gross domestic product (GDP) of India with 1 billion people is around 60% of this.[4]
- In the year 2000, the largest 500 Corporations in the United States employed 16.3% of all private sector employees, yet accounted for 57% of total private sector profits.[5]
- Each of the America's four largest corporations in 2005 -- GM, Wal-Mart, Exxon and Ford -- had 2007 revenues greater than the 285 million people living in the 16 poorest

[3] It is very difficult to get accurate estimates of real self-employment for a variety of reasons: many people who are technically self-employed as "independent subcontractors" are really indistinguishable from ordinary employees; government statistics often treat "incorporated" and "unincorporated" self-employed people very differently, treating the former as "employees in their own corporations"; and a significant number of people engage in off-the-books self-employment which they do not report. The low estimate here comes from OECD, Data on Informal Employment and Self-Employment, 2009; http://www.oecd.org/dataoecd/4/49/42863997.pdf. Estimates from social science surveys are typically closer to 12-15%.

[4] It is important to note that the revenues of a corporation are not strictly comparable to the GDP of a country, so these comparisons should only be taken as suggestive of the magnitudes involved.

[5] Table 8, p.156 in .Lawrence J. White, "Trends in Aggregate Concentration in the United States," The Journal of Economic Perspectives, Vol. 16, No. 4 (Autumn, 2002), pp. 137-160

> countries in the world combined. Wal-Mart alone had revenues greater that 405 million people in the 24 poorest countries.[6]

Small firms continue to exist and play an important role in the U.S. economy, and in some situations they are particularly important for jobs and local development. In 1999 there were 5.6 million firms in the United States. Just over 5 million of these – 89% of the total – had fewer than 20 employees. 36% of total employment in the United States was in companies with less than 100 employees, accounting for 32% of the total annual payroll of U.S. firms.[7] So, small firms are a significant part of the American economy. Still, they often depend heavily on their connections to large corporations which control most of the profits and exercise vast economic power in the American economy.

Extremely weak labor unions

Sometimes politicians and employers complain about the power of "Big Labor" and portray labor unions as interfering with the smooth and efficient functioning of the market. In fact, the U.S. has among the weakest labor movements of any developed capitalist country, both in terms of the rights of workers, the proportion of the labor force that are union members, and rate of union coverage. In the U.S. in 2008 only 12 % of nonfarm employed wage and salary workers was unionized. This compares to almost 70% in Sweden and 20-40% in many European countries. Even more important, the U.S. has few "extension" laws that apply the results of bargaining between unions and employers to other workers. As a result, rate of union "coverage" here are just a few percent age points above our rates of union membership. In most developed countries, even those without high levels of union membership, union coverage extends to most wage and salary workers.

What exactly is a "labor union"? It is an association that people form in order to be able to bargain more effectively with employers and in other ways collectively pursue their interests. Individually each employee is usually pretty weak when bargaining with an employer. In general any given worker is more in need of a job than the employer is in need of that particular employee. But if people join together and act collectively they may be able to forge a better deal with employers. While the employer may not especially need any given worker, they certainly depend upon all of their workers taken together.

Since U.S. unions are so weak, labor markets in the U.S. are generally much less regulated than in most developed countries and involve much more intense competition among individuals. One result of this is that American workers have fewer rights than in most other developed countries. To give just two examples:

- *Parental leaves:* In Germany, mothers get fourteen weeks of maternity leave at 100% of wages. In France mothers get sixteen weeks for the first two children and 26 weeks for subsequent children at 100% of wages up to a a maximum of about $60/day. In Sweden mothers and fathers can share up to 15 months of paid parental leaves, paid at

[6] Fortune 500 data: "Complete List of Fortune 500/1000 Companies 1955-2009", in *AggData.com*, http://www.aggdata.com/business/fortune_500; GDP data from The World Bank, *World Development Indicators* (accessed July 20, 2009).

[7] Table 6, p.150 in Lawrence J. White, "Trends in Aggregate Concentration in the United States," *The Journal of Economic Perspectives*, Vol. 16, No. 4 (Autumn, 2002), pp. 137-160

80% of earnings for the first 52 weeks and a lower flat rate for the remaining 13 weeks, up to a maximum (in 2000) of about $27,000.[8]

- *Right to strike*: The United States is the only developed capitalist democracy in which an employer has the legal right to hire permanent replacements in a legal strike. In other countries employers can hire temporary replacements, but striking workers have a right to get their jobs back after a strike even if they lose the strike itself.

American capitalism, therefore, is one in which compared to most other countries labor markets operate in a quite competitive manner and capitalists have relatively unrestricted unilateral rights to hire and fire with generally weak constraints from the organized power of workers.

Weak public regulation of the economy

Americans often complain about "Big Government", over-regulation, and high taxation, but in fact the U.S. economy is in many respects much less heavily regulated by the government than in nearly all other developed capitalist countries. This is especially the case for labor markets: employers are pretty free to hire and fire employees at will (except for some important restrictions on forms of discrimination); the minimum wage is extremely low and provides almost no real protection for workers; and government regulation of training and skills is minimal. The government also provides many fewer direct services to its citizens. Most notably, the United States the only developed capitalist country in the world in which the government does not guarantee universal health services or insurance for all of its citizens.

As a result of this reduced role of government in the domestic economy, the government is smaller in the U.S. than in all other comparable countries. Consider the following facts about the U.S. state:

- *Public employment*. In the U.S. at the beginning of the 21st century public employment is around 15% of labor force. This is about average among advanced capitalist countries: almost 30% of the labor force are public employees in Sweden, 25% in France, 12% Germany and only 6% in Japan (Figure 2.2). Nearly all of this public employment in the U.S. is at the state and local levels of government (these two together accounted for about 88% of all government employees in 2007). Furthermore, contrary to what many people think, most of the growth of government has been at the local and state level: from 1960-2007 Federal civilian employment grew about 13% while state and local government employment increased by over 200% (Figure 2.3).
- *Civilian spending.* In 2007, civilian spending came to about 33% of the Gross Domestic Product. The U.S. level is much less than Germany (43%) or Sweden (51%), and slightly less than Japan (35%), among the lowest in terms of public spending of the economically developed countries.[9.]

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[8] These policy profiles come from Janet C. Gornick and Marcia K. Meyers, *Families that Work: policies for reconciling parenthood and employment* (New York: Russell Sage Foundation, 2003), pp. 124-5

[9] OECD, "OECD.Stat Extracts," http://stats.oecd.org/Index.aspx (accessed July 21, 2009).

- *Taxation.* Taxation is also incredibly low in the U.S. compared to most other wealthy countries. Less than 30% of the gross domestic product in U.S. is taxed compared to around 40% in Germany and 50% in Sweden, and this has changed very little over the past several decades. We are not a highly taxed economy.

None of this implies that United States capitalism really approximates the ideal of the "free market" in which the state plays almost no role. There are still many regulations of the economy – health and safety, pollution, product labeling, employment discrimination, to name only a few. The point in terms of our question "what kind of society is this?" is that compared to most other comparably developed capitalist societies, the American economy is towards the weakly regulated end of the spectrum.

Globalization

While it is true that the U.S. *has* a capitalist economy, it is also increasingly *a part of* a global capitalist economy. This integration into the world economy can be seen from the vantage point of trade, of production, and of ownership.

- *Trade.* From WWI to end of 1960s imports plus exports equaled about 10% of the total United States G.N.P. (Gross National Product). The U.S. was a very self-contained economy, producing mostly for itself and mainly consuming things which it produced. By the end of the 1970s this had increased to 20% and at then beginning of the 21st century it was more than 25%. This is a very major change in trade patterns. American firms are now involved in intense competition with firms in other countries.
- *Production.* The production of almost everything involves materials and components that are produced from all over the world. Production takes place, in a sense, in a "Global factory" in which the raw materials come from different places, the parts made from those raw materials come from other places, and all these components are assembled in still other place. Many American-made cars contain more foreign material than U.S. material. A pair of jeans may have the cloth made in one country, the zipper in another, the dye in a third and then the whole thing is assembled in a fourth and shipped to a fifth.
- *Ownership*: Many U.S. corporations have operations in East Asia; are these part of "American Society"? What about Toyota factories in the US: are these part of the U.S. economy or the Japanese economy? If we subtracted from the total exports from a country like Taiwan to the U.S. those exports produced by US-owned companies in Taiwan, the trade deficit would be drastically reduced, perhaps even eliminated. Where does the American "economy" end and the Taiwanese economy "begin"?

This increase in the intensity of global interconnectedness of economic activities is of great importance. Some people in fact argue that this even calls into question the idea that the USA is a well-bounded "society". What is well-bounded is *citizenship* and *political control*; but not "American *society*". This is one of the most important facts of social change beginning especially in the last quarter century of the 20th century which profoundly affects everyone's life: the world is increasingly integrated and economically interdependent. To speak of "a" society as an isolated entity is increasingly problematic.

3. Economic Inequality in a wealthy economy

All capitalist societies have a significant levels of economic inequality – some people are much richer than others, either because they have lots of wealth or because they have high earnings in the labor market. But capitalist societies differ in how much inequality is generated by the market. This is a complex problem; there are many things that come into play in explaining the levels of inequality in different countries as we will see later in this book. But the bottom line is that the relatively unregulated labor markets in the Untied States combined with weak labor unions and a very limited role of the government in providing economic support to people generate extreme inequality. Here are some basic facts:

- The U.S. has the highest poverty rates and highest levels of economic inequality of any developed country, regardless of how one measures these.
- In the first decade of the 21st century around 18% of children live in poor households in the US. In most other rich countries the figure is 5-10%. (Figure 2.4)
- In 2004, the richest 1% of American households owned about 40% of all stocks (excluding pensions); the bottom 80% owned only 8%. The wealthiest 1% of households had 190 times more wealth than the median wealth.[10]
- In the quarter century between 1980 and 2007, the richest 5% of U.S. households had their average annual income by $150,000, from $167,727 to $316,618 (in 2007 dollars) while the poorest 20% had their average income increase by less than $700, from $15,359 to $16,068.[11] By 2006 the top 1% of households received 22.8 % of all pre-tax income, compared to only 8.9% in 1976. The last time in American history when there was this much income concentrated at the very top was in 1928, when the top 1% received 23.9%.[12]
- The ratio of CEO pay in largest U.S. corporations to factory worker pay rose from 42:1 in 1980 to a high of 531:1 in 2000, at the height of the 1990s stock market bubble, when CEOs were cashing in stock options. Even after the sharp recession after 2001, CEOs in the largest 500 corporations earned in 2007 an average of $10,544,470, or 344 times what an average factory worker earned. The same ratio in Europe is generally around 25:1.[13] In the financial sector the disproportions were even greater. In 2007 the top 50 hedge and private equity fund managers earned on average $588 million, or more than 19,000 times as much as average worker.

The U.S. may have high levels of poverty and inequality, but it is also an extraordinarily rich economy. This is closely connected to the high level of productivity of the U.S. economy linked to its technological level of development. By both comparative and historical standards, we are

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[10] *State of Working America, 2008/9*

[11] US Census Bureau, "Table F-3. Mean Income Received by Each Fifth and Top 5 Percent of Families, All Races: 1966 to 2007", available at http://www.census.gov/hhes/www/income/histinc/f03AR.html

[12] Thomas Piketty and Emmanuel Saez (2008) "Tables and Figures Updated to 2006 in Excel format, July 2008," in Emmanuel Saez's website, http://elsa.berkeley.edu/~saez/TabFig2006.xls.

[13] *Executive Excess 2006, the 13th Annual CEO Compensation Survey* (Washington: the Institute for Policy Studies and United for a Fair Economy, 2006), and *Executive Excess 2008, the 15th Annual CEO Compensation Survey* (Washington, D.C.: the Institute for Policy Studies and United for a Fair Economy, 2008).

one of the richest countries in the history of the world. This is the most obvious thing to most people; it puts the U.S. into a family of perhaps 15-20 countries in the world: the per capita income in the United States when you adjust it for the cost of living is at or near the highest in the world depending upon precisely how this is measured. This does not necessarily mean that the quality of life of the average American is the highest in the world, or even that their economic wellbeing is the highest. Economic wellbeing depends upon the amount of leisure time, economic security, and other characteristics of a person's economic situation, not just income. What it does mean that in terms of sheer wealth, the United States as a whole is fantastically rich.

This, then, is one of the crucial defining characteristics of the United States at the beginning of the 21st century: poverty in the midst of plenty, tremendous inequalities in conditions of life and opportunities in the context of an extraordinarily rich society.

4. Political Institutions: Liberal Democracy.

The United States is characterized by political institutions that are generally called "liberal democratic." We elect the political officials in more or less competitive elections; we have relatively secure civil liberties, including things like freedom of association, freedom of speech, freedom of religion; and we live under the "rule of law," with transparency on rules of conduct and constraints on the arbitrary exercise of power. This kind of state is historically new, and still far from universal. It can be contrasted both with non-democratic sorts of states and those that extend democratic governance outside formal politics, typically through higher levels of organized citizen participation.

Among the family of liberal democracies, American democracy has a number of distinctive features. Here are some of the more important:

Winner-take-all, single-member-district elections

Electoral systems get organized in many different ways. In some countries, for example, representatives are elected on a principle called "proportional representation". In a PR system, if a party wins 40% of the vote in an election it will get roughly 40% of the seats in the representative body, with election districts including potential candidates from different parties to make those numbers work out right. The U.S. system shares with a few other countries the property that each representative is elected from a district in which only one candidate wins. This means that a party could conceivably get 49% of the vote in every district and end up with no seats at all in the U.S. Congress. Among other consequences of this system, it is extremely difficult to form minor parties in the U.S., so difficult that we typically refer to them as "third" parties, in contrast to the dominant Democratic and Republican major parties.

Federalism

The U.S. is one of the world's "federal" systems, meaning that national power is explicitly shared with subnational units of government, which here we call "states." Federal systems are typically contrasted with "unitary" states, in which the national government holds all public power.

Federalism matters for all sorts of things. It means that there is considerable complexity to nature of political jurisdictions over different kinds of problems of public policy. It means that there are historical moments in which the states can be laboratories for new experiments in public policies. And it also means that sometimes the decentralization and fragmentation of the political system can obstruct the process by which constructive solutions to national problems can be forged.

Divided Powers, and Presidential System

The U.S. has "divided" government, with clear and separate constitutional bases for power assigned its legislative, executive, and judicial branches. It is also a "presidential", not "parliamentary" system. In other countries the head of state and head of government are commonly separated. In the U.S. they are the same. And in the U.S., the head of government is chosen by citizen election, rather than, as in parliamentary systems, by the dominant party or party coalition.

Interest groups and grass roots activism

While political power in American democracy is organized through elected government, interest groups and grass roots activism also play a particularly important role in political life. Both come in all shapes and sizes, reflecting shifting popular interests and the distribution of resources needed for any political action. The United States has historically had a quite vibrant, bottom-up tradition of local mobilization around social and political issues, and has a particularly strong tradition of voluntary associations engaged in all sorts of civic activities, from the Rotary Club to the NAACP to the PTA.

Money in Politics

Liberal democracies always face a series of dilemmas about the role of private money in political competition. On the one hand, the principle of political equality of citizens implies that rich people, by virtue of being rich, should have no more influence in democratic politics than anyone else. On the other hand, the values of individual autonomy and free speech implies that people should be allowed to spend their money however they like and there should be no restrictions on the ability of people to express themselves. One interpretation of this idea is that people should be allowed to spend as much money as they like in support of political candidates since this could be interpreted as supporting a form of "speech". The United States has adopted a fairly extreme version of this principle, and thus in spite of various efforts at reform, money plays a huge role in American politics. Some people argue that we have moved from one-person one-vote to one-dollar one vote.

The Media and Politics

The issue of money and politics also comes into play around the problem of the mass media and access to political information. While political censorship is from time to time an issue in American politics, the major problem of information for democratic vitality centers on the corporate control of the mass media. Ownership of broadcast media is incredibly concentrated in a few giant corporations, newspapers in most parts of the company are run like ordinary commercial enterprises, and generally commercial interests dominate the dissemination of news and public debate.

Taken together -- as we will see in the extended discussions of democracy in Part III of the book -- these characteristics present a mixed picture of democratic institutions in American life.

On the one hand democratic values remain important, basic civil liberties are largely protected, regular contested elections are held, and grass roots activism is an important expression of democratic impulses. On the other hand, American political institutions give an inordinate role for money and wealth in political life and electoral rules are designed to favor powerful established parties. Affected by all these things, the basic work of any democratic government — debating issues of public concern, making decisions about how those issues are best address, executing whatever is decided, and doing all this in a way that reflects the interests of citizens — is also done in the U.S. through an unusually divided structure of formal power. John Quincy Adams once described it "the most complicated government on the face of the earth," which makes making any decision, and sticking to it, more difficult.

5. Militarism and global domination

In many ways the United States has become a heavily militarized society. Regardless of what you think about the purposes to which this military might is put – whether you think it is ultimately a force for peace in the world or is itself one of the main sources of violent destabilization and conflict – there is no doubt that one of the central characteristics of American society that distinguishes it from others is its degree of militarization. We spend more than ten times as much on the military than any other country in the world. In 2003 – even before the Iraq War – we spent 13 times more than China and over 20 times more than Russia on the military. In the 2009 Fiscal year budget the total of all military spending by the United States – including the budget of the department of defense, the military portions of other departments, and the various supplements to fund the "war on terror" – comes to $965 billion. If to this we add the funding of the Veterans Administration and interest on the national debt generated by past military spending, the total increases to almost $1.5 trillion, over half of the total U.S. Federal government budget.[14] Even if we exclude these expenses linked to past military activity, U.S. military spending is still more than the total spending of the 15 countries in the world.[15] We have more soldiers around the world outside of our borders than all other countries combined, and our soldiers have fought in more countries than any other country in the last half century. In the last fifty years we have intervened militarily in scores of conflicts and have been directly involved in trying to overthrow militarily at least a dozen governments. The United States economy is deeply integrated into the production of military goods, both for our own use and for export. This means that the livelihood of significant segments of the civilian population depends upon the continuing strength of the U.S. military.

6. Gender Relations: eroding male domination

American society today is in a period of dramatic transformation of gender relations in which many features of traditional forms of male domination are eroding: Until 1920s, women could not vote in the United States. Until 1930s they could not have a passport in their own name if married. Female adult labor force participation was only 18% in 1900 and 33% in 1950, but had grown to 50% in 1980 and is just under 60% today. The presence of women has increased

[14] These estimates come from War Resister's League, "Where you Income Tax Money Really Goes" (New York: War Resisters League, 2009)

[15] SOURCE: Center for Arms Control and Non-Proliferation, armscontrolcenter.org, reported in War Resister's League, "Where you Income Tax Money Really Goes" (New York: War Resisters League, 2009)

dramatically in a wide range of previously male-dominated occupations: between 1975 and 2007 the percentage of police officers that were women increased from under 3% to over 16%; the percentage who were lawyers increased from 7% to 34%; and the percentage who were doctors increased from under 15% to about 31%.[16]

Male dominance is being undercut in various ways, but has by no means collapsed. Some occupations remain highly sex-segregated: over 95% of secretaries, dental assistants, and early-education teachers are still women, whereas less than 2% of carpenters and auto-mechanics are women. Women have gained more political influence, yet they are greatly underrepresented in all levels of elected office, especially national office. While the percentage of the largest 1000 corporations that have at least one woman on their boards of directors has increased from 13% in 1969 to over 70% by 2008, women still occupied only a little over 15% of the actual seats.[17] And, perhaps most strikingly, while women have made significant gains in gender equality in many public settings, within the private domain of the family they continue to do the vast majority of housework, childcare, and other caregiving labor.

7. Social Cleavage: Racial division.

Racial inequality and racial cleavage remain a deep and serious reality of American life. For over three and a half centuries both inequality and domination have been structured around race in North America. The United States was founded as a liberal democratic country proclaiming equal rights for all, and yet it found a way to accommodate one of the most brutal forms of inequality of basic rights: slavery. The legacy of slavery has marked American history to the present, especially in the ways it has generated such a sharp and troubling form of racial inequality. Racism has also been deeply connected to the relationship between European immigrants to the United States (and the British colonies before the American Revolution) and Native Americans. The development and expansion of the United States depended upon displacement and destruction of Native American peoples.

This does not mean that there has been no progress on issues of race and racism in the United States. The destruction of the official legal machinery of racial inequality in the 1950s and 1960s was a huge change, and since those momentous days of the civil rights struggles educational and occupational opportunity has opened up for many African Americans. There is now a prosperous and well-educated African-American middle class, and this makes a real difference. Cultural representations of African Americans on television and film have also become less racist than in the past, often showing African Americans in a positive way. And, of course, the election of Barak Obama in 2008 constituted a profound break with racial patterns of the past. Nevertheless, racism, racial stereotyping and potent racial discrimination remain significant and pervasive facts of contemporary American society.

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[16] For details, see figure 15.3 in chapter 15.

[17] Catalyst, "The Catalyst Pyramids: U.S. Women in Business", March 2009, http://www.catalyst.org/publication/132/us-women-in-business

8. Immigration

It is a cliché to say that the United States is a nation of immigrants -- old immigrants, new immigrants, legal immigrants, illegal immigrants. Aside from Native Americans, everyone in the United States has ancestors who moved here – or were brought here – sometime in the last three hundred or so years. Before the 20^{th} century, for whites at least, there was no such thing as an "illegal immigrant": more or less anyone could just come. Beginning in the 1920s, however, people needed permission to move to the US. From the 1920s until the 1960s the rules were very restrictive, excluding almost everyone other than Europeans. But beginning in the 1960s the rules were quite significantly liberalized. And in recent years, beginning in the 1980s and accelerating in the 1990s, there has been an explosion of immigration, both legal and illegal. Today we approaching the levels of foreign born living in the United States that existed at the beginning of the 20^{th} century – just over 12% today compared to about 15% in 1910.

9. Culture

It is always difficult to make simple characterizations of something as complex as "culture", particularly since all national cultures are heterogeneous and contradictory. Nevertheless, in a somewhat stylized manner some of the salient features of what can be broadly termed "American Culture" would include the following:

- *Pluralism and tolerance*. The United States is characterized by a deeply diverse array of what might be termed "subcultures": Amish communities; urban cosmopolitans; Southern traditionalists; educated "highbrows" and NASCAR sports fans; lovers of country-music, hip-hop, easy-listening, and opera; and so on. By and large this pluralism exists in a broader culture of tolerance. Most people accept this diversity as a good thing, or at least have learned to live with it. Despite the recent "culture wars" in the U.S., the U.S. surely rates as one of the most tolerant societies in the world.
- *Individualism*. The United States is generally thought to be a fairly individualistic society, a society in which individual autonomy and "freedom" are considered more important than collective welfare, and in which individuals are held pretty much responsible for their own fate. It is easy, however, to exaggerate this cultural element, since many Americans also deeply value *community* and have a strong sense of shared fate with others. Still, on the spectrum of contemporary societies it is probably fair to say that American culture is marked by higher levels of individualism than most other places.
- *Religiosity.* By every measure, Americans are among the most religious people in the contemporary world, at least if we define this by formal beliefs and church-attendance. A very large proportion of Americans profess a belief in God – upwards to 90% depending upon precisely how the question is asked. This is much higher than any other comparably developed country. And a smaller percentage of the population believes in the scientific validity of biological evolution than in any other economically developed country: In the 2004 General Social Survey (a regular, large, attitude survey of American adults), 12.4% of respondents agreed that human beings evolved without any divine guidance; 42% said that humans evolved, but with guidance from God; and another 42% rejected biological evolution altogether. In another question on the same survey, 54% said it was either

definitely not true or probably not true that humans evolved from earlier species of animals. Church attendance is also higher than in any European country.

- *Commercialism and consumerism*. A final element of American culture is the importance of commercial forms of culture, especially consumerism, in American life. This underwrites the fact that Americans save less and buy more things on credit than in other comparable countries. Shopping is a major recreational activity. Success in the market is a source of high status and "keeping up with the Joneses" is a major motivation for working hard.

10. Violence and repressive social control

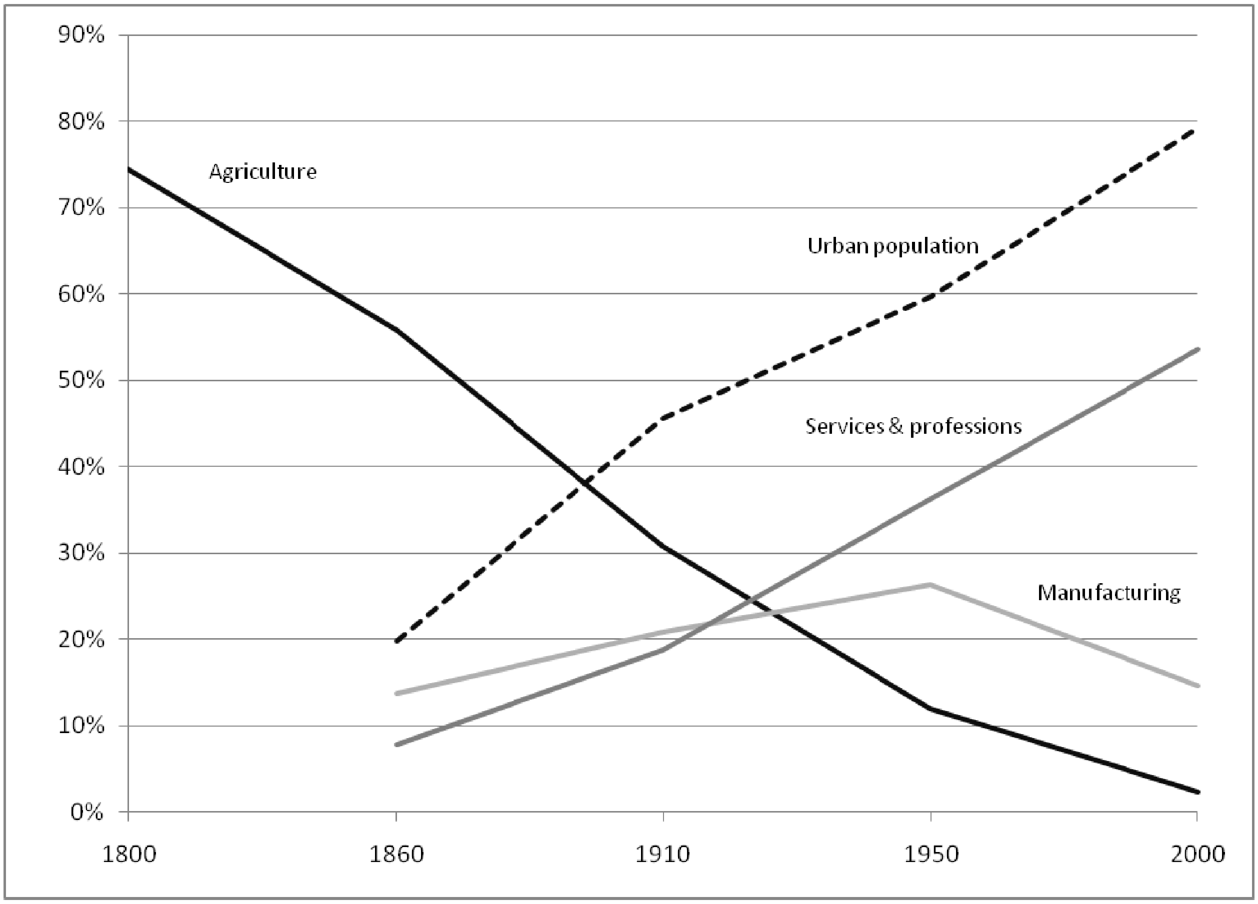
Of the various attributes of American society we have proposed that are answers to the question "What kind of a society is this?" perhaps the most controversial is the idea that the United States is a violent and repressive society. The facts, however, are striking:

- Gun murders: In the U.S. in 2004 there were 31firearm murders a day. In Great Britain the rate were 25 gun murders per year in 2005-2006. In Canada there were 225 gun murders in 2005, and in Japan a total of 22 in that year.
- Homicide is the 2nd leading cause of death among those aged 15-24 and the leading cause of death for black males 15-34.
- *Prisons*: In U.S. in 2005 there were about 738 prisoners/100,000 people. That is the highest in the world, ahead of Russia (611). The U.S. rate is 4-7 times higher than most other industrialized countries. In 2005 23% of the prisoners *in the world* are in U.S. prisons even though the U.S. has only 5% of the world population.
- The United States is the only economically developed liberal democracy besides Japan and South Korea to have the death penalty; all other countries have abolished it.
- In 2006 the U.S. had almost 1.7 million police and security guards.

*

There are, of course, many other things one could say about American Society, other attributes that would add to classifying the U.S. within the catalogue of contemporary societies: The U.S. is a geographically very large (the third largest after Russia and China) and a very populous country (the third after China and India); Americans are highly mobile, moving to new cities and regions to look for jobs at higher rates than most other economically developed countries; the United States has one of the most developed university systems in the world, and by most measures the highest quality graduate education programs anywhere; and so on. These and other things are important, but the attributes we have mentioned are especially salient for studying American society in terms of the core values of efficiency, freedom, fairness, and democracy.

CHAPTER 2. TABLES & FIGURES



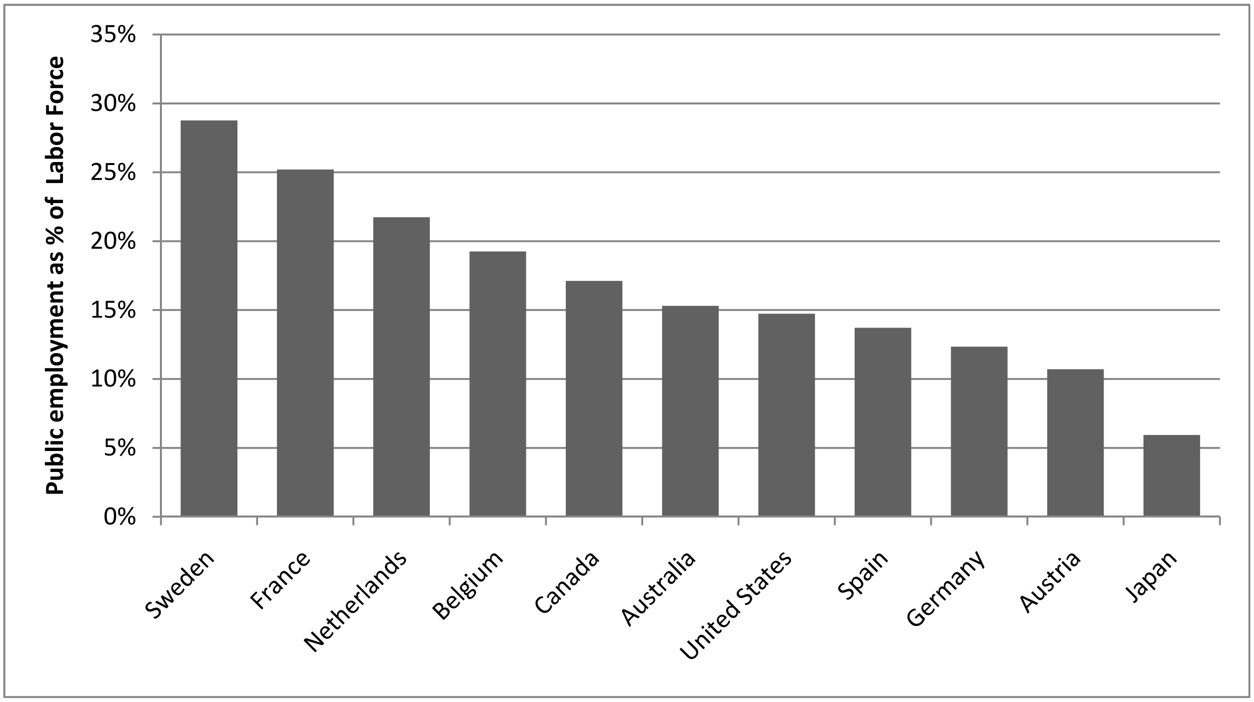
Sources: Labor force data: *Historical Statistics of the United States Millennial Edition Online, Table Ba-A.* Urban population data: Labor force data: *Historical Statistics of the United States Millennial Edition Online, Table Ba-A.* Urban population data: U.S. Census Bureau (2004) *United States Summary: 2000*, Table 18, available at http://www.census.gov/prod/cen2000/phc3-us-pt1.pdf.

Figure 2.1
The trajectory of Agricultural, Manufacturing and Services Employment and Urbanization, 1800-2000

	Country	GDP 2008 in billions of current U.S. dollars
1	United States	14,265
2	Japan	4,924
3	China	4,402
4	Germany	3,668
5	France	2,866
6	United Kingdom	2,674
7	Italy	2,314
8	**Top 10 U.S. Corporations**	**2,070**
9	Russia	1,677
10	Spain	1,612
11	Brazil	1,573

Sources: National GDP data: IMF, "World Economic Outlook Database April 2009,". Available at http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/index.aspx. Fortune 500 data: *AggData.com*, "Complete List of Fortune 500/1000 Companies 1955-2009", available at http://www.aggdata.com/business/fortune_500.

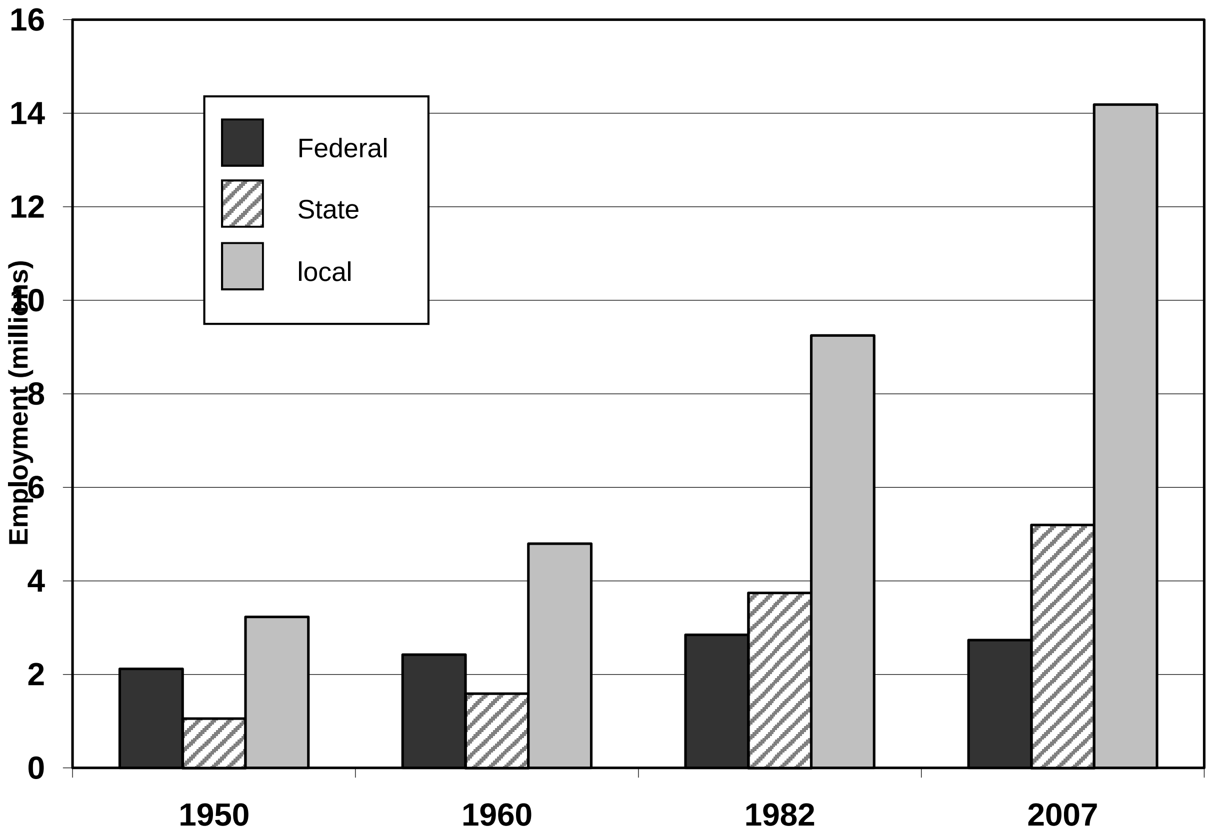
Table 2.1 Eleven largest economies in the world in 2008



Notes: (1) Public employment includes employment in government and public corporations
(2) Data are based on number of employees, except for Austria, Netherlands, and Sweden where they are in full time equivalents. Employment numbers for those countries are thus underestimated

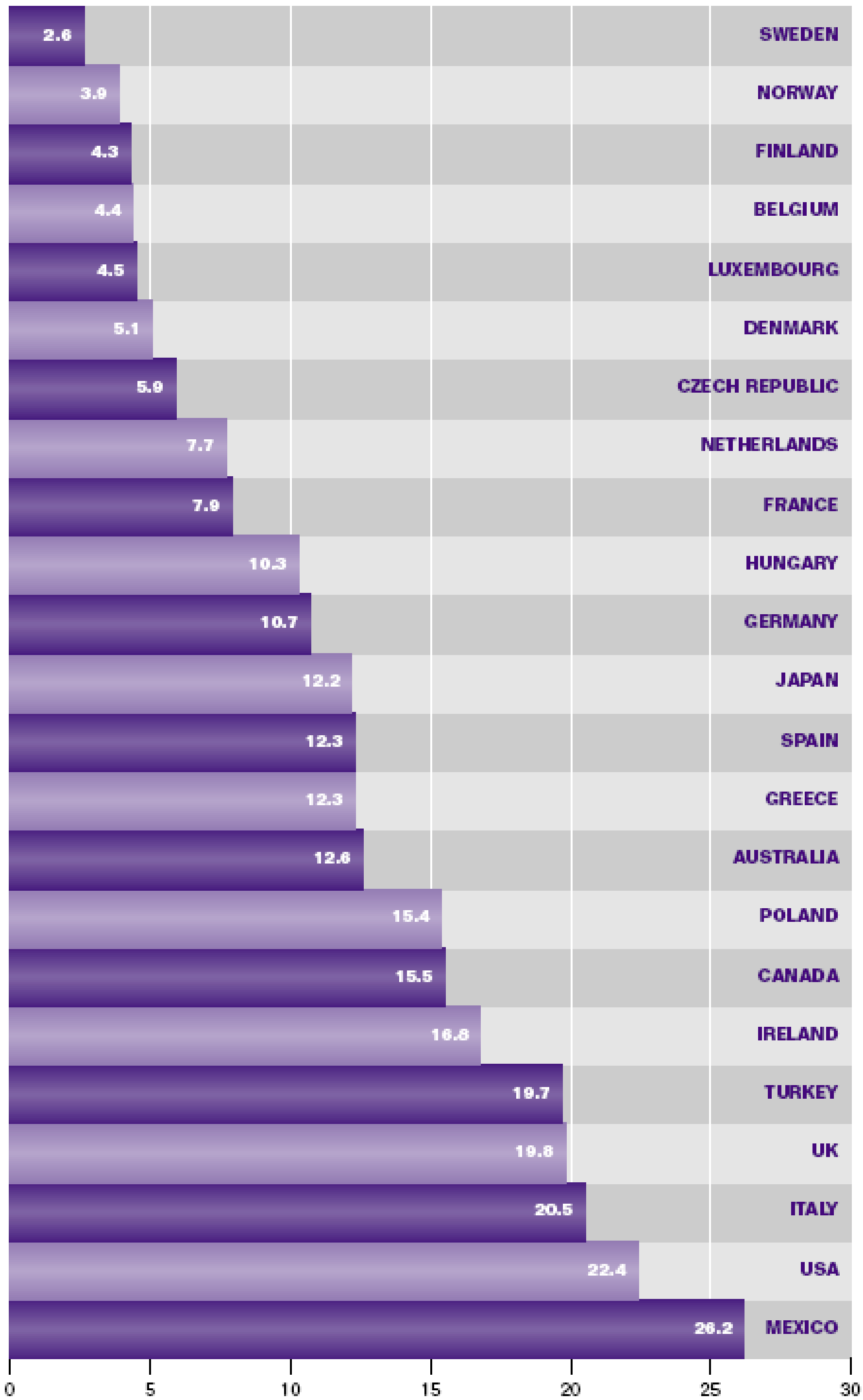
Source: Pilichowski, E. and E. Turkisch (2008), "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", *OECD Working Papers on Public Governance*, No. 8, OECD Publishing. Figure 10, p.23

Figure 2.2
Public employment in selected economically developed countries



Source: U.S. Census Bureau, 2007Census of Government Employment, Table 2.

Figure 2.3
Employment in Federal State and Local Governments, 1950-2007



% of children living at less than half of the national median household income

Source: The league table of child poverty in rich nations, (Florence, Italy: UNICEF Research Center, 2000, p.4

Figure 2.4
Percent of children living in Poverty in 23 countries

PART I
EFFICIENCY AND FREEDOM

In this part of the book we will explore the nature of the American economy. This is essential for any systematic examination of contemporary American society, both because the economy has such a big impact on people's lives and because it plays a profound role in shaping many noneconomic aspects of social life. This means that we will enter a domain of inquiry that is usually dominated by the concepts and theories of economics, not sociology. The economy, however, is too important to leave to the economists. The discipline of economics has much to teach us – and we will draw on certain key ideas of economics in these chapters – but it also has many very deep blinders, so we also need a sociological analysis of the economy.

Our primary goal in these chapters is to understand how the capitalist economy in the United States really works and how it contributes to the realization of two key values closely associated with economic institutions – efficiency and freedom. We will begin in Chapter 3 by elaborating in more detail precisely what is a capitalist market economy and then discuss the central moral and empirical arguments in favor of capitalist markets. Chapter 4 will then criticize these defenses of capitalist market economies and indicate ways in which this way of organizing economic life, in the absence of effective forms of market regulation, hampers both freedom and efficiency. Chapters 5-8 will then examine specific economic problems in American society – the environment, transportation, health care, consumerism, and skill formation – and show how the over-reliance on capitalist markets in the American economy produces inefficient outcomes. Chapter 9 concludes this part by outlining a range of institutional innovations which might contribute to resolving these problems.

CHAPTER 3
THE CAPITALIST MARKET: HOW IT IS SUPPOSED TO WORK

Final draft, August 2009

The American economy is a special case of capitalism. In order to understand how the American economy works, therefore, we will need to spend some time talking in more general terms about the nature of capitalism as an economic system, and this in turn means we will have to discuss a number of fairly abstract ideas and develop a number of theoretical tools, many of which come from economics. This will be the main task of this chapter and the next. In this chapter we will begin by defining capitalism as an economic system and then examine the central arguments in favor of capitalism by its defenders. This will give us a picture of how capitalism is *supposed* to work. In the following chapter we will discuss some of the dilemmas and problems of capitalism as an economic system which explains its limitations and failures. The chapters which follow, then, apply these ideas to a number of more specific problems in the American economy today: the environment, transportation, health care, consumerism, and training. The central theme in each of these analyses is how the over-reliance on capitalist markets in the American economy produces inefficient outcomes. Our exploration of the American economy concludes in Chapter 9 by outlining a range of institutional innovations which might contribute to resolving these problems by strengthening the role of democratic governance and collaborative problem solving over economic processes.

I. What is a Capitalist Free Market Economy?

Economic life can be organized in many ways. This is a crucial idea: history contains an enormous variety of ways of organizing economic activity and, undoubtedly, there are possibilities that have not yet happened but eventually will. The first step in giving more precision to our understanding of capitalism as a specific way of organizing an economy is to get some appreciation of this broader variation.

Here are a few examples of non-capitalist economic structures:

> *Feudalism*. In Feudal economies, the key economic resource is land. Different classes of people have different kinds of rights and relationship to the land. Peasants are "tied" to the land: they do not have the right to simply leave. They have the right to farm the land, but in order to do so they have to give a certain proportion of their production to feudal lords. Sometimes this takes the form of feudal peasants working part of the time on land directly controlled by lords and part of the time on land which they control; in other situations, a certain proportion of their product is taken in the form of a rent. Unlike in market economies, they are not free to make their own choices about what to do.
>
> *Slavery*. In slavery people are the private property of other people and are owned in the same sense that a farm animal can be owned. This is different from feudalism, in which peasants have specific kinds of rights to the land and specific forms of autonomy, under the constraints of their obligations to lords. In slavery that autonomy and those rights disappear entirely.

Simple market economy. In a simple market economy, most producers own their own means of production and produce both for their own consumption and for the market. There is not really a labor market since people work for themselves, not for others, except perhaps as a transient state.

State bureaucratic socialism. In state bureaucratic socialism, such as in the Soviet Union in most of the 20^{th} century, the state owns all of the important means of production and state officials of various sorts make the basic decisions about investment, production, technology, and so on. The economy is run through some kind of centralized planning process.

Other possibilities? There may be many other ways of organizing the economy that have not really been tried on a wide scale. Some people have argued for the possibility of what is sometimes called "market socialism". One form this might take is an economy in which firms are owned by their employees, not by capitalists, but production is still oriented towards the market. Other people have argued for a state-owned economy, but one that is organized in a highly decentralized and democratic manner in which planning was less the business of central planners and more of citizen participants in various kinds of planning processes. Neither of these may be realistic, but what we know almost for sure is that there are possibilities beyond those that we have observed in history so far.

Capitalism, then, is one of the many historically variable ways that economic systems can be organized. As discussed in Chapter 2, it is defined by three principle conditions: production is organized for the market; the means of production are privately owned, and investment is privately controlled; and the people who use those means of production to produces goods and services, that is workers, are hired on a labor market to work in firms as employees. Defined in this way capitalism is *not* identical to the idea of a "market economy." To be sure, capitalism is organized through markets, but not all market economies are capitalist. In the examples above, a simple market economy has markets and private ownership, but the producers are self-employed owners rather than employees. State owned firms, rather than privately owned firms, can produce for a market, and this too would not be capitalism. Slave plantations in the United States before the Civil War produced cotton for the market, but slavery itself was not a form of capitalism. Capitalism is different from all of these "market economies". It is that form of market economy in which production and investment are privately controlled, and the work of production is performed by employees, hired from free labor markets.

The United States economy is strongly dominated by capitalism, more so than most other countries in the world. But it would be a very big mistake to say that it has a purely capitalist economy. Many aspects of production and distribution in the United States are organized in decidedly non-capitalist ways: educational services are provided by public schools; the Veterans Administration produces healthcare services for a part of the population; many cities have publicly produced mass transit; churches, civic associations and other non-profit organizations provide a wide range of services within communities; significant aspects of the information produced and distributed through the internet are done in what is termed "open source" processes based on voluntary activity and nonmarket coordination; and a great deal of caregiving and meal preparation is done within households for direct consumption. All of these are instances of noncapitalist economic activity.

A nice illustration of the difference between capitalist and noncapitalist ways of organizing economic activity is the contrast between two ways in which people get access to books: bookstores and libraries. The United States turns out to have one of the best developed public library systems in the world. Ironically, perhaps, this system was largely founded through the philanthropy of one of the wealthiest and most powerful capitalists of the late 19th century, Andrew Carnegie. What are the key differences between bookstores and libraries? When you enter a bookstore in search of a book you go to the part of the store in which the book is shelved, take it off the shelf, look at its price, and then decide whether or not it is worth it to you to spend that amount of money to have the book. Your access to the book is governed by your willingness (and ability) to pay for it. In a library you go to the shelf, see if the book is there. If it is, you take it and check it out. If it is not, you put your name on a waiting list and get notified when the book is available. The access to the book is rationed by time: your willingness to wait for it. The librarian then notes how long the waiting list is and, depending upon the resources of library, the level of community support for its activities, and its policies concerning waiting lists, decides whether or not to order more copies of the book.

The underlying principles of a library and a bookstore are thus quite different. The basic principle of access to books in the library is "to each according to need" or interest, while the principle in the bookstore is "to each according to ability to pay." These two mechanisms have very different consequences in the world. Libraries are clearly more egalitarian in the sense that they embody an ideal of equal opportunity for all. No one is at a disadvantage because of personal resources. If bookstores were the only way of getting books, then poor people would have much less access to books. One can easily imagine libraries being used for all sorts of things besides books – movies, recordings, artwork, tools, video cameras, etc. And indeed, some public libraries in the United States do provide some of these. Imagine how the American economy would be different if libraries were ever to become a general, pervasive model for access to such a wide range of things?

So, the United States is definitely not a purely capitalist economy. Nevertheless, in the spectrum of developed capitalist countries in the world today, it is on the end of the continuum in which capitalism is strongest. And most Americans think that this is a good thing. Most Americans are suspicious of government regulation, let alone public ownership, and many, perhaps most, believe that relatively unfettered markets and private enterprise are the best way of organizing economic activity. It will help us understand how the American economy works and what are its problems by laying out the central lines of defense of a free market capitalist economy, and the basic argument underlying the skepticism about the role of Government in regulating economic life. This is the task of the rest of this chapter.

II. Arguments for Capitalism

Defenders of free market capitalism generally make two kinds of arguments. The first is a moral argument: If you truly value individual freedom, this is the most freedom-enhancing way to organize economic life. All other ways of running an economy involve more coercion of the lives of individuals in ways that violates their liberty, or risk that coercion in the future. The second is a pragmatic argument: the free market and unfettered private ownership is the most efficient way of organizing the economy. It delivers the goods. Let us briefly look at the first of these, and then in more detail the second, since in the end it is main way that capitalist institutions are defended.

1. The Moral Argument

The moral defense of capitalism is usually associated with what is called *libertarianism*. The basic idea is quite simple: Individual freedom is the paramount social value, where freedom is mainly understood in terms of what is sometimes called “negative freedom,” the freedom from coercion by other persons or organizations. In this sense of freedom, you are “free” if no one can tell you what to do without your consent. Both you and a media tycoon have the “same” freedom of speech since no one tells you what to say. Unfettered markets are thus morally good things because in a market buyers and sellers meet and voluntarily make exchanges without coercion.

The moral defense of capitalism is simply a logical extension of these arguments about voluntary exchange on free markets. If people are free, then they should be allowed to use their property however they like so long as this does not interfere with anyone else’s property rights. This means that owners of the means of production should be free to use their capital as they wish, and in particular, they should be free to hire workers to use those means production on any terms voluntarily agreed upon by the workers and employers. So long as all of the agreements are voluntary – no one is directly forced by someone else to sign a contract – this is an expression of individual freedom and autonomy. Restrictions of voluntary contracts – including restrictions governing things like working conditions, pay, rights to hire and fire, and so on – are all violations of this conception of freedom. A minimally regulated capitalism is the form of economic organization that best satisfies these moral principles.

2. The Pragmatic Argument for capitalism

There are two broad pragmatic arguments for capitalism as a way of organizing economic activities: first, capitalism provides the most effective way of coordinating a complex economic system, and second, it creates powerful incentives for innovation and economic growth. The full arguments underlying these claims involve quite a lot of complex economic theory, but the basic ideas are relatively simple.

Coordination

The first pragmatic argument for capitalism centers on a crucial problem faced by any complex economic system: how to effectively coordinate the economic activities of widely dispersed people in such a way that their activities fit together reasonably well. You want to build a house. You need lumber, nails, wire, ceramic tiles, paint, carpets and many other things, as well as a variety of tools and machines. All of these “inputs” into your housebuilding were themselves produced with machines and energy and many raw materials from all over the world involving tens of thousands of people engaged in laboring activity. How do you let these people know that you want a particular kind of nail and a particular variety of lumber, and that you need these on a particular date in order to build your house? It is an unbelievably complex matter to get all of this activity even moderately well coordinated. The most basic defense of capitalism as an economic system says that a market economy based on decentralized privately owned firms is the best way to solve this problem. How is this supposed to work?

In a stylized way we can think of two primary methods of solving this complex coordination problem. One solution is *planning and command,* the other is *decentralized markets.* In a planning model, activities of individuals and firms are coordinated by a planning authority telling people what to do. This is how coordination takes place in some large organizations and corporations: there is a hierarchy of managers with various responsibilities for figuring what to do, and they issue orders to subordinates which ultimately set in motion specific activities of people at the bottom. This is also, more or less, how economic coordination worked in the Soviet Union: central planners formulated plans, allocated resources to firms, and instructed those firms what to produce. Authoritative command works reasonably well in some contexts, but it has proven very problematic when applied to large and complex systems. Even apart from the problem that a system of comprehensive planning and control of a complex economy seems to violate the values of individual freedom and autonomy, the task seems impossibly complex and likely to produce massive inefficiencies.

Decentralized markets with privately owned enterprises is the principle alternative to centralized planning as a way of solving this massive coordination problem. The story about how this coordination is accomplished was first systematically elaborated by Adam Smith in his famous account of the "invisible hand" of the market. Even if, in the end, we discover that this story is far too simple and that the free market does not really function in the way Adam Smith believed, nevertheless it is a remarkable account and remains the core of the pragmatic defense of capitalist institutions today.

The key idea in the theory of the invisible hand of market coordination is the notion of "prices" as a mechanism for supplying both information and incentives to people in such a way that their activities can be coordinated. "Price" is a pretty odd phenomenon if you think about it: you take two things, an apple and a hammer and a number gets assigned to each which tells you how many apples are worth the same as one hammer: 10 apples = 1 hammer.

How, then, do prices of things work to coordinate a vastly complex system of decentralized economic activity? The conventional story revolves around the way the interplay of supply and demand shapes the movement of prices: If, at the existing price of widgets, there are more people who want widgets than the supply of widgets, then the price will rise because people who want widgets will bid the price up. This creates a big incentive for producers of widgets to produce more, since the higher prices mean that they will make a greater profit. Production of widgets thus increases, the supply rises, and eventually as supply equals demand, the prices fall. Eventually no one is willing to produce more widgets at the going price, which means that the price must be pretty close to the cost of producing widgets. This is called by economists an "equilibrium" -- a situation where price and quantity remain stable because no one has an incentive to change their behavior.

This interplay of supply and demand through the mechanism of price this leads to what economists call *allocative efficiency*: resources and activity are allocated to different purposes in such a way that the amount of different sorts of things that get produced is exactly the right amount given what people want and how much money they have. The degree of coordination this involves is really amazing: When you go to a store and buy a chocolate bar you are giving information to the store owner who automatically passes that information to the chocolate bar company in the form of new orders of candy bars; the candy bar manufacturer then communicates the information to the cocoa importer when ordering new supplies; and the importer ultimately passes this information to the farmer in West Africa growing the cocoa beans. Each of these actors in the chain has a personal incentive to respond to the information. When you buy a candy bar you are, through a chain of information and incentives, communicating with a farmer in Africa.

Defenders of capitalism, emphasize two important implications of the way capitalist markets accomplish this broad economic coordination. First, if capitalist markets work this way, then the underlying dynamics of the economy are driven by the preferences and behaviors of consumers. Consumers are really running the economy. They the ones who are in command, and have as great a power as royalty of old. The idea is referred to as "consumer sovereignty". Producers – whether they be giant multinational corporations or small firms – have powerful incentives to respond to information given them by the consumers of their products. If they fail to respond to that information, they lose money and eventually go out of business. Again, it is thus the final consumers of the goods and services produced by the economic system who have the most fundamental power, since it is their preferences and choices which set in motion the information and incentive system which coordinates market. This is appealing, since it corresponds to popular ideas about individual autonomy and freedom: apparently powerful corporations are really controlled by consumers.

The second implication is a particular (some people would say *peculiar)* sense in which capitalist markets do not simply do a pretty good job in coordinating a complex system of economic activity, but they do so in a way that is "optimal". To say that a particular way of doing things is optimal is to say that it is as good as possible, that any other alternative would produce worse results. In an ideal capitalist free market, when one person makes an offer to exchange something, if someone accepts the offer, then they both are better off; if no one accepts the offer it is because no one could be made better off by the exchange. If you let everyone freely make exchanges, then eventually you will reach an "equilibrium" in which no further exchanges happen. This is a situation in which *no one can improve without someone else being worse off.* This kind of situation has a special name in economics: "Pareto optimality", named after the Italian Wilfredo Pareto. The claim of defenders of the free market is that if the market is allowed to work freely it will generate a distribution of goods that satisfies this condition of Pareto optimality.

Innovation and growth

As many advocates of free markets stress, unfettered capitalist markets are not simply an efficient way of allocating *existing* resources; they also promote all sorts of innovations, both innovations which contribute to economic growth by improving human productivity and innovations in products which improve the quality of life. This is thought to be the real magic of capitalism: capitalist markets generate a dynamic economic system which ultimately improves the lives of people through innovation and growth.

There are three core reasons for this innovative dynamic: First, the market rewards people and firms financially for making the right decisions and punishes them for making the wrong decisions, where "right" means both producing things people want to buy and producing them at lower cost so more people can afford them. Second, the market allows people and firms to take risks in order to obtain the rewards which markets potentially offer. Innovation is a gamble, and markets provide one way of letting people engage in gambles which potentially have significant social benefits in the form of new products and technological improvements. Third, competition among firms intensifies both of these processes: Capitalist markets put considerable pressure on firms to innovate in order to survive against competition. Over time this means that firms that innovate successfully will tend to expand and those which do not will decline, thus increasing the pressure on less successful firms adopt existing innovations and seek new ones. The result is that innovations tend to diffuse throughout an economic system, thus raising productivity and underwriting significant economic growth.

Risk-taking is key here, for most innovations are the result of investing time, energy and resources without any assurance these will generate a pay off. Of course, capitalist markets are not the only way of encouraging socially-useful risk-taking. Much research, for example, is conducted in academic institutions and government research institutes in which risks are taken and considerable innovation occurs, animated not by the potential of making huge amounts money, but rather by desires for reputation and the opportunity to do interesting work that contributes to knowledge and public welfare. Still, capitalist markets have proven to be a powerful engine for innovation through the combination of competitive pressures and opportunities for financial payoffs to successful risk-taking. Particularly because of the ways in which capitalism facilitates such broadly decentralized and diffused forms of risk-taking and innovation in which the initiative and inspiration of creative individuals get linked to financial resources of investors, capitalism has proved to be an engine of economic growth.

III. Arguments against state interference with the market

The moral and pragmatic defense of capitalism involves not simply an affirmation of the virtues of capitalism, but also a critique of the state. "The Government which governs least governs best" is a standard aphorism of advocates of capitalist systems.

The moral argument against the state is simpler than the pragmatic argument and is most purely embodied in libertarian thought. Governments rule by command backed up by force. Governments are therefore inherently a threat to freedom; the sheer fact of the state implies a restriction on freedom. This does not mean that Governments should be abolished – most advocates of unfettered markets are not anarchists. But they believe that the role of government should be strictly circumscribed and the burden of proof is always on those who say the government should do something. The state should be what Ferdinand LaSalle called "a Nightwatchman state." This is a state whose role is limited as much as possible to the task of protecting property rights and the rules of the game rather than actively intervening in the economy to "solve" problems. If this conception of what the state should do is minimalist, and largely negative — "don't go there!" " don't tread on me!"— the contrasting conception of the state is commonly called "affirmative." An affirmative state doesn't put markets off limits to intervention. A democratic affirmative state is one that deliberately uses its power, in markets and elsewhere, to improve democratic conditions. This might take any number of forms, but one classic one is by relieving the social exclusions and material inequalities that undermine the democratic ideal of equal citizenship. Proponents of such a state think that using public power in these and other ways to further democracy is nothing to be embarrassed about. In fact, they think that the whole point of democratic government is to be "of the people, by the people, for the people," not "of the market, by the market, for the market."

While the moral argument for a limited state has appeal to libertarians, this by itself would not be persuasive to many, perhaps most, people. People see many problems in American society – poverty, pollution, inadequate health care, to name only a few – and at various times in American history people have turned to the state for help. Opponents of a strong role for the state in a market economy have thus given considerable weight to the pragmatic argument. "The state is the problem, not the solution," is another aphorism.

Two kinds of pragmatic arguments are particularly common in the attacks on state intervention. These can be referred to as the thesis of *state incompetence* and the thesis of *state malevolence*.

The state incompetence thesis suggests that government bureaucracy is inevitably clumsy and ineffective, bogged down in "red tape" and a preoccupation with one-size fits all rules and regulations. Politicians and government officials may be well-meaning, but their attempts at imposing regulations on the market almost always backfire, undermining the crucial incentives that generate efficiency in market. Efforts at environmental protection, for example, generate endless paperwork, environmental impact studies, rigid rules that fail to take into account local conditions, and endless litigation. Even if the goals were worthy, the effects are undesirable.

The state malevolence thesis is much stronger. Here the state is not just viewed as all thumbs and no fingers, but as an iron fist. Bureaucrats strive to accumulate power either for its own sake or to serve their own career interests. Corruption is a chronic problem, not just in the sense of politicians and bureaucrats taking bribes (although this happens often enough) but in the sense of state officials protecting powerful economic actors from market competition through subsidies, tax breaks and self-serving regulations in exchange for their political support. The state is either captured by special interests which use the power of the state to gain special advantages, or it is an autonomous machine bent on domination for domination's sake. Perhaps the original intention of building up this machine was benevolent, seeking the means to solve real problems. But once created, this state machine becomes Frankenstein, a monster which cannot be controlled by its creator. Only if the monster is slain can the full virtues of capitalism be unleashed.

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It would be an exaggeration to say that most Americans fully accept these libertarian arguments against the state and for a largely deregulated free market form of capitalism. Public opinion surveys consistently indicate much more ambivalence than this. Americans typically believe in democracy and the need for a state that does much more than just enforce the rules of the game, and while they are strong supporters of private enterprise and market capitalism, there is considerable skepticism that an unregulated, free-for-all market is the best for securing either freedom or efficiency. In the next chapter we will examine a range of problems generated by market capitalism which markets by themselves cannot solve.

CHAPTER 4:

THE CAPITALIST MARKET: HOW IT ACTUALLY WORKS

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In the last chapter we examined the central virtues of capitalism as seen by its defenders and the basic way capitalism is supposed to work. Six points were especially salient:

- Capitalist markets are an expression of the value of individual freedom, organized around voluntary exchange between people; no one is forced by anyone to engage in any particular exchange.
- Free markets are an extremely effective mechanism for coordinating complex economic systems.
- Markets accomplish this remarkable result through supply, demand and the price mechanism
- Free markets result in allocative efficiency: after all the trading is done, the allocation of things is "pareto optimal" – no one can be made better off without someone being made worse off.
- Capitalist Markets create incentives for risk-taking and innovation and thus capitalism is an engine of economic growth.
- State regulations of capitalist firms and markets interferes with the free market and undermines these virtues.

This is how capitalism is supposed to work. Now let's look at some of the problems and dilemmas of markets and capitalism. We will begin by examining the moral argument for capitalism and freedom and then turn to a range of problems with the pragmatic defense of free markets. The chapter will conclude with a discussion of how intensely competitive capitalist markets can undermine a range of social values outside of the economy itself.

I. The moral argument: How well do capitalist markets advance the value of human freedom?

Individual freedom is a terribly important value, and it is a tremendous historical achievement that individual freedom has become a core value of our culture. Historically this value emerged and was strengthened, if unevenly, by the spread of market relations, and a good case can be made that capitalist development has further promoted this value. Nevertheless, capitalist markets really only affirm a very limited notion of freedom, and in certain important respects constitute an obstacle to the fuller realization of this value.

To understand this we must look more closely at the idea of individual freedom. There are two sides to the idea of freedom, sometimes referred to as "negative freedom" and "positive freedom". Capitalism and markets have an ambiguous relationship to both of these faces of freedom.

Negative freedom means freedom *from* coercion. Individuals have negative freedom when no one directly commands them to do things against their will. Individuals have autonomy to direct their own actions unless they voluntarily agree to follow the orders of someone else. A "contract" embodies this ideal of freedom: two people voluntarily agree to some kind of exchange. So long as the contract is free of force or fraud, it is an expression of negative freedom. By historical standards, capitalist markets have done a pretty good job at reducing involuntary coercion in economic life. Compare a free market economy to slavery or feudalism: in both of these sorts of economic systems the direct application of force is a central, pervasive feature of allocating people to tasks. In a capitalist market economy the allocation of people to activities is the result of the self-directed choices of persons: no one is told "you must work for this employer" or "you must buy this product." In Milton Friedman's famous words, within a capitalist market people are "free to choose."[1]

Positive Freedom refers to the actual *capacity* of people to do things. This is freedom *to* rather than freedom *from.* A person has greater positive freedom if he or she can do more things, has greater capacity act in the world. Negative freedom identifies freedom solely with the *act of choice*, whereas positive freedom identifies it with the *range of choices* a person is actually able to make. Capitalism has also certainly played a pivotal role in expanding the range of choices available to many people. One needs only to compare the vast array of consumer products available today with 100 years ago to see this. And further, economic growth has improved the standards of living of a significant proportion of the population so that they have access to at least a part of the expanded range of alternatives.

With respect to both the negative and positive face of freedom, therefore, capitalism and markets can be seen as having made a real contribution. And yet, in other crucial ways, capitalism also generates and enforces considerable restrictions on both negative freedom and positive freedom for many people. Two issues are especially salient here. First, the power relations within capitalist firms constitute pervasive restrictions on individual autonomy and self-direction. At the core of the institution of private property is the power of owners to decide how their property is to be used. In the context of capitalist firms this is the basis for conferring authority on owners to direct the actions of their employees. An essential part of the employment contract is the agreement of employees to follow orders, to do what they are told. In most capitalist workplaces this means that for most workers, individual freedom and self-direction are quite curtailed.

One response to this by defenders of capitalism is that if workers don't like what they are told to do, they are free to quit. They are thus not really being dominated since they continually voluntarily submit to the authority of their boss; they are not slaves, after all. The real freedom of individuals to quit their jobs, however, provides only an illusory escape from such domination since without ownership of means of production or access to basic necessities of life, workers must seek work in capitalist firms or state organizations, and in all of these they must surrender autonomy. It may be true that the agreement to work for a particular employer is "voluntary" in that no one commands this,

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[1] The expression comes from Milton and Rose Friedman in their passionate defense of capitalism, *Free to Choose* (   ).

but the decision to work for some employer is not. Capitalism, therefore, violates the value of negative freedom by making it very difficult for most people to avoid being directly dominated by others in work.[2]

The second way in which capitalism undermines the ideal of individual freedom and autonomy centers on the massive inequalities of wealth and income which capitalism generates. These inequalities mean that some people have enormously greater capacity to act on their life plans than others, to be in a position to actually make the choices which matter to them. Large inequalities of wealth and income mean some people have much greater positive freedom than others. Of course, one can cite many wonderful rages-to-riches stories to refute this: there are people who start out with extremely limited resources and correspondingly limited options who nevertheless acquire the material conditions for expansive positive freedom. Can one say that capitalism denies people positive freedom when such opportunities exist? This is rather like observing that some people escape from prison -- and undoubtedly these are the prisoners who are the cleverest and most committed to escaping -- and then concluding that the people who do not escape are therefore not really in prison. Free markets inherently generate very large disparities in resources available to people. If everyone started out in the same position with the same assets and these differences were just the result of effort and choice, then perhaps it wouldn't really contradict positive freedom. In fact, most people who accumulate great wealth started with considerable wealth and other advantages. They have greater freedom, not just more stuff, than someone born poor.

Capitalism and free markets, therefore, have contradictory effects on the value of individual freedom, whether understood in the negative or positive sense. American capitalism does relatively little to counteract these freedom-reducing processes. Employers face very weak legal restrictions on their authority over their employees, and most workers have very limited autonomy and self-direction within work. Relatively despotic forms of power over individuals within workplaces are thus common. The processes of income and wealth redistribution organized by the state are also very weak, and thus little is done to secure the positive freedom of the poor and disadvantaged. American capitalism may be defended on the moral grounds of individual freedom and liberty, but it supports only a thin understanding of this important value.

II. Problems *internal* to markets: inefficiency and market "failures"

Defenders of free markets and capitalism as a social order do not primarily defend these institutions because they embody the moral principle of maximizing individual freedom, but rather because these institutions are also supposed to promote the general welfare. Many people may concede that markets may be unfair in some ways, that real freedom is limited for many people within capitalism, but still believe that maximally free markets

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[2] For a good discussion of the sense in which the employment contract, in spite of its apparently voluntary character, still reflects a form of unfreedom, see G. A. Cohen, The Structure of Proeltarian Unfreedom, *Philosophy and Public Affairs* 12 (1983), pp.3-33 For a discussion of the problematic relationship of managerial authority to individual freedom, see Robert Dahl, *A Preface to Economic Democracy* (Berkeley, University of California Press: 1985)

based on private property are the surest route to efficiency and improvements in the general welfare.

It is certainly the case that markets are often pretty efficient and that private ownership of firms can often "deliver the goods". But this is a seriously incomplete picture. There are many circumstances in which markets fail and important instances where they do a terrible job. Our ultimate conclusion will be that if one wants to realize to the greatest extent possible the values of efficiency, then the ideal should not be the free market of unregulated capitalism, but democratically accountable markets. In the case of Contemporary American Society this would require a dramatic revitalization of democracy and strengthening of the "affirmative state".

In order to get to this conclusion we need to understand more systematically the problems and dilemmas of capitalist markets, and this will require more discussion of some basic ideas and concepts in economics and economic sociology. This will be the task of the rest of this chapter. This will be followed in Chapters 5-8 with a more empirical discussion of market inefficiency in several important domains of economic activity.

We will examine five problems in the functioning of capitalist markets that can generate significant economic and social inefficiency:

1. Information failures
2. Concentrations of economic power
3. Negative externalities
4. Short time horizons
5. Public goods

1. Markets and information

At the center of the idea that markets generate efficient allocations of resources is the problem of information. This is a simple point, embodied in jokes about used car salesmen describing vehicles as having been driven by little old ladies only on Sundays and aphorisms such as "buyers beware." Basically the problem is that sellers on a market have strong interests in hiding certain kinds of information from buyers in contexts in which it is costly, if not impossible, for buyers to get the necessary information to make an optimal choice. Because of this severe information problem we have laws that regulate false advertising, and we require firms to provide certain kinds of information to consumers *which they would not provide if there was a perfectly free market.* Food labeling is a good example. Laws that require nutrition information on food violate the free market. Food processors would not provide this information unless forced to do so. It costs the seller something to calculate nutritional content, assemble the data, and put this on a label. Individual consumers are unlikely to have strong preferences about this information until after it is provided. And furthermore, even if there were some consumers who wanted the information, it would initially be quite costly for producers to provide this information – there are considerable economies of scale in providing the information if it is done on a wide scale rather than on a limited scale – and thus the price difference between products with and without product information would be prohibitive.

As a practical matter, this information will be widely provided only when there regulations which require this. Such regulations violate the principles of the free market.

Laws that prevent firms from false advertising violate the logic of the market as well. In a perfectly free market, firms could make whatever claims they liked about their products. If consumers felt that it was valuable for them to know the truth, then there would be a market for better information about products, and consumers could buy that information if they wanted to. If a consumer felt that the distortions of information harmed them and amounted to fraud, then they could sue the sellers in court and the threat of suits would act as a deterrent for excessive falsehood. In any case firms would not want to distort information too much or they would lose customers. Reputation matters for firms, and thus the market itself would impose constraints on distorted information.

It is possible, therefore, to imagine a free market with no government regulations on information. In such a truly free market economy, the quality of information would depend upon the preferences of consumers for good information and their ability to pay for it, the value of reputation to sellers, and the effectiveness of threats posed by private law suits for fraud. This is an imaginable world – and indeed was more or less the way American capitalism functioned in the 19^{th} century – but the average quality of information consumers would get in the market would be much lower in such a world than in one with good state enforced regulations on information. And if the average quality of information is lower, than the allocation of resources generated by such a market would be less efficient.

A special case of product information concerns product safety. Suppose that there were no regulations for safety standards for automobiles. Carmakers would then be free to make cars with different standards of safety. If consumers valued safety, then they would be free to pay a premium for cars designed to be safe. If some consumers were risk-takers and preferred a cheaper car, then they could buy a less safe car. A libertarian might argue that this would be a better market since it would give consumers more power, more ability to choose freely the risk/safety/cost mix that they prefer. However, one of the major problems with this scenario concerns the problem of information, since carmakers would have large incentives to hide safety problems and characterize their cars as being safer than they really are and it would be difficult for consumers to weigh the technical information to make informed decisions, and extremely difficult for them to effectively to use the courts to remedy the resulting harms.

This problem is not just hypothetical. The notorious cases of the Pinto automobile and its exploding gas tanks in the 1970s and the road instability of certain SUVs in the 1990s clearly show the problem of information failures in the "market" for automobile safety even in a world in which safety regulations exist.[3] The Ford motor company realized by the late 1960s that there was a design flaw in the Pinto which, in certain accidents, caused the gas tank to explode. Ford engineers designed a retrofit which would eliminate the problem at a cost of roughly $11/car. The issue, then, was whether or not it was worth it for the company to recall all Pintos and make the change. The company did

[3] The following account of the Pinto case comes from Mark Dowie, "Pinto Madness", *Mother Jones*, September/October, 1977.

the math: the safety improvement would cost $11/car and would save roughly 180 lives per year. The cost of the retrofit would be about $137 million (12.5 million vehicles x $11/vehicle). How much was a life "worth"? Ford calculated this on the basis of the likely court costs for passenger deaths and they came up with a figure of roughly $200,000 per death. They did the math and decided that it wasn't worth making the safety change. And further, by fighting the court cases, insisting that these fiery deaths were due to driver error, and resisting legislative regulation, they could further minimize the costs of the safety problem.

The same basic story was repeated in the 1990s when certain sport utility vehicles were found to be unstable on curves and had a tendency to roll over. The manufacturers denied this was a problem, blamed drivers, and fought court cases. This occurred in a context where there was considerable machinery of safety regulation in place. Imagine how serious the safety problems would become in the absence of such safety regulations and requirements for information reporting.

2. Concentrated economic power

Another premise of the defense of the virtues of free market is that individuals and firms do not really accumulate large amounts of power in the market: everyone enters into exchanges as individual, voluntary actors, making choices freely. They may have different purchasing power, and this means that they may have different sets of choices, but no one has the kind of power in which they can impose their will on others.

What is power? There are many answers to this question, but one simple one it that power is the ability to get your way even against the objections or resistance of others. This is the ability to impose your will on others. If you announce in the newspaper that you have a stereo to sell for $100, everyone who reads the ad is completely free to say no to your offer. You have no power over anyone. This is one of the virtues of market exchanges and is why many people believe that markets are the enemy of power and domination; they are the realm of free, autonomous, voluntary action.

The problem is that free markets tend to lead to concentrations of wealth in the form of personal fortunes and, even more significantly, the large mega-corporation. It is an inherent feature of market dynamics that winners in competition will tend to become larger and larger, and when they become very large they exert real power inside of the market (as well as in the political arena). Microsoft, Wal-Mart, Exxon, Boeing, and many other corporations do not just make things and sell them on a market; they shape the market through their exercise of power. The large corporation is not just like the corner grocery store, but bigger; it has the ability to make strategic choices that massively affect the lives of people and communities, the choices they face and the kinds of lives they can lead. Microsoft is notorious in this regard: it is so big that it can force people to buy products that they don't want by bundling them with their windows operating system, and they can force computer companies to install their entire suite of programs rather than individual components. Wal-Mart forces suppliers to squeeze their workers wages to ruthlessly cut costs. Wal-Mart is so big in many markets that suppliers simply cannot refuse to comply with its demands. Wal-Mart is not just a "price taker" that responds to the prices of products in an impersonal market; it is a "price maker", using power to shape prices in the market. General Motors, when it was one of the largest corporations in the world, used its power to purchase urban electric rail systems and convert them to buses thus, as we will see in Chapter 6, expanding the potential market for automobiles. Many many other examples could be given. In all these ways, concentrations of economic power undermine the efficiency-generating dynamics of markets.

The power of the large corporation is enhanced by the increasingly global character of capitalist production and markets. Large corporations have the ability to locate their facilities anywhere in the world. This means that when they face regulations they do not like or employees that demand higher wages than they want to pay, multinational corporations have the option of moving their production elsewhere. Small local firms do not have this ability and are thus weaker in their dealings with other local actors. Because large firms have the power to use threats to get their way they have competitive advantage over small firms. This again reduces the efficiency properties of markets.

3. Negative externalities

Negative externalities are all the side-effects of an activity that have negative effects on others. Positive externalities are side-effects that benefit others. Playing a loud boombox in a park generates negative externalities on bystanders who prefer quiet; planting flowers in one's front yard crates positive externalities for passers-by who enjoy their beauty. Negative and positive externalities, therefore, are an inherent feature of social activity.

The problem of negative externalities is one of the most pervasive sources of inefficiency in capitalist markets. If these were just random perturbations, noise in the system, then perhaps one might think that negative and positive externalities would more or less balance each other out: the unchosen harms on people caused by negative externalities would be neutralized (in the aggregate at least) by the unchosen benefits of positive externalities. The problem is that in capitalism negative externalities are not random deviations from a "perfect market." Rather, there are strong incentives on firms to engage in practices which generate them. Let us see why this is the case.

Capitalist firms do not simply produce goods and services for the market; they attempt to do so in a way that maximizes profits. Profits are basically the difference between price at which things are sold and the costs *paid by the firm* of their production. Therefore a central part of maximizing profits is maximizing the difference between such costs and selling price, and one way to do his is to lower costs. But note: what matters here are only the costs actually experienced by the firm, not the total costs of production. In many contexts, an effective way of reducing such costs faced by the firm is, in one way or another, to displace costs onto others. One way of doing this is to increase negative externalities.

The classical example of this is pollution. We will discuss this in more detail in the next chapter, but the basic point is simple enough: it is cheaper for a factory to dump pollutants into a river or the air than to dispose of them in a nonpolluting manner. But polluting the environment imposes costs on other people – for example communities downstream from a source of water pollution have to spend resources to clean the water, and air pollution increases medical bills and the frequency with which homeowners have to repaint their houses. If a firm was either forced to install technologies that would prevent the pollution or pay for all of these displaced costs, then their costs of production would increase significantly. An individual firm, therefore, would be at a competitive disadvantage if it did so out of the moral principle that it was wrong to displace costs on other people. Displacing such costs on others is therefore perfectly rational behavior for a capitalist firm engaged in profit maximizing competition.

Another important type of negative externality centers on the investment decisions of corporations. Consider a firm that decides to move production to Mexico because it will have a higher rate of profit there than in the United States. Many firms that have moved production away from the U.S. did so not because the plants in the US were losing money – they were making a profit -- but because they could make higher profits elsewhere. This is a perfectly rational economic decision on the part of the corporation given what counts as a "cost" in their calculations. However, there are many significant social costs of this decision which do not appear as "costs" to the corporation and which, if the firm had to cover these, would change the profit maximizing strategy, For example, when a large factory moves abroad this often triggers a decline in home values in the abandoned community. This can have a devastating economic impact on these homeowners even if they themselves were not employees of the firm in question. These costs to homeowners are not included in the investment decisions of the firm owners. *If they were, plant closing would not be profitable*. To see this, suppose that the plant in question were owned by all of the people in the affected community rather than by an outside corporation. In this case the impact of moving the factory on home values would not be a negative externality, but a negative "internality" – it would be experienced as a cost to the people making the decision. Even if the direct production costs were lower in Mexico, in this situation it would not be viewed as a way of increasing profits.

This, then, is the important lesson about negative externalities: in making investment decisions the owners of firms look at the costs and benefits of alternative choices, but only certain costs are counted. Some costs are displaced onto other people, so they do not appear in the bottom line of the firm. This means that the ordinary price mechanism of a competitive market cannot lead to optimal allocations even in the restricted sense of allocative efficiency. Efficient allocations in a market only happen when prices are closely linked to the *true total costs* of producing things. But if firms can displace significant costs on others, then prices no longer reflect true costs, and allocations based on those prices are no longer efficient. Negative externalities pervasively muck up this process.

4. Short time horizons

The idea of "time horizons" refers to the length of time into the future that figures in decisions people make in the present. A particularly important issue in this regard is the extent to which the interests and welfare of future generations are taken into consideration in investment and consumption decisions made today. Highly competitive, free markets have the effect of shortening the time horizons of most investors. Capitalist firms compete for investments. Investors look to firms that give the highest rates of return in the relatively short term. Even investors with relatively long time horizons are concerned about the likely rates of return over a relatively short period – a decade or so perhaps – not fifty or a hundred years. This means that investment projects that would take many decades to generate a return are very unlikely to be undertaken. The result is that investments generated through competitive markets cannot give significant weight to the welfare of future generations since this will generally not be the short-run profit-maximizing business strategy.

The problem of energy conservation is a good example. The price of oil in the world at any given time broadly reflects the costs of extracting oil and the market demand for its products. The fact that in the future the costs of extracting oil will become much more expensive due to depletion of the resource and thus it will be much more expensive to produce a given level of supply is not reflected in current market prices. The prices individuals face in the market when they make individual consumption choices around gasoline consumption thus do not reflect the costs to future generations. As a result, unless an individual is very self-conscious about these issues, individual consumption choices will only reflect immediate personal needs. The market itself cannot solve this problem. It is only through public deliberation and collective political choices that the longer term future can significantly affect present decisions and economic allocations, both in terms of broad patterns of investment and of consumption.

5. The problem of public goods.

What is a “public good”? Without going into technical details, as a first approximation a public good is something which provides benefits to people even if they did not voluntarily contribute to producing it. Or, to put it slightly differently, a public good is something which, if produced, is difficult to exclude people from consuming. The classic example is national defense. Suppose national defense was paid for by voluntary contributions rather than taxes. The national defense that was provided by this means would benefit those people who did not contribute, not just those who did. Public sanitation and public health, public broadcasting, clean air, education, and many other things have this character. Some of these may also provide private benefits to particular individuals: education does provide specific benefits to those who receive it, but it also contributes to higher overall economic productivity which benefits the society as a whole. And here is the problem: in general, the level of public goods provided through unconstrained free capitalist markets will be far below the socially optimal level.

A few examples will make this clear. Suppose that education was only provided by the market. Private firms offered educational services and parents would buy these services for their children’s education. There would be no subsidies and no public provision. In such a world, a large proportion of poor people would fail to get even minimal education. Or consider public health and sanitation. Suppose that sewers, water treatment and human waste disposal were provided only by the market; there was no public provision of these services. This would be a disadvantage even to those who could afford those services, since poor sanitation would be a breeding ground for diseases that would affect everyone. Markets are good at producing things in which most of the benefits are captured by those who directly pay for the good or service, but not public goods whose value is diffuse to a wide variety of people. Markets will underproduce public goods, and this is inefficient.

The problem of public goods is a specific example of a more general problem studied by sociologists, political scientists and economists referred to as the problem of “collective action” and “free riding”. We will encounter collective action problems many times in this book, so it is worth spending a little time explaining just what this means and how it relates to public goods.

The problem collective action and public goods is often explained through the analysis of a paradox called "the prisoners dilemma." Here is the story: There are two prisoners accused of jointly committing a crime. They are held in separate cells. They only care about their own welfare: they are pure selfish individualists. Each of them is told the following: If you confess and rat on the other person and that person remains silent, you will go free and the other person will get 10 years in prison. If you remain silent, and the other person rats on you, you will get ten years and that person will go free. If you both are silent you each get 2 years in jail; if you both rat on each other, you each get five years. These options are illustrated in the following table, called a "pay-off matrix":

Pay-offs from Prisoners Dilemma

		Prisoner X	
		Silent	*Confesses*
Prisoner Y	*Silent*	Both get 2 years **A**	**B** X gets 0 years Y gets 10 Years
	Confesses	X gets 10 years Y gets 0 Years **C**	**D** Both get 5 years

What should a prisoner do as a rational, selfish person? The rational thing is to confess. Here is how each prisoner reasons: "if the other guy is silent, I get zero years if I confess and five if I stay silent; if the other guy confesses I get five years if I confess and ten years if I remain silent. Regardless of what the other prisoner does, I am better off confessing. So I confess." The other prisoner reasons (correctly) the same way, and confesses, so both end up with five years in prison even though, if both prisoners had remained silent they each would have received only two years in prison. This is called a "collective action failure" because the two people fail to collectively coordinate their actions in a way which would have been mutually beneficial.

The under-provision of public goods has this kind of character. A good example of this is the problem of depletion of fishing stocks in a lake or other body of water. This is an instance of what is called "the tragedy of the commons". A healthy stock of fish in a body of water is a public good: everyone who fishes benefits from this. Suppose there is a lake in which roughly 10,000 fish can be caught a year and still have the fish stock reproduced year after year. Suppose there are 1000 fishermen fishing in the lake. If everyone catches 10 fish a year, the fish stock will remain stable from year to year and all the fisherman will be able to continue to catch fish, so there is a sign posted at the Lake which says: "fishing limit per fisherman, 10 fish per year". You are one of those fishermen, and you know that if you catch 20 fish this will not have a significant effect on the fish stock. You figure, whether 10,000 fish are caught a year or 10,010 are caught a year won't matter. After all, the 10,000 figure is just an estimate. So you ignore the sign and catch twenty. You want to be a "free-rider" on everyone else's restraint. Every other fisherman behaves the same way, so in all 20,000 fish are taken, and the following two years there are so few fish in the lake that each fisherman can only catch 2 fish a year. Now suppose you are an honest, moral person (but no one else is) so you decide to obey the sign. You catch 10 fish the first year and 2 the second and third. Everyone else has caught 20 the first year and 2 thereafter. You feel like a sucker (maybe a virtuous sucker, but a sucker nonetheless): over the three year period you only got 14 fish and everyone else got 24.

The amount of fish caught over the three year period under different combinations of choices is illustrated in a pay-off matrix like the prisoners dilemma:

Numbers of fish you catch over three years with different patterns of fishing (legal limit = 10 fish/year)			
		What *YOU* do	
		Obey the fishing limit	Ignore the fishing limit
What *Everyone else* does	Obeys the fishing limit	30	60
	Ignores the fishing limit	14	24

This is precisely what has happened in the great fishing banks in the North Atlantic: poorly regulated and policed fishing practices have lead to over-fishing, as each commercial fisher tries to maximize their catch, with the result that the collective resource – the fishing stock – is depleted.[4]

Here is another example that may be less familiar: the provision of skills training within capitalist firms. Firms are able to compete more effectively on world markets when they have a highly trained labor force. What is especially important is having workers who have what can be termed "meta-skills" – the skills-to-learn skills quickly. Such workers can quickly adapt to new technologies and flexibly respond to production problems. Such meta-skills are often best developed within the practical settings of real production processes rather than in stand-alone schools. Every firm will be better off if there is lots of training of this general sort. But what happens in a competitive market? The owners and managers of each firm think the following: "It is costly to provide such

[4] Peter Montague wrote in 1998, "The world's catch of ocean fish peaked in 1989 and has been declining since. In the early 1990s, scientists reported that 13 of the world's 17 major fisheries were depleted or in steep decline. Typical is the Grand Banks fishery off the shallow coast of Newfoundland in the north Atlantic. There, after 350 years of commercial exploitation, the haddock, cod and flounder have all but disappeared and the fishery was officially closed a few years ago." "Oceans witout Fish," in *Rachel's Environment & Health Weekly* #587, February 26, 1998.

training. If every other firm provides such training but we don't, then we will save on these training costs and be able to hire workers trained at other firms by offering them a bit more money than can the firms that provided the training. Those firms won't be able to match our wage offers because they have higher costs than we do because they provided the training. We will make higher profits by poaching trained workers from the firms that train them than we can by providing the training ourselves. We will maximize our profits by "free riding" on other firms' efforts at training." If every firm is profit maximizing, then every firm will make the same decision, and no one will provide the training. The result is a labor market with workers lacking adequate meta-skills. This is called the public goods problem of skill formation.

These kinds of collective action problems in which the incentives are very strong to be a free rider are very difficult to solve within competitive, unregulated markets. Since markets themselves do not produce public goods very effectively, in economic systems such as that in the United States in which there is very heavy reliance on markets there tend to be an undersupply of public goods. This is a serious source of inefficiency, whether this is understood in narrow economic terms or broader social terms.

III. The Free Market and Social Values

So far we have examined ways in which markets generate problems inside of the economy itself – various ways in which free markets fail on pragmatic grounds in terms of different aspects of efficiency. But capitalist free markets also have important consequences for other social institutions and values, for aspects of our lives outside of the economy narrowly understood. And here too, weakly regulated, intensely competitive free markets of the sort that are idealized in the United States can pose serious problems.

Human activities within markets revolve around one specific dimension of human personality, values and social interaction: *the rational pursuit of one's self-interest as a separate person.* This is what economists call "utility maximization." People do act this way, some of the time, in some places, under some circumstances. But humans are also characterized by solidarity, generosity, kindness. Human beings are characterized by the search for meaning and companionship, by caring for the wellbeing of others and not just themselves. Even in such a rampantly individualistic a society as the United States, solidarities and altruism are important. Indeed, sociologists generally argue that without such values, society would collapse: pure economic self-interest by itself cannot provide the glue for social life.

Now, here is the really important point: The specific *mix* of these human characteristics – in particular, how important is greed and competitive individualism relative to other values – is not something given once and for all by "human nature", but is shaped by our social institutions in complex ways. A crucial question for sociology and for politics is thus how our institutions either reinforce or undermine different kinds of values and traits. Or to say it even more simply: the kind of people we get in a society is not given by nature, but by the ways our institutions encourage some traits and discourage others. In our present context, the question thus becomes: *what kinds of people and traits does a highly competitive, individualistic capitalist society foster?*

This turns out to be a very difficult question to answer in any definitive way. The relationship between values and personality traits on the one hand and economic institutions on the other is a kind of chicken-and-the-egg problem: do competitive free markets foster self-interested individualism or does self-interested individualism foster competitive free markets? The causal relation almost certainly runs in both directions: competitive markets may foster certain kinds of values and personality traits, but those traits and values, in turn, shape economic institutions. What we have, then, is a kind of system of mutual reinforcement.

We will not attempt here to sort out all of the complexity of this difficult, but interesting, problem. What we will do is say something about the way markets act to weaken certain kinds of values and traits and reinforce others. Three issues are particularly important:

1. The erosion of community
2. The commercialization of morally-salient aspects of life
3. The skills of "exit" versus "voice"

1. The erosion of community

"Community" is one of those flexible terms in social and political discussions which is used in a wide variety of ways for different purposes. Here we will define the idea of community quite broadly as any social unit within which people are concerned for the well being of other people and feel solidarity and obligations towards others. The value of community, understood in this way, is very close to certain core values in many religious traditions. The moral precept "love thy neighbor" is basically an expression of this idea. A "community" need not be a small geographical locale like a neighborhood, but frequently communities are geographically rooted, since such deep attachments and commitments are often built on direct, face-to-face interactions. One can also talk about the degree of community in a particular social setting, since reciprocity, solidarity, mutual concern and caring can vary in intensity and durability. A strong community is one in which these mutual obligations run very deep; a weak community is one in which they are less demanding and more easily disrupted.

Community is important both as a value in itself and because it helps people solve practical problems of social cooperation. The problems of cooperation and collective action we discussed in the analysis of public goods, for example, are easier to solve when people feel moral obligations to each other and a shared sense of community. The free-riding problem within collective action depends upon people acting strictly on the basis of their own self-interest without regard to any moral commitment to contribute to the public good. In social settings where there is a strong sense of community, free-riding is less likely.

Capitalist markets are corrosive of a sense of community for two main reasons. First, intensely competitive markets reward self-interested individualist behavior and reinforce it as a normative ideal. The market cultivates a sense of individual responsibility, of looking out for #1, but not a sense of moral obligation to the welfare of a broader community. The market also cultivates mistrust: everyone is out to take advantage of you, to make a fast buck, so you need to be wary. Life is a competition of survival of the fittest; nice guys finish last. Buyers beware. Highly competitive markets tend to encourage the pursuit of self-interest as the overriding motivation for action, and in so doing undermine the broad value of community in society.

Second, unfettered market forces are corrosive of community by fostering high levels of inequality. Vast disparities in quality of life undermines social cohesion, breeds resentments from below and contempt from above, and creates a stratified social order in which people no longer feel that “we’re all in the same boat together.” Not only does the cultural content of market competition undermine community by encouraging single-minded individualistic competitiveness, it undermines community by generating poverty in the midst of plenty.

This does not imply that the value of community cannot survive in a strongly inegalitarian market-oriented society like the United States. There are, after all, other forces at work besides the market, and some of these help to preserve a sense of moral community. But it does mean that values of community become a more fragile and less effective.

2. **The Commercialization of morally-salient aspects of life**

Markets may be an economically efficient way of organizing the production and distribution of many things, yet most people feel that there are certain aspects of human activity which should not be organized by markets even if it would be “efficient” in a technical economic sense to do so. Virtually everyone, except for a few extreme libertarians, believes that it would be a wrong to create a capitalist market for the production and adoption of babies. Even if it were the case that the exchanges on such a market were voluntary, the idea of turning a baby into a commodity with a market price and selling the baby to the highest bidder is seen by most people as a monstrous violation of the moral value of human beings. Most people object to a market in voluntary slaves – that is, a market in which you are allowed to sell yourself voluntarily into slavery. Most people also object to markets in most body parts and organs, whether the organs come from live donors as in the case of things like kidneys and corneas, or from deceased donors, as in the case of hearts. Partially this is because of the belief that such markets would inevitably pray on the vulnerabilities of the poor and lead to many types of abuse, but also it is because of wariness in reducing the human body to the status of a commodity with a market price attached to it. And most people believe it would be wrong to have a free market in votes in elections, in which people could directly purchase votes from citizens, even if this would improve the welfare of both parties to the exchange. So, even in highly commercialized capitalist societies, most people believe that there are moral limits to the domains in which markets should be allowed to organize our activities. Human beings and democratic rights should not be treated like commodities.

American society is one of the most commercialized in the world. While some prohibitions on market transactions remain in force – most notably, markets are prohibited for certain kinds of recreational drugs, for sex and for votes – commercialization has deeply penetrated many spheres of life in ways that threaten values intrinsic to those spheres. A few examples will illustrate this problem.

Child care

Children require labor intensive care and nurturance. This care can be provided through a variety of social organizations: the family, state-organized childcare services, various kinds of community-based child care, or for-profit market based child care organized by capitalist firms. The market solution to this problem does not mean that all for-profit child care will be of poor quality and harmful to the well-being of children. What it means is that the quality of the care will be a function of the capacity of parents to pay. Capitalist firms providing childcare services will be organized around the objective of maximizing profits, and meeting the needs of children will only matter to the extent that this contributes to this goal. In order to maximize profits, firms will have strong incentives to seek low cost labor for the staff of childcare centers, especially for those servicing poor families. The training of caregivers will be low, and the staffing ratios suboptimal in most centers. Parents with lots of resources and a capacity to obtain good information about the quality of providers will be able to purchase good quality childcare, but many families will not.

The Arts

Many people regard the arts as a vitally important domain of human activity for exploring problems of life, meaning, beauty, creativity. Of course, artists and performers of all sorts have often been prepared to make considerable personal economic sacrifices in order to participate vigorously in the arts, and much arts activity takes place outside of the discipline of the capitalist market. But still, the arts do need financial resources to thrive: drama needs theaters; symphonies need concert halls; and all performers and artists need to eat. If the main source of such funding is from the capitalist market, then the autonomy and vitality of the arts are threatened. Many theaters face enormous pressures to produce only those plays that will be a "commercial success," rather than plays that are controversial, innovative, or less accessible. Musicians are hampered by the commercial imperatives of "record deals." Writers find it difficult to publish novels when profit-maximizing strategies of publishers become oriented to producing "blockbusters". A fully commericalized market for the arts thus threatens the core values of human artistic activity. This is one of the central reasons why in most countries there is substantial public subsidy of the arts. It is also why the wealthy subsidize through philanthropy the kinds of arts which they consume – opera, art museums, symphonies. They realize that if these organizations had to rely strictly on commercial success through the sale of tickets to the consumers of the performances they would not be able to survive.

Religion and Spirituality

Religion and spirituality grapple with some of the deepest issues people confront: death, life, purpose, ultimate meaning. All religions see these issues as transcending the mundane world of economic activity; religion is valued because of its importance in helping people come to terms with these matters. The distinctive value of religion is continually threatened by commercialization. The most notorious example, decried by many religious Christians, is the commercialization of Christmas. But perhaps even more profoundly, the commercialization of churches themselves – turning churches into profit-maximizing sellers of religion – threatens religious values.

The value of a "human life"

Every society faces the problem of putting some kind of "value" on human life. In a society in which highly competitive capitalist markets play a pervasive role in determining the value of things, there are situations in which value of human life tends to be assimilated to market principles. After 9/11 when the U.S. government was figuring out how much monetary compensation should be given to the families of those who died in the destruction of the World Trade Center, the basic formula concerned the lost earnings of the people who died. In the Ford Pinto case when the Ford motor company was trying to figure out the costs and benefits of retrofitting the dangerous gas tanks, they calculate the value of a human life in terms of the income lost because of death and the court costs they would face for wrongful death suits. This way of thinking about people flows naturally from the penetration of commercial thinking into everyday life.

3. The cultivation of social skills and dispositions: Exit & Voice

Institutions do not just shape our values and preferences, they also significantly shape what might be called our "strategic skills" – our personal capacities to solve problems in particular ways. A useful way of thinking about this is with a contrast developed by the economist Albert Hirschman between "Exit" and "Voice" as two different ways of responding to an organization that does not perform as you would like.[5]

Exit means that if you don't like something, you leave, you quit, you exit. If you don't like your job, quit and get another one; if you don't like a university course, drop it and enroll in another one; if you don't like the country you live in, you migrate to another; if you don't like a restaurant, go to another; if you don't like your marriage, get a divorce, etc. This is the way people deal with dissatisfactions in a market.

Voice, in contrast, means if you don't like something, you actively speak up, you try to change a policy, you try to improve a product. If you don't like your job, you talk to the boss and fellow workers about improving conditions; if you don't like a course, you negotiate with the professor to change what's going on; if you don't like the government, you organize politically to change it; if you are unhappy in an intimate relation, you talk about it and try to work through the problems.

Markets encourage a style of dealing with problems through exit. Voice is difficult. It requires skills of negotiation, communication, coalition building. This is hard. Exit is, by comparison, easy. Markets cultivate skills of exit, not of voice. Shopping is the market model for getting what you want rather than community participation and deliberation. This has very broad ramifications in the society at large. Consider marriage as a social institution. Finding a spouse is understood by many people as a "marriage market" in which people shop for a partner. Is it any surprise that divorce is a common solution to marital dissatisfactions: if you don't like a marriage, exit and shop for another spouse. (This is a great irony for social conservatives who believe both in the sanctity of marriage and in the unregulated competitive free market**:** their attack on the state regulation of the market intensifies the sense of individualistic competition and exit strategies, which reinforces the idea of marriage as a competitive market.) Consider politics: most people

[5] Albert O. Hirschman, *Exit, Voice and Loyalty* (Cambridge, MA.: Harvard University Press, 1970)

participate in politics as passive shoppers among political candidates, not as active participants in democratic deliberation. The political marketplace is entertaining, the media turn political conflict into a horse race competition, and democracy is reduced to a specialized form of consumption.

Of course, exit is an important way for people to deal with dissatisfactions, and is an important value linked to negative freedom. The issue here is not that exit as such is undesirable, but that the principles of the market tend to increase the weight of exit in social problem-solving, and the habits of the market tend to develop shopping skills and dispositions rather than the deliberation skills of voice. A healthy, democratic society with vibrant communities requires citizens to develop real capacities for active participation and engagement, and these are precisely the skills that are not reinforced by the market.

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This chapter has explored in a general a variety of ways in which capitalist markets, left to their own devices, undermine certain core values they are thought to promote, especially freedom and efficiency. In the next four chapters we will further explore these issues by a more detailed examination of a number of specific problems: the environment, transportation, consumerism, and health.

CHAPTER 5:
THE ENVIRONMENT

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Most people are away that we face a long list of environmental problems: air and water quality, depletion of natural resources (especially oil), toxic waste disposal, endangered species, and increasingly the threat of global warming. There really is very little scientific debate any longer that these are real problems and that their solution requires some kind of collective, public response. Where people differ is in their beliefs about the underlying causes of these problems and the appropriate remedies. None of these problems, of course, is the result of some single master cause. They are all shaped by a complex array of economic, political and cultural processes. In this chapter we will then explore five important causal processes operating in contemporary American society which underlie these environmental problems: collective action failures, negative externalities, "NIMBY" movements, hyper-consumerism, and concentrations of corporate power.

1. Collective action failures

When economists study environmental problems they emphasize two themes: collective action failures and negative externalities. Both of these, as explained in the last chapter, are instances in which the actions of individuals and firms, pursuing their own interests in a strategic and rational way within markets, generate economic inefficiencies of various sorts.

With respect to environmental issues, collective action failures go under the name "the tragedy of the commons". The term comes from the historic experience of farmers overgrazing the lands shared in common, ultimately depleting the fertility of the land and reducing its capacity to feed livestock, but the idea refers to any depletion of a renewable resource through over use.

In chapter 3 we discussed an example of environmental collective action problems for capitalist firms in the depletion of the North Atlantic fishing banks through over-fishing. These kinds of collective action failures also apply to the behavior of individuals. A good example for individuals is the problem of recycling. Many people approach the problem of recycling in the following way: "I agree that recycling is a good thing since it will help conserve resources, and I will benefit from that. But I won't recycle because it is too much trouble and my own wasting of resources won't really make that much difference. No one will be worse off because I don't recycle." If everyone thinks like this, then no one will recycle and everyone is worse off. This is exactly the collective action problem we examined in the last chapter in our discussion of the depletion of fishing stocks. Suppose it costs you in time, effort and money a total of $50 a year to recycle, while if everyone recycles you save on average in the long run $100 a year because of savings on landfills, slower depletion of resources, etc. If everyone else recycles and you don't your payoff is $100, since your failure to recycle is such a small part of the total. If you and everyone else recycles, your pay-off is $50. If only you recycle your payoff is negative, -$50:

you have paid for the recycling, but this will have no long term positive effect since no one else cooperates with you. If no one recycles your payoff is $0. This is a classical free-rider problem, as illustrated in Figure 5.1.

-- Figure 5.1 about here --

If you are a rational self-interested actor, your favored alternative is B, your second best outcome is A, your third is D, and your least favorite is C. If everyone is just like you, then this would be their preference order as well, and so they would also choose B. But if everyone makes this choice, the world ends up in cell D.

This kind of behavior is certainly an element in many ecological problems: self-interested persons and firms want everyone else to be ecologically responsible and to get a free ride on their good behavior – they want to benefit without making any personal sacrifice. This doesn't mean that they don't value a clean and sustainable environment, or even that they are unaware of environmental problems, but simply that they do not want to personally bear the costs of doing anything about it.

The solutions to this kind of collective action problem around the environment are often relatively easy, since in a prisoners' dilemma type of situation, the individuals involved can easily recognize that the outcome is suboptimal in terms of their own self-interests. No one really has a vested interest in maintaining the collective action failure. In the above example if everyone has the preference ordering B-A-D-C, then each person prefers A to D – they prefer everyone, including themselves, to recycle over no one recycling. Programs which make it easier for people to recycle (so that the immediate time and expense they face are reduced), especially when participation is mandatory and enforced through some system of monitoring and fines, make the cooperation outcome -- A -- much more likely. Similarly, monitoring and enforcing fishing quotas can effectively solve the over-fishing problem, and since in the long run this is in the interests of everyone in the fishing industry, some system of regulation is broadly supported by fishing firms.

In the United States, many local communities have in fact adopted municipal recycling programs, supported by taxes and connected to city garbage pickup. These programs have helped stimulate a stronger market for the recycled materials, but they do not rely on market mechanisms to encourage recycling. They have resulted in a dramatic increase in recycling in the United States since the 1980s. Of course, some people might still oppose mandatory recycling on various grounds. For example they might not believe it would work because evasion might be too easy, or they might be opposed to the government regulation on some ideological principle even though such regulations would benefit them. But still, if the only important cause of environmental problems was this kind of coordination problem among self-interested individuals and firms whose self-interest would be enhanced from the coordination, the remedies would be fairly straightforward. The problem, however, is that much more is in play in solving environmental problems than simple collective action failures among rational, self-interested actors. The problem of negative externalities is also important, and since the beneficiaries of negative externalities are not themselves harmed by their own choices, they are more likely to resist regulation. And if they are also powerful, then this resistance is often effective.

2. Negative Externalities

A "negative externality," as explained in chapter 3, is a negative effect on others of one's choices and actions. Like collective action failures, the problem of negative externalities concerns both the consumption choices of individuals and the production choices of capitalist firms.

An important example of environmental negative externalities of individual choices and actions concerns the problem of energy use. The United States contains about 5% of the world's population, but Americans consume about 20% of world's energy (see Figure 5.2). Much of this energy consumption is of fossil fuels, and one thing we know for certain is that this resource is finite and if we continue to burn it up to generate energy, eventually we will run out of this resource. The United States is a very rich country, and many people have sufficient income that at the existing price of fossil fuels they can afford to consume a great deal of this resource and so don't give this much thought. They drive large inefficient cars, leave their lights on, prefer private to public transportation and in other ways consume more energy per capita than in any other country in the world.

-- Figure 5.2 about here --

How is this pattern of energy consumption an example of a negative externality? The depletion of a nonrenewable resource through current consumption can be thought of as a *negative externality for future generations*. Future generations will have to pay more for fossil fuels because of the rate at which we using up this resource today. As noted in chapter 4, future generations do not participate in present choices about how to distribute the use of this resource over time. Imagine if people 100 years from now could bid on the present price of oil: the price would surely be much higher than we see in existing markets for it would reflect the future costs to them of extracting and processing a much scarcer resource. Of course, the problem of negative effects of our actions today on future generations is by no means a unique problem for American society. It is inherent in the fact that human actions have long term consequences. But this problem is especially acute in the United States because of the heavy reliance on market mechanisms for making long-term choices about patterns of consumption and production. Markets are simply incapable of factoring in such future consequences into present choices.

In a capitalist market economy such as the United States, environmental negative externalities are not just the result of the selfishness and short-sightedness of consumers; they are also, crucially, the result of the strategic action of firms. As explained in the last chapter investment decisions are made largely on the basis of profitability; effects on the environmental only enter investment decisions when they are experienced as direct costs by the investor. Thus in general *internal* pollution in a factory is controlled by the owner since it is costly to the owner not to clean up oil spills on the shop floor; but external pollution is another matter. In a competitive, profit-maximizing economic system pollution is not just a random accident. There will, in general, be a tendency for the most profitable investments to be relatively polluting because they represent successful displacement of costs on others. Getting other people to shoulder some of their costs of production gives capitalist firms a competitive advantage, and thus unless they are prevented from doing so, they are likely to disregard environmental negative externalities.

A few examples will illustrate this dynamic:

Nitrogen fertilizer and farming. Farmers who use nitrogen fertilizers produce more at lower cost. This increases their rate of profits. Heavy use of nitrogen, however, often results in nitrogen run-off into rivers and lakes. The price of the fertilizer used by farmers does not reflect costs of the declining water quality of rivers and lakes or the costs of cleaning them up. If the price of such fertilizer to farmers fully incorporated these additional costs, then in many instances it would not longer be profit-maximizing to use the fertilizer.[1]

*Acid Rain***.** Coal burning power plants in the Midwest emit variety of pollutants into the atmosphere, which, because of the prevailing winds, tend to drift eastward. Among these pollutants is sulfur dioxide and nitrogen oxides which eventually mix with moisture and increase the acidity of rain in the Eastern regions of the United States. In the United States, according to the Environmental Protection Agency, "roughly 2/3 of all sulfur dioxide and ¼ of all nitrogen oxides come from electric power generation that relies on burning fossil fuels like coal." [2] The costs of this acid rain in the form of such things as degradation of forests and reduced longevity of exterior paints do not enter into the profit calculations of power companies.

*Love Canal in New York***.** One of the most notorious cases of environmental negative externalities generated by profit-maximizing strategies concerns the toxic waste dumping into Love Canal near Buffalo New York. For a period in the 1940s and 1950s the Hooker Chemical and Plastics Corporation disposed of a variety of toxic wastes in a landfill adjoining the Love Canal. The initial dumping was motivated simply by the desire to minimize the immediate costs of disposal of toxic waste. It is unclear whether or not the decision makers actually knew the risks of this behavior, but in any event they had no incentive to figure this out. Over time these toxic wastes leached into the surrounding area, eventually polluting the adjoining Canal. In the long term this imposed extraordinary private costs on people living in the area in the form of sickness, birth defects, and eventually the collapse of property values. The problems were compounded by later inaction by government unwilling to publicly shoulder the costs for dealing with this problem.

*Global warming***.** Global warming is a complex example of a negative externality. If the negative consequences of the emission of CO_2 and other greenhouse gasses were rapid, then global warming would be an example of a collective action problem rather like the depletion of fisheries, for the negative effects of production choices would impact on the producers themselves. The dynamics of global warming, however, is quite slow: emissions today gradually accumulate over time and will change the climate significantly only in the future, affecting the lives mainly of future generations. As a result, investors in power plants, industrial producers, and consumers today don't worry about these effects, and adopt ways of generating energy that

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[1] According to the website *Scorecard: the pollution information site* (http://www.scorecard.org/), based on data reported by state governments, agricultural runoff is principle source of impairment of water quality in rivers and streams in the United States, and the second most important source of impaired quality of Lakes, reservoirs and ponds, and fresh water wetlands.

[2] http://www.epa.gov/acidrain/what/

displace costs – in the form of global warming – on others. On a per capita basis, the United States is by far the biggest generator of carbon dioxide emissions in the world (see Figure 5.3)

-- Figure 5.3 about here --

The solutions to these and other examples of negative externalities always require some form of public regulation that makes it more difficult for firms and individuals to displace costs on others. Where such regulations have been in place and enforced, then they have generally had a significant impact on the problems they address. In the United States the Environmental Protection Agency is the principle government agency charged with the task of regulating various forms of pollution. In spite of the continual resistance by capitalist firms to such regulation, and the significant decline in enforcement budgets during the decades after 1980, the regulation of air and water pollution has had a positive effect on the air and water quality in the United States. Figure 5.4 presents data on the levels of the most common forms of air pollution from 1980 to 2007. The chart indicates about a 50% reduction in these pollutants. This does not mean that air quality has ceased to be a problem. The EPA reports that in 2007, 158 million people in the United States – over half of the population – still lived in counties with air pollution above the level of the quality standards established by the Clean Air Act.[3] Still regulations enforced against the spontaneous behavior of firms in the market have made a significant difference.

-- Figure 5.4 about here --

Historically, government regulation has mainly taken the form of laws and bureaucratic regulations directly enforced by the state. This does work pretty well for certain kinds of environmental problems, but not for all. More recently a variety of new mechanisms for dealing with environmental negative externalities have developed. For example, a strategy known as "information-based monitoring" has been introduced in some places in which the pollution levels of firms are made public and a list of "bad actors" is given wide publicity. Since firms don't want their reputations tainted by being so labeled, they try to reduce their pollution to avoid being on the list.[4] Over time, this means that firms ratchet up their pollution standards. Or, to take another example, to reduce the emission of greenhouse gasses, "markets" in carbon emissions are being created. The idea is that firms are allowed to emit a certain level of such gasses, the level being determined by public policy goals about the aggregate level of emissions. Firms that emit less than this amount have "carbon emission credits" which they can sell to firms that emit more than the limit. If these credits are sufficiently expensive then this has the effect of "internalizing" the costs of the negative externality and thus creating an incentive for the firm to reduce their emissions.

Both of these kinds of reforms have been touted as relying on market to solve environmental problems, avoiding bureaucratic meddling by the state. This is an inaccurate way of understanding them. Both information-based monitoring and carbon-trading still depend strongly

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[3] http://www.epa.gov/airtrends/sixpoll.html

[4] Citation – Archon fung research on Massachusetts example.

on the capacity of the state to gather and disseminate accurate information, create standards, and prevent cheating. While they do use some market-like mechanisms to facilitate implementation of standards, these would be ineffectual without coherent state involvement. Counteracting environmental negative externalities always involves some kind of explicit intervention into the spontaneous behavior of people in markets.

3. A special kind of negative externality: NIMBY

There is a special kind of negative externality that occurs in the context of environmental problems that concerns the ways in which political and economic power can be used to displace the costs of environmental problems onto vulnerable groups. This is sometimes referred to as the NIMBY – "not in my backyard" – problem. NIMBY problems refer to situations in which there is a necessity of locating something geographically which people don't want near them: radioactive waste dumps, half-way houses for the mentally ill, fertilizer plants that process manure, etc. Everyone agrees that we need a way of disposing of toxic wastes, but no one wants a hazardous waste disposal facility in their backyard. In such a situation, when public authorities make decisions about where to locate such facilities, they are often very responsive to pressure from powerful groups and individuals. The pressure is often backed up by rational economic arguments: a toxic waste disposal facility will adversely affect property values so it makes economic sense to locate the facility in places away from rich neighborhoods and closer to poor neighborhoods. This is "cost effective" from a certain kind of narrow economic point of view. Furthermore, it is easier to locate the facility closer to groups which are relatively marginalized politically and are less likely to have effective political connections, and in many cities this means neighborhoods with high concentrations of blacks and Latinos.

In the United States many decisions of this sort are made locally. On the one hand this is a good thing, for it means that basic choices about land use are often subjected to democratic processes involving the people affected by the decision. This is consistent with democratic values. On the other hand, because of the significant inequalities in power within such local democratic processes, this kind of decentralized, local decision-making encourages NIMBY movements against things like hazardous waste facilities. As Figure 5.5 indicates, the outcome of these processes is a concentration of hazardous waste facilities in neighborhoods with disproportionate minority population. In the year 2000, neighborhoods that were located within a 3 km radius of a hazardous waste facility, had a racial composition of 56% nonwhite and 44% white residents. Neighborhoods that were further than 3 km from such facilities were 70% white and only 30% nonwhite. There is also research that indicates that these kinds of racial inequalities in environmental conditions is also likely to affect health. A study of the racial composition of census tracks in California with high and low risks of cancer from toxins in the air showed that over 60% of the residents in the high risk tracks but only 40% in the low risk tracks were nonwhite (Figure 5.6).

--Figure 5.5 and 5.6 about here --

Negative externalities are thus not simply a problem of harm to the environment caused by individuals and firms acting in their own interests and displacing costs on others. They are also the result of political processes which direct those costs towards specific groups of vulnerable people. A full social agenda for dealing with environmental issues, therefore, must concern itself with environmental injustice and environmental racism, not simply environmental sustainability.

4. Hyper-Consumerism

There is an underlying engine of environmental problems that is very deep in our society and very difficult to counteract: consumerism. We will discuss this in much more detail in chapter 7, when we examine shopping and consumer society, but introduce the issue here at least briefly.

Consumerism is a broad term that covers a variety of senses in which an economy and a culture become oriented to consumption. Market economies have a tendency to foster consumerism, since when people produce for a market they need to find buyers of their products. Capitalism intensifies this general tendency, since capitalist firms compete with each other and their profits depend in significant ways on their ability to increase their sales. Capitalist firms, therefore, engage in all sorts of strategies to encourage people to increase their consumption, not merely buy their specific products.

Consumerism is a property of all capitalist countries, but in many countries there are processes in place which somewhat damper its intensity, such as high taxes to support public goods and rules which create shorter work weeks and longer vacations. American capitalism, in these terms, is what might be called hyper-consumerist. For a host of reasons we will examine in chapter 7, in contemporary United States, ever-increasing personal consumption is seen as a cultural ideal. This ecologically disastrous: a permanent growth in consumption is a recipe for environmental devastation; this is not sustainable forever.

5. Concentrations of power and the environment

In the analysis of any social problem – in this case environmental problems – it is important to distinguish between the generative causes of the problem on the one hand and the obstacles to implementing an effective solution on the other. Problems and solutions need not be symmetrical: If you observe a person with a missing leg you need to explain both how the leg was lost and why a replacement in the form of a prosthesis has not been acquired. The leg may have been lost because of an accident, but the absence of a substitute could be because of a lack of medical insurance. You might have a headache because of stresses at school, but the explanation for why you can't get rid of it might be that you lack an aspirin. The solution to a problem does not necessarily mean eliminating the cause: the cure can neutralize the effects of the cause rather than eliminate the cause itself. In the case of environmental problems, it may be the case that the mechanisms generating the problems in the first place are various kinds of collective action failures and negative externalities, but the principle obstacles to solving the problem may be strategies of powerful actors, especially business corporations, in which they effectively *use their power to block solutions*. Consider two examples around issues of energy use and development: the regulations on automobile energy efficiency, and the development of alternative energy sources.

Automobiles are one of the central sources of depletion of fossil fuels as well as carbon emissions influencing global warming. The energy efficiency of automobiles is thus of considerable environmental importance. The distribution of efficiency levels among automobiles is the result of three main factors: the preferences and choices of individual consumers as they weigh the trade-offs among alternative properties of automobiles; the designs engineered by automakers which they make available to consumers; and the regulations imposed on automakers which force them to seek appropriate innovations to meet these standards. In the United States, large automobile corporations have used their power to block higher standards because, in general, the most profitable cars to produce are not the most energy efficient. Most of the time this has had the effect of keeping the issue of government-enforced efficiency standards completely off the political agenda. But occasionally automotive efficiency standards do become an issue, as they did in 2007, and then the automobile corporations actively mobilize to block the standards, or at least to minimize the changes.

The role of powerful actors in obstructing certain solutions to environmental issues is particularly blatant in the question of the development of alternative energy sources. Many environmentalists believe that renewable energy sources – especially wind and solar energy – should be the highest priority to energy development. Defenders of existing energy sources – especially coal, oil, and nuclear power – counter that these renewable sources are too expensive and that if they were profitable then the market would direct investments in their direction. The mantra is "Let the market decide". But what the critics ignore is the enormous level of direct and indirect government subsidy to other energy sources, especially oil and nuclear energy, that has been the result of the exercise of power by corporations in these sectors. It is a myth that the choice of energy alternatives has actually been the result of free market mechanisms; energy development has been heavily subsidized by government programs, and the distribution and magnitudes of these subsidies the result of the exercise of power:

- The oil industry was directly encouraged by government policy, particularly through a wide range of generous tax breaks, especially for oil exploration. Every time an effort is made to close these "loop-holes" the oil industry mobilizes its opposition, claiming that these subsidies are essential for national security and a stable supply of oil.
- The nuclear industry would not exist without systematic government sponsorship. The key issue here is the rules established by the state for *limited liability for claims in nuclear accident.* In the absence of such rules, the industry would not have been able to afford market-based insurance for accidents.
- In the period 1950-2006 the total amount of government subsidies directly connected to energy in the United States amounted to over $726 billion (2006 dollars). 50% of this went to oil and natural gas, 13% to coal, 11% to Hydro, 9% to nuclear power, and only 6% to renewable energy (wind and solar).[5] This allocation of subsidies in part reflected the power of the economic interests tied to each form of energy, not market forces.

[5] Report by Management Information Services, Inc. Washington D.C. for the Nuclear Energy Institute: "Analysis of Federal Expenditures for Energy Development", 2008, p.1

The profile of energy use in the American economy today is not the result of the spontaneous, impersonal operation of the market and consumer preferences; it has been heavily shaped by the strategies of powerful corporations using the state to further its ends.

Occasionally, of course, the government does step in and impose new environmental regulations over the objections of powerful corporations, regulations which help define new "rules of the game" within which markets and corporations must operate. The creation of the Environmental Protection Agency in 1970 was one such example. In the late 1960s there was growing awareness in the United States of the need to protect the environment and a realization that the market by itself would not do this. So the Environmental Protection Agency was created during the Nixon administration. By 1980 its activities had expanded considerably and spending on environmental regulation amounted to just under 1% of the total Federal budget. Businesses objected, and in the following decades mobilized their power to undermine the agency and block its regulations. The issue here was not so much that laws have been removed – although this has sometimes happened – but that their enforcement has eroded. By the early 21st century the EPA accounted for only .35% of the federal budget, although towards the end of the decade as political alignments shifted and a sense of urgency around environmental issues increased, it had begun to rise again (Figure 5.7). It is not enough to get effective environmental protections on the books, it is also essential that adequate resources be allocated to the responsible agencies to actually implement the regulations and effectively monitor compliance. One of the central strategies of powerful business interests in blocking effective government action is to starve the regulatory machinery of such resources.

-- Figure 5.7 about here --

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The explanations for environmental problems we have examined – the free-rider problem, negative environmental externalities, NIMBY movements, hyper-consumerism, and concentrations of corporate power – all imply the need for an active, interventionist democratic state if we are to seriously address the environmental challenges we face in the 21st century. Environmental free rider problems can only be durably overcome when individuals and firms face different pay-offs for the private choices, and generally this requires government regulation. Environmental negative externalities are an inevitable consequence of profit-maximizing strategies unless government regulations have the effect of forcing firms to pay the costs of these externalities. Hyper-consumerism can be countered by public policies that encourage a different balance between work and leisure and between public and private consumption. And only an invigorated affirmative state would potentially have the capacity to counter the power of corporations in obstructing environmental regulation.

One might expect that in a democracy, given the seriousness of the environmental challenges we face, the citizens would demand a strengthening of democratic authority over these issues. So long as American politics is dominated by a free market ideology which proclaims that government is the problem, not the solution, this will not happen.

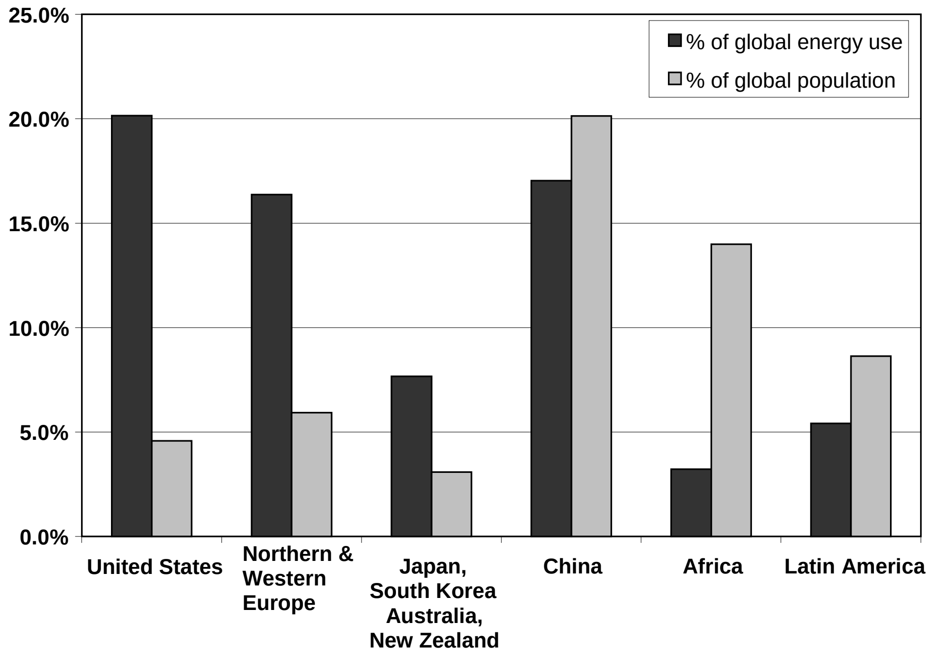
Figures for Chapter 5

Figure 5.1 Hypothetical Recycling Free riding problem

The numbers in the matrix are your long-term personal financial pay-offs for recycling for different patterns of choices to recycle

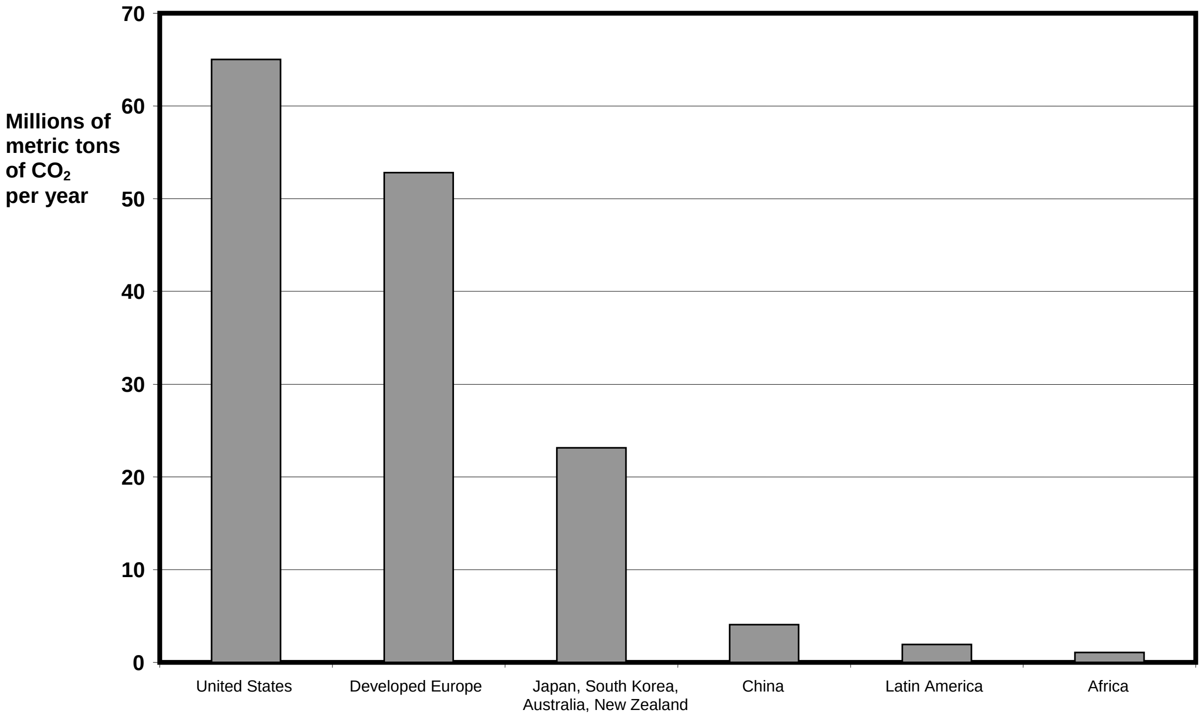
YOUR CHOICE

EVERYONE ELSE'S CHOICE		Recycle	Don't Recycle
	Recycle	A $50/year	B $100/year
	Don't recycle	C -$50/year	D $0/year



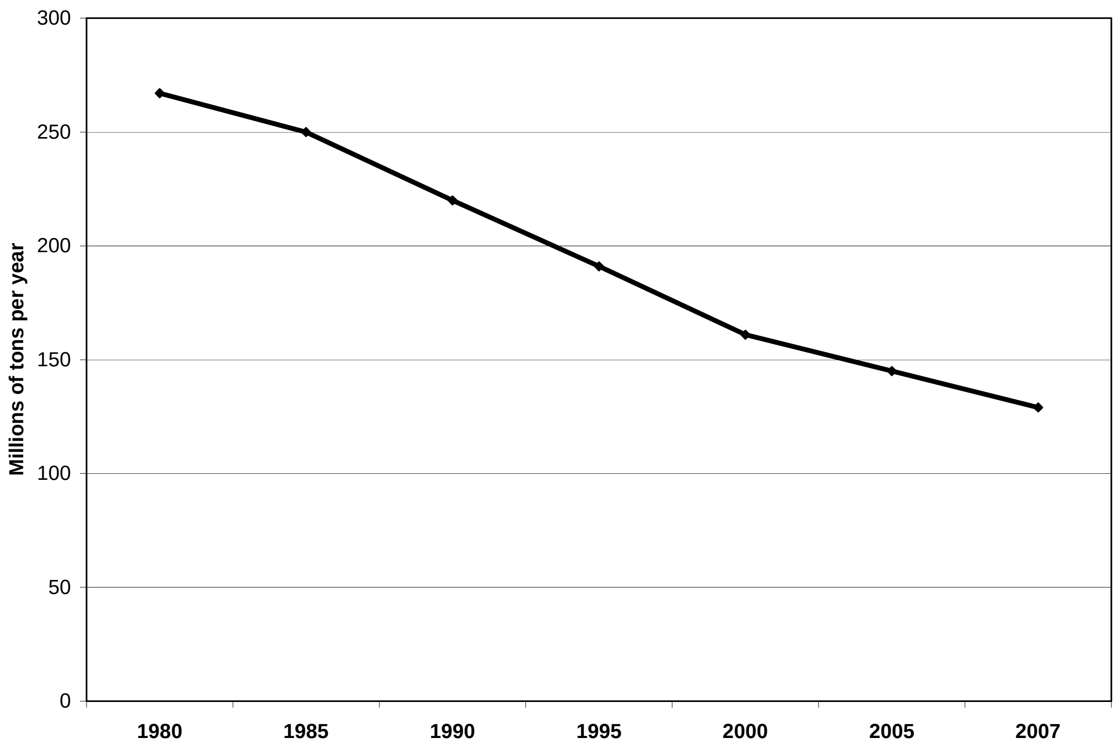
Source: *International Energy Outlook* 2008
Report #: DOE/EIA-0484(2008) Table A1

Figure 5.2
Comparison of energy use in the United States and other parts of the world, 2005



Source: *International Energy Outlook* 2008
Report #: DOE/EIA-0484(2008) Table A10

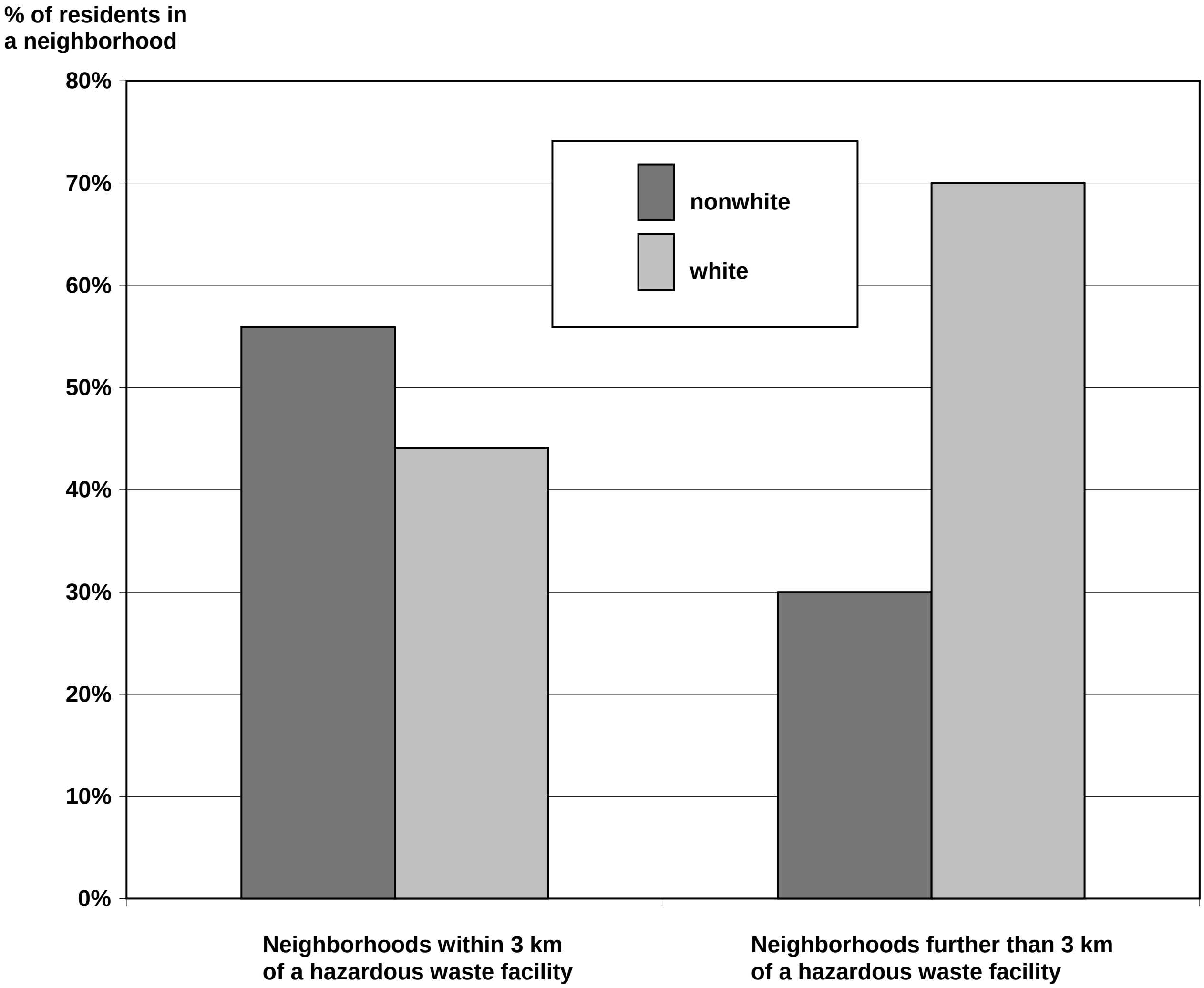
Figure 5.3
CO_2 Emissions per capita, 2005



Environmental Protection Agency national emissions estimates for common pollutants and their precursors. Pollutants included in this estimate are: Carbon Monoxide, Lead, nitrogen oxide, volatile organic compounds, particulate matter, and sulfur dioxide. There was a decline of between 39% and 97% for each of these pollutants over this period.

Source: *United States Environmental Protection Agency Air Trends,* *http://www.epa.gov/airtrends/sixpoll.html*

Figure 5.4
Decline in Air Pollution, 1980-2007



Source: *Toxic Wastes and Race at Twenty: 1987-2007. by Robert D. Bullard, Paul Mohai, Robin Saha, and Beverly Wright* (Cleavland: United Church of Christ, 2007)

Figure 5.5
Racial Composition of neighborhoods with hazardous waste facilities, 2000

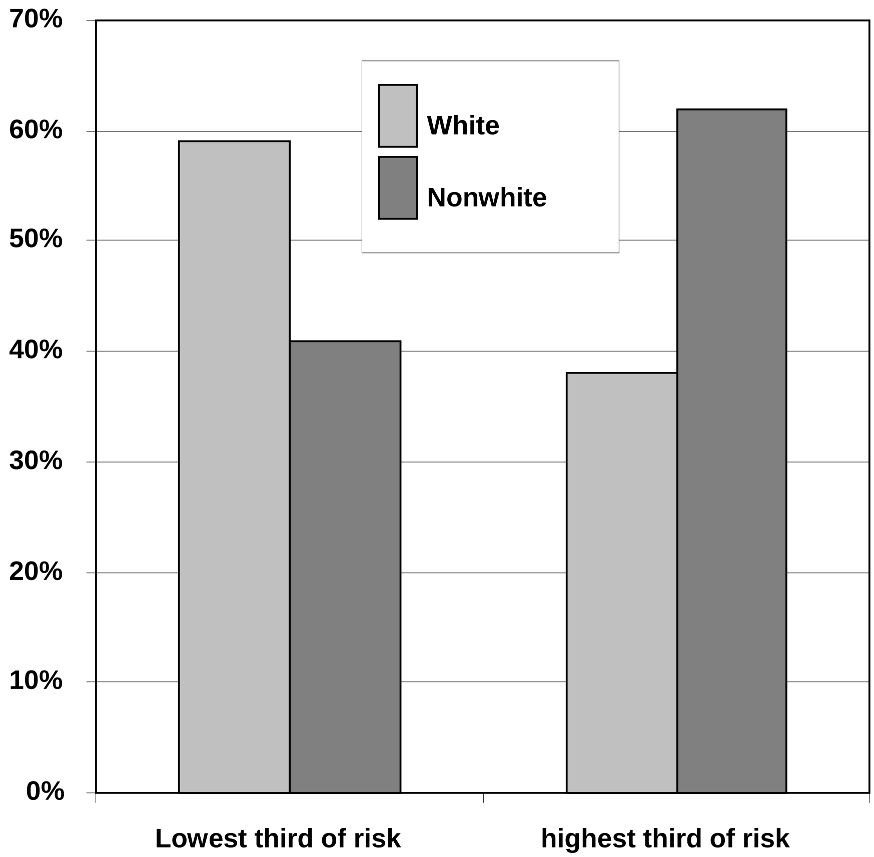


Figure 5.6
Racial composition of census tracks in California by cancer risk from toxins in the air (2000)

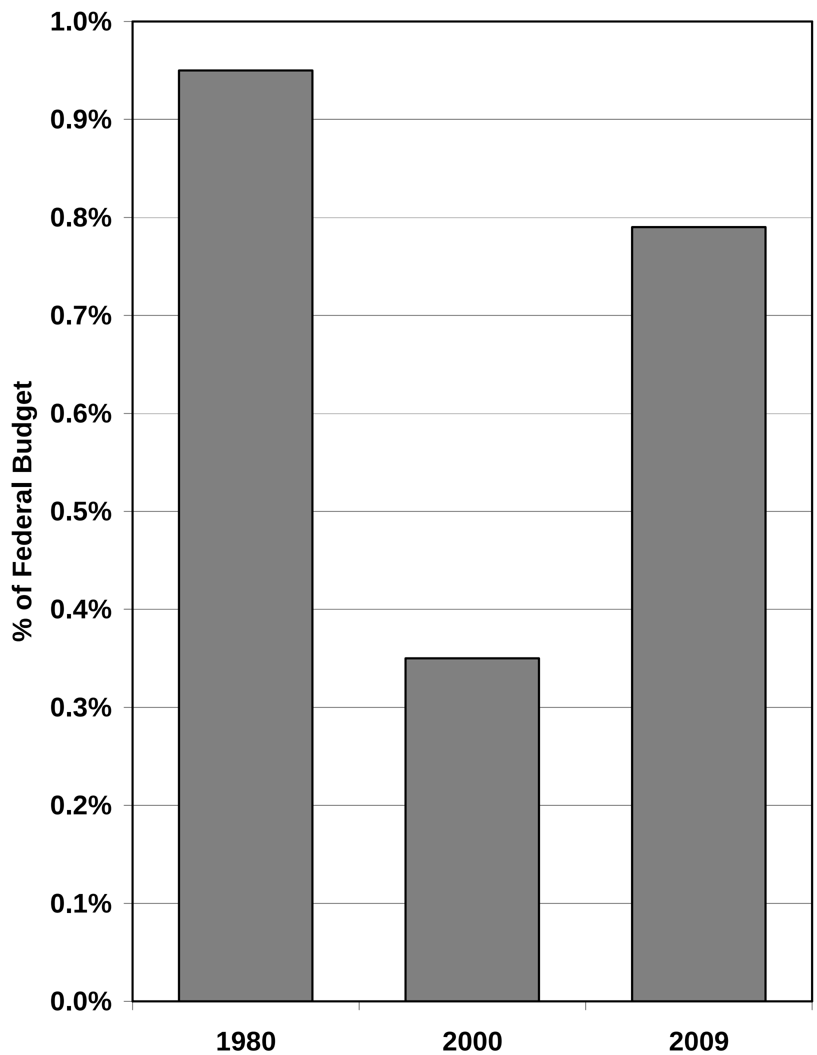


Figure 5.7
The Environmental Protection Agency Budget as a % of the total U.S. Federal Budget

CHAPTER 6
TRANSPORTATION

Final Draft August 2009

Transportation is a prime example of an economic issue that involves lots of public goods. Consider streets, highways and traffic regulations. Imagine if all streets were provided by private entrepreneurs? There would be a massive under-provision of good quality streets except in wealthy areas of cities. This would cause problems for everyone, including the wealthy. To have a good street system in cities and a good highway system outside of cities, therefore, we need to get together and decide as a collectivity what to do and how to pay for it. The same is true for the provision of airports and air traffic control, rail systems, and harbors. In all cases in one way or another public authority is essential for the organization of an efficient transportation system. The market alone will not work.

Transportation also involves in various way problems of externalities, especially around the environment. Automobiles run primarily on nonrenewable fossil fuels, so transportation systems that rely heavily on private automobile transportation will tend to contribute more to the depletion of petroleum for future generations than will systems that rely more heavily on public transportation. Automobile traffic also contributes disproportionately to global warming though carbon emissions. These externalities also will not be counteracted by markets; they require public authority.

Still, actual systems of transportation will always involve some combination of public and private provision. The question is: how are these combined, how are they regulated, how much democratic control over the whole process is there?

One pivotal aspect of this general problem is the social choice between a network of publicly-organized transportation options in more densely populated places and a system largely indifferent or hostile to the economies of place that promotes lower density and relies chiefly on private cars. In this chapter we will begin by presenting a general picture of public and private transportation in American cities compared to other places in the world. We will then examine the sociological issues involved in this choice, showing how public transportation is a special kind of collective action problem. This will be followed by an empirical case study of a notorious example of the problems of over-reliance on private cars in a large city: the case of Los Angeles. The chapter will end with a discussion of solutions to the problem of public transformation.

I. Urban Transportation in the United States and Elsewhere

Within the family of developed capitalist economies, the United States relies more heavily than any other country on the automobile for urban transportation. Figure 6.1 presents the breakdown in the percent of all urban trips by type of transport in the United States and a number of other countries. In the United States over 90% of all trips were taken by car compared to 45-60% in most European countries. Public transportation accounts for 10-20% of all trips in most other developed countries; in the US it is only around 2%. For bicycles the contrast is even more striking: In the US less than 1% of all urban trips are done by bicycle compared to 20% in Denmark and 28% in the Netherlands. This cannot be attributed to climate differences, for even in Sweden 10% of all trips are taken by bike.

-- Figure 6.1 about here --

This overwhelming reliance on the automobile was not always the case. Figure 6.2 shows the long term historical trends in ridership of public transportation in the United States. In 1950, public transportation was still a major source transportation: the average person took about 130 public transit trips a year. By 1960 this had decline to around 50 trips per year, and by 2000 to less than 40. When we look more narrowly at commuting rather than all urban trips, we see that not only has there been a steady decline in the use of public transportation in recent decades, but more people drive alone rather than in carpools (Figure 6.3). While automobile use is important in all economically developed countries, in no other country does the automobile so totally dominate the way people move around cities.

-- Figures 6.2 and 6.3 about here --

II. Urban Public Transportation as a collective action problem

One way of understanding the problem of public transportation is to see it as a particular kind of collection action problem. What is especially interesting in this case is that the nature of the free-rider problem faced by individuals is strongly affected by the character of the public transportation system in which individuals make their choices. Let us illustrate this with a hypothetical example of two contrasting public transportation systems in a large city: one that relies entirely on busses that share the streets with cars, and another that has a developed system of light rail or subways.

If you live in the first kind of city you have a choice between riding the bus to work or driving your own car. Suppose the only thing you worry about is "how long will this take"? Figure 6.4 shows a possible "pay-off matrix" – a matrix telling you how long it will take for every combination of your choice and the choice made by most other people.

-- Figure 6.4 --

If all you care about is your time, the best option for you is B. There are relatively few cars on the streets since most people take the bus, so you can get to work in ten minutes. The second best option is for you and most other people to take the bus. This is significantly better than a situation in which you and most other people drive cars; the high traffic congestion with everyone driving slows everyone down. And the worst choice is to be a bus rider in a world in which most people are driving cars. Your preferences are thus ranked B>A>D>C. Since everyone thinks the same way, alas, you end up with D. This is another classic "free-riding problem".

We can define two interesting numbers for this table: the *free-riding bonus* and the *sucker penalty*. The *free-riding bonus* is the difference in the amount of time it takes you to get to work if most people including you cooperate with the collective good – taking the bus in this case –

and the amount of time it takes if you drive a private car and other people takes the bus (i.e. A minus B). The *sucker penalty* is how much longer it takes you to get to work if you take a bus and most other people drive (C minus D). In the example here the free-riding bonus is 15 minutes and the sucker penalty is 45 minutes. Clearly if all you care about is minimizing your own time, you want to get the free-riding bonus and avoid above all the sucker penalty.

Now suppose that instead of buses the city in which you live has and extensive light rail trains and subways. Now the pay-off matrix looks rather different (Figure 6.5).

-- Figure 6.5 --

Note how different the pay-offs are here. First, the advantage of driving your car even if most other people take the train is less than the car/bus difference. B is still the fastest, but not by much. The free-riding bonus has declined. Second, if you have a rail system in place and most other people drive a car you are suddenly better off going by train. Why? Because, whereas busses compete with cars for road space, subways and trolleys do not. (The reason why the train takes longer in C than in A is that if most people take the train more trains will be provided so they will run more frequently). There is no longer a sucker penalty!

In actual urban transportation systems, of course, many other factors will influence the actual commuting choices people make: the density and frequency of the transportation network; the precise number of people who drive even when there is good rail available; the available parking, both at commuter rail stations and at destinations; the cost of different transportation choices (public transportation fares, gas, insurance, parking, etc.). One consequence of these other complications is that in large cities with particularly good public transportation the free-riding bonus will often disappear: for many people public transportation will be consistently quicker than private transportation (B will be greater than A).

This account of the contrast between a city with a public transportation system using only buses and one with efficient light rail illustrates an obvious, but often ignored, point: the private choices people make between different kinds of transportation depend not simply on their general preferences for one kind of transportation or another, but on the practical costs and benefits they face in making those choices. And this, in turn, depends upon the public policies that determine the transportation infrastructure and thus the nature of the alternatives people face. The key question then becomes how we explain these public policies about the transportation choices people encounter.

One answer to this question sees these public policies over transportation as themselves the result of the preferences of citizens. This is what a democracy is supposed to do: citizens elect political representatives who will translate the preferences of voters into policies. If public policies favor urban freeways over subways, then this is because voters prefer to drive cars than use public transportation. The “American love affair with the car” means that politicians who advocate expanded public spending on more efficient light rail systems will tend to lose elections to politicians who argue for more freeways and better parking facilities. It is therefore the preferences and choices of ordinary people acting as consumers who buy and use cars and voters who support highways that determine both the transportation alternatives faced by individuals and the choices they make given those alternatives. In effect, the argument goes, the transportation patterns we observe simply reflect market forces: directly through the private consumption choices of individuals, and indirectly through their political choices in support of those consumption decisions.

Is this a satisfactory answer? Is it the case that consumer preferences are faithfully translated into the public choices about the nature of the transportation infrastructure as well the private individual choices about what transportation to use? We do not believe that the mix of forms of transportation we observe in the United States today can be explained in this way. Rather, the preferences of powerful business interests have played a pivotal role in shaping the nature of urban transit systems, thus creating constraints on the private choices individual consumers can make. A good historical illustration of this process is the fate of public transportation in the city of Los Angeles.

II. Corporate Power and the Automobilization of America: The LA transportation drama[1]

Los Angeles, California, is the iconic urban environment ruled by the automobile. The metropolitan area is crisscrossed by a massive system of multilane highways. In 2005, the metro area Los Angeles-Long Beach-Santa Ana had 5,870 lane-miles of freeway, enough to cross the United States nearly twice. Daily vehicle miles of travel on these freeways was 140,000,000.

It was not always this way. In the period immediately after World War II, Los Angeles had one of the best public transit systems in the country. The city had a dense network of heavily used trolley lines and most people did not own cars. The rapid suburbanization of residential areas had not yet begun. In the movie, *Who Framed Roger Rabbi?*, set in Los Angeles in the late 1940s, one of the characters, Eddie Valiant, discusses the prospects of an automobile based transportation system for the city with Judge Doom:

> **Eddie Valiant**: A freeway? What the hell's a freeway?
>
> **Judge Doom**: Eight lanes of shimmering cement running from here to Pasadena. Smooth, straight, fast. Traffic jams will be a thing of the past…I see a place where people get off and on the freeway. On and Off. Off and on. All day, all night. Soon where Toontown once stood will be a string of gas stations, Inexpensive motels., Restaurants that serve rapidly prepared food. Tire salons. Automobile dealerships. And wonderful, wonderful billboards as far as the eye can see… My god, it'll be beautiful.
>
> **Eddie Valiant**. Come on. Nobody's gonna drive this lousy freeway when they can take the Red Car [trolley] for a nickel.
>
> **Judge Doom**: Oh, they'll drive. They'll have to. You see, I bought the Red Car so I could

[1] This account of the demise of public transportation in Los Angeles is based on research by Snell, Bradford. "American Ground Transport: A Proposal for Restructuring the Automobile, Truck, Bus, and Rail Industries", Report presented to the Committee of the Judiciary, Subcommittee on Antitrust and Monopoly, United States Senate, February 26, 1974 (Washington, DC: United States Government Printing Office, 1974), 6–24. This report was the basis for a documentary film on the destruction of light rail urban transit systems, *Taken for a Ride.*

dismantle it.[2]

This is, more or less, what happened.

Let's go back to that time in the late 1940s. Suppose you were an automobile manufacturer – say the president of General Motors – and you wanted to expand the market for your main product, private cars. While you expect that the demand for cars will increase spontaneously as the economy develops and more people can afford cars, you realize that there are a number of obstacles to the growth of the automobile market. One of these is the existence of good public transportation in many cities. So long as public transportation is efficient, inexpensive and convenient, many people in large cities will choose not to even buy cars, and even if they own them, they will rely mainly on public transportation for most trips within the city. So what would you do? What would be a good strategy for dramatically expanding the popular demand for cars? Here is a strategy which might seem very attractive, especially in a place like Los Angeles which was booming and had plenty of surrounding open land to grow: Since you control a rich and powerful corporation, you could buy up local electric public transit lines and convert these systems to diesel buses, which, incidentally, you also manufacture. In order to make this purchase of local transit system not seem too obvious, it would be a good idea to create a subsidiary and have it actually do the work. As part of this business plan, of course, you need to pull up the rails previously used by electric street cars, thus making it difficult in the future to reverse the conversion from electric rail to diesel buses, and you need to destroy the old electric street cars since will no longer be needed. Once this process has proceeded for a while, people will no longer be so keen on public transportation, since the trips will take longer and be less comfortable, so ridership will decline, and with this decline the costs of public transit will go up. While you might lose some money from this since you will sell fewer buses, you will make it up many times over through the sale of additional cars. Because of the deterioration of public transit and increasing traffic congestion, citizens will begin demanding more freeways. To be sure that these voices are heard, you should also organize a well-funded lobby for building highways. Your friends in tire manufacture, construction, and oil will be happy to join with you on this. You will be able to argue that people are buying cars and choosing them over public transportation, so this is where public investments should be directed. Once this dynamic is set in motion it will be self-perpetuating, producing an ever-stronger popular constituency for automobiles and less and less public support for public transportation.

This is basically what happened in Los Angeles and many other cities in the United States. While it would be an exaggeration to say that all of this was fully clear to the key actors from the beginning, a subsidiary of General Motors did buy up the electric streetcar companies in Los Angeles and converted them to bus systems, and then let the bus service deteriorate as part of a strategy of encouraging private automobiles. The national trends in this displacement of streetcars and light rail transit by buses, followed by the decline in busses, is shown in Figure 6.6.

[2] Quoted in Alejandro Reuss, "Car Trouble: the automobile as an environmental and health disaster," p.53 in Daniel Fireside, et. al (editors) *The Environment in Crisis: Progressive Perspectives from Dollars & Sense (third edition* (Boston: Economic Affairs Bureau, 2005)

-- Figure 6.6 about here --

The result was that by the middle of the 1950s there was a strong consensus among political officials throughout the United States in favor of the automobilization of transportation. This combined with construction companies' interests in building freeways and real estate interests in low-density suburbanization. Over the next generation, cities effectively emptied themselves of people, with density in 1980 about that of 1940. As people invested in cars and suburban housing, a mass constituency for these policies also developed: people in suburbs wanted more freeways. This generated a particular model of urban growth: urban sprawl, degraded public transportation, the decline of central cities, and many other features of the urban environment today. The deliberate destruction of efficient public transportation systems played an important part in the process.

At the beginning of the 21st century it is clear to many people that this model of urban life and transportation is undesirable and perhaps unsustainable. The reliance on private automobiles contributes significantly to global warming, traffic congestion creates an enormous waste of time, and the rising cost of gasoline makes private transportation less cost effective for most people than a good public transportation system.

These outcomes were not the result of the operation of the "free market" governed by consumer sovereignty. Rather they are the result of the exercise of private concentrations of economic power that were capable to shaping the economic environment in which individuals made their private choices. And the only way that this environment of transportation choices can be significantly transformed is through the exercise of public power to build new infrastructure and impose new rules of the game in which both individuals and corporations make their "rational" economic choices.

III. The Social costs of an Automobile based transportation system

If the heavy reliance on automobiles had no serious on-going social and economic costs, then it would not be a pressing matter to try to reconstruct an efficient public transit system in the United States. The individual choice to drive would simply be that – an individual choice. The highly privatized automobile system of transportation, however, has significant social costs and thus is not simply a matter of private, individual concern. Most obviously, automobiles are tremendous users of fossil fuel. On a per capita basis Americans consume vastly more gasoline than almost any other country (Figure 6.7) – over 1600 liters per year compared to 400 liters or list in most other countries. Given the finite character of this resource, this is a wasteful use of this valuable resource. But of course, the issue here is not simply squandering a nonrenewable resource. Burning gasoline to move people around cities contributes significantly to carbon emissions and global warming: approximately a quarter of all greenhouse gases in the United States are generated by automobiles.[3] This massive negative externality makes the private use of automobiles a matter of collective, public concern.

-- Figure 6.7 about here --

[3] Paul Hawkien, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: creating the next industrial revolution* (Boston: Little, Brown and Company, 1999). p.23

Even if we ignore these environmental concerns, the over-reliance on the automobile for urban transportation generates a huge amount of economic inefficiency in terms of time and money. Figure 6.8 presents estimates of the annual hours of delay per traveler due to traffic congestion in selected large American cities in 1982 and 2005. In every city the situation has gotten much worse during this period. In Los Angeles the annual delay per traveler was 72 hours, nearly two standard work weeks. In Dallas-Fort Worth the delays attributable to congestion increased from about 10 hours a year in 1982 to 58 hours a year in 2005. The average for all of the 14 largest metropolitan areas in the United States increased from 21 hours of delay in 1982 to 54 hours of delay in 2005.

-- Figure 6.8 about here –

Time is money. The delays due to congestion in Figure 6.8 are not simply annoying; they are expensive. If we impute an hourly cost to the time lost and add to this the cost of excess fuel consumption, it is possible to calculate a rough cost of congestion. The figures for the ten cities with the highest congestion costs are presented in Figure 6.9.[4] The total for these cities comes to nearly $40 billion annually.

IV. Solutions

Individuals making private consumption decisions can have some impact on problems of traffic congestion and the pollution and energy waste of automobile transportation. Individuals can choose to use public transportation, to ride bicycles, to walk, to buy cars with higher energy efficiency. But to really make headway on these issues, public policy and collective, democratic regulation of the contexts for individual choices must play a major role. Here are a few of the things that could be done.[5]

1. **Use taxes to charge people the true costs of driving and parking.**

Gasoline in the United States is cheaper than in any other developed capitalist economy. This is not because the cost of the gas itself is less but because we have the lowest levels of taxation on gasoline of any comparable country. As shown in Figure 6.10, in 2005 the average tax on gas in the US was a total $.46 a gallon. In other developed countries the typical range is between $2 and $4. One of the reasons Americans drive so much and are willing to drive such inefficient cars is because gasoline is so underpriced relative to its true social costs. This is an example of the more general problem of the way markets underprice things that have large negative externalities: the true costs of producing and consuming gasoline are not reflected in the market price both because of the knotty problem of the future value of the resource and because of the myriad of negative externalities of its present consumption. A high gasoline tax is one way of correcting this inefficient market pricing.

Gasoline, however, is only one aspect of the under-pricing problem for automobile use.

[4] The value of time delay in Figure 6.9 is estimated at $14.60 per hour of person travel and $77.10 per hour of truck time, and the excess fuel consumption is estimated using state average cost per gallon.

[5] The discussion which follows draws heavily on Paul Hawkien, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: creating the next industrial revolution* (Boston: Little, Brown and Company, 1999).

Another serious problem is the underpricing of parking. Shopping malls and offices typically provide "free" parking for employees. This creates the illusion that the provision of such spaces is actually costless. Paul Hawken, Amory Lovins, and L. Hunter Lovins, describe the issue this way:

> …instead of today's nearly universal U.S. practice of providing "free" parking occupying up to several times as much area as workers' office space, employers could instead charge fair market value for parking and pay every employee a commuting allowance of equal after-tax value. Workers – a third of whose house-hold driving miles are for commuting – could then use that sum to pay for parking, *or* find access to work by any cheaper method – living nearby, walking, biking, ridesharing, vanpooling, public transit, or telecommuting. Users of alternatives could pocket the difference.[6]

Similar procedures could be adopted to charge people the true cost of using streets and highways. In London and a number of other cities motorists are charged "congestion fees" for driving in the central areas of the city during the day. Many bridges and tollways adopt congestion pricing and reserve lanes for cars with multiple passengers in order to encourage ridesharing. More drastic measures include banning cars altogether from the central areas of cities.

2. Rethink Public Transportation

In the United States, with the strong ideological commitment to market-based solutions to social and economic problems, most people think that public transportation should be able to cover most of its costs of production through the price of tickets. This sounds reasonable. Isn't this what "fair competition" is all about: you produce something for sale on a market and if people want it at the price that covers costs, then they will buy it. If public transportation is heavily subsidized through taxation, many people feel that this creates unfair competition with other modes of transportation, especially cars. And why, after all, should people who don't use public transportation be subsidizing people who do use. Surely the users should pay.

These are familiar arguments, but they fundamentally misunderstand the complex problem of the relationship between a public good like public transit and market pricing. As we have argued, public transportation has many positive externalities which benefit everyone, not simply the people who directly use the service. Here is a partial list:

- Reduced air pollution, including greenhouse gases
- More efficient labor markets since it is easier for poor people to get to jobs. This is a benefit to employers for it makes it easier to hire people and it is a benefit to the people without cars who now find it easier to get jobs. But it is also a benefit to the society at large because it contributes to a long term reduction in poverty and thus reduces the costs of social problems associated with poverty.
- Less frequent need for house painting because of reduced particulate pollution

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[6] Paul Hawkien, Amory Lovins, and L. Hunter Lovins, *Natural Capitalism: creating the next industrial revolution* (Boston: Little, Brown and Company, 1999). p.42

- Health benefits: reduced asthma and other illnesses linked to automobile generated pollution; less obesity as people rediscover walkable neighborhoods and "mixed use" (commercial plus residential plus public builds and spaces) neighborhoods
- Less congestion on the highways for those who do need to drive

Now, suppose that we could put a dollar value on all of these positive externalities that would come with a massive increase in efficient public transportation. These are real economic benefits which would not happen in the absence of such investment, real economic value that is being generated by the transportation service. What this means is that the costs and revenue connected to producing the service in question are not properly reflected on the balance sheets of public transportation. The balance sheet of the transportation service only includes the costs directly paid by the service – wages for transportation workers, infrastructure costs, operating costs, etc. – and the revenues they receive from tickets. None of the enormous positive economic benefits appear on the balance sheet. If the economic value of these positive, but hidden, benefits were included on the balance sheet, then we suspect that there would be no need to charge consumers anything for rides in order for public transportation to be "profitable". Rides could be free since even with free tickets, the sum of all of the positive externalities is likely to exceed the financial costs of building and running a comprehensive public transportation system. [7] Remember also that it costs something to charge people for tickets: you need a monitoring system, cashiers, accountants, ticket machines, etc. Part of the cost of tickets, therefore, simply covers the costs of selling tickets. These costs would be eliminated completely with a free transportation system.[8]

Of course, it could turn out that there might be reasons for charging people something to use public transportation, even if on strict efficiency grounds free rides would be justified. The pivotal issue here is that there are good economic grounds to use our collective resources – which we call "taxes" – to provide intensive and extensive public transportation and to drastically reduce the direct costs of rides to users. This should not be thought of as a "subsidy" in the sense of a transfer of resources to an inefficient service in order for it to survive, but rather as the optimal allocation of our resources to create the transportation environment in which people can make sensible individual choices.

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[7] Remember also that it costs something to charge people for tickets: you need a monitoring system, cashiers, accountants, ticket machines, etc. These constitute "deadweight losses" for public transportation since they constitute a cost of letting people have access to the rides but do not themselves contribute to providing rides. We know of no attempt at estimating the full gambit of positive externalities – including positive externalities for future generations – of a comprehensive public transportation system, so this claim remains speculative. What is for certain, however, is that it is grossly inefficient economically for ticket prices to cover most of the costs of rides on public transportation.

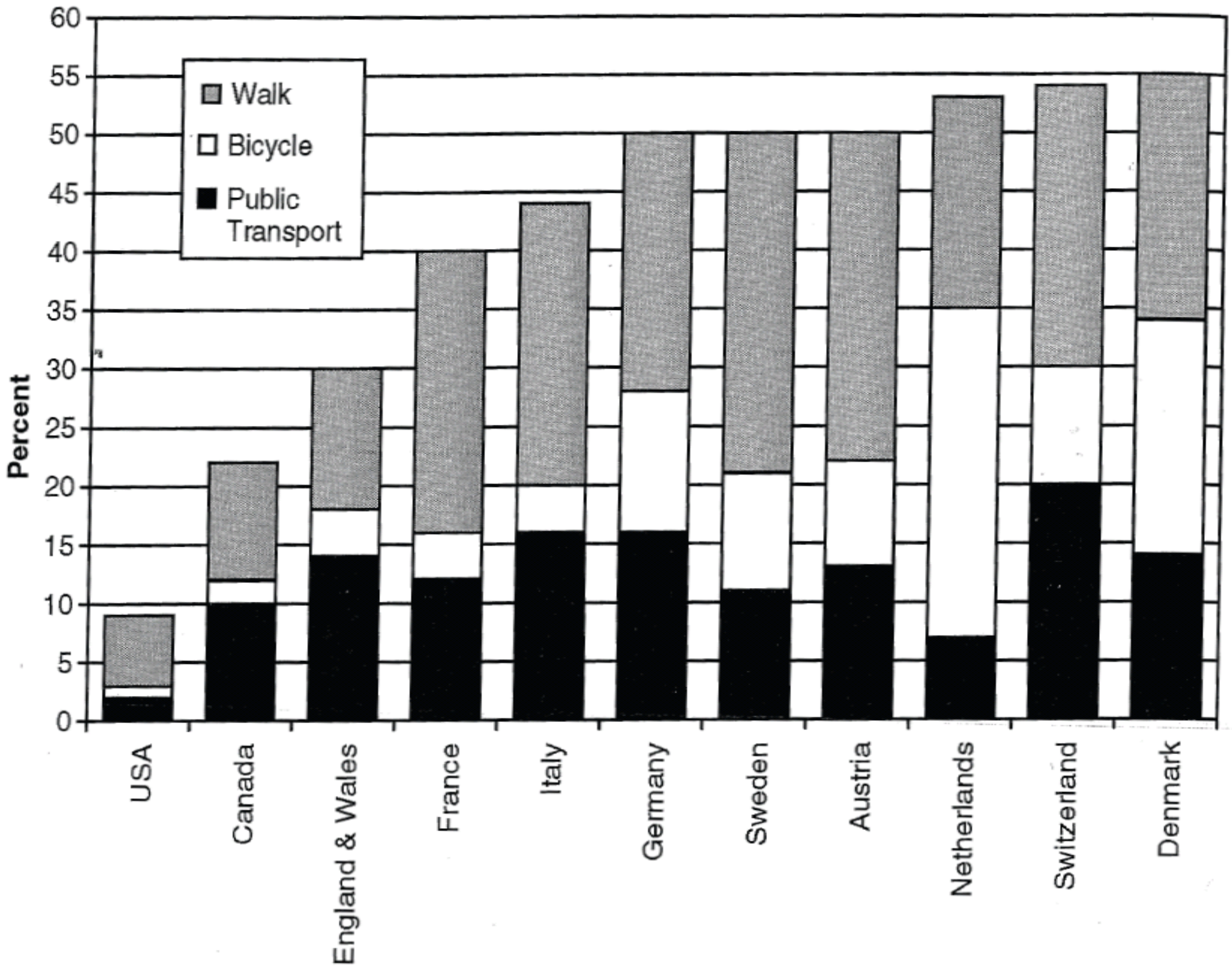
[8] Imagine what it would be like, for example, if we charged people for walking on sidewalks on the grounds that the users of this service should cover the costs of providing the sidewalks. This would make sidewalks more expensive, for now the "cost" of a sidewalk includes the cost of sidewalk fee enforcers and collectors.

3. Transformation of land use and community

The problem of urban transportation is deeply connected to a much broader and more complex set of issues around the use of land, the character of communities, and the spatial organization of work, leisure, shopping, and residence. In the United States in the decades following the Second World War, cities developed around the use of automobiles, which created sprawling suburbs for which the automobile in turn became a necessity. Shopping was concentrated in malls and shopping districts rather than integrated into neighborhoods. The disappearance of the neighborhood grocery store means that for most people, shopping for food requires a car. Zoning rules which require large plots of land for houses means that public transportation must cope with the problem of low density residence.

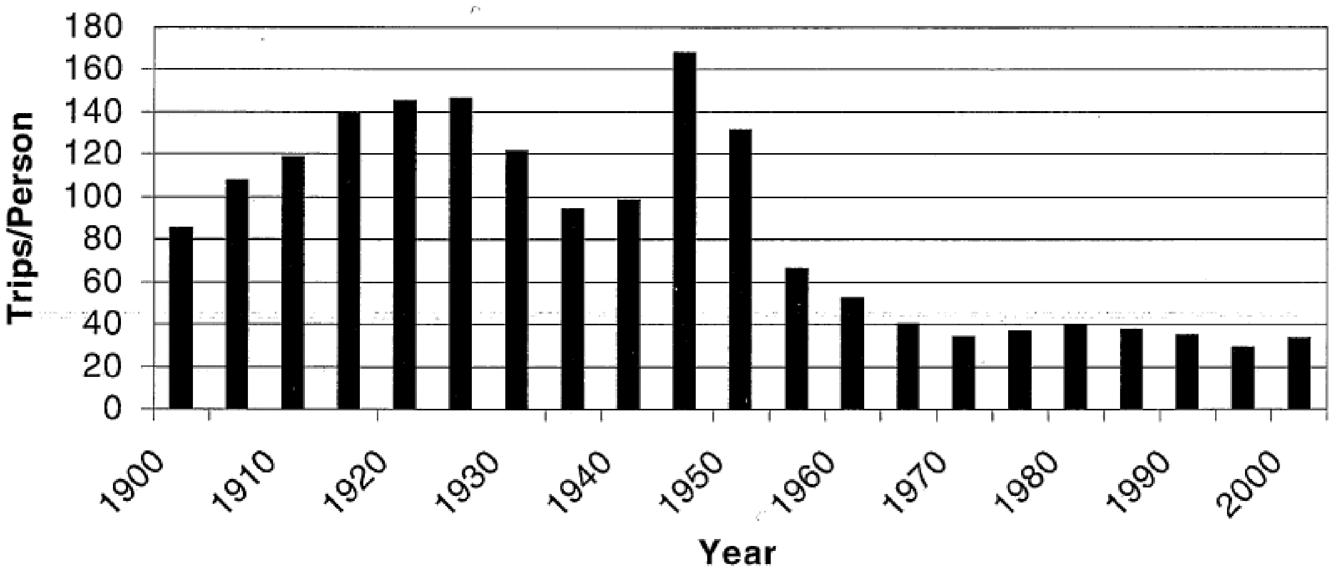
It is no easy task to undo these developments, both because of the cultural expectations about housing and transportation, and because of the physical constraints created by a given "built environment" of cities. In the long run, however, a fundamental transformation of existing patterns of land use and urban development is essential for reasons of environmental sustainability, economic efficiency and quality of life. There is a wide range of proposals for accomplishing this transformation, including new rules for land use zoning that encourage higher density residential areas; developing residential areas that are more closely integrated with commercial districts, employment centers, and recreation; building urban transportation systems around bicycles, walking and public transportation, rather than cars. None of these developments will happen simply as a spontaneous result of market forces. They require the exercise of public power to democratically solve collective transportation problems.

Figures, Chapter 6



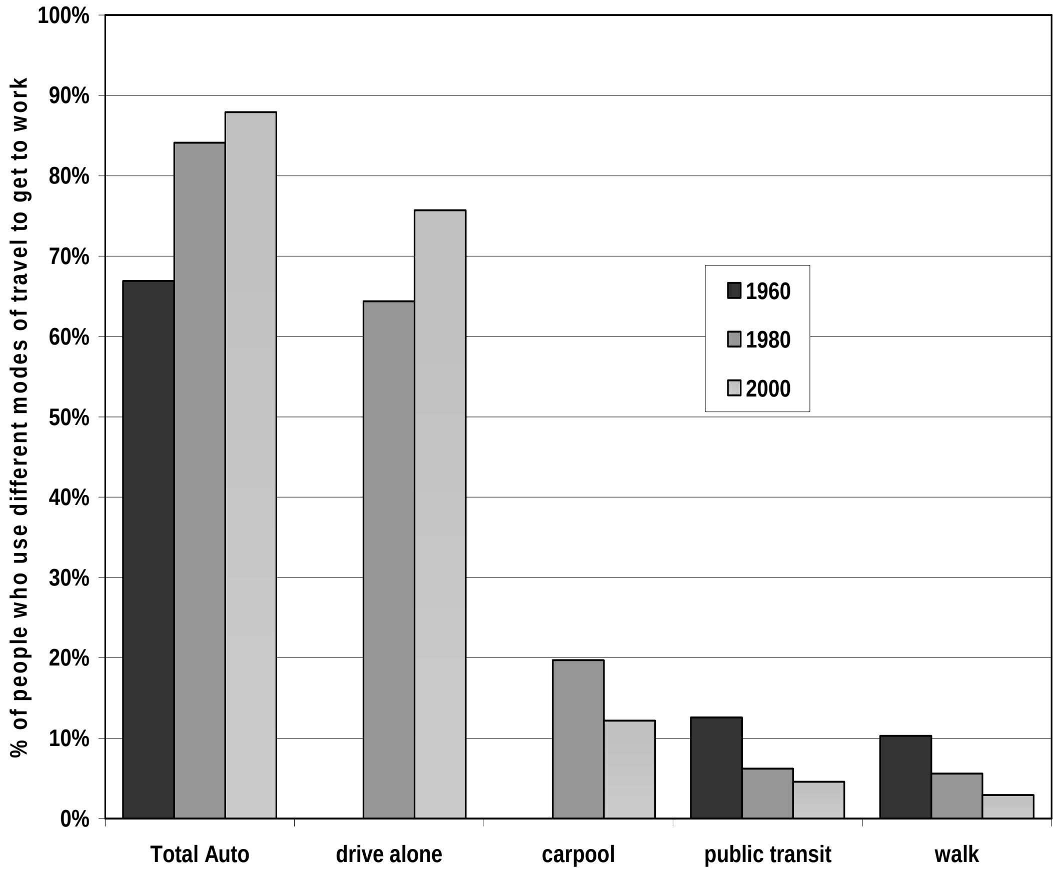
Source: John Pulcher, “Public Transportation”, in Susan Hanson and Genevieve Giuliano, *The Geography of Urban Transportation*, third edition. (New York: The Guilford Press, 2004). p.216. Data are from 1995 and cover all trip purposes.

Figure 6.1
Percent of all urban trips by type of transport.



Source: Brian D. Taylor "The Geography of Urban Transportation Finance", in Susan Hanson and Genevieve Giuliano, *The Geography of Urban Transportation*, third edition. (New York: The Guilford Press, 2004). p.317.

Figure 6.2
Trend in per capita annual public transit ridership, 1900-2000



Source: 1980 and 2000 data are from *Commuting in America: Third national report on commuting patterns and trends* National Transportation Research board of the National Academies of Sciences, (Transportation Research Board, Washington DC 2006) p.xiv. The 1960 data are from John Pucher and John L. Renne, "Socioeconomics of Urban Travel: Evidence from the 2001 NHTS," *Transportation Quarterly,* Vol. 57, No. 3, Summer 2003 (49–77).

Figure 6.3
Percent of people who use different modes of travel to get to work, 1960-2000

FIGURE 6.4 THE PUBLIC TRANSPORTATION FREE RIDER PROBLEM WITH INEFFICIENT PUBLIC TRANSPORTATION

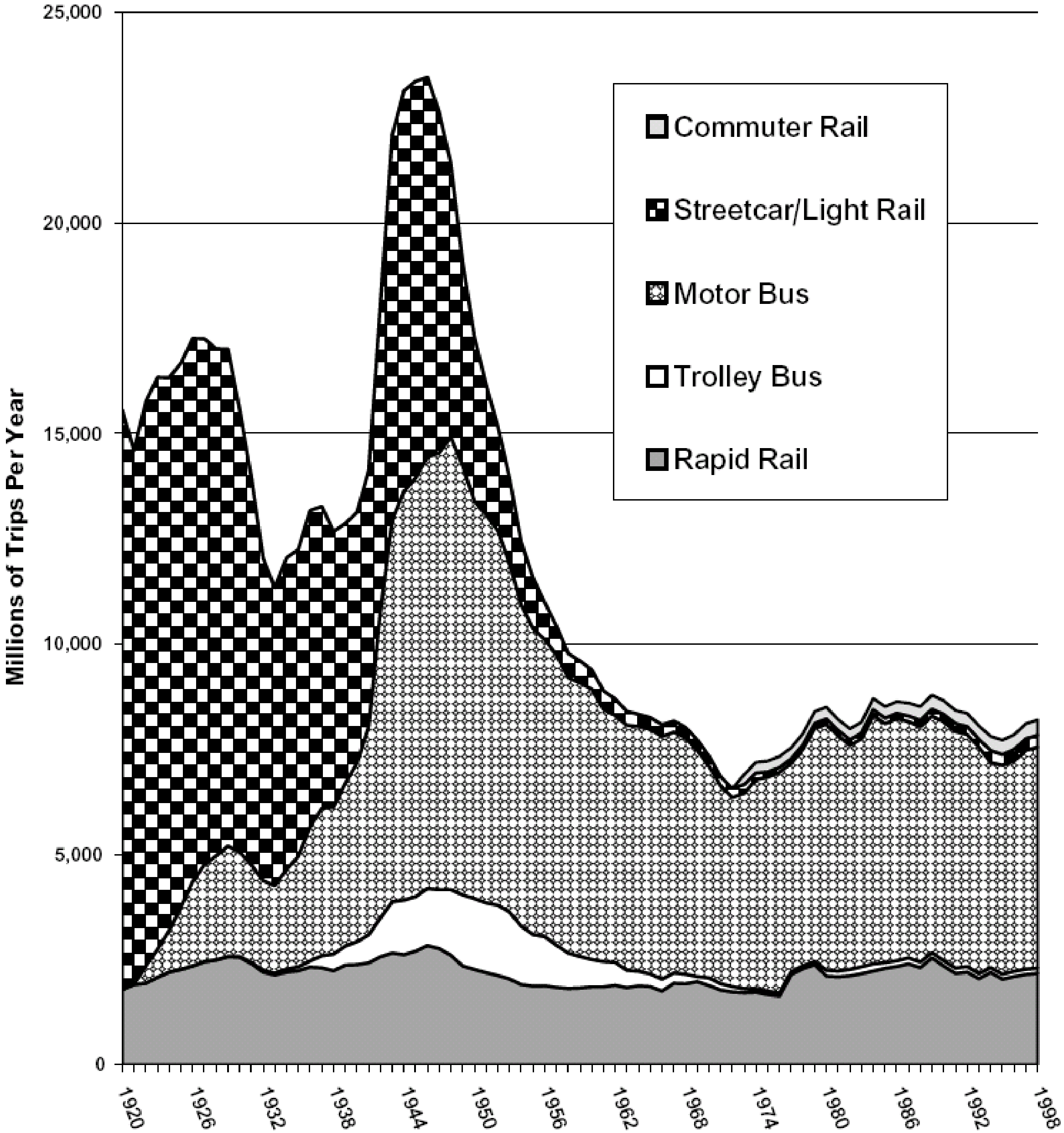
		YOUR CHOICE	
		BUS	PRIVATE CAR
MOST OTHER PEOPLE'S CHOICE	BUS	A 25 minutes	B 10 minutes
	PRIVATE CAR	C 1.5 hours	D 45 minutes

The entries in the cells are the length of time it will take you to get to work under different patterns of transportation choices

FIGURE 6.5 THE PUBLIC TRANSPORTATION FREE RIDER PROBLEM WITH EFFICIENT PUBLIC TRANSPORTATION

		YOUR CHOICE	
		LIGHT RAIL	PRIVATE CAR
MOST OTHER PEOPLE'S CHOICE	LIGHT RAIL	A 15 minutes	B 10 minutes
	PRIVATE CAR	C 25 MINUTES	D 45 minutes

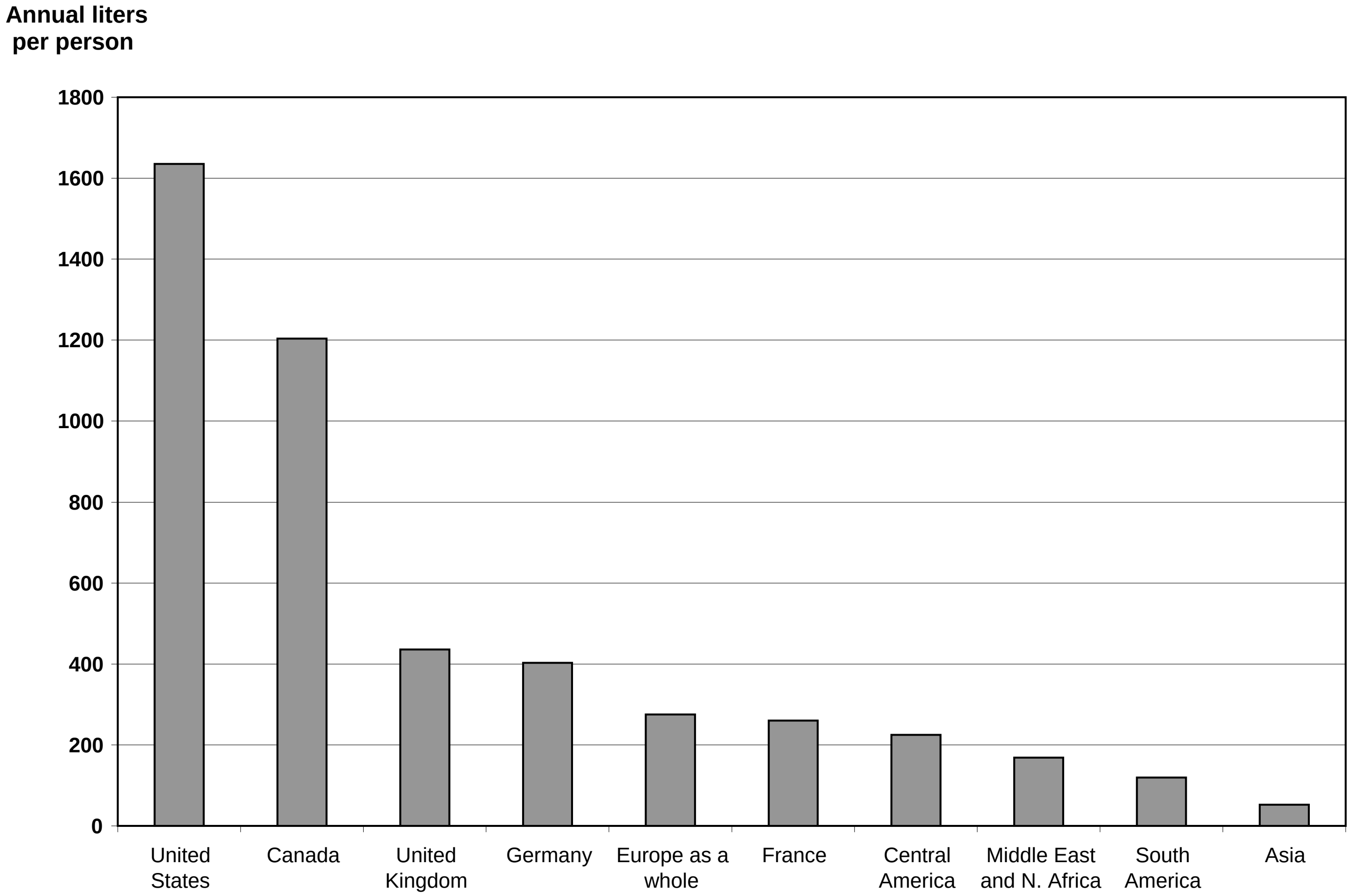
The entries in the cells are the length of time it will take you to get to work under different patterns of transportation choices



Note: Data on commuter rail ridership are not available for the period before 1973.

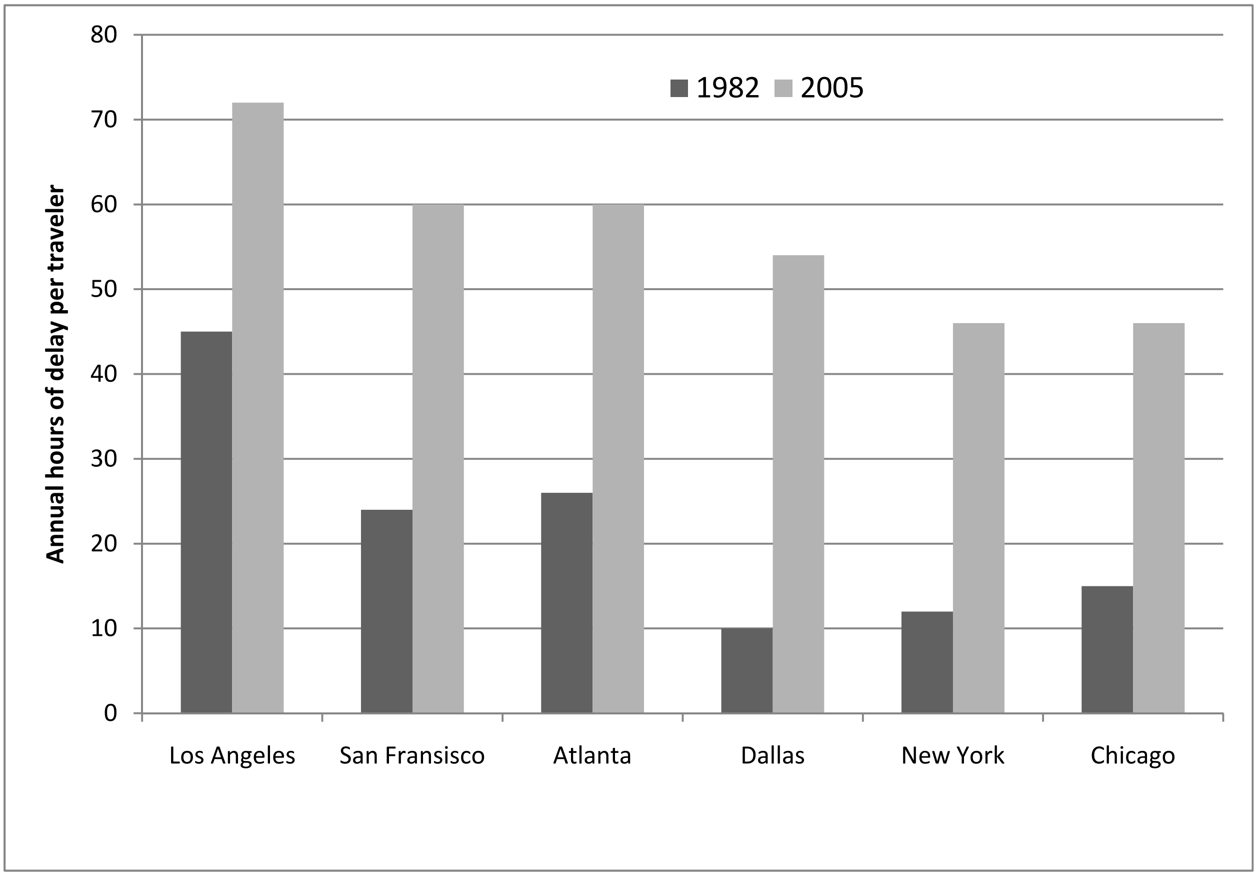
Source: *Making Transit work. Special report 157* Transportation Research Board , National Research Council (National Academy Press, Washngton DC 2001) p.23

Figure 6.6
National trends in annual passenger trips by transit mode, 1920-1998



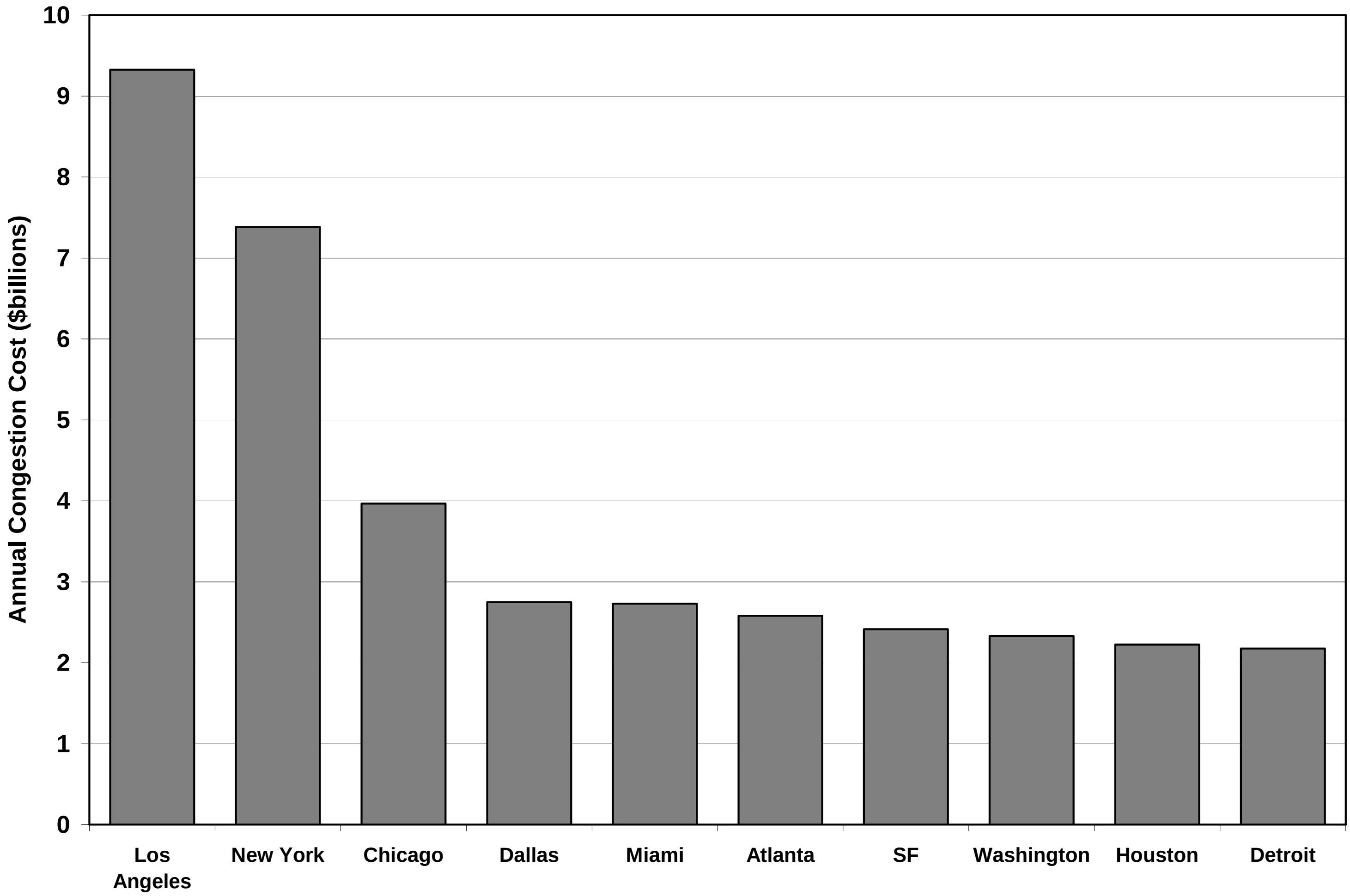
Source: *World Resources Institute. 2009 EarthTrends: Environmental Information. Available at http://earthtrends.wri.org. Washington DC: World Resources Institute. EarthTrends, searchable database*

Figure 6.7
Gasoline consumption per capita, 2003



Source: Schrank, David and Tim Lomax. 2007. *The 2007 Urban Mobility Report*. College Station, TX, Texas Transportation Institute, The Texas A&M University System , table 4, p. 38

Figure 6.8
Annual average hours of delay per traveler due to traffic congestion



Definitions:

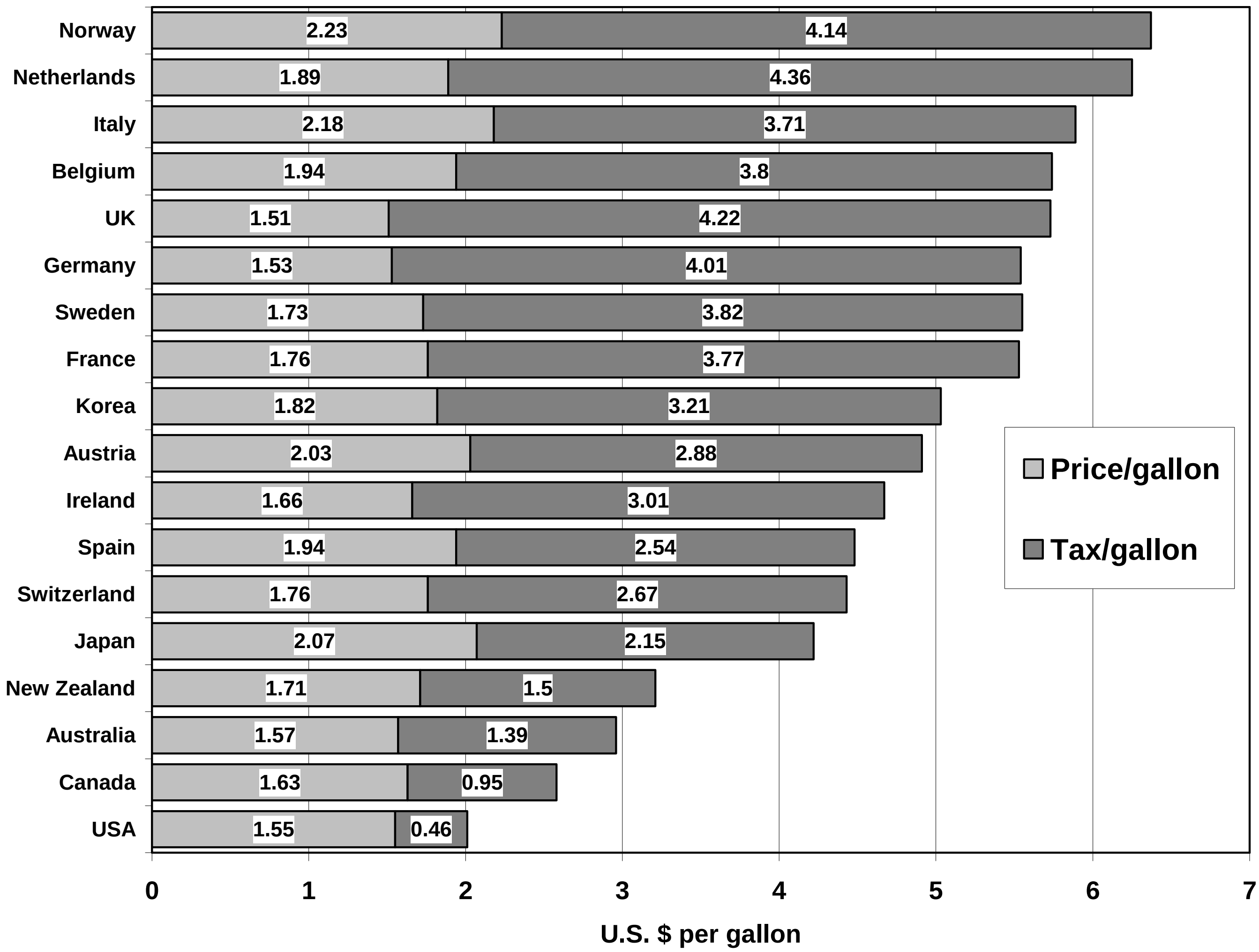
Travel delay = travel time above that needed to complete a trip at free-flow speeds. The value of travel delay is estimated at $14.60 per hour of person travel and $77.10 per hour of truck time.

Excess Fuel consumption = increased fuel consumption due to travel in congested conditions rather than free-flow conditions. The value of excess consumption is estimated using average state cost per gallon.

Congestion cost = Excess fuel consumption + Value of excess travel time

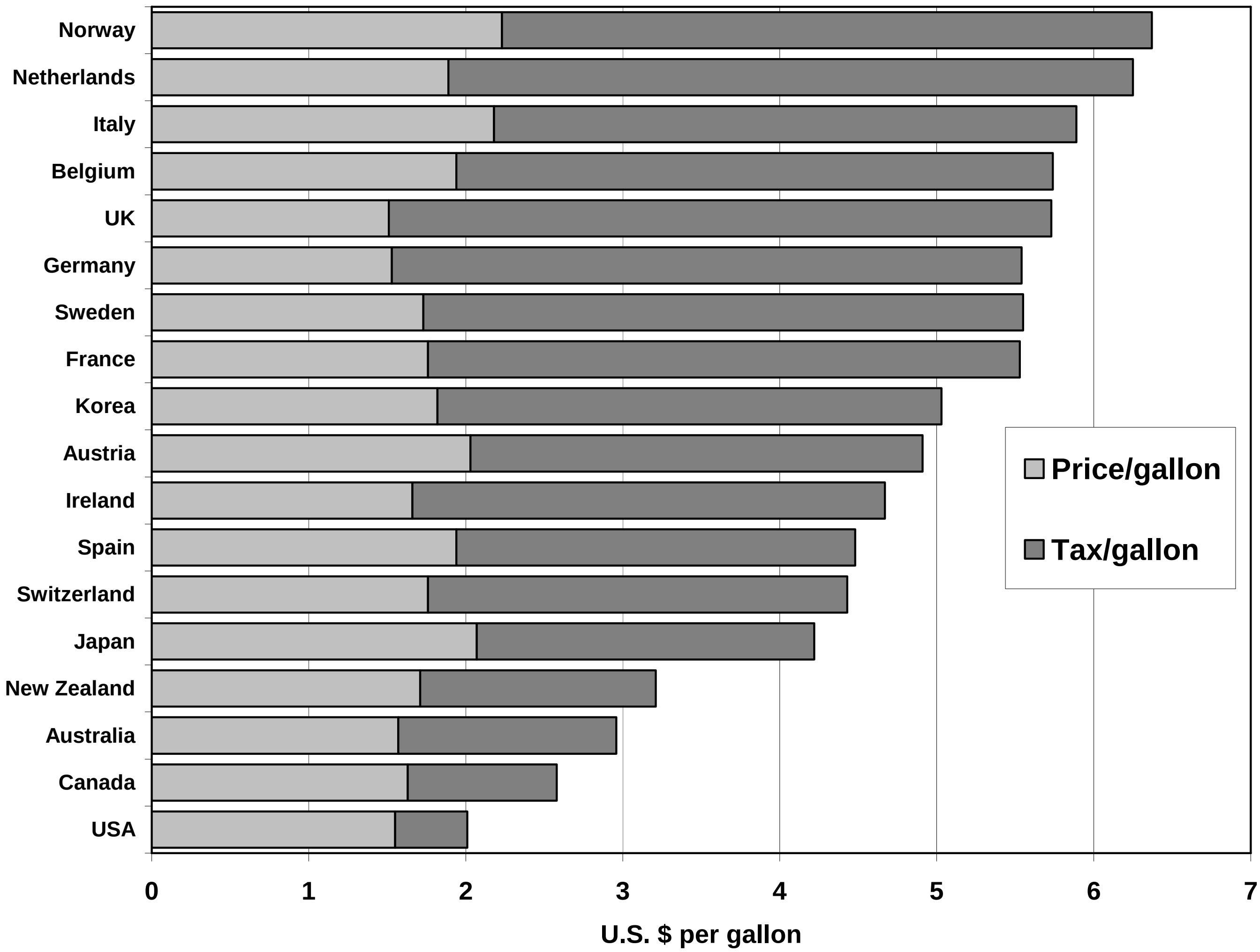
Source: Source: Schrank, David and Tim Lomax. 2007. *The 2007 Urban Mobility Report*. College Station, TX, Texas Transportation Institute, The Texas A&M University System , table 2 p. 34

Figure 6.9
Annual traffic congestion costs in selected large urban areas, 2005



Source: International Energy Agency. Energy Prices and Taxes, Vol. 2005, No. 2, pp. 1-521

Figure 6.10
Gasoline prices and taxes in developed countries, 2005



Source: International Energy Agency. Energy Prices and Taxes, Vol. 2005, No. 2, pp. 1-521

Figure 6.10
Gasoline prices and taxes in developed countries, 2005

(alternative – without numbers on bars)

Chapter 7
Consumerism

Final draft August 2009

Consumerism is the belief that personal wellbeing and happiness depends to a very large extent on the level of personal consumption, particularly on the purchase of material goods. The idea is not simply that wellbeing depends upon a standard of living above some threshold, but that at the center of happiness is consumption and material possessions. A *consumerist society* is one in which people devote a great deal of time, energy, resources and thought to "consuming". The general view of life in a consumerist society is consumption is good, and more consumption is even better.

The United States is an example of a hyper-consumerist society. People are constantly bombarded with advertisements urging them to buy things. As shown in figure 7.1., the average child aged 2-11 sees over 25,000 ads on television a year, while the average adults sees 52,500. This means that children in the United States spend over a week of their lives every year (10,700 minutes) watching television advertisements; adults spend over two weeks a year in the same activity. Such advertisements promote not simply specific products, but also a vision of "the good life" and what it takes to be happy. Shopping is experienced by many people as an exciting recreational activity. People go deeply into debt in order to buy things beyond basic necessities: a larger house, a giant television, a fancy car. These are all the hallmarks of a society within which consumption is at the center of life.

-- Figure 7.1 about here --

Nothing illustrates the problem of consumerism better in the United States than the growth in the average size of new houses since the early 1980s.[1] From the 1960s until the early 1980s, the median size of a new home in the United States varied up and down around 1,500 square feet. As Figure 7.2 indicates, from 1983 from 2007 this increased from 1,500 square feet to over 2,200 square feet. In the early 1980s about 25% of all new homes were under 1,200 square feet in size while 15% were over 2,500 square feet. By 2007 less than 3% of new homes were under 1,200 square feet and over 40% over larger than 2,500 square feet (Figure 7.3). What is more, this dramatic change in the size of new homes occurred in a period when average family size was declining, so this constitutes an even greater increase in the amount of living space per person. These large new houses, of course, need to be filled with stuff, and this too reflects hyper-consumerism: bigger

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[1] The data reported here were provided by Rachel Dwyer using the Survey of Construction Data, US Census Bureau. (Single family detached houses only). See Rachel E. Dwyer, "Expanding Homes and Increasing Inequalities: US Housing Development and the Residential Segregation of the Affluent." *Social Problems* 54: 23-46. 2007

televisions and "home theaters", exercise equipment, spacious designer kitchens, three car garages.

-- Figure 7.2 and 7.3 about here --

So, why is this a problem? It sounds arrogant to say to someone: you are too preoccupied with consumption; you spend too much time shopping; you would be happier if you were less focused on acquiring material possessions. Aren't people the best judge of their own desires and preferences? And doesn't the free market simply translate those preferences into choices, so if people are buying huge houses doesn't this just mean that they want big houses?

We have already identified one problem: environmental sustainability. This one is simple. The planet is simply incapable of supporting American-style consumption everywhere. Either we need to stop buying so many "toys" or our consumption of nonrenewable "natural capital" has to become orders of magnitude more efficient and restorative. Either, of course, would imply massive change in consumption patterns. But hyper-consumerism raises other issues as well. Toys cost money, and money takes time to earn. Many people in contemporary American society feel enormous "time binds" in their lives, in part because they are caught in a work and spend treadmill. Time scarcity is a continual source of stress, but the cultural pressures and institutional arrangements that accompany consumerism make it difficult for people individually to solve these problems. A good case can also be made that hyper-consumerism leads to less fulfilling and meaningful lives than does a less manically consumption-oriented way of life. Research on happiness tells us something that we have always sort of known, but that competitive consumption tends to crowd out. Happy people are those that feel they are interested in their work and think I is useful, feel part of a community, and have some time with friends and family. Nobody on their death bed says "gee, I wish I had had more toys and spent even less time with my spouse, my friends, and my kids."

If people would really be better off with a less hyper-consumerist lifestyle, why then do they embrace consumerism? The basic idea here is that through various mechanisms there is a *systematic consumption-bias* in the decisions people make. If this bias were eliminated, people would in fact make different choices, consume less and in the end be happier. The issue, then, is not really that there is anything intrinsically wrong with shopping and consuming as such, but rather that the nature of the market system in which we live shapes peoples preferences and choices excessively in favor of consumption over other values.

In the rest of this chapter we will examine some of the critical processes in play in contemporary American society that foster this strong consumerist culture.

1. The consumption bias in capitalist profit-maximization strategies

Perhaps the most fundamental process that generates consumerism is the nature of profit-maximizing competition in a capitalist economy. One of the great virtues of capitalism is that the competition among firms puts pressures on firms to innovate, and many of these innovations increase productivity over time. Productivity refers to the amount of inputs needed to produce a given amount of output. More specifically, increasing productivity means that it takes less laboring time to produce a given quantity of output. When productivity increases, therefore, there are two sorts of things that in principle can happen: we could produce the same amount of things with less total labor input, resulting in more "free time", or we could produce more things with the same amount of labor input. The "consumption bias" of capitalism means that there is a strong tendency for increases in productivity to lead to increased production of goods and services rather increased "free time". This may not be such a bad thing in a poor country which does not produce enough to provide adequate nutrition, housing and other basic necessities for everyone. But when a society is already extremely rich there is no longer any intrinsic reason why growth in average levels consumption at the expense of increasing free time is desirable.

The dynamics of capitalist profit-driven market competition imposes a strong pressure in even wealthy capitalist economies to grow in total output, not just in productivity. From the point of view of profits, if productivity in a capitalist economy doubles, which is better: doubling leisure time and keeping consumption levels constant, or doubling consumption levels and keeping leisure time constant? Capitalist economies thrive when capitalist firms make profits, and profits are made from selling goods and services. Capitalist firms, competing with each other, thus constantly attempt to increase their production and their sales. Enormous resources are devoted to this specific task, most clearly in the form of advertising and marketing strategies, but also in terms of government policies that systematically facilitate expansion of output over increases in free time. In the aggregate this means that productivity growth is channeled into the continual expansion of markets, and this creates a tremendous bias in favor of a growth in consumption rather than leisure.

The consumption bias inherent in capitalist economies is particularly sharply revealed in times of economic crisis. In an economic downturn, governments attempt to "stimulate" the economy by, in various ways, encouraging people to consume more by reducing taxes, by reducing interest rates so borrowing is cheaper or, in some cases, by directly giving people more money to spend. In the severe economic crisis that began in 2008, economists warned that not only was consumption declining because of rising unemployment, but people were beginning to save more and this would only make matters worse. In order to get the economy back on track it was essential that people start spending more, saving less. Since private consumption constitutes some 70 percent of the economy, reinvigorating mass consumerism was a condition for reinvigorating capitalism.

The critical point here is that these arguments by economists and policy makers are correct, given the nature of the economy in which we live: it is essential for the health of a capitalist economy that people buy things in the market. If large numbers of people were to say "enough is enough" and opt for a life style of "voluntary simplicity" by rejecting consumerism, the economy would face very serious difficulties. Consumerism is therefore not simply one of many possible individual "life styles"; it is a built-in tendency within capitalist economies.

2. Advertising and Consumption Norms

The fact that the profits of capitalist firms in general are enhanced when increased productivity is turned into greater consumption rather than increased free time by itself would not lead to consumerism. People also have to be motivated to want ever-higher levels of consumption. One view is that this is simply a question of human nature: we are naturally acquisitive, and when possible, will always want more stuff. Consumption, in this view, is like happiness itself: the more the better. An alternative view is that once basic needs are comfortably met, there is no “natural” tendency for people to prefer more stuff over more free time. An incessant desire for things, therefore, requires specific social institutions which foster such preferences.

Perhaps the simplest mechanism fostering a mass culture that underwrites consumerism is marketing. Advertising is everywhere: on television, on billboards, in newspapers and magazines. Corporations pay enormous sums for “naming rights” of public facilities so that their brand is kept in people’s minds. Educational news programs provided free to schools contain advertisements directed at children. Marketing research devises ever more sophisticated means of reaching the public and shaping people’s preferences. This includes intensive advertising directed at young children. Lucy Hughes, the director of strategy for the large communications management company, Initiative Media, has done extensive research developing advertising strategies to exploit what she calls the “Nag Factor.”[2] The basic problem is simple: since children don’t have a lot of money to spend themselves, how can advertisers get their parents to buy things for them? The solution is to help cultivate the art of nagging by modeling effective nagging behavior in advertisements. In an interview, Hughes reports that “the way a child nags to the parent will have an impact on whether or not the parent will buy the product.”[3] Her research has demonstrated that “anywhere from 20 percent to 40 percent of purchases would not have occurred unless the children had nagged the parents.”[4] So, instead of directing advertisements for children’s products mainly at parents, children are the targeted and shown how to nag for good results. By some estimates, spending by businesses for marketing directed at children increased from around $1-2 billion in 1990 to over $15 billion fifteen years later.[5]

Defenders of advertising point out that advertising provides valuable information to people. Ads inform people of new products and provide information about the virtues of one product compared to others. If this is all that advertising did, then perhaps it would not be an important component of consumerism. But ads do much more than simply transmit information: they display and reinforce certain values, constantly affirming the association between happiness and consumption, between success in life and buying things, between sexual attractiveness and particular forms of consumption. These

[2] This description of advertising and nagging comes from interviews with Lucy Hugh reported in Joel Bakan, *The Corporation: the pathological pursuit of power*: The Free Press, 2004), pp. 119-122.

[3] Lucy Hughes, quoted in Bakan, *The Corporation*, p. 120.

[4] Ibid p.121.

[5] These figures come from personal communication with Juliet Schor, author of *Born to Buy: the commercialized child and new consumer culture* (New York: Schribner, 2004). It is very difficult to make accurate estimates of the amount of money being spent on marketing directed towards children, both because many forms of marketing may be directed at both children and adults, and because a considerable amount of marketing does not take the form of a advertisements.

associations and images are part of the taken-for-granted culture that Americans learn from early childhood and make a life heavily oriented to consumption seem natural.

Advertising in particular, and the mass media more generally, have contributed to a gradual ratcheting up of what can be called the consumption norms in American society. Consumption norms refer to the level of consumption that people see as needed to be living well. One way of thinking about this is in terms of basic sociological concept of a “reference group.” A reference group is the category of people to which one refers when trying to figure out how well one is doing or how one should behave. This idea has very wide application in sociology. Among teenagers this is very important in terms of understanding such things as school achievement. Here the term often used is “peer group”. A bright student who is part of a peer group in which academic achievement is regarded as uncool is much more likely to do badly in school than an equally bright kid who is part of an academically-oriented peer group.

A “consumption reference group” refers to the category of people with whom one compares oneself around consumption norms. Most people do not compare themselves to Bill Gates and say “I am doing badly because I don’t live as well as that”. So, the question for consumerism is: what are the standards of living that people use to define “doing well” and has this changed?

There was a time, not in the distant past, when for most people consumption norms were defined largely by people very much like themselves in their immediate social environment. Today, consumption norms are heavily shaped by images that people see in the mass media, especially on TV, rather than simply by the actual standards of living of people like themselves. The reference group for consumption is no longer just defined by “keeping up with the Joneses next door” – a very local, neighborhood reference group – but keeping up with the Joneses on TV as displayed in advertisements and sitcoms. Consider a typical commercial for television sets shown during a football broadcast: the TVs that are advertised are not modest sets costing a few hundred dollars, but giant flat screen TVs hung on the wall. The homes and apartments in most sitcoms are not the typical kind of housing lived in by a family earning around the median income, but the living quarters of affluent yuppies in fashionable apartment buildings or expensive suburbs. Research on the impact of television has suggested that viewing television increases people’s estimates of how affluent American society is.[6] The mass media conveys a picture of consumption standards of an average “middle class” life style that actually corresponds to the upper end of the income distribution. The result is a large gap between what most people can afford and what they feel they should consume. Consumption norms outpace earning capacity.

3. Credit Cards

Advertising may promote a hyper-consumerist life style, and the shift upward in a typical person’s consumption reference group might make people want to consume at higher level than they can really afford, but people still need to be able to buy things. One way this could be organized is for people to buy their basic necessities from their earnings,

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[6] See, for example, O'Guinn, Thomas C. and L.J. Shrum, 1997 "The Role of Television in the Construction of Consumer Reality", *Journal of Consumer Research*, 23 (4), March.

and then save what is left over until they have accumulated enough to purchase the wonderful forms of consumption promoted in the consumerist life style. The problem, of course, is that a culture of consumerism fosters desires to consume things right now. The delayed gratification of careful saving goes very much against the grain. An alternative is to devise a system in which people can easily borrow money to buy things now and pay back the loans over a long period of time. This is what consumer credit accomplishes, and nothing has fueled consumer credit more than the credit card.

Until the 1950s, credit cards were in very limited use, mostly in the form of cards issued by specific merchants or groups of merchants. In 1958 the general purpose credit card was born when Bank of America created a bankcard that eventually became the Visa card. In 1966 a group of banks joined together to create what became Mastercard. Since then the credit card industry has grown by leaps and bounds, making significant amounts of consumer credit available to nearly everyone with minimal screening.

The basic facts about consumer debt in the United States are astounding:

- The size of the total consumer debt grew (in constant dollars) nearly 3 times in size from $898 billion in 1980 to $2.6 trillion in 2008.[7]
- Between 1970 and 2004, there percentage of families with credit cards grew from 51% to 75%, and the percentage carrying a balance on their cards, and thus paying interest on credit card debt, increased from 37% to 56%.[8]
- In 1968, consumers' total credit card debt was $8.8 billion (averaged over the year, in 2008 dollars). By 2008 the total averaged over $942 billion.[9]
- The average American household's credit card debt in 1989 was about $3000. In 2007 it was $7,300.[10]
- U.S households received approximately 5.2 billion offers for new credit cards in 2007.[11]
- 41% of college students with credit cards carried a balance from month to month, and the median amount was $1,000.[12]

Credit card companies have aggressively promoted this expansion of consumer debt. They advertise their cards by showing how pleasant life is when you use a credit card to buy what you desire and by sending unsolicited cards to millions of people a year. While

[7] http://www.money-zine.com/Financial-Planning/Debt-Consolidation/Credit-Card-Debt-Statistics/

[8] Board of Governors of the Federal Reserve System, "Report to the Congress on Practices of the Consumer Credit Industry in Soliciting and Extending Credit and their Effects on Consumer Debt and Insolvency" (Washington, D.C.: Federal Reserve, 2006), Table 2, p.6

[9] http://www.creditcards.com/credit-card-news/federal-reserve-credit-card-report-april-2008.php

[10] Federal Reserve Board survey of consumer finances, 1989-2007

[11] Figures are reported by Synovate, a global market research company that tracks credit card services, see entry for 2007 at http://mailmonitor.synovate.com/news.asp

[12] American Council on Education. "Credit Card Ownership and Behavior among Traditional-Age Undergraduates, 2003-04." ACE Issue Brief, July 2006., p.1

credit card companies make money off of each transaction, since merchants have to pay a fee to the credit card company, they make most of their money off of late fees and interest payments. In a sense, therefore, the credit card company is particularly eager to get people to use credit cards to buy things that are more expensive than they can really afford, for this is precisely the kinds of purchases that are hard to pay off. In 2007 about half of credit card users on average did not pay off their bills each month. According to a 2006 report by the Government Accounting Office, around 70% of the revenues of credit card issuers came from interest charges on unpaid balances, and another 10% come from penalty fees.[13]

4. Market failures in leisure

So far we have examined forces which encourage a consumerist culture and which enable people to buy into that culture through easy credit. Consumerism is also generated by what can be called a failure in the "market" for leisure. If we had a "perfect market" for leisure, then people would be able to easily choose the amount of work and leisure they preferred. This is not the case. Labor markets and employment relations in the United States are organized in such a way as to make it difficult for individuals to choose a less consumerist life style in favor of more free time.

Let's begin by looking at some basic facts. US workers work longer hours than workers in all other comparably developed countries. As shown in Table 7.1, Americans who worked for pay in 2006 worked, on average, 1,804 hours during the year.[14] Among economically developed countries, only workers in Italy worked nearly as many hours.[15] Japan, which historically has had highest number of annual hours worked by its workers, reduced the annual hours worked by 342 hours (the equivalent of about two months of 40-hour work weeks) from 2,126 in 1979 to 1,784 by 2006. In the same period, the figure for the United States declined by only 57 hours. In part this greater number of hours worked per year reflects the fact that, on average, employed workers in the United States put in longer working hours each week than most other developed countries. Mandatory overtime is common, and stable, well-paid part-time work with full benefits is relatively rare. The result is that the percentage of people who work very long hours per week in the

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[13] Government Accountability Office, "Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers." Report to the Ranking Minority Member, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate, September 2006, p.67

[14] Several words of caution about these aggregate annual average hours worked statistics: First, these figures are *average* hours worked per employed worker. If in a country there are lots of part-time workers, this number will be lower. This is one of the main reasons why the figures for the Netherlands are so low: a much higher proportion of the Dutch labor force (especially women) work part time than in most other countries. These statistics are also sensitive to the demographic structure of a society: young people tend to work fewer hours per week the people in the middle of their careers, so if there are relatively fewer young people in a country this will show up as an increase in the mean annual hours worked. Finally, even among rich countries, countries vary in the quality of their national statistical offices

[15] We are uncertain – and somewhat skeptical – of the accuracy of the data for Italy reported in Table 7.1. As Figure 7.4 indicates, Italians have, on average, about 4 weeks more paid vacations than Americans.In order for them to work roughly the same numbers of hours per years as Americans, therefore, they would have to have a much longer average work week, which does not seem to be the case. We have not, however, been able to identify the source of this inconsistency in the available statistics.

United States in greater than in most other countries. Among dual-earner families in the United States 30% of husbands work over 50 hours a week. In most other countries the figure is in the 20-25% range. (See Table 7.2). But even more important, American workers have much shorter vacations than their European counterparts. As Figure 7.4 indicates, in 2005 U.S. workers averaged only 3.9 weeks of vacation and holidays, whereas European workers had between a low of 5.7 weeks in Ireland and a high of 7.9 weeks in Italy.

-- Table 7.1, Table 7.2 and Figure 7.4 about here --

Perhaps these long work hours simply reflect the preferences of American workers for work and the earnings that come from work over leisure. There is some data that suggest things are not quite as straightforward as this. As indicated in Figure 7.5 when workers are asked how much of *future* pay raises they would be prepared to give up in order to have more leisure time, nearly half of all people say that they would give up 100% of a pay raise in the future for more free time.[16] Suppose that over the past 50 years or so this preference for reduced work over pay increases had actually been followed: that is, suppose all productivity gains in the half century from 1958-2008 had gone into reductions of work time rather than increases in pay and consumption. If this had happened, how many hours a week would the average person have to work today? To really answer this question is probably impossible since if people always opted for shorter hours whenever they were offered a choice of less work or more pay the whole economy would have a different dynamic. But if we simply treat this as an arithmetic problem of making the choice between using productivity increases to smoothly reduce the time of work while keeping output constant, then over the last half century the average number of hours worker per year would have been reduced by roughly 66% -- either in the form of a much shorter worker week or much longer vacations. This would mean an average work week in the vicinity of 15 hours a week or so.[17] Even if half of the productivity gains were turned into more consumption, this would still mean an average work week of less than 30 hours a week.

[16] These figures come from Juliet Schor, *The Overworked American: the Unexpected Decline of Leisure* (New York: Basic Books 1991). The preference for more leisure over future pay raises does not imply that in the future there would be a symmetrical preference for pay cuts in exchange for more leisure. If you ask people today the question "would you rather (a) keep your current income and work half as many hours, or (b) work the same hours and double your income," most people would prefer to reduce their work time at the same income level. If, twenty years later when their income has in fact doubled you ask them the symmetrical question, "would you rather (a) keep your present income and work hours or (b) work half as many hours with half the income," they would generally choose (a). Two psychological issues are in play here: first, since people cannot turn productivity into leisure, they become habituated to higher incomes, and readjust their expectations about acceptable levels of consumption, and second, as a general psychological matter people care more about losses than about gains of the same magnitude.

[17] These estimates are based on data from the Bureau of Labor Statistics "Major Sector Productivity and Costs program" data for output per hour of nonfarm private sector businesses, which show that productivity (the amount of value produced for every hour of work) was 2.9 times greater in 2008 compared to 1958. This means that at the end of that half century it would have been possible to produce the same amount of output as in 1958 with one third the amount of labor input, or three times the output with the same amount of input.

Even if, perhaps, people are overstating their preference for more leisure over more income a bit, the data in Figure 7.6 do suggest that people have real preferences for more leisure time and would be prepared to forego pay raises to get this. If we had a perfect market in leisure, then workers would be able to make this choice. Why don't they? If people want leisure, why do they work so hard?

For a variety of reasons it can be difficult for people to choose greater leisure over long hours of full time paid work. Employers often prefer to hire fewer workers for more hours a year because it is cheaper than hiring more workers each working fewer hours. There are a number of reasons for this. In most jobs there are some fixed overhead costs associated with each employee, such as paperwork costs for pay and taxation, and some fringe benefit costs that are not strictly proportional to the number of hours worked. This is a particularly acute issue in the United States because of employer-funded health insurance. In countries with universal health insurance provided by taxes, this is no longer a work-based fringe benefit that employers have to pay. In many jobs there are also training costs associated with hiring workers, both formal training and the more subtle on-the-job informal learning that makes a more experienced worker more productive than a less experienced worker. The result is that in general employers only offer reduced hours work with very large earnings penalties and greatly reduced or nonexistent fringe benefits.

Given that employers have strong incentives for creating jobs with relatively long hours, in the absence of some countervailing power able to counteract these employer preferences by regulating working hours, it will be difficult for workers in a "free market" to find good jobs which pay adequate wages with long vacations and moderate working hours per week. There are two principle forms that this countervailing power takes in capitalist societies: the labor movement and the affirmative state. In the United States unions are weak and fragmented and generally unable to impose on employers collective forms of regulation of working hours and the work/leisure balance. Government regulation, in the United States, has also been weak or non-existent. In most European countries workers are entitled by law to 4-5 weeks of paid vacation. In the US there are no requirements for any paid vacations, and in most jobs in which paid vacations exist, employers voluntarily provide only 2-3 weeks. In the absence of strong unions and government regulation, this situation is very unlikely to change.

5. Increasing inequality ratchets up consumption demands

At first glance it might not seem that inequality as such would have any effect on overall pressures on consumption standards. Inequality refers to the economic distance between the top and the bottom, but why should this have any impact on the consumption norms of people in the middle? The economist Robert Frank argues convincingly that many kinds of consumption involve "positional goods", goods whose subjective value is heavily dependent on comparisons with what other people consume.[18] Where such goods are present, then increasing inequality tends to fuel what Frank calls "positional arms

[18] The idea of positional goods is elaborated in a clear and compelling way by Robert H. Frank in *Falling Behind: How Income Inequality Harms the Middle Class,* Berkeley: University of California Press, 2007.

races", much like "the familiar metaphor in which everyone stands up to get a better view, yet no one sees any better than before."[19]

Two kinds of processes underlie the salience of positional goods. The first is the psychological process in which the satisfaction one derives from owning something depends in part of one's perception of what other people own. Frank gives a vivid example of this in a thought experiment. Consider the choice between two possible worlds: "World A, in which you will live in a 4,000-square-foot house and others will live in 6,000-square-foot houses; and World B, in which you will live in a 3,000-square-foot house and others in 2,000-square-foot houses."[20] If the only thing people cared about was their absolute level of consumption, everyone would choose A, but this is simply not the case. Many, perhaps most people, would choose the second world. Part of this might be because of a desire to avoid envy of everyone else in World A or to feel superior to everyone else in World B, but mostly, Frank argues, the choice of World B reflects the fact that the subjective meaning and value of a given size of house depends heavily on the context, on the frame of reference of comparison within which a person lives.

The second mechanism behind the consumption of positional goods is less a question of the subjective meaning or status linked to particular kinds of consumption, than the ways in which other important interests that people have become linked to positional goods. Consider, again, the problem of choosing a house size, but now in the empirical context of the dramatic increase in the size of new home construction in the United States since the early 1980s. The access of children to good schools depends to an important extent on the neighborhood in which they live. As overall economic inequality increases, inequalities across neighborhoods increase, and this will tend to increase inequalities in schooling. This increases pressure on middle class people to try to live in more expensive neighborhoods than they can easily afford. People feel pressure to buy large, expensive houses not simply because of a consumption desire for big houses as such or because of the subjective sense of relative deprivation in living in smaller houses, but in order to move up the neighborhood hierarchy and thus gain access to better schools. The consumption norm for housing for the "middle class," therefore, is driven in part by the increasing inequality in income above the middle of the income distribution.

Of course, not every good that people consume has this positional quality. Frank gives another example in which you choose between a world in which you have four weeks of annual vacation and everyone else has six-week vacations, and a world in which you have a two-week vacation and everyone else has a one-week vacation. In this case most people would choose the first world. This is because the length of vacations has a much less positional character than the size of houses.

The tremendous increase in income inequality beginning in the last quarter of the twentieth century has contributed to a significant escalation in these positional arms races. Writing in 2009, Robert Frank describes the problem this way:

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[19]Robert H. Frank, "Post-Consumer Prosperity: finding new opportunities among the economic wreckage", *The American Prospect,* Volume, 20:3, April, 2009. p.12

[20] *Ibid.* p2

> Hedge fund managers need a 40,000-square-foot house and a Gulfstream jet only because their peers have them. Evidence suggests that it top earners all spent less on such things, their lives would be no less fulfilling than before….
>
> For the last three decades, virtually all income gains in the United States have gone to top earners. Recipients have spent most of their extra income on positional goods, things whose value depends heavily on how they compare with similar things bought by others….Additional spending by the rich shifts the frame of reference that defines what the near rich consider necessary or desirable, so they too spend more. In turn this shifts the frame of reference for those just below the near rich, and so on, all the way down the income ladder.[21]

In every economy, both kinds of goods – positional and nonpositional – exist. The key point in the present context is that increasing inequality tends to increase the weight of positional goods in many people's consumption basket, and this, in Frank's words, "diverts resources from nonpositional goods, causing large welfare losses."[22] This is reflected in the example of housing. Frank explains it this way:

> When people contemplate working longer hours to buy larger houses, they anticipate additional satisfaction not only from having a larger house in absolute terms, but also from having a larger house in relative terms. For the move to appear attractive, the anticipated sum of these two gains must outweigh the loss of satisfaction associated with having fewer hours of leisure. When all make the same move in tandem, however, the distribution of relative house size remains essentially as before. So no one experiences the anticipated increase in relative house size. When the dust settles, people discover that the gain in absolute house size alone was insufficient to compensate for the leisure that had to be sacrificed to get it. Yet failure to buy a larger house when others do is not an attractive option for the individual, either. As in the familiar stadium metaphor, all stand to get a better view, but when all stand no one sees better than when all were seated".[23]

Leisure, in this example, is a nonpositional good – it is valued for its own sake – but it is displaced by the drive for positional goods through longer commuting times and longer hours of work.

The escalation of positional consumption driven by increasing inequality works its way down the income structure, having a particular negative impact on people around the middle. At least in the case of people at the top of the income distribution their incomes have increased substantially as inequality has increased. People around the median of the income distribution have not seen significant increases in their income, yet they experience increased pressures for positional consumption. The result is increasing debt.

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[21] Robert H. Frank, "Post-Consumer-Prosperity: finding new opportunities amid the economic wreckage", *The American Prospect*, April, 2009, pp. 12-13.

[22] *Ibid.* p.3

[23] *Ibid.* p.4

6. Decline in public goods and abandonment of public consumption by the affluent

In a society with very good public amenities – good public schools, good libraries, well constructed and attractive public swimming pools, good public transportation, etc. – individuals have a readily available alternative to private consumption in order to satisfy many of their needs. The erosion of the quality of public goods makes private substitutes more attractive. There are many examples:

- Private schools become more attractive because of the deterioration of public schools.
- Gated communities become more attractive because of the deterioration policing and public safety.
- Private swimming clubs and private home pools become more attractive because of the deterioration of public recreation facilities.
- Private cars become more attractive – and more essential – because of the deterioration of public transportation.

In each of these cases, the deterioration of public goods generates a vicious cycle: as the more affluent pull out of public goods consumption they reduce their political support for the provision of those public goods which – since they are politically influential – leads to a further deterioration of the public goods, which leads to more people withdrawing to private, more costly, substitutes. This cycle fuels consumerism – the intensified preoccupation with private consumption.

This is what has happened in some areas of the country for schooling. In California an anti-tax initiative passed in 1978, "The People's Initiative to Limit Property Taxes" put a severe cap on funds available for public schools. The result was a deterioration in public school quality in the period between 1970 and the 1990s. In 1970, the pupil-teacher ratio in California public schools was only 8% above the national average; by 1997 this had risen to 38%. Some wealthy parents then began buying private substitutes for public consumption, putting their children in higher quality private schools. In 1970 only about 13% of families in the top income decile in California sent their children to private schools. This was well below the national rate outside of California of just under 20%. By 2000 the California figure rose to 22.6%, while the national had hardly changed at all, rising only to 21.9%.[24] While most families, even relatively rich families continued to use the public school system, the exit from the public system of significant numbers of children of influential parents reduced their interest in improving public education. This also increased the incentive for less wealthy parents, if they could afford it, to send their children to private schools.

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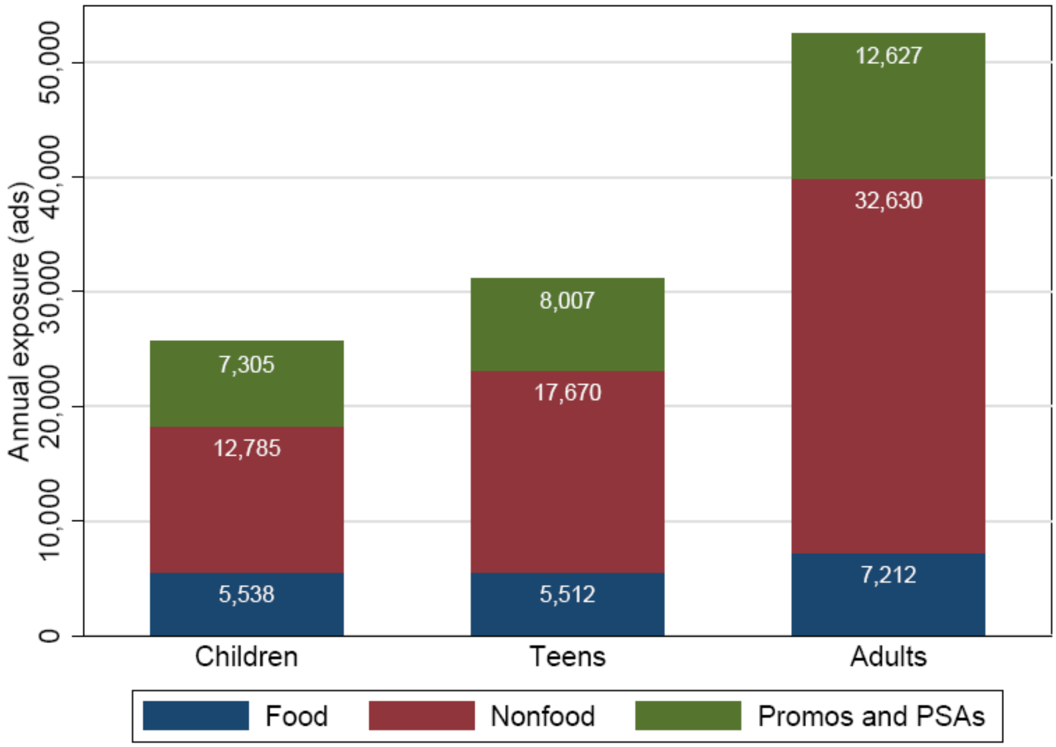
[24] Eric J. Brunner and Jon Sonstelie. "California's School Finance Reform: An Experiment in Fiscal Federalism," Economics Working Papers, Department of economics, University of Connecticut, 2006, p.20. Available at: http://digitalcommons.uconn.edu/econ wpapers/200609,

The six factors we have reviewed in this chapter – the consumption bias in capitalist markets, advertising and consumption norms, consumer credit, market failures in leisure, increasing inequality, and the decline in public goods – collectively underwrite hyper-consumerist life styles in American society. Of course, there are always some people who reject consumerism as a way of life. There are cultural currents in the United States that embrace "voluntary simplicity" and advocate a slower pace of life with less concern with material consumption. There are people who give up well paying jobs and leave the "rat race" of large urban centers and move to rural areas. More broadly, perhaps, growing environmental consciousness means that many people are increasingly prepared to devote resources for more ecologically responsible forms of consumption, especially around energy use.

These counter-tendencies to consumerism, however, are likely to remain weak and fragmented in the absence of any serious public policies designed to reign in consumerism. One general kind of strategy to counteract hyper-consumerism is to introduce new forms of taxation directly designed to reduce the more destructive forms of consumerist behavior. High gasoline taxes, for example, would be a way of reducing the consumption of large, low-efficiency cars. Some have proposed a progressive consumption tax to replace the current income tax as a way of creating disincentives for lavish consumption. A progressive consumption tax works like this: People are not taxed on their total income, but only on that part of their income which they consume. They would not be taxed on income that was turned into savings or investments, but only on that part of income turned into consumption. The tax on consumption would be steeply progressive, meaning that the rate of taxation increases with the level of consumption. Such a tax structure makes it much more expensive to turn discretionary income into lavish consumption and would thus dampen the "positional goods arms race."

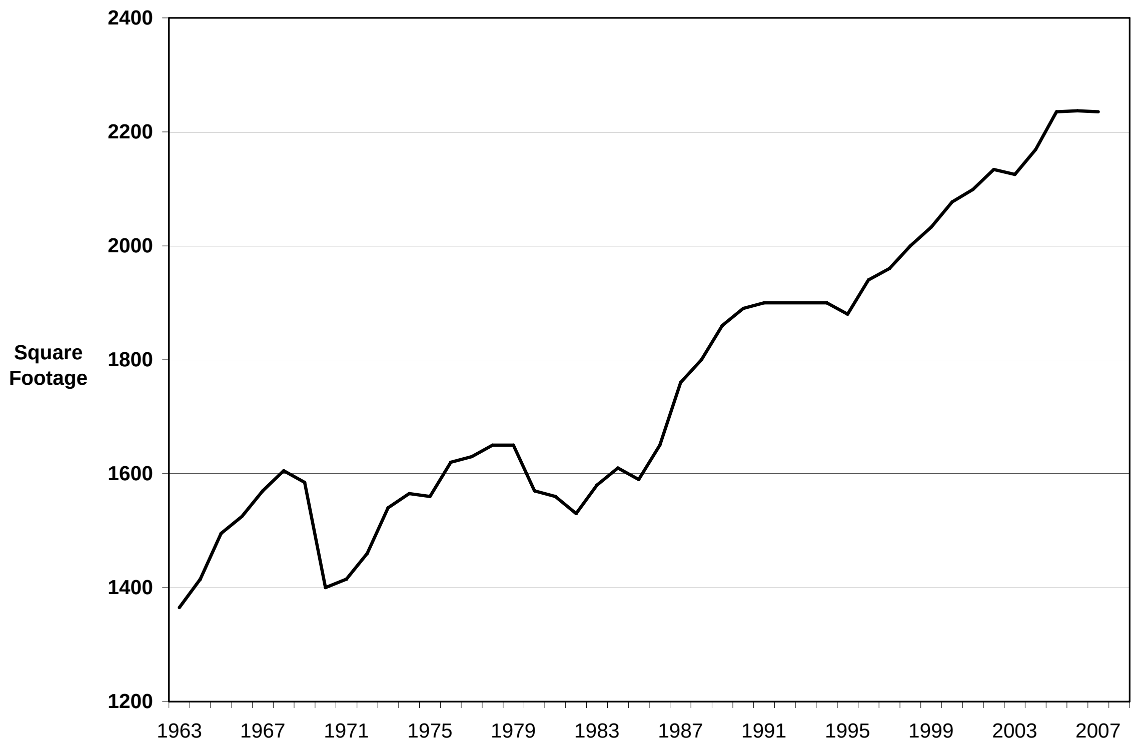
New forms of taxation are only part of the solution to hyper-consumerism. Without a strong effort to expand the quality and availability of public goods, privatized consumption will remain the preferred alternative for many people. Without significant reversal of the high levels of economic inequality in the United States, consumption norms will continue to ratchet upwards. Without new legally-enforced rules to require paid vacations on European standards and shorter work weeks, working hours will remain long and leisure time scarce. Consumerism may be an inherent tendency within capitalism, but nevertheless it is possible to move away from hyper-consumerism through a reinvigorated democratic affirmative state that helps create the context for more balanced patterns of public and private consumption, work, and leisure.

FIGURES AND TABLES FOR CHAPTER 7



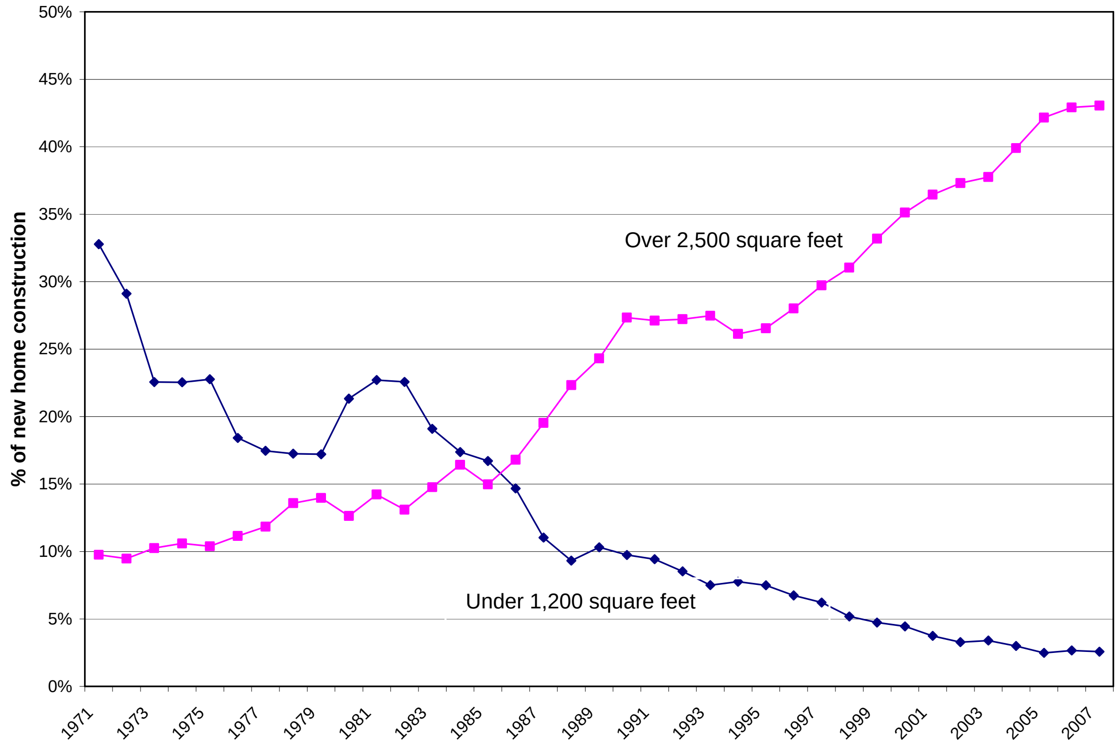
Source: Debra J. Holt, Pauline M. Ippolito, Debra M. Desrochers, and Christopher R. Kelley, "Children's Exposure to TV Advertising in 1977 and 2004: Information for the Obesity Debate" Federal Trade Commission, Bureau of Economics Staff Report (Washington, D.C. Federal Trade Commission, 2007), p. ES-2

Figure 7.1
Americans exposure to TV ads, 2004



Source: Source: *Survey of Construction Data*, Single family detached houses only, US Census Bureau. Analysis of provided by Rachel Dwyer.

Figure 7.2
Growth in median size of new home construction in the U.S., 1963-2007



Source: *Survey of Construction Data*, Single family detached houses only,
US Census Bureau. Analysis of provided by Rachel Dwyer

Figure 7.3 Construction of Small & Big houses, 1973-2007

	1979	1994	2006
United States	1,861	1,842	1,804
Italy[1]	1,949	1,857	1,800
New Zealand	x	1,849	1,787
Japan	2,126	1,898	1,784
Spain	2,022	1,816	1,764
Canada	1,832	1,780	1,738
Finland	1,869	1,775	1,721
Australia	1,823	1,771	1,714
United Kingdom	1,818	1,740	1,669
Switzerland	1819	1,725	1,659[2]
Austria	x	x	1,655
Ireland	x	1,883	1,640
Sweden	1,530	1,621	1,583
Denmark	1,624	1,494	1,577
Belgium	x	1,646	1,571
France	1,856	1,675	1,564
Germany	1,770[3]	1,547	1,436
Norway	1,580	1,505	1,407
Netherlands	x	1,411	1,391
Average excluding U.S.	*1,821*	*1,705*	*1,635*

1. We are uncertain of the reliability of the data for Italy, see footnote 15 in text.
2. 2005 data
3. 1979 data are for West Germany

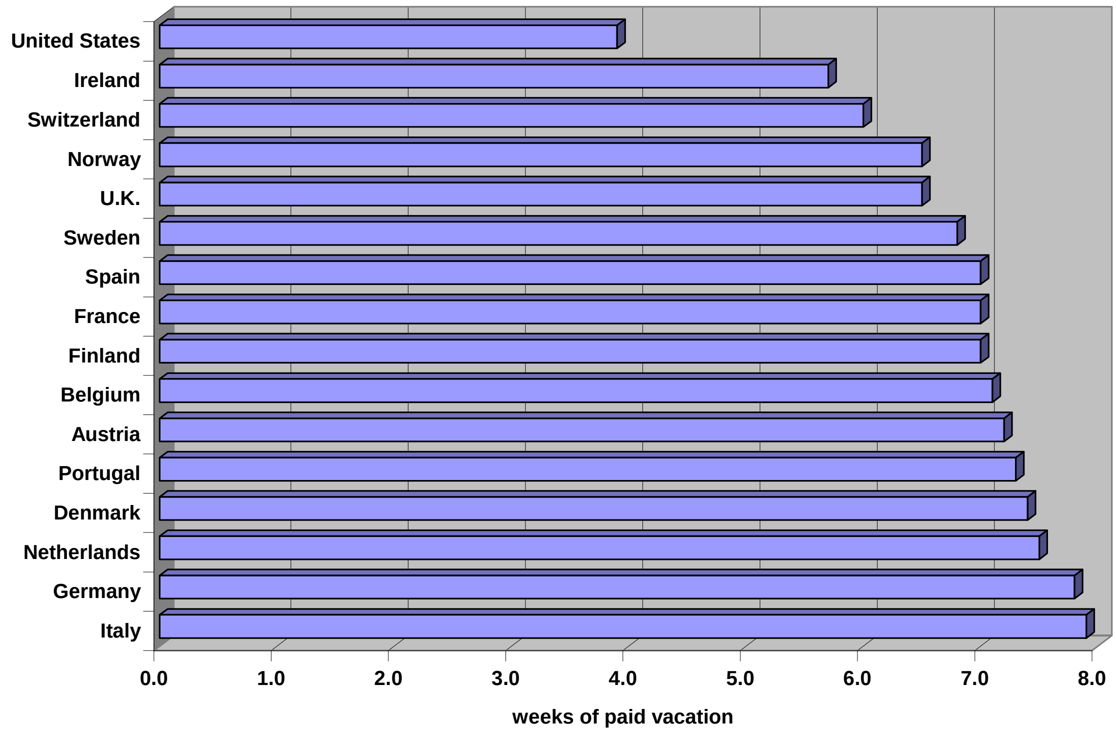
Source: Lawrence Mishel, et. al., *The State of Working America 2008/9* (Washington, D.C.: Economics Policy Institute, 2009), Adapted from table 8.4, with supplementary data from OECD excel file.

Table 7.1
Annual hours worked per paid worker in the United States and other rich countries, 1979-2006

	Mean hours worked by dual-earner couples per week	% of men in dual earner couples who work more than 50 hours/week	% of women in dual earn couples who work more than 50 hours/week
United States	81.2	30.3%	10.2%
Belgium	79.0	27.2%	10.1%
Italy	78.2	26.7%	10.0%
Finland	77.4	10.4%	2.6%
Canada	77.0	23.0%	7.1%
France	76.3	18.1%	4.7%
Germany	75.1	24.7%	6.3%
U.K.	74.3	24.3%	4.0%
Sweden	69.3	2.8%	0.4%
Netherlands	64.0	15.8%	1.7%

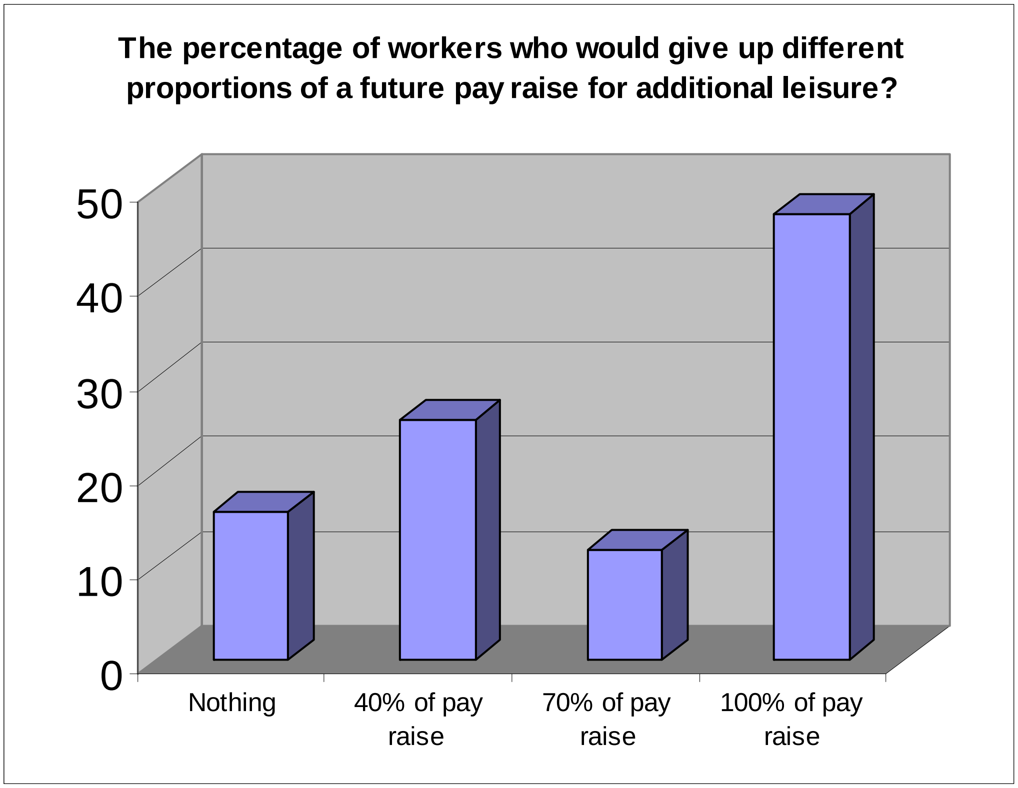
Source: Jerry Jacobs and Janet Gornick, "Hours of paid work in dual earner couples: the United States in Cross-National Perspective," *Sociological Focus*, vol. 35:2, pp. 169-187, May 2002. adapted from Tables 1 and 3.

Table 7.2
Hours worked per week by men and women in dual earner couples



Source: Giulia Faggio and Stephen Nickell, "Patterns of Work Across the OECD", *The Economic Journal*, 117 (June), F416-F440. p. F419

Figure 7.4
Weeks of paid vacation in 16 wealthy countries



Source: Juliet Schor, *The Overworked American*, p. 130

Figure 7.5
Workers attitudes towards more leisure vs higher pay

Chapter 8
Health Care

Final draft August 2009

There is perhaps no domain of economic activity that has generated more controversy in the United States than health care. In the advanced capitalist world, the United States is the only country within which the market plays a substantial role in the delivery of health care services; all other countries have one form or another of universal, publicly supported health care. In the United States there are many people who believe that private health care inherently offers people more choice and higher quality than publicly provided health care, and that market competition is the best way to control costs. Others argue that this is an illusion, that the peculiar character of health care as a service means that market competition will have all sorts of negative effects and that only a more publicly organized system of care will provide high quality care for all.

This chapter will explore these issues. We will begin in the first section by discussing the special qualities of health care, why this is so different from most other things produced for a market. We will then describe the character of the system of health care in the United States at the beginning of the 21st century. This will be followed by alternative ways of organizing healthcare delivery, focusing on two examples: the Veterans Administration in the US (direct government provision) and the Canadian health care system (universal government provided insurance). The chapter will conclude with a discussion of why it has proven so difficult to transform the American system.

I. The Specificity of the Market in Health Care

The production and distribution of medical services is a very complex social phenomenon, very different from almost anything else produced for a market. Of course, many goods and services have distinctive qualities, but generally these do not call into question the very possibility of delivering the service in a satisfactory manner through market mechanisms. In the case of health care, these properties pose acute problems for a market economy. We will focus briefly on six issues.

1. *Extraordinary value of the service.*

People in general value their health very highly, especially when there are life-threatening health problems. When people think about choices among other forms of consumption they generally find it fairly easy to figure out the trade-offs: If I buy this more expensive car how will this affect my budget for new clothing or vacations? In the case of health, people are willing to pay a great deal for cures. If the price goes up and a person can pay for it, they will do so. This is especially the case when their lives or the lives of people they love are at stake: how much income would you give up to save your life or the life of your child? It is thus not surprising that in the United States medical expenses are the leading cause of consumer bankruptcy. People would rather risk bankruptcy than foregoing critical healthcare.

2. *Ethical issues in distribution of health care.*

Almost everyone believes that people should not be denied basic medical care because they cannot afford it. Virtually everyone feels that this should be the case for children, since they are not responsible for their poverty. Should children of rich people have access to higher quality care, with better doctors and more comprehensive, advanced treatments then poor children? Should a poor child have to wait in a crowded hospital emergency while a rich child goes to a pleasant urgent care facility? Most people would say that there is something unfair in such situations, even if they are reluctant to do anything about it. Most people also feel that when it is necessary for certain kinds of treatments – like heart transplants – to be rationed, they should not be rationed by price and ability to pay. Should hearts and kidneys be auctioned off to the highest bidder? Most people recoil at such a market solution to the problem of distributing life-saving organs and believe instead that these should be distributed on the basis of medical need and prospects for benefiting from the treatment.

When it comes to the distribution of health care services to adults, there is less universal agreement among Americans that healthcare is a basic “human right” and that inequalities in access to healthcare are unfair**.** If some adults go bankrupt due to healthcare costs, then this may be regrettable, but – libertarian defenders of markets would say – it is not the responsibility of the state to cover these costs. Still, most people feel that at least basic health care (even if not all treatments), should be accessible to everyone. Healthcare goes along with food and shelter as consumption goods that are close to a “human right” and thus there is a general consensus for having some mechanism for paying for medical care for people who cannot afford it. In a 2007 New York Times/CBS poll, 64% of respondents said that the federal government should guarantee health insurance for all Americans, and 60% said that they were willing to pay higher taxes to do so. This, of course, leaves open the best way of accomplishing this. There are many alternatives: charity from doctors or the public; government direct provision for people below a certain income level in the forms of hospitals and clinics for the poor; government direct provision of healthcare for everyone; government insurance for which only the poor are eligible; universal government insurance for everyone. The fact is that health care has to be rationed one way or another, and the ethical problem is how this should be done -- by ability to pay or ability to wait.

Another issue in the ethical distribution of healthcare concerns the priorities for research on new medications and treatments for diseases. From an ethical point of view, the amount of research effort and funds devoted to any given health problem should depend in significant ways on the seriousness of the disease and the number of people whose lives would be helped by prevention and treatment. In a market-based system, however, research and development will be directed towards the profitability of the treatment once developed, and this depends to a significant sense of the wealth of the people who get the disease. The result is that far more research goes into diseases and health conditions of people in rich countries than in poor countries. The most notorious example is the low level of research on malaria which kills tens of millions of people. A report by the Bill & Melinda Gates Foundation in 2005 found that “total spending on research and development for the disease amounted to US$323 last year [2004]. That represents about 0.3 percent of total research and development investments….However, malaria is responsible for 3 percent of all the lost years of productive life caused by all diseases worldwide…. Lost years of productive life is a standard measurement of a disease's impact on society. By contrast, diabetes gets about 1.6 percent of the total money spent on medical research, while it accounts for 1.1 percent of all the productive years of life lost to disease. In other words, the disease burden to society is about one-third of that of malaria, but it gets nearly six times more money in research and development funding."[1]

3. *Information costs*

Most consumers of health care find it extremely costly, if not impossible, to acquire the necessary information to make informed decisions as consumers. How do you really get high quality information on the relative competence of different doctors or clinics or hospitals? There are public ratings of hospitals, but these are very hard to interpret and often quite misleading. A given doctor may exude self-confidence with a warm and engaging personal style, and yet be much less competent than a much less personally appealing doctor. How can most people really figure out who is better? And what about alternative treatments? To be sure, there is lots of information on the web about alternative treatments for any given disease, but there is also lots of bad and misleading information. How can an ordinary person sort this all out? And think how much harder it is to sort out good from bad information in the context of the worry and anxiety that accompanies a serious illness. For all of these reasons people almost always rely on experts, especially on their doctors, to give them information about their health conditions and what to do about them. And while it is desirable for patients to be active participants in making choices about their healthcare and to learn about illnesses and treatments, realistically for most people this will play a secondary role to listening to the advice of their physicians.

There are, of course, information costs to really learning about the quality of other goods and services that are important to people. There is a notorious information problem of buying used cars in which the salesman says that they were only driven on weekends by little old ladies. It is difficult to get reliable information on financial advisors, as reflected in the extraordinary scandal involving Bernie Madoff's ponzi scheme. It is in the nature of markets that actors in exchanges have incentives to hide information when this is to their advantage. But the information problems people face in making choices about health care are particularly salient because the stakes are so high. This is why everywhere, even in the market-dominated healthcare system of the United States, health care services are heavily regulated.

4. *The market for Health vs the market for Treatment*

What consumers want is *health* not the consumption of medical treatments. From the consumers' point of view, prevention is much more important that treatment, but from the point of view of profit-maximizing producers of healthcare, treatment is much more lucrative than prevention. The folk saying is "an once of prevention is worth a pound of cure", but if you are selling things

[1] Emma Ross, "Report highlights low level of malaria research spending", The America's Intelligence Wire, 31 October, 2005.

you would rather have people buy a pound of cure than an ounce of prevention. This means that in a market-oriented system dominated by profit-maximizing investors, there will be a significant underproduction of preventive measures and a strong emphasis on expanding the market for expensive treatments.

A good example of this mismatch between the priorities of consumers (health) and the priorities of sellers (treatment) was the crisis in availability of flu vaccines in 2007. Flu shots are an example of preventive medicine: you take a shot to prevent an illness, not to treat an illness. Drug manufacturers do not make much money off of the flu vaccine, so only a few facilities are devoted to producing it. When, in 2007, one of these facilities had to be shut down because of contamination, the result was a tremendous world-wide shortage in flu vaccine. More generally, profit-maximizing firms are unlikely to devote a lot of resources to disseminating health-promoting knowledge and encouraging healthy lifestyles, for less money is to be made in these domains than in the treatment of illness.

5. Supply creates demand in healthcare

In most markets, the consumer's demand for a good or service is what generates the supply: producers see what people want and then increase production (supply) to satisfy these desires (demands). In healthcare services the causal relation between supply and demand often works in the opposite direction: there is a tendency for the existence of a medical technology to generate a demand for its use in medicine. For example, when a group of doctors or a hospital purchase an expensive technology such as a CAT-Scan, then they need to order treatments of patients in order to pay for the investment. This generates a strong pressure to increase the use of the technology. This does not mean, it should be said, that the invention and diffusion of CAT-Scan machines does not constitute an advance in medical treatment. But when the purchase and use of such technologies is governed by market principles, in the aggregate there will be a tendency for unnecessary treatments and tests to occur because of the incentive in using them.

6. *Competition between providers generates over-investment.*

In a competitive market for healthcare services, every hospital wants to have the latest, most advanced technologies since this will improve their ability to recruit patients. This means, for example, that every hospital wants to have a CAT-Scan or the facilities needed for open-heart surgery. Instead of figuring out the optimal level of investment in these advanced, expensive technologies relative to other kinds of medical facilities for a particular geographical region, all of the hospitals acquire the expensive technologies in their competition for patients. Instead of competition lowering costs and generating efficiency, it raises costs by generating massive duplication and waste.

Taken together, these six factors mean that the delivery of healthcare services is very different from the market for shoes or cars or entertainment. Different countries have responded to this set of issues in different ways, but among the family of countries with developed economies, only the United States relies significantly on market mechanisms in the healthcare sector. In the next section we will see exactly how this works.

II. THE SYSTEM IN THE UNITED STATES

At the beginning of the 21st century the Healthcare sector is one of the most complex economic sectors in the United States. Even though in the United States the market plays a much bigger role in the delivery of healthcare than in any other economically developed country, it would be a mistake to think of the American healthcare system as a free market system. Rather, the US system should be regarded as a kind of incoherent patchwork of different ways of organizing healthcare services that has developed in a haphazard way over many decades in which the state is heavily involved in healthcare along with nonprofit organizations, groups of doctors and capitalist firms operating within markets. In what follows we will lay out the basic components of this system and some of its consequences.

How healthcare is provided

In describing how healthcare is provided a distinction needs to be made between the *organizational form through which the service is produced* and the mechanism through which *people gain access to the service.* The main organizational forms in the United States include private doctor's offices organized as individual or group practices; nonprofit clinics and hospitals; for-profit hospitals run by capitalist corporations; Health Maintenance Organizations (HMOs), which include both primary care physicians and hospitals; and government-run clinics and hospitals, organized by cities, counties, states and the federal government. Access to these services is controlled through a variety of different processes involving private payment, various kinds of insurance, and government rules of personal eligibility:

1.*Direct private payment for medical services.* There was a time when the main way people got access to medical services was simply to pay for it out of pocket on a fee-for-service basis. This is the purest market-based form of delivery of health services: the service is offered on a market and when you need it, you buy it. Because in the case of serious illness these expenses can far exceed the ability to pay of everyone except the very wealthy, most people prefer to have some kind of health insurance rather than to rely on good luck and their ability to pay.

2. *Employer-provided insurance*. Sometimes employer-provided insurance takes the form of a general health insurance policy which enables the insured person to see any doctor or go to any hospital, but more often employer-provided insurance is connected to what are called Health Maintenance Organizations (HMOs). These are usually large organizations that include hospitals, clinics, doctors, and a range of other health related services. When an employer provides HMO-insurance, the employee has access to the health care providers within the HMO but cannot use the insurance to pay for health care by other doctors or hospitals without the permission of the HMO. Generally this kind of insurance comes with various forms of "co-payment" in which the insured person pays a relatively small out-of-pocket fee for a given service. In 2006, 61% of the population is covered by employer-provided insurance.

3. *Individually-purchased private health insurance*. Small employers rarely offer health insurance as a fringe benefit, and increasingly larger employers are not offering this benefit. In many firms, part time workers are not eligible for health insurance. Self-employed people

and unemployed people also do not have access to employer insurance. In all of these cases, in order to get health insurance, people have to turn to the private health insurance market. This can be very expensive, generally in the $5,000-10,000 range for a single person, and often with very high co-payments and large deductibles. In many cases it is simply impossible to buy private insurance: insurance companies have the right to refuse to insure someone on the basis of "pre-existing medical conditions." Often they do this even if the condition is relatively minor.

4. *Government-provided insurance.* There are two principal government insurance programs paid for through taxation in the United States: Medicare provides fairly comprehensive health insurance for the elderly, and Medicaid provides health insurance for the very poor. Recently government provided health insurance for children has been extended to families whose household income is above the poverty line. Because Medicaid is administered by the States, the quality of the service and the level of income that is used to qualify vary enormously across the states. In 2009 in Minnesota a jobless parent with an annual income less than $48,400 (almost three times the official federal poverty level) was eligible for Medicaid assistance; in Alabama the threshold was just under an annual income of $2,000.[2]

5. *Direct Government-provided healthcare.* Access to Government-run healthcare services is generally governed by strong eligibility criteria. The most important of these services are linked to the military: military hospitals for active duty soldiers, and the Veterans Administration hospital system for military veterans. The VA hospitals constitute a form of socialized medicine: the state does not simply provide insurance for people to go to private doctors; it directly organizes the service itself. As we will see at the end of the chapter, this is accomplished in a relatively cost-effective way without sacrificing quality.

6.*Pro-bono services provided by doctors and hospitals.* The final way that people get access to healthcare services is through the charity of doctors and hospitals providing free healthcare to people who do not have insurance and cannot afford to pay. In principle, no one is refused admission to an emergency room or denied medical care for life threatening conditions. Care is supposed to be provided without first screening patients for their ability to pay. The result is that in many instances the costs of this care has to be absorbed by hospitals and doctors, which ultimately means higher insurance premiums and out-of-pocket expenses for everyone else.

Figure 8.1 shows the basic distribution of health care spending across these various ways of paying for health care. As is clear from the figure, the government already plays a quite substantial role in funding healthcare in the United States, but it does so in a way that leaves

[2] Donna Cohen Ross and Caryn Marks, "Challenges of Providing Health Coverage for Children and Parents in a Recession: A 50 State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2009" (The Kaiser commission on Medicaid and the uninsured. January 2009), p.29

plenty of space for market forces. This, as we will see below, has substantial consequences on healthcare costs, access to healthcare, and health itself.

-- Figure 8.1 about here --

Arguments in defense of this system

In every other developed capitalist economy in the world, people have decided that it is bad idea to allow for a large role for markets in determining access to medical care. Every other country has some kind of universal system organized by the government and paid by taxes.

Two kinds of arguments in favor of competitive markets in healthcare have dominated the discussion in the US. The first is simply the general pro-market argument applied to healthcare: the market allows freedom and choice; if the government provides universal healthcare insurance it will ration healthcare services resulting in long waiting times for doctor's appointments and necessary surgery, and reduce the ability of individuals to choose their own doctors and treatments. Bureaucrats in Washington, conservatives insist, will make these decisions for you.

The second argument involves a special kind of issue called the "moral hazard problem." A moral hazard is a situation in which there is no incentive to worry about costs since someone else is paying the bill. Insurance sometimes creates a moral hazard by enabling people to engage in riskier behavior. The moral hazard in Healthcare occurs because, it is argued, if you have insurance, you will tend to overuse medical services since you do not have to pay each time you go to the doctor. In private insurance this problem is mitigated because the insurance companies will be worried about such overuse and will impose co-payments and other controls to counter it. But in government insurance, these incentives will disappear. If you have medical care paid for by the government, therefore, this will lead to a massive over-use of the medical care system since no one will have an incentive to make responsible choices: people will consume more medical care than they need, doctors will order more tests than are necessary. Because both doctors and patients face no direct costs for doing so, they will overspend, imposing costs on others – taxpayers in this case – because the government assumes all of the risks for paying for health care.

The proposed solution to this moral hazard problem in health care is a good dose of market competition with individuals paying more of medical costs and healthcare providers competing with each other to reduce costs. *Markets impose responsible behavior on people by making them bear the costs of their choices.* This should lower usage of medical services which in turn will result in lower spending on medical care. This is why the main proposal for health-care reform by strong pro-market conservatives is the idea of health savings accounts: people can put money into these accounts which will be exempt from taxes and then use these accounts to pay for medical bills. This solution implies that in a sense we have too much insurance now rather than too little.

Both of these arguments in favor of market competition in health care are flawed. The first argument incorrectly assumes that a system of government payment for healthcare requires strong government control over the autonomy of doctors and the choices of patients. As we will see in the discussion of the Canadian system at the end of this chapter, this does not have to be the case: the Government can pay the bills and negotiate prices and yet allow as much freedom of choice as in a market. Furthermore, in the United States healthcare system as currently organized, choice is heavily circumscribed for most people: employer insurances often requires employees to sign up with a specific HMO, and within that HMO they are assigned doctors and cannot go outside of the HMO without permission. People often have to wait a very long time for appointments to see specialists. Most fundamentally, the existence of a market does not guarantee freedom of choice and short waiting times unless you have the resources required of that market.

The second argument – that universal insurance guaranteed by the government would generate massive moral hazard problems – is greatly exaggerated as an issue in medical care. The problem in healthcare systems is that people tend not to go to the doctor until they are very sick, thus ultimately costing the system more, rather than going to the doctor too frequently. Most people do not want to "overconsume" medical services regardless of who is paying. When they face high deductibles, co-payments and other direct expenses that reduce the "moral hazard" they may indeed wait longer to see a doctor, but in the end this often makes their health condition worse and more expensive to treat.

Still, there is a moral hazard problem in healthcare, for example of doctors ordering unnecessary tests since an insured patient will not directly have to pay for this. However, it is probably impossible to eliminate such problems so long as insurance plays an important role in healthcare, which will certainly be the case regardless of whether the insurance is provided by the government or by private insurance companies.

Consequences of the healthcare system

The fact the United States has such a complex, hybrid structure of healthcare services is not in and of itself a problem. Indeed, one might think that each of the elements in this system might counteract the flaws in the others. A pure state-based system might be plagued by government inefficiencies and bureaucratic rigidity, which market competition might alleviate. A pure market-based system might generate unacceptable gaps and inequalities in access to healthcare, which the government system could alleviate. So, it *could* be the case that the complexity of the multi-pronged approach to providing healthcare in the US makes it better than other less pluralistic approaches.

This does not seem to be the case. For starters, Americans spend the most on healthcare of any country in the world, both in absolute dollars and as a percentage of national income. In 2008 Americans spent an estimated $7868 per capita a year on healthcare, which comes to 16.6% of the gross domestic product.[3] Compare this with other economically advanced countries (see Figure 8.2 and 8.3): No other country (besides the special case of Luxembourg) spent more than $4,000 per capita, and most other developed countries were in the $2500-3000 range. In

[3] Page w146 in Sean Keehan, Andrea Sisko, Christopher Truffer, Sheila Smith, Cathy Cowan, John Poisal, M. Kent Clemens, and the National Health Expenditure Accounts Projections Team, "Health Spending Projections Through 2017: The Baby-Boom Generation Is Coming To Medicare." *Health Affairs* 27, no. 2 (2008): w145–w155.

terms of percentages of GDP, our nearest rival was Switzerland, which spent 11% of its GDP on health care, while most other countries were in the 8-10% range. We spend close to 16%. What is more, as indicated in figure 8.4, the rate of growth of spending on health care has been much more rapid in the United States than other countries.

-- Figures 8.2, 8.3 ad Figure 8.4 --

Proponents of market competition in healthcare argue that competition should force healthcare providers to reduce costs to attract customers, but this simply has not happened. This is actually not so surprising, for a variety of reasons. First, as already noted, because of the peculiar character of healthcare, competition can raise costs as hospitals compete with each other by buying expensive equipment which they then want to use to recover costs. Both the overuse of expensive technologies and the duplication of facilities raise the aggregate cost of healthcare services. Contrary to what defenders of the free market argue, for-profit hospitals are *not* more efficient than nonprofit hospitals. They may be more *profitable*, but this is mainly because they are more selective in who they treat, since they refuse to treat uninsured poor people. Profitability and efficiency are not the same thing. Second, the complexity of the system, particularly in terms of the enormous variety of insurance plans, each with specific rules and procedures, increases administrative and paperwork costs of medicine tremendously. A 1999 study in the New England Journal of Medicine comparing the costs of health care administration in the United States and Canada, a country with a universal public insurance system, reported that "In 1999, health administration costs totaled at least $294.3 billion in the United States, or $1,059 per capita, as compared with $307 per capita in Canada. After exclusions, administration accounted for 31.0 percent of health care expenditures in the United States and 16.7 percent of health care expenditures in Canada."[4] The contrast is particularly striking in the costs of insurance overhead in the two countries: The overhead costs of private health insurance companies in the United States accounted for 11.7% of total health spending by private insurance companies. This compares to 3.6 % for Medicare and 6.8% for Medicare, the two largest public insurance programs in the United States, and 1.3% of the costs of the Canadian the public insurance expenditures. The result of these differences is that in 1999 Americans spent $259 per capita on insurance overhead while Canadians only spent $47 (see table 8.1). Third, the highly fragmented system of financing health care in the United States makes it very difficult for providers to negotiate lower prices for medicines with the large pharmaceutical companies. When finally the U.S. Congress agreed to include prescription drugs in Medicare coverage for the elderly, they explicitly blocked the government from negotiating lower prices. The result is that drug costs in the US are significantly higher than in other countries where government organized health care is able to control such costs.

--Table 8.1 about here --

[4] p.768 in Steffie Woolhandler, M.D., M.P.H., Terry Campbell, M.H.A., and David U. Himmelstein, M.D., "Costs of Health Care Administration in the United States and Canada," *The New England Journal of Medicine,* 2003; 349: 768-75.

Now it is not completely obvious that spending 16% of American national income on healthcare is too much. After all, the United States is a very rich country and people certainly value health very highly, so perhaps what the comparison with other countries reveals is that other countries are spending too little, not that the U.S. is spending too much. A key issue, then, is what do Americans get from this very high level of spending?

Unfortunately, in many respects the American healthcare system does not compare favorably with other countries in terms of what it actually delivers. First, consider access. Every other developed capitalist country guarantees universal healthcare coverage to all of its citizens. The United States is the only country without some form of universal healthcare. In 2009 around 47 million US citizens had no insurance at all and had to rely on personal funds or charity for their healthcare. In the two year period 2007-2008, 86.7 million Americans under the age 65 (33% of that age group) were uninsured at some point, and nearly half of these were uninsured for a year or more. 79% of these people were in working families, and 70% were in families with a worker who was employed full time.[5] The United States relies heavily on a private insurance provided by employers, but in recent years, the percentage of people covered by workplace-based insurance has declined. This is true at all income levels, but the declines have been especially sharp for people just above the poverty line. Let us define four categories of people with respect to poverty: *the very poor* whose income falls below the poverty line; *the poor*, whose income is 100%-150% of the poverty line; *the near-poor,* whose income is 150-200% of the poverty line; and the *non-poor*, whose income is above 200% of the poverty line. As indicated in Figure 8.5, among the poor, the percentage of people with workplace-based health insurance declined from 52% to 32% between 1984 and 2006 and among the near poor the decline was from 70% to 45%. Even among the non-poor there was some decline, from 85% to 77%. These declines have not been made up for by any public programs for health insurance and as a result in 2006, roughly 30% of the very poor, the poor, and the near poor had no health insurance at all (Figure 8.6).

-- Figure 8.5 and 8.6 about here --

It is not surprising that so many people lack insurance in a system in which public insurance is only available for the elderly and the poor and private insurance companies are free to deny people coverage. Private insurance companies, after all, are profit-maximizing businesses. If you are in the business of insuring people against medical risks, your ideal customer is a healthy young person who is unlikely to use the insurance. Above all you would like to avoid insuring anyone with a known, serious, health problem. Typically insurance companies therefore refuse to insure people who have “prior conditions”, or if they are willing to provide insurance they exclude coverage for those conditions. Insurance companies also like to deny payment for conditions which they claim were a prior condition even if the patient was unaware of the condition at the time of purchasing the insurance. Even people with who have purchased private insurance in the market and paid premiums for many years find that when they get sick it is often impossible to renew their insurance after the policy ends .These kinds of practices by insurance companies mean that people on employer-provided health insurance who develop cancer or have

[5] Families USA, “Americans at Risk: one in three uninsured,” (Families USA: Washington, DC, 2009)

a heart attack or some other serious illness and then lose their job, generally find it impossible to buy insurance on the private market.

What about the length of time it takes to get an appointment when you are sick? Perhaps, even though a higher proportion of Americans are without insurance, that nevertheless the competitive market aspects of the system mean that patients on average can more quickly get doctor appointments than in systems with much heavier control by public authorities. Figure 8.7 indicates that this does not seem to be the case: In a study by the Commonwealth Fund, in the U.S. only 26% of patients with a chronic illness were able to get a same-day appointment with a doctor when they were sick or needed care, compared to 40-60% in most of the other countries studied.[6] In addition, over half of chronically-ill Americans report that they had serious difficulties with access to medical care due to cost, compared to less than a third in most of other countries (Figure 8.8).

-- Figure 8.7 and 8.8 about here --

What about the quality of American medical care and, above all, its impact on actual health outcomes? There may be problems with health insurance coverage, but the quality of care could still be so good as to more than compensate for the problems in insurance. And, after all, most of the uninsured do get some kind of healthcare when they have an emergency. So, perhaps in spite of the problems of access and high aggregate cost, the quality of health care in the United States could be relatively good compared to other comparable countries.

The first thing to say here is that the best hospitals and doctors in the United States do indeed provide excellent medical care. Indeed, this is one of the reasons why wealthy people from around the world often come to the leading American hospitals for treatment. Such facilities are undoubtedly among the best in the world with cutting edge technologies and highly trained doctors. Nevertheless, in evaluating the system as a whole the central issue is not the quality of the very best facilities, but the extent to which the system delivers adequate medical care for the society as a whole. While it is a complex matter to link the characteristics of the healthcare system to health outcomes since so many other things also affect health, nevertheless the available data suggest that health outcomes in the United States also do not compare favorably with most other countries. Figures 8.10 and 8.11 compare the United States with other comparable countries on two important indicators of health outcomes: infant mortality and life expectancy. On both of these measures, the United States fares worse than other wealthy countries. In the case of infant mortality, the United States ranks 35th among the 195 countries in the United Nations with over 6 infant deaths for every 1,000 live births. This compares rates around 3-4 for many European countries. For black infants, the rates in the United States are comparable to some third world countries, falling between the rate for Botswana and Jamaica. In terms of overall life expectancy, the United States ranks 34th among the countries in the United Nations, just below Portugal and just ahead of Albania. While these dismal figures for infant mortality and life expectancy are not simply the result of the problems with the health care system, the inadequate access to health care is one of the critical contributing factors.

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[6] It should be noted that the average waiting time to see a specialist in the United States for insured patients tends to be lower than in these other countries. The data in figure 8.7 are for seeing a general practitioner.

-- Figures 8.10 and 8.11 about here --

One final consequence of the strong presence of markets within the American healthcare system is the preoccupation with medical treatment of disease rather than public health and preventive medicine. The United States is the only country that does not provide universal, free vaccinations of children. When an attempt was made to provide federal funding for universal vaccination of children in the mid-1990s, this was seen as very controversial. It was strongly opposed by drug companies and ultimately failed to pass Congress. The United States also does not provide free prenatal care for pregnant women in spite of the fact that research indicates that $1 of prenatal care ultimately reduces medical costs for post-natal care by $3. A market-logic of health care provision does not encourage prenatal care since, when people have to pay for their own medical care (either outright or through co-payments), most people only go to the doctor when something hurts or seems to be going wrong. The only way to make pre-natal care widely used is for it to be free, and this means that it must be paid by taxpayers.

As a result of these various problems – high cost of medical care, inequalities in access, insecurity of insurance coverage, weak preventative care – there is a great deal of dissatisfaction in the United States about the health care system among both consumers and doctors. Very high levels of dissatisfaction with the system: among doctors, among consumers. While it is difficult to compare across countries the level of satisfaction of people with their institutions, since satisfaction and dissatisfaction depend on people's expectations, nevertheless, it seems that the level of satisfaction with their healthcare system is much lower in the United States than in other in other countries. As Table 8.2 indicates, out of ten developed countries, satisfaction with medical system is lowest in the US, highest in Canada.

It is one thing for people to feel dissatisfied with the status quo and another thing to propose a workable alternative that will actually improve the overall performance of the system. In the next section we will examine two models for a more efficient and equitable healthcare system: the United States Veterans Administration hospitals and the Canadian Single-Payer healthcare system.

III. ALTERNATIVES

U.S. Veterans Administration hospital and health system

The Veteran's Health Administration (VHA) is a system of direct healthcare provided to U.S. military veterans established after WWII. These are hospitals run by the federal government in which the doctors are simply employees of the government. It is not fee-for-service medicine paid for by private insurance. It is a direct government system. As recently as the 1980s, the VHA health system was a mess: the hospitals were deteriorating, morale was low, efficiency was down, quality was uneven. Given the general turn to privatization, there was a lot of pressure to scrap the VHA altogether and give veterans vouchers which they could use to buy health care on the free market. This is more or less what Medicare is – the system for the elderly. The elderly select their health care on the open market and pay for it through the Medicare public insurance system. The dismantling of government run hospitals for Veterans would have seemed the natural thing to do.

Instead, what happened was a major internal reorganization of the VHA – with new technology, new procedures for quality control, new systems of cost containment. How do things look today?[7] In 2003, the *New England Journal of Medicine* published a study that compared veterans health facilities with the more market-oriented Medicare on a wide variety of measures of quality. The study concluded that "As compared with the Medicare fee-for-service program, the VA performed significantly better on all 11 similar quality indicators for the period 1997-1999. In 2000, the VA outperformed Medicare on 12 of 13 indicators".[8] The National Committee for Quality Assurance (NCQA), an organization that provides information about health care quality for business, ranks health-care plans on 17 different performance measures. Philip Longman reporting on the HCQA evaluations writes "Winning NCQA's seal of approval is the gold standard in the health-care industry. The winner in 2005 was not Johns Hopkins or the Mayo Clinic or Massachusetts General. In every single category, the VHA system outperforms the highest rated non-VHA hospitals."[9]

Contrary to what most Americans believe, at least in the domain of health care the public sector seems better able than the private sector to provide consistently high quality while controlling costs. There are a number of reasons for this. First, the scale of the VHA generates large economies of scale in purchasing all sorts of inputs into production. This is especially important in their purchase of drugs at a reduced cost by negotiating significant discounts from large pharmaceutical companies. Second, the VHA has much lower administrative overhead costs than any other health system in the United States. This is also, partially, because of economies of scale – there is a single system of paperwork for a very large organization. But it is also because the VHA does not have to deal with a wide variety of different insurance programs. Third, in the VHA there are very strong incentives for preventive medicine because of the life-time link between the VHA and the patient and also an ease in medical record keeping and health monitoring because of this life-time connection. Private health companies do not have incentives for doing this. Here is an example from the report by Philippe Longman: "Suppose a private managed-care plan follows the VHA example and invests in a computer program to identify diabetics and keep track of whether they are getting appropriate follow-up care. The costs are all upfront, but the benefits may take 20 years to materialize. And by then, unlike in the VHA system, the patient will likely have moved on to some new health-care plan. As the chief financial officer of one health plan told Casalino [a professor of public health at the University of Chicago]: 'Why should I spend our money to save money for our competitors?' More generally Longman writes, "investing in any technology that ultimately serves to reduce hospital admissions, like an electronic medical record system that enables more effective disease management and reduces medical errors, is likely to take money straight from the bottom line."[10]

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[7] The following account of the Veteran's Adminstration hospitals comes from an article by Phillip Longman, "The Best Care Anywhere," *The Washington Monthly*, January/February 2005,

[8] Ashish K. Jha, et. a;, "The Effects of the Transformation of the Veterans Affairs Halth Care System on the Quality of Care," *The New England Journal of Medicine* May 29, 2003, p. 2218

[9] Phillip Longman, "The Best Care Anywhere," *The Washington Monthly*, January/February 2005,

[10] *Ibid.*

Of course, there is no guarantee that a system of direct state delivery of medical services will perform well. After all, until its reorganization and modernization in the 1990s, the VA hospitals were, by most accounts, not doing a good job. There needs to be effective and committed leadership and meaningful political support for public initiative.

The Canadian Healthcare System

Until the early 1970s, the Canadian healthcare system was very much like that in the United States. Most healthcare was provided on a fee-for-service basis paid for by various forms of private insurance, often connected to employment. There was no national program and no universal guarantee of healthcare. In 1971 there was the Enactment of the Canadian National Health Insurance System, now commonly referred to as a "single-payer" system.

The system involves a close working partnership between the Canadian Federal Government and the Provincial Governments. The plans are actually run at the Provincial level with substantial subsidies from the Federal Government. The Federal government provides grants covering about 40% of total costs to Provinces on condition that they have a healthcare program which satisfies the following core conditions:

- It is universal, available to all citizens.
- It is comprehensive, covering all necessary medical services.
- It is portable in the sense that it recognizes the healthcare systems of other provinces and will provide care to any Canadian citizen in the province.
- It is fully accessible to all – there are no special limits and no supplementary charges.
- It is publicly administered and does not allow doctors or hospitals who receive payment from the government program to also receive funds from private insurance or other private forms of payments. This government organization is the only payer, thus the name "single payer". This single payer negotiates fees and total budgets for hospitals, clinics and doctors. Healthcare providers can choose, if they prefer, to operate outside of the single-payer system and accept private paying patients, but if they do so then they cannot receive any funds from the government system.[11]

Within this system the actual provision of healthcare services can be organized in a wide variety of ways. Individual doctors can open up offices as solo practitioners. Doctors can form group practices of various sorts. Grassroots organizations can create community clinics. Hospitals can be run by churches, nonprofit organizations, by local governments. Individual patients chose their doctors or groups. The national government does not itself directly run these services. What it does is pay the bills on an agreed upon fee schedule that is negotiated annually.

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[11] Recently there has been some erosion of the single-payer condition in the Canadian system following a Canadian Supreme Court decision in 2005 that people in Quebec – and by extension the rest of Canada -- have a right to purchase private insurance as a supplement to the public insurance. It is not clear how this will pay out in shaping the future of the Canadian healthcare system.

How does this system work in practice? First, it must be said that there is rationing on the basis of medical need in Canada and sometimes this means that there longer waits than would occur for some people in the U.S. There is less diffusion and duplication of CAT-scans, for example, in Canada. They are located in fewer hospitals, whereas in the United States competition for patients has the result that most hospitals acquire such technologies. Even though the overall satisfaction with the Canadian system is very high, these longer waits for some procedures does lead to complaints, and sometimes wealthy Canadians come to the US in order to get quicker service. Some of these problems of waiting times and rationing are the result of budgetary decisions by political authorities and could be remedied by increased budgets. But it is also very important to recognize that all medical systems have to ration medical services in one way or another: by denying access through the policies of private insurance companies, by rationing access through ability to pay, or by government policies. It could be argued, therefore, that the form of rationing that comes with the single-payer system does mean a lower "quality" healthcare system *for some people*, since individuals are unable to buy better care or quicker service in the system.

This rationing, however, does not mean that these waiting times necessarily have adverse effects on real health outcomes. Indeed, there are situations in which the existence of a waiting list can actually improve health outcomes since it forces doctors to be more concerned about placing those in greatest need at the top of the list, and this can have the result of reducing unnecessary surgery. In the United States heart surgeons have considerable incentives to perform coronary by-pass surgeries, and a certain proportion of these are medically unnecessary. If there was a waiting list, the more ambiguous cases would be placed lower on the list and alternative therapies would be tried. Some of these, in the end, would not need surgery. In any case, there is no evidence that the modest delays that are sometimes caused in the Canadian system adversely affect health outcomes.

A second consequence of the Canadian single-payer system is that Canada has much more uniform medical services across regions and across classes. There is very little difference in the quality of medical care received by the rich and the poor.

Third, in Canada the availability of health insurance does not enter into employment decisions. In the United States people are very concerned about health benefits with jobs. Many people are reluctant to leave a job they dislike in order to get new training or to look for a better job because of fear of being without insurance. Health insurance costs are also a major problem for many employers for home this significantly raises their costs of production. These rigidities are absent in Canada.

Fourth, as already noted in Table 8.1 the administrative costs for medical care are much much lower in Canada than in the US.

Fifth, the paperwork hassles for patients are also enormously less than in the U.S. In the United States, even if you have good insurance, there is an enormous amount of paperwork involved in getting sick, especially for long complex illnesses involving different doctors, hospitals and clinics. This complexity is increased when people create "health savings accounts" which they use to cover deductibles and co-payments. To use these accounts patients have to keep track of all expenses, get proper documentation and submit complicated forms to the appropriate agencies. In Canada, patients face none of these headaches. They go to a doctor, get treated, and that's it. The doctor submits the bill to the single-payer system and gets paid according to the negotiated fee structure.

All of this creates a great irony: Canadians have socialized universal insurance, but doctors are less hassled by the state and by bureaucracy than in the United States. Government programs actually result in a leader and simpler bureaucracy than more market oriented programs! And what is more, individual consumers of health care actually have greater freedom of choice in Canada than in the US. People are not forced to join a specific health plan which only pays for specific doctors, but can choose any doctor that has available slots in his or her clinic.

IV. Obstacles to Transformation

Given the remarkable improvement in the quality of health care and cost containment in the Veterans Administration hospital system in recent decades, and given the superior performance on so many grounds of the Canadian single-payer system, it becomes a real puzzle why it has proven so very difficult to create some system of universal national insurance in the United States. One common answer to this question is American individualism and the cultural opposition to government programs in the United States, and the generally conservative policy preferences of average Americans. While public opinion undoubtedly plays some role in obstructing universal healthcare, a more important factor is the power of organized forces who have a stake in the existing institutional structure. Three interest groups are especially important: organized physicians, the insurance industry, and pharmaceutical corporations.

The American Medical Association, the professional association of doctors, has been militantly opposed to anything that smacks of "socialized medicine". In 1989 AMA committed $2.5 million to tell Americans the "facts" about the Canadian system, emphasizing the complaints that are voiced about the system and ignoring the very high level of overall satisfaction with the system of both patients and doctors. During the early 1990s the AMA raised the specter of Big Government making health decisions for all Americans, depriving them freedom of choice.

While the AMA is strongly hostile to state run universal health programs, ordinary doctors are more receptive. For example, a 2007 opinion poll by Indiana University's Center for Health Policy and Professionalism indicated that 59% of physicians supported the idea of federally funded national health insurance.[12] Yet, it also seems that physicians generally believe that their colleagues are less in favor of a significantly more expansive role for the government in financing health care. In a 2004 study of physicians in Massachusetts, 63.5% indicated that they preferred a single-payer publicly financed health insurance system over a system based on managed care private insurance or a fee-for-service system, but only 51.9% of the respondents

[12] Aaron E. Carroll and Ronald T. Ackerman, "Support for National Health Insurance among U.S. Physicians: 5 Years Later." *Annals of Internal Medicine,* Volume 148 • Number 7 April 1, 2008. p. 566

believed that most physicians would support a single-payer system.[13] A similar discrepancy between the views of physicians and their perception of their colleagues beliefs was found in earlier studies: a study in the 1960s on physicians' attitudes towards Medicare when it was first introduced found that "70 percent of private practitioners in the State of New York were in favor of it, but only 26 percent thought most of their colleagues were in favor of it."[14] In a 1973 national study of physicians' general attitudes towards National Health Insurance, "Three-fourths (74%) of the physicians interviewed thought that most of the doctors they knew personally were opposed to 'some form of national health insurance'….Yet when asked about their own attitudes, more than half (56%) were in favor of some form of NHI."[15] What this reflects is the fact that doctors' beliefs about the opinions of other doctors are shaped by the AMA, and since the AMA so stridently opposed national health insurance, most doctors believe that this is the dominant view among doctors. In fact, the AMA's opposition is rooted in interests and preferences of the elite strata of doctors, but because of their visibility and power they are able to define the "public opinion of doctors" as a whole.

The other powerful sources of opposition to national health insurance are the private insurance companies and large pharmaceuticals. As Carl Schramm, a spokesman for Health Insurance Association of America stated, commenting on the prospects for a Canadian-style single-payer system in the United States: "We'd be out of business; it's a life and death struggle."[16] Pharmaceutical companies are among the most profitable corporations because of their ability to charge high prices on patented drugs. They successfully blocked the idea of negotiated lower prices for the Medicare drug plan passed 2003. In Canada the Single-payer system has forced drug companies to charge lower prices, and the VHA in the United States has also been able to negotiate lower prices than the open market. The pharmaceutical companies oppose any unified national system for paying for healthcare because of the threat this would pose to their ability to demand such prices.

So long as these private interests are able to dominate the public debate over healthcare and influence the policy options that politicians are prepared to put on the table, the prospects for a universal health care system capable of controlling costs and providing good quality care for all are dim.

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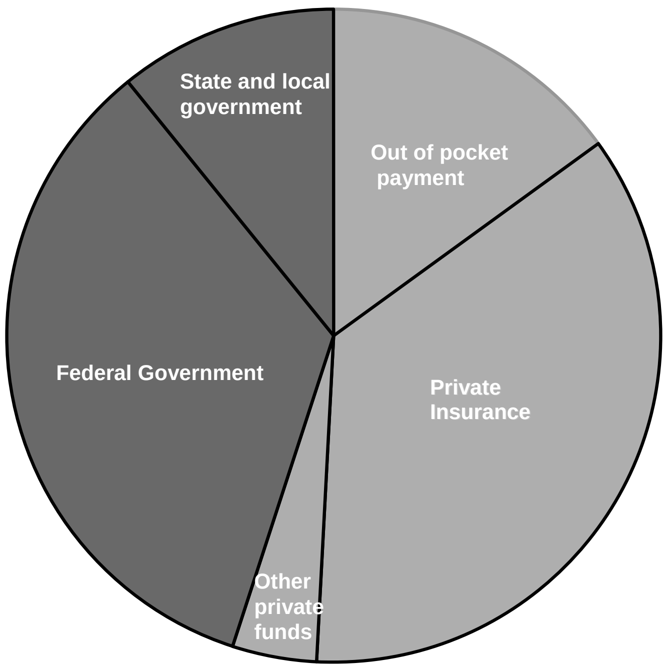
[13] Danny McCormick, David U. Himmelstein, Steffie Woolhandler, and David Bor, "Single-Payer National Health Insurance: physicians' Views", *Archives of Internal Medicine*, 2004, 164: 300-304.

[14] John Colombotos and Corrine Kirchner, *Physicians and Social Change* (New York and Oxford: Oxford University Press, 1986), p.28.

[15] *Ibid.* p.27-8.

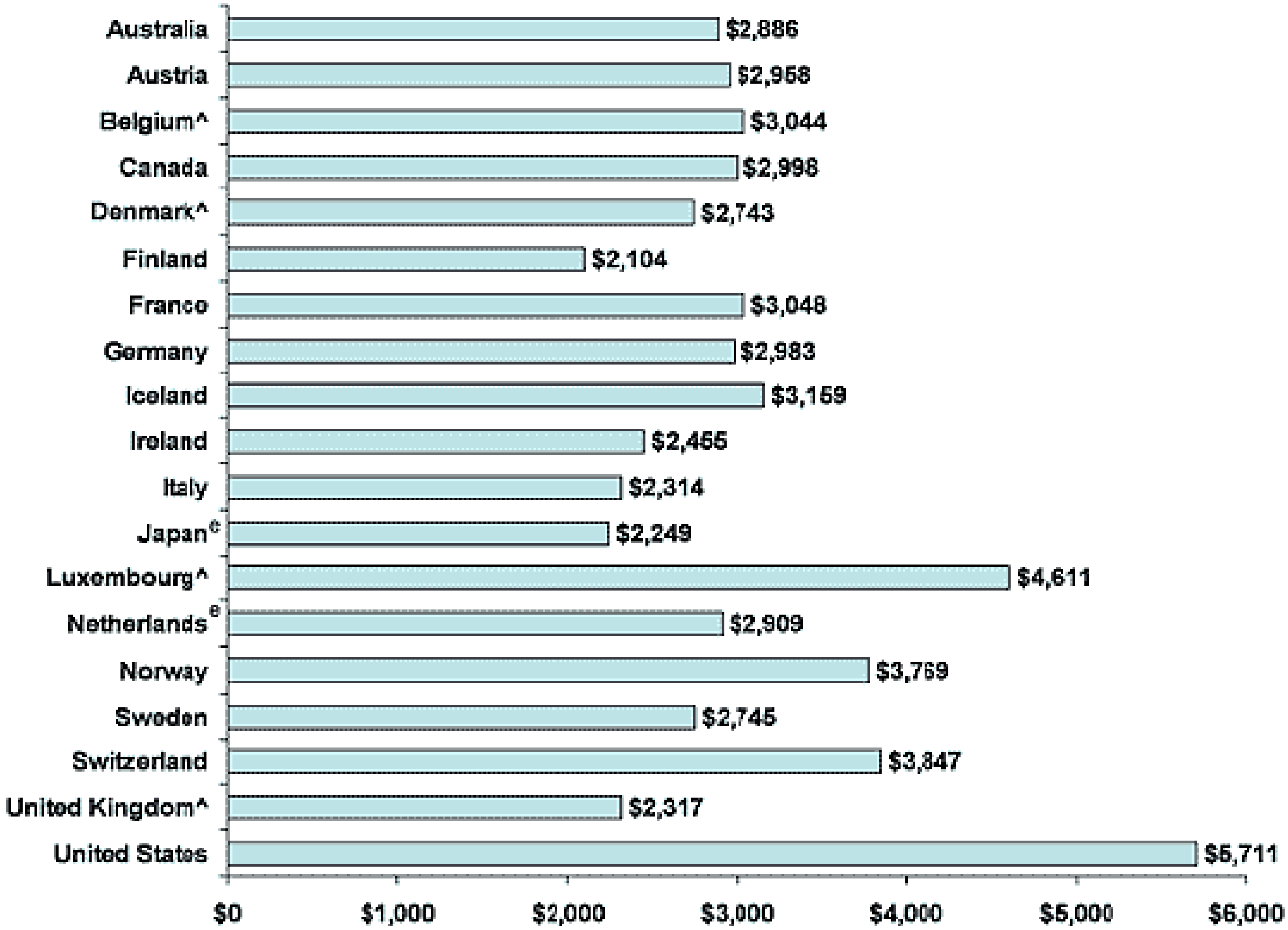
[16] Quoted in Theodore R. Marmor and Jerry Mashaw, "Canada's Health Insurance and Ours: the real lessons, the Big Choices", in Jonathan Lemco, *National health care: lessons for the United States and Canada* (Ann Arbor, University of Michigan Press, 1994)., p.70

FIGURES & TABLES FOR CHAPTER 8



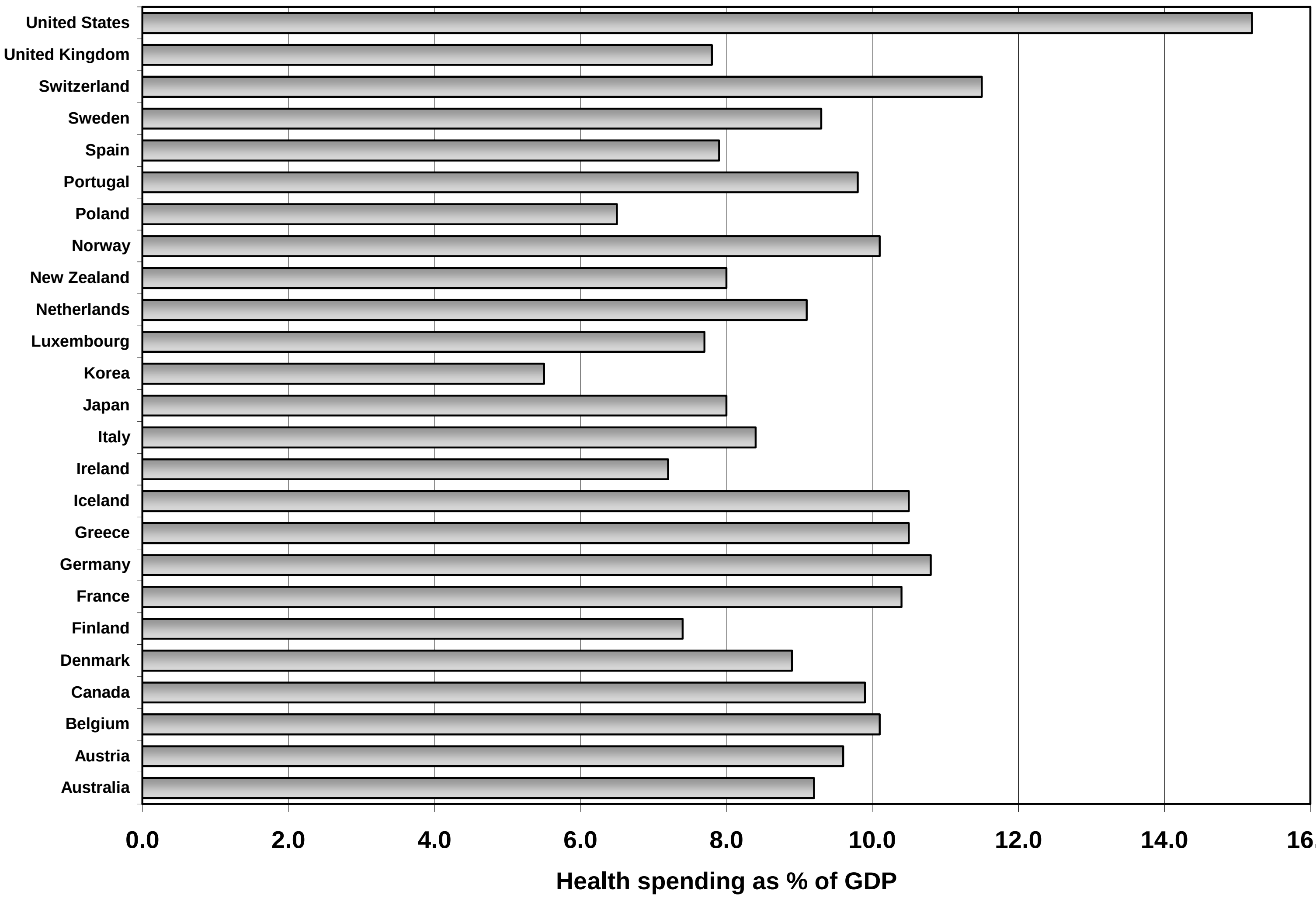
Source: Source:
National Center for Health Statistics, *Health, United States, 2007,With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 125, p.380

Figure 8.1
Sources of funding for Health Care in the U.S., 2005



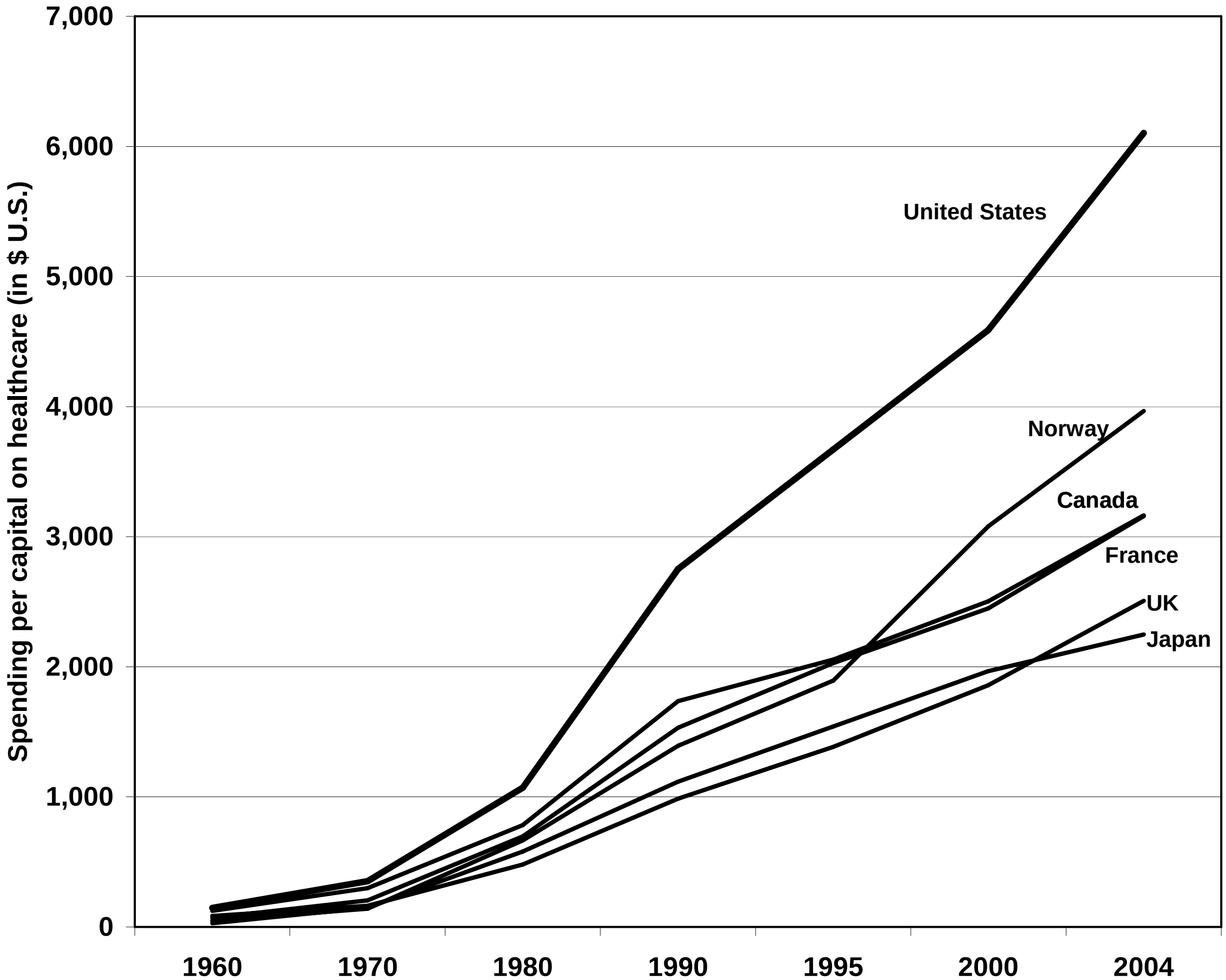
Source: Source: Organization for Economic Co-operation and Development. *OECD Health Data 2006*, from the OECD Internet subscription database updated October 10, 2006. Copyright OECD 2006, http://www.oecd.org/health/healthdata.

Figure 8.2
Total spending per capita on health care, U.S. and selected countries, 2003



Source:
National Center for Health Statistics, *Health, United States, 2007,With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 120, p.374

Figure 8.3
Total spending per capita on health care as a % of GDP, U.S. and selected countries, 2003



Source:
National Center for Health Statistics, *Health, United States, 2007,With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 120, p.374

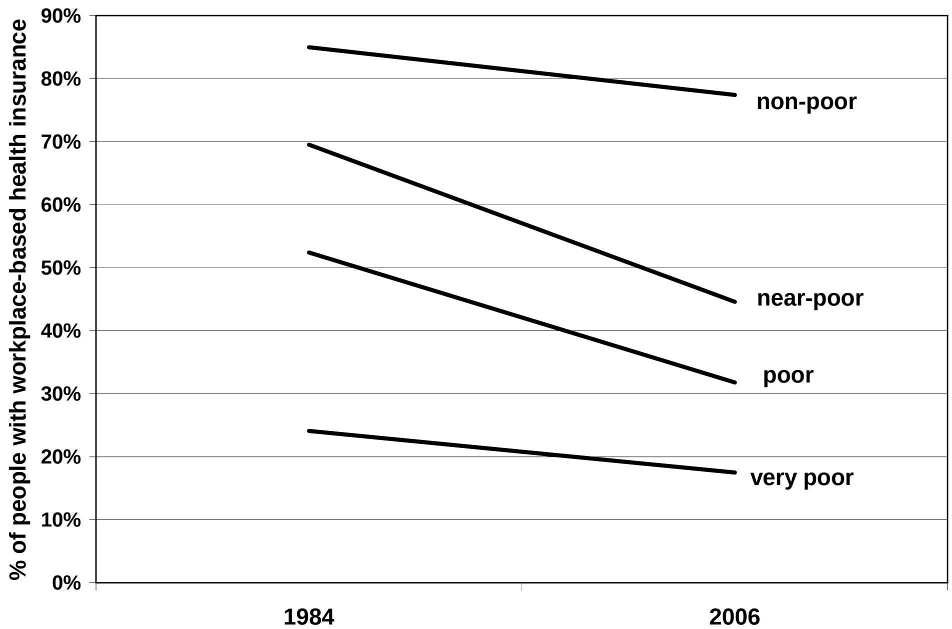
Figure 8.4
Growth in spending per capita on health care in the US and selected countries, 1960-2004

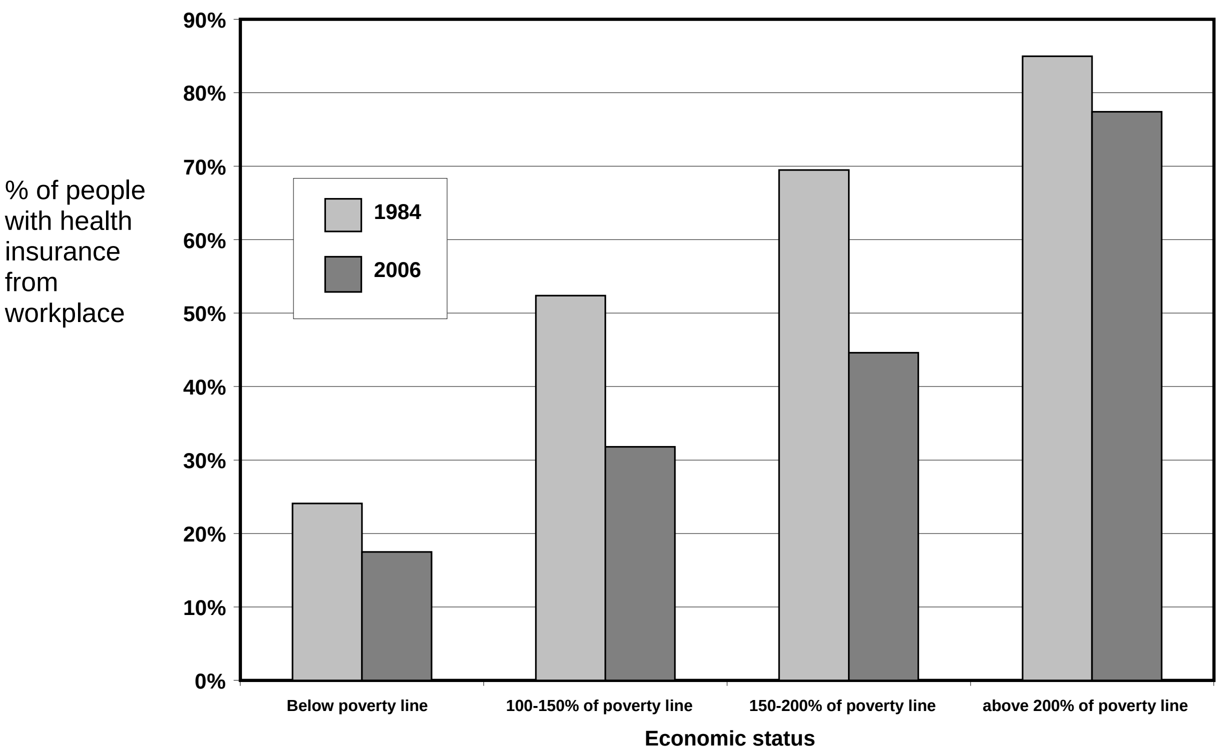
Cost Category	Spending per Capita (U.S. $)	
	United States	Canada
Insurance overhead	259	47
Employers' costs to manage health benefits	57	8
Hospital administration	315	103
Nursing home administration	62	29
Administrative costs of practitioners	324	107
Home care administration	42	13
Total	1,059	307

Source: Steffie Woolhandler, M.D., M.P.H., Terry Campbell, M.H.A., and David U. Himmelstein, M.D., "Costs of Health Care Administration in the United States and Canada," *The New England Journal of Medicine*, 2003, p.771

Table 8.1.
Costs of Health Care Administration in the United States and Canada, 1999.

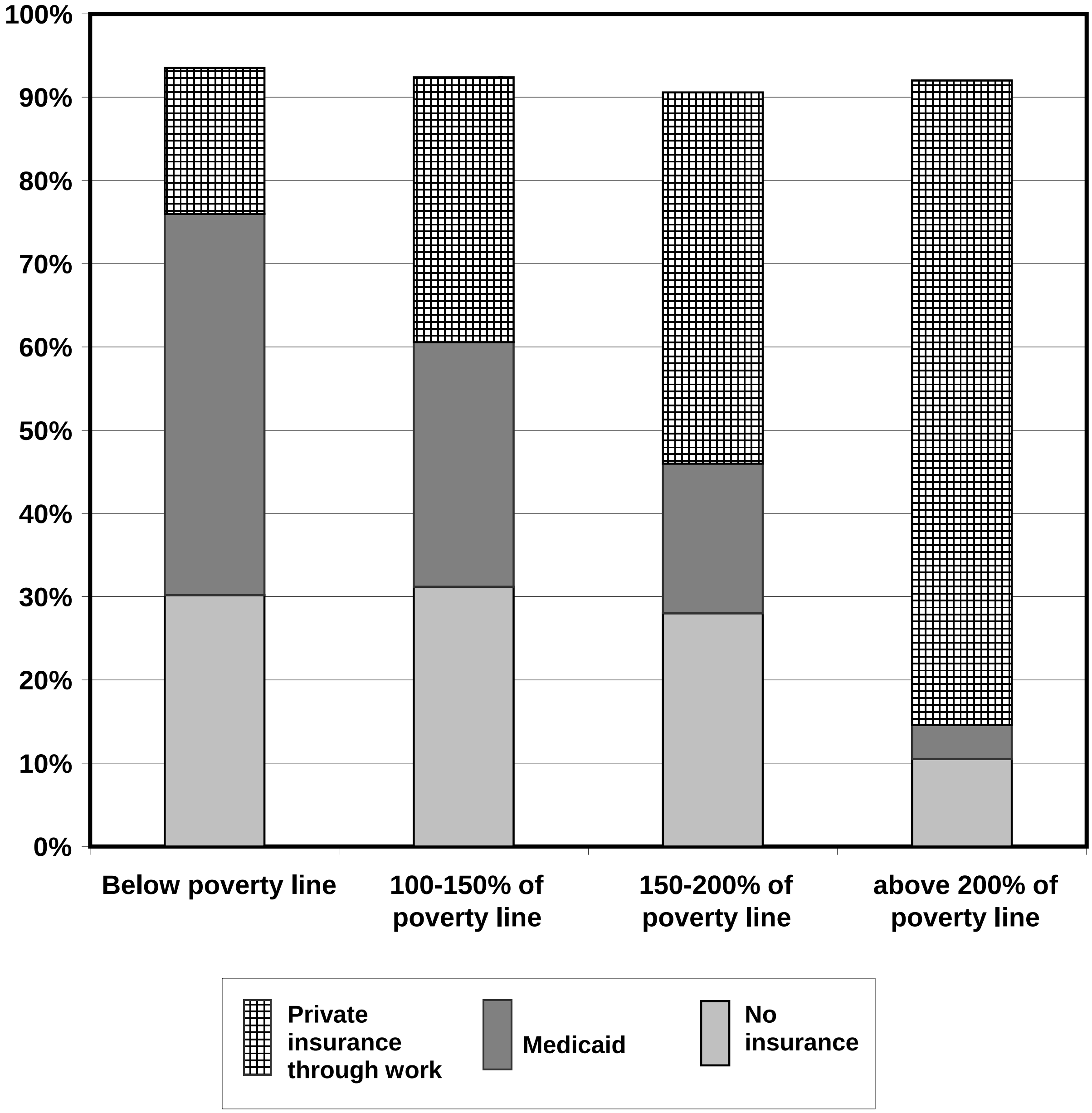
[Alternative formats for graph]





Source:
National Center for Health Statistics, *Health, United States, 2007,With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007), Table 137, p.400

Figure 8.5. Percent of people under 65 years of age who get private health insurance through their workplace by economic status, 1984 and 2006



Source:
National Center for Health Statistics, *Health, United States, 2007,With Chartbook on Trends in the Health of Americans* (Hyattsville, MD: 2007)

Figure 8.6 Economic status and health insurance, 2006

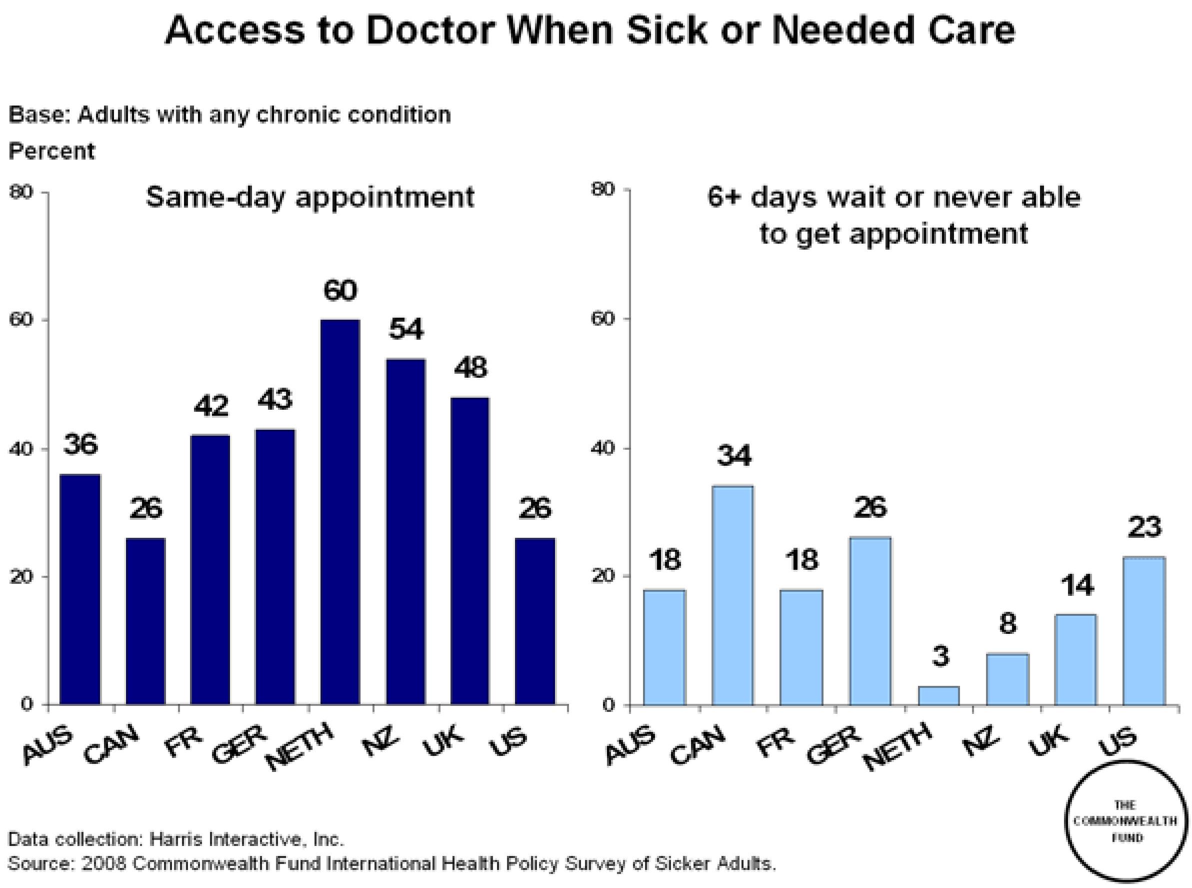


Figure 8.7 Access to Doctor When Sick or in Need in Eight Countries, 2008

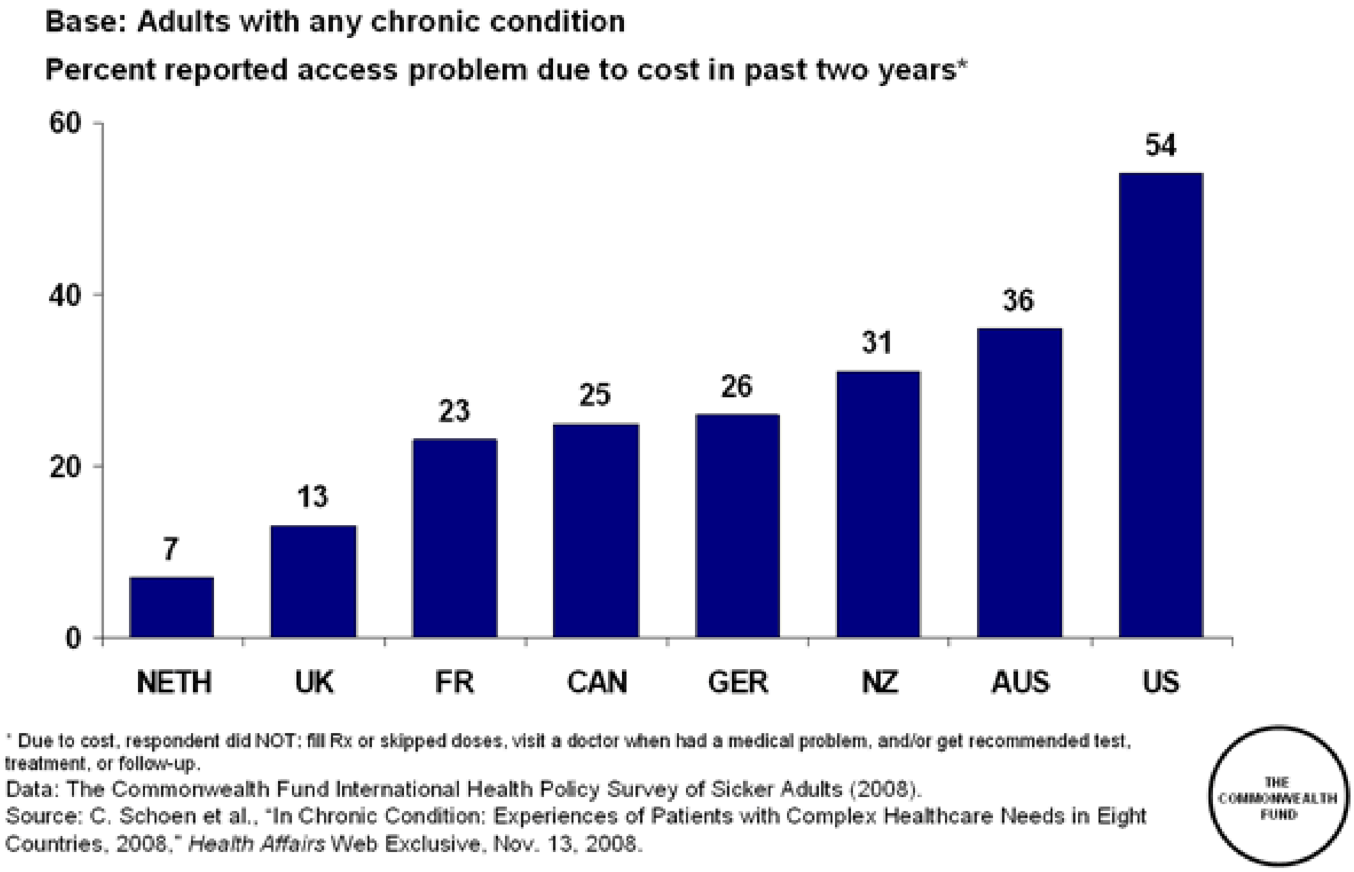
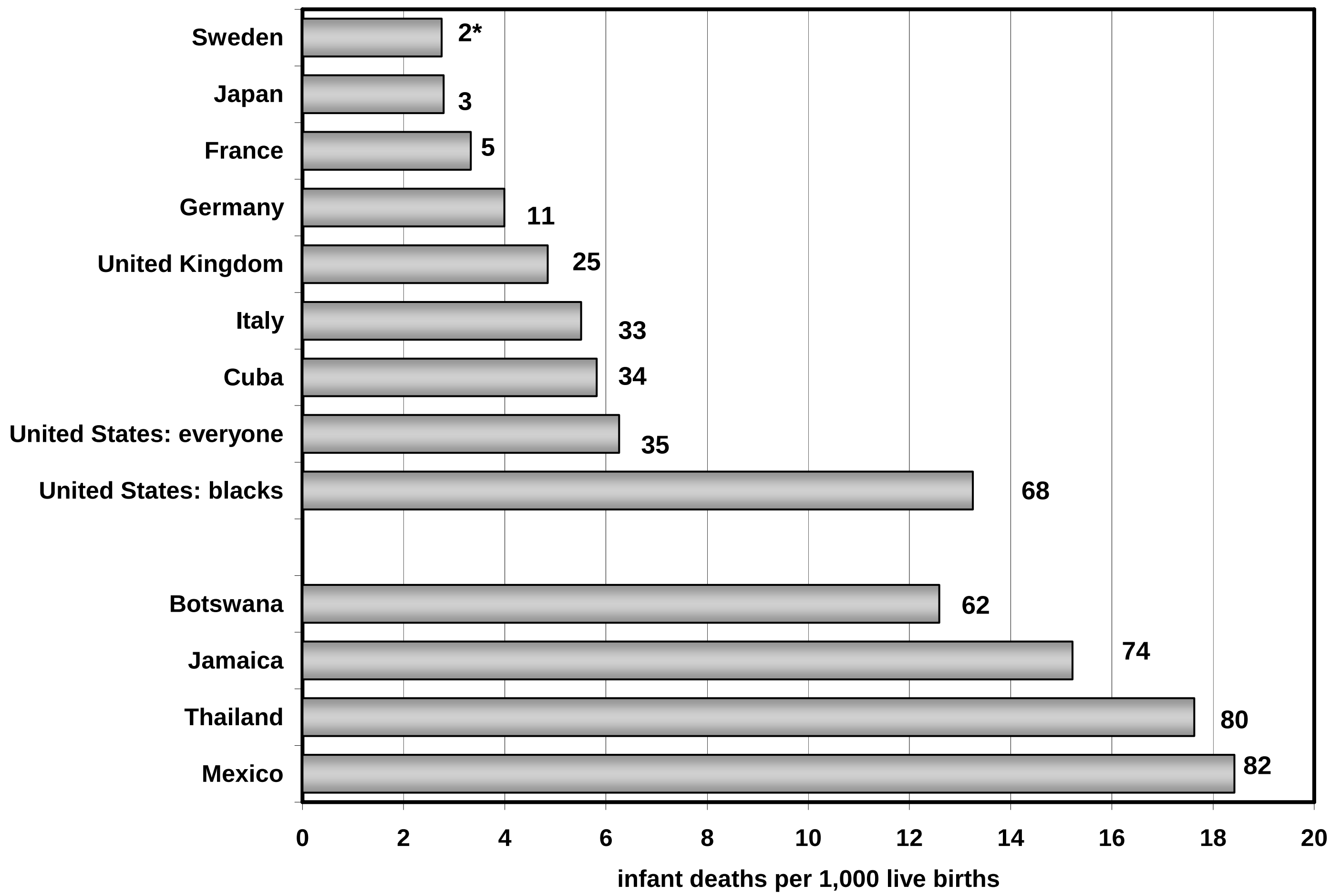


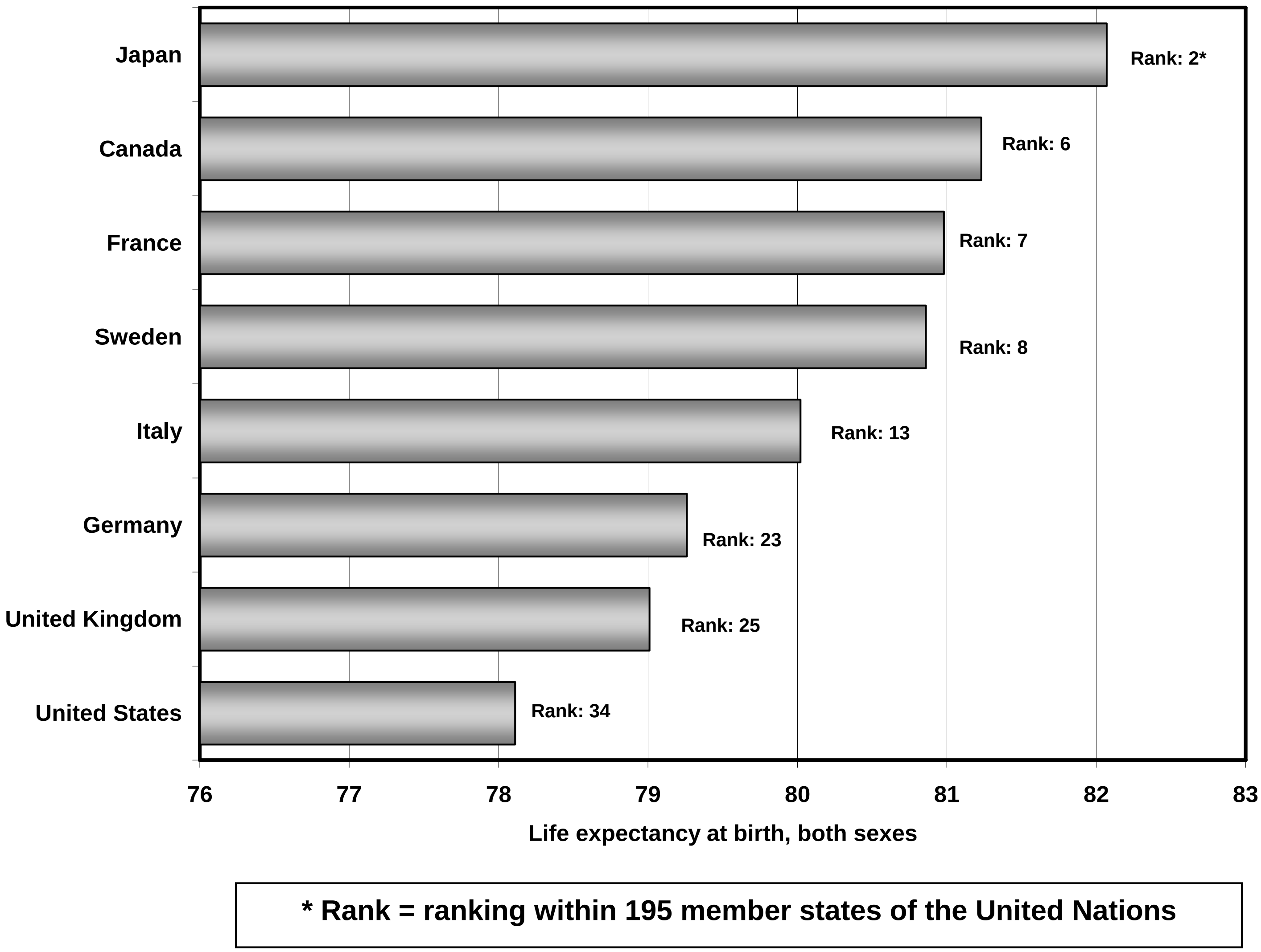
Figure 8.8 Cost related access problems among the chronically ill in eight countries, 2008



*** Rank = ranking within 195 member states of the United Nations**

Sources: Cross national data come from Central Intelligence Agency, *The World Factbook, 2009. "Country Comparisons – Life Expectancy at Birth."* The United States data for African-Americans, come from National Center for Health Statistics, *Health, United States, 2007, with Chartbook on Trends in Health of Americans* (Huntsville, MD, 2007), p. 159

Figure 8.9
Infant mortality rates, United States and selected countries, 2009



Source: Central Intelligence Agency, *The World Factbook, 2009. "Country Comparisons – Life Expectancy at Birth"*

Figure 8.10
Life Expectancy at Birth, United States and selected countries, 2009

	Minor changes needed[a]	Fundamental changes needed[b]	Completely rebuild system[c]
Canada	56%	38%	5%
Netherlands	47	46	5
West Germany	41	35	13
France	41	42	10
Australia	34	43	17
Sweden	32	58	6
Japan	29	47	6
United Kingdom	27	52	17
Italy	12	46	40
United States	10	60	29

[a]On the survey, the question was worded as follows: "On the whole, the health care system works pretty well, and only minor changes are necessary to make it work better."
[b]"There are some good things in our health care system, but fundamental changes are needed to make it work better."
[c]"Our health care system has so much wrong with it that we need to completely rebuild it."

Source: p. 188 in Robert J. Blendon, Robert Leitman, Ian Morrison, and Karen Donelan "Satisfaction with Health Systems in Ten Nations". *Health Affairs,* Summer, 1990, p. 185-192.

Table 8.2
The Public's View of Their Health Care System

Chapter 9
High Road Capitalism

Final August 2009

In the United States at the beginning of the 21st century many people believe that free markets, largely unregulated by the state, are the best way to organize an economy. Since the last quarter of the 20th century, politicians of both parties have argued that low taxes are essential for a healthy economic environment and that government regulations mostly just get in the way of energetic entrepreneurs and are thus ultimately harmful to prosperity. While the economic crisis that began in 2008 may signal a change in this faith in the free market and hostility to government, conservative politicians still proclaim in the words of Ronald Reagan that "government is the problem, not the solution."

In previous chapters we have looked at some of the problems with free markets in particular domains of economic life: generating negative externalities on the environment; undermining an efficient transportation system; intensifying consumerism; and creating a high cost healthcare system with great inequalities in access. But the question still remains: how well do deregulated, free markets do at the core of economic life itself? This is the bottom line for many people: do weakly regulated free markets and capitalist enterprises "deliver the goods" by providing prosperity, opportunity and reasonable economic security for most people?

This chapter will begin by reviewing the economic record of recent decades to see how well American capitalism has really performed for the lives of most people. We will then lay out a contrast between two broad ways that a developed capitalist economy can be organized, which we will refer to as "Low road" and "high Road" capitalism. We will argue that the erosion of the affirmative state through the deregulation of capitalist markets has put the American economy on the low road, and the only way to change routes is to rehabilitate an affirmative state capable of providing a range of vital public goods and imposing constraints on the strategies of powerful actors within markets. The chapter will conclude with a discussion of the obstacles to accomplishing this.

THE ECONOMIC RECORD

From the end of the Second World War until the early 1970s, average real weekly earnings for private production and nonsupervisory employees – over 80% of all private sector wage and salary employment – rose by over 60% from $387/week in 1947 to $623/week in 1973 (see Figure 9.1).[1] This increase in earnings was very evenly distributed throughout the economy: during that quarter century, incomes of families at the 20th percentile in the income distribution increased at a rate of 3.7% a year, at the 50th percentile at a rate of 4.1% and at the 95th percentile at a rate of 3.5% (see Figure 9.2, top panel).

-- Figure 9.1 and Figure 9.2 about here --

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[1] *The State of Working America, 2008/9.* Table 3.4. Before the early 1970s it is not possible to calculate *median* earnings, which is generally a better indicator of economic conditions for the average person (the person in the middle) than is mean earnings, since the latter is affected by skewness in the earnings distribution.

Things changed dramatically during the 1970s. Beginning in the middle of that decade and intensifying during the 1980s, earnings stagnated. The average weekly earnings of private production and non-supervisory employees declined from $622 in 1973 to $541 in 1995, and even by 2007 had only risen to $590. Median household income did continue to rise, but at a much slower pace (see Figure 9.3), and the rise that did occur was largely because of the increased levels of employment of married women. Median hourly real wages for men actually declined between 1973 and 2007, but within households this was compensated for by increased real hourly wages and increased labor force participation of women (see Figure 9.4).

-- Figures 9.3 and 9.4 about here –

Not only did earnings stagnate during the last quarter of the twentieth century, but the growth that did occur was heavily concentrated at the top of the earnings distribution (Figure 9.2, bottom panel). From 1973 to 2005 incomes of families at the 20th percentile grew by only .3% a year, while family income at the 95th percentile grew at 1.9% annually. Over the entire period, this means family income at the bottom increased only about 10% whereas incomes for families at the top increased over 60%.

Underlying this dramatic change in the character of economic performance of the American economy after the 1970s was a sharp divergence of the rate of growth of productivity and the rate of growth of total employee compensation -- the sum of wages, salaries, health, pensions and other non-wage benefits. Productivity is a measure of the amount of economic value generated by each hour of labor. When employee compensation grows at a slower rate than productivity growth, this means that a disproportionate amount of the extra value being created by rising productivity is going to owners of capital rather than to labor. As Figure 9.5 indicates, up until the late 1970s, the growth of both average compensation and median compensation closely tracked productivity growth. Beginning in the 1980s these begin to diverge. This divergence is revealed in a particularly stark way by comparing rates of growth of productivity and compensation during periods of economic expansion (Figure 9.6): In the economic expansion from 1975-1979 both productivity and median compensation grew at 1.4% a year. In the expansion of the 1980s, productivity growth increased to 1.6% a year, but median compensation declined to .2%. In the expansion of 2002-2007, productivity growth accelerated to over 2% a year, but median compensation did not grow at all. We had moved from a world in which the fruits economic growth were broadly dispersed in the population to one in which the gains from growth were concentrated at the top. Clearly something fundamental had changed since the 1950s and 60s.

-- Figures 9.5 and 9.6 about here --

During this period of transformation of the character of the American economy, a number of other important trends occurred. First, there has been a significant change in the nature of the jobs that are being created in the American economy. Jobs are the main way that most people acquire their standard of living, so it matters quite a bit where in the economy job growth is occurring. During periods of economic expansion, are jobs being created mainly in the middle of the economic structure, at the top, at the bottom? It would be nice to chart the trajectory of the job creation over time in terms of a full range of measures of the quality of work: pay and benefits, job security, meaningfulness of the work, social benefits from different kinds of jobs, and so on. This is simply not possible. What we can do is investigate how the patterns of job growth over time have changed in terms of the earnings associated with different kinds of work. Here is the basic strategy[2]: Using data for the American labor force, we can define different kinds of jobs as specific kinds of *occupations* within *economic sectors*. Truck drivers in the medical services sector, secretaries in durable manufacturing, and accountants in the insurance sector would examples. The number of categories that be created in this way varies for different periods because of changes in the way data about the labor force is gathered, but since the 1980s it is possible to classify jobs using around 100 occupations and 23 sectors, for a total of over 2,000 types of jobs.

This list of job-types can then be rank ordered on the basis of the median hourly earnings of people in these jobs. This rank-ordered list can then be aggregated into what can be called "job-quality quintiles" on the basis of the number of people in these job-types: the top quintile thus represents the 20% of the employed labor force in the best paying types of jobs, the bottom quintile represents the 20% of the employed labor force in the worst paying types of jobs, and so on. The empirical question we are interested in is where job growth occurs among these five job-quality quintiles during periods of employment expansion, and where job declines occur in periods of contraction.[3]

Since the end of World War II the two most sustained periods of job expansion in the United States occurred in the 1960s and the 1990s. The pattern of job growth in these two periods, however, was dramatically different. Figure 9.7 presents the net change in the number of jobs in each job quality quintile in the 1960s and the 1990s. As this figure indicates, in the 1960s, there was very strong growth of jobs in the middle of the employment structure and weak growth at the bottom. This pattern of job growth can be described as job upgrading. In the 1990s the pattern of job growth is polarized: weak growth in the middle and strong growth of jobs at the tails. This 1990s pattern was not present in the 1980s, where job growth was fairly evenly dispersed across all five quintiles. It emerged first in the employment contractions of the early 1990s in which job decline was strongest in the middle of the employment structure, and has continued in the contract of the early 2000s, and in the relatively weak job expansion in the period 2002-2007.

-- Figures 9.7 and 9.8 about here --

This pattern of employment polarization is at least in part linked to changes in the distribution of jobs across economic sectors. Table 9.1 shows the distribution of employment across the major sectors of the economy from 1979-2007. The most striking changes are in manufacturing and personal and miscellaneous services: manufacturing employment declined by over 50%, from 21.6% of all jobs in 1979 to only 10.1% of jobs in 2007, while personal and miscellaneous services increased from 26% to 40.1% in the same period. This pattern of expansion and contraction has strongly adverse effects on employment opportunities and earnings connected to jobs. Figure 9.9 shows that the annual pay of people in contracting sectors during this period is significantly higher than in contracting sectors. In terms of employment

[2] For a more detailed discussion of the methods used here, see Erik Olin Wright and Rachel Dwyer, "Patterns of Job Expansion and Contraction in the United States, 1960s-1990s", *Socioeconomic Review*, 2003, 1: 289-325

[3] This is different from simply looking at changes over time in income distribution or earnings distribution across *persons*. Here we are looking at the way the distribution of *types of jobs* change over time, where we are indexing job-types by one salient characteristic: the amount of earnings they typically generate.

opportunities for the average American, who does not have a college education, the United States economy has been losing jobs in sectors with relatively high wages and adding jobs in sectors with lower wages.

-- Table 9.1 and Figure 9.9 about here --

This decline in manufacturing is bound up with another critical, long-term trend in the American economy: the increasing imbalance of international trade (Figure 9.10). From the end of WWII until the late 1970s, the United States was a net exporter. Exports and imports combined accounted for under 15% of GDP. Beginning in the early 1970s both imports and exports began to rise, and by the late 1970s imports outstripped exports. By 2007, imports and exports combined accounted for over 25% of GDP, and our negative trade imbalance exceeded 5% of GDP.

-- Figure 9.10 about here --

The massive and rapid growth of trade deficits since the 1970s is linked to one final trend: a truly dramatic increase in the importance of finance within American capitalism. In a very rough way economic activity can be divided into two sorts: activity directly involved in producing goods and services which people consume – cars, computers, food, education, healthcare, haircuts – and activity that involves in one way or another purely financial transactions – borrowing and lending, buying and selling stocks and bonds, etc. Sometimes it is hard to tell which of these is taking place, but still, one can broadly distinguish between activities in what economists call the "real economy" and activities that are within the purely financial economy. Profits are made in both kinds of activities in a capitalist economy. What is striking about the trajectory American capitalism n the last half of the twentieth century was a sharp shift from a system in which profits were mainly being generated through the production and distribution of goods and services – the real economy – to a system in which profits increasingly came from purely financial transactions. Figure 9.9 indicates that between the mid-1950s and the mid-1980s, financial profits accounted for 15-20% of all profits in the U.S. economy. By the 2000s this was over 40%. Much of this financialization of the economy was bound up with rapidly rising consumer debt, especially in the form of mortgages, and also public debt generated by large government deficits. This growing public and private debt was to a significant extent financed by flows of capital from those countries like China that accumulated large dollar reserves due to our trade imbalances. This enabled Americans to consume more than they produced for an extended period of time, but eventually, as we know, this became unsustainable. The result was the financial crisis that began in 2008.

-- Figure 9.11 about here --

These are all long term trends, reflecting the general performance of American capitalism in the last part of the 20th century and the beginning of the 21st. None of these take into consideration the sharp economic crisis that began in 2008 and intensified in 2009. If the specific conditions of crisis were added, this picture would look even worse. The point is that even without the added problem of the economic disruptions generated by the financial crisis, the economic trajectory for average people in the United States since the 1970s has yielded at best very modest improvement, and for many people none at all.

There are many factors that have come into play in explaining these trends. Our central thesis is that this mediocre long term performance of the American economy for the lives of most

Americans is to a significant extent due to the absence of effective state involvement in the creation of key public goods and regulating critical aspects of the capitalist economy.

To understand this thesis we will examine a contrast between two different paths of economic development, two different roads that modern capitalist economies can take. Joel Rogers has called these alternatives "the high road" and "the low road." Our basic argument can be summarized in a slogan about what needs to be done: "Close off the low road, Pave the high road, and help firms and workers move from the first to the second"

TWO WAYS OF ORGANIZING CAPITALIST PRODUCTION: HIGH AND LOW ROAD CAPITALIST FIRMS

Capitalist firms vary in all sorts of ways: by the markets they serve, the technologies they use, the wages and benefits they pay, and so on. Here we want to draw a contrast between two broad types of firms within economically advanced capitalism, based on their competitive strategy. We will call the firms "low road" and "high road." In sociology, this kind of contrast involves what are called "ideal types". An "ideal type" is a stylized description of something in a pure form, a kind of perfect model of some idea or principle. The real world is almost always much messier. In physics, for example, a "frictionless plane" is an "ideal type" – a plane in which one specific property, friction, has been reduced to an extreme value, zero. No real plane ever has zero friction, but this ideal type helps clarify certain kinds of problems. Similarly in our analysis, most firms will not be perfect examples of either high road or low road characteristics, but nevertheless the contrast will help us understand some of the dilemmas and constraints in the American economy today.

Table 9.2 lays out the basic contrast between low road and high road firms. The key idea underlying the "high" and "low" metaphor, is that first type of firm is organized in such a way that it generates a large number of high skill, well-paying jobs, whereas the other primarily generates low skill, low wage, jobs. The metaphor applies both to individual firms and their strategies, and, by extension, to the broader economy within which they function. A low road economy is one in which low road firms predominate. The table describes the various characteristics of firms that point in these two directions:

Basis of competition among firms. There are many different ways that firms compete with each other. One important contrast is between competition based on the *price* of what is produced and competition based on the *value* or *quality*[4] of what is produced, typically its distinctiveness or relative performance, and more precisely on the efficiency with which firms add such value or quality to their inputs. Of course, firms compete on both grounds, but one or the other is often particularly important to the strategies of firms. In low road capitalism the key thing firms compete over is price. There is therefore constant pressure to reduce costs so that prices can be lower. In high road capitalism competition is primarily over efficient production of value, productivity measured not by volume per unit of input, but revenue per unit of input. This means that firms don't worry quite so much about final costs per se. They are more concerned that they produce the best rather than the cheapest, and do so in a way that makes most efficient use of all their inputs (labor, physical capital, natural capital). They bet that customers are willing to pay a premium for goods and services that perform better and more precisely meet customer needs, and

[4] The ordinary sense of "quality" is what we mean here, not the business sense of consistency in attributes.

that they can make money by reducing their own waste of the productive resources they use for that.

The nature of the product market. In a stylized way, the goods and services produced by capitalist firms for a market can be divided into two broad types: mass markets for essentially identical goods, and more diverse markets for differentiated goods. This contrast is connected to the distinction between competition over price and value: in mass markets for homogeneous products, the main way that customers distinguish among firms is on the basis of price; in markets for more customized products with distinctive properties, value plays a bigger role. The first of these corresponds to low road capitalism, the second to high road capitalism.

Jobs. In low road firms, jobs are typically organized around very narrow sets of tasks, often highly routinized, within a prescribed division of labor. In high road firms, jobs typically involve many different kinds of tasks and, most important, these tasks change or are frequently combined in new ways. In essence, workers are expected to be able to learn, and to do new kinds of things in new ways. In the high road firm, with emphasis on innovation in improving product performance or distinctiveness, and wringing as much market revenue as possible out of all inputs, new ideas are tried all the time.

Skills. Frederick Taylor, a famous industrial engineer at the beginning of the 20th century, said that the ideal workplace would consist of jobs in which workers could be "trained gorillas" – the skills would be so rudimentary than anyone could be snatched off the street and perform the tasks with almost instant learning. These kinds of low skill jobs characterized the assembly lines of mass production. While, of course, the "trained gorilla" image is an exaggeration, low road capitalism is built around highly routinized jobs that require relatively low levels of skills to perform. The enormous growth of jobs in retail trade and food services since the 1970s are of this character. High road capitalism, in contrast, relies primarily on high levels of skills, especially intellectual skills, although some high road jobs require high levels of manual skills as well. Jobs are not highly routinized and involve lots of problem-solving.

Training. The low skill/high skill contrast corresponds to a sharp contrast in the nature of training in low road and high road firms. In low road firms training is very tightly linked to the requirements of specific jobs in specific firms. Workers in low road jobs may get training, but this training does not give them much job mobility since the skills are not very relevant to jobs in other firms. The jobs in high road capitalism require what can be called "meta" skills – the skills to learn skills. These are highly portable, transferrable across jobs and employers. The training process in low road capitalism is mainly short term training provided by the employer for the narrow specific tasks in that specific firm. High road capitalism requires more lifetime training and retraining that is provided through various kinds of partnerships between employers and public institutions.

Job autonomy. Job autonomy refers to the extent to which people in their work are able to direct their own activities, make choices, figure things out, control their time. Job autonomy is generally very circumscribed in low road jobs. People are under close supervision by bosses who give them specific instructions and closely monitor their compliance within the process of work. In high road capitalism, job autonomy is high, considerable responsibility and initiative is expected of employees and monitoring is much looser. Workers do not feel that they always have a boss breathing down their necks.

Incentives. In low road capitalist firms, work effort is mainly elicited by negative sanctions, especially the fear of being fired for not working hard enough or well enough. In high road firms, work effort is much more linked to positive incentives like prospects for promotions, expectations for future raises, bonuses, or greater authority. Often there are demarcated career ladders, but even when this is not so much the case, workers have expectations that if they are responsible and work creatively they will be able to move to better jobs. This is one way that firms share productivity gains with individual workers.

Hierarchy. In low road firms there is a rigid differentiation of managers and workers: managers make the decisions and issue orders, workers follow those orders. There are many layers of managers, and authority is organized through top down commands with little participation from below. High road firms have relatively low differentiation between workers, supervisors and managers. Managerial hierarchies are relatively flat and there are many occasions for easy interaction and dialogue between managers and non-managerial employees. Authority is not exercised exclusively as top-down command-and-control, but in a manner that involves much more bottom-up participation. This is not to say that firms are really democratic, but they are organized in such a way that ordinary workers play a more actively role in collective deliberations and problem-solving.

Wages. Wages for most employees in low road firms are generally much lower than in high road firms. This is both because of the lower levels of labor productivity in low road capitalism, but also because the strategies of firm are so relentlessly linked to cost-cutting that keeping wages low is a high priority.

Environment. Low road firms are classic produces of negative environmental externalities. High road firms, because they are more attentive to net value-added, and because they rely on a public able to pay their value premium, are better for the environment. They root out waste in their own production systems, and don't treat their surrounding communities as waste dumps.

Attachment to place. Closely related, high road firms tend to be more attached to particular places, which they rely on to furnish the better prepared workers they want, the demanding customers that keep them sharp, the myriad public goods on which they rely, the learning opportunities they seek themselves outside the firm, the sorts of communities that would attract such workers (and their managers), and other elements of what is sometimes called "institutional" infrastructure. Low road firms also need basic infrastructure — communications systems, transportation systems, and sources of energy — but are typically much less dependent on such institutional infrastructure, supplied in places.

In the stylized contrast between these two models of firms, all of the traits line up together. In American capitalism today, of course, there is much more heterogeneity than this. There are certainly some firms which overall have a high road character and others with a low road character: Google has many of the high road characteristics; Wal-Mart is a low road firm. A given corporation may have some highroadish departments with highly skilled workers, participatory norms, meta-training and the like, while other departments are characterized more by the logic of cost-cutting, low skill jobs with only job-specific training. And some jobs may have some but not all of the high-road properties. Still, as a broad generalization one can say that in American capitalism from the last quarter of the 20th century, low road strategies have played a particularly strong role in the development of the economy.

Most people if given a choice between these two configurations and asked which is a better world, would say that they would rather work in a high road firm and live in a capitalist economy dominated by such firms. On almost every dimension, the quality of life and work would seem better in an economy dominated by high road firms.

If most people would prefer a high road economy, why, then, does the American economy have so many low road firms? The simple answer is that capitalist firms are not in the business of building better societies, but making a bigger profit. While the high road may clearly be preferable for the society, it may not be clearly preferable for individual firms. Getting onto and maintaining position on the high road is often expensive, and almost always complicated. If easy money is available at low cost and with less hassle, many firms will take it.

Take skills and training, as one example. Let us say you are business owner and have a choice between two production processes, one requiring minimal labor skill — meaning you can find the necessary labor almost anywhere — and one requiring higher initial skill and continuous learning. The second implies a higher cost of initial labor, but also ongoing investment in workers. And while potentially much more productive, educated workers, learning continuously, are harder to deal with, at least if "deal with" means "bossing around," since they know more and have options in the labor market. If both types of production processes are equally profitable, most firms will naturally take the first. Capitalist firms, after all, are not first and foremost about the value or quality of products, but about the profit for their owners.

This point is important enough that we might pause on it for a moment. In understanding the behavior of firms, it is important always to keep in mind their internal cost structure. This starts with what is called "value-added per employee". This is the amount of value that each employee adds to the goods and services being produced by the firm. Out of this added value, employees get some share in compensation, and the firm manager gets a share to deal with other costs — reinvestment in the firm, taxes — and retain some profit. This is displayed in Figure 9.12. Value added per employee, the bottom center box, sets the outer bound of options for employers, for this defines how much economic value is being created by each employee. This total value is then divided into a share that goes to the employee – employee compensation – and a share that goes to the employer (the revenue per employee received by the employer). The employer share is then divided into three parts: reinvestment, taxes, and profit, the top center box.

Figure 9.12 about here

Now in choosing among different production paths, it is that center top box that matters most to firm managers and owners. Take two contrasting firms, here displayed in Figures 9.13. They are very different in value-added, and in worker compensation, but also different in needed reinvestment (e.g., in new training or equipment) and taxes, with the result that profit is the same. They have very different effects for the society's overall wealth, with Firm B contributing much more than Firm A. But for an owner or manager, they are effectively the same. Indeed, for reasons we've suggested, Firm A is clearly preferable, because it implies less hassle for managers. This lower-value added strategy in Firm A is what we have called the "low road."

Figures 9.13 about here

At least initially, globalization can encourage this low-road choice. The sudden entry of billions of very low-paid workers into the global labor market puts downward pressure on wages in rich countries, while opening up a new supply of labor for employers in poor countries.

Employers look immediately to start rolling back domestic labor costs, or structuring production in ways that can take advantage of this new supply. This means that firms will generally avoid making the kinds of investments needed to get on the high road, for example in worker training. We can see this in trends in education in the U.S., which is unique among developed nations in actually going backward in the secondary education of its workforce. And, of course, we see it in the bifurcated pattern of job generation we observed in Figure 9.8 for the 1990s and 2000s: many good jobs, few middle-class jobs, lots and lots of lousy jobs.

Now, in the long-run this seems like a hopeless strategy: the wage differences between rich countries and poor countries are so huge that firms in rich countries cannot realistically compete globally through a low-wage low-skill strategy. Furthermore, in the aggregate, a low-wage strategy of competition erodes the buying power of consumers within the rich countries, and this too in the long run weakens those economies. Over time, therefore, it would seem that the low road is likely to be a bad strategy for capitalists, not just for their employees.

This obviously leads to the critical question of what it would take to change directions. To answer this question we will first examine three obstacles to change, three processes that make it difficult to move from the low road to the high road. We will conclude by briefly showing how a reinvigoration of the democratic affirmative state might help overcome these obstacles.

OBSTACLES TO MOVING FROM THE LOW ROAD TO THE HIGH ROAD

The core economic structures of a society are almost always difficult to change in any significant way. One of the reasons might be thought of as simple inertia: there are established ways of doing things, people have habits and interconnected sets of expectations, and mostly they are resistant to change. But there are also, for particular problems of institutional transformation, specific obstacles that get in the way of beneficial changes, and clarifying these may help identify ways of removing, or at least mitigating, the obstruction. We will look at three such obstacles to changing American capitalism in ways that would move us from the low road to the high road: transition costs, collective action failures in training, and deficits in worker organization.

1. *Transition costs*

Any significant change in strategies and structures of firms involves added costs. Managers must learn new ways of doing things; new training programs are costly and take time to integrate into a system; significant changes in technologies may be needed to be a successful high road firm. All of these costs of transformation constitute a significant obstacle to major changes. This barrier is especially acute when the time horizon of investors – the length of time in which they calculate their rates of return – is shorter than the time it takes to realize the economic gains from the organizational and strategic changes in the firm.

This “transition cost” problem is illustrated in figure 9.14. The figure tracks the ability of firms in a country like the United States to compete internationally over time. If firms stay on the low road their ability to compete declines gradually. If they adopt high road practices, then eventually their ability to compete significantly improves. The problem is the transition trough – the length of time in which the transition costs outweigh the competitive gains. If investors are always looking for the highest short-run rates of return, then they are unlikely to be sufficiently patient to accept this transition trough. They will either preemptively block the decision to embark on the transformation or will pull out their investments if it occurs.

-- Figure 9.14 about here --

2. *Collective action problem in training and skill formation.*

This is one of the examples of the free riding problem collective action we discussed in chapter 4. The kinds of skills that are most central to high road capitalist firms are flexible meta-skills developed through various types of general training rather than narrow job-specific skills. These meta-skills take time to produce and easily portable from one employer to another. Individual employers are often hesitant to provide extensive general training, both because of its cost and because employees can always leave. Because of the risks of providing good general training, employers have incentives only to provide the narrow job-specific training consistent with the low-road option. To overcome this collective action failure requires some form of active coordination among firms and some mechanism to discourage riding.

3*. Deficits in worker organization and participation*

This is a much more controversial argument. In the U.S. capitalist firms are generally very hostile to unions. Conservative commentators portray unions as bullies that interfere with the efficient functioning of the market. This is consistent with strong free market ideology: if you don't like your job or your working conditions, then you should quit. If you want to earn more money, then you should acquire more skills; this is your responsibility. As a consequence of the political strength of the interests that hold these views, labor law in the United States has been quite unfavorable to unions, resulting in one of the lowest rates of unionization among economically advanced countries.

One might think that weak unions might make it easier, not harder, for firms to make the necessary transformations to move from low road to high road strategies. After all, if unions were strong, the employers and managers would have to negotiate such reorganizations with organized labor and this would make the transformations more difficult.

There are two reasons why, in fact, strong unions facilitate high road capitalism. First, the presence of strong labor organization makes movement down the low road more difficult. A strong union can prevent drastic wage reduction and in other ways reduce the incentives for capitalist firms to seek low road solutions to competitive pressure. Second, and ultimately, perhaps, even more significantly, high road capitalism requires stable cooperation and trust between labor and management. High road capitalism involves much more complex relations between employees and employers than low road capitalism. In the latter, managers issue commands; workers do what they are told. High road capitalism requires active, creative participation by employees and a willingness for them to engage in on-going problem-solving within the firm. This requires mutual trust and a belief on the part of workers that employers will not unilaterally defect from collaborative practices. Strong working class organization both within firms and within the labor market potentially can play a strong role in creating the conditions for such trust and predictability by reducing the vulnerability of workers and imposing constraints on capitalists.

This argument is grounded in a specific view about the relationship between the degree of organization and participation of workers and the competitiveness of capitalist firms. Many people think that there is a simple, inverse relationship between worker organization and the competitiveness of firms: the stronger are workers organizations, the less competitive will be the firms in which they work. We believe, in contrast, that the relation looks more like the graph in Figure 9.15: As the power and organization of employees in a firm increases from very low levels, this initially interferes with profit maximizing strategies of firms, but once workers become sufficiently strong to forge robust relations of cooperation, then worker organization and participation become an asset, not a liability.[5]

-- Figure 9.15 and 9.16 --

In terms of this graph, the United States in the first decade of the 21st century lies somewhere to the left of the low point. This shows why, when competitive pressures increase, employers intensify their anti-union stance, for moving further up the left-hand part of the curve is easier than moving to the upward sloping part of the curve (see Figure 9.16). Movement to the high road requires traversing the trough in this graph, and this constitutes another obstacle to high road capitalism.

CLOSING OFF THE LOW ROAD, HELPING PAVE THE HIGH ROAD

Given these obstacles, if the United States is to move in the direction of high road capitalism, how should we think about process of overcoming these obstacles? The basic idea is pretty simple: public policies of various sorts need to be adopted to make it more difficult for firms to pursue low road strategies, in effect “closing off the low road.” Other policies need to be adopted to make easier for firms to adopt high road strategies; call this, with some sense of the environmental irony, “paving the high road.” And, inevitably, during transition, steps need to be taken to enable workers and firms now stuck on the first to get on the second. Let’s say a bit more about what kinds of policies would advance these goals.

Closing off the low road

Closing off or discouraging the low road basically means raising standards on firms through public policy or private action. One example of this is wage standards. People commonly think of “living wage” guarantees as good for poor people, and indeed they are. Providing assurance of decent wages at the bottom of the labor market helps the working poor, and tends to push up wages generally. But wage increases also have an important productivity effect. By making labor cost more, employers have more incentive to make it more productive. Better jobs also lead to workers sticking around longer, and they pick up additional skills in doing so.

The U.S. has largely abandoned efforts at such wage-led redistribution or productivity growth. Take minimum wages, a central part of the U.S. wage standard effort. A higher minimum wage would tend to discourage low road practices, but we’ve let it fall. As Figure 9.15 shows, in terms

[5] For a more extended discussion of this curvilinear relation between the strength of unions and the interests of employers, see Joel Rogers, “Divide and Conquer: Further ‘Reflections on the Distinctive Character of American Labor Law’.” *Wisconsin Law Review, 1990,* 13:1–147, and Erik Olin Wright, “Working-Class Power, Capitalist-Class Interests, and Class Compromise,” *American Journal of Sociology*, Volume 105 Number 4 (January 2000): 957–1002.

of real purchasing power, the minimum wage in the United States reached its peak in 1968 at around $8.00 in inflation-adjusted 2007 dollars. This declined (with various ups and downs) to just over $5.00 by 2007, the lowest value in real purchasing power since 1950. In 2007 increases in the minimum wage were enacted so that in 2009 the level had rise to $7.25, but this was still only at the level of the mid-1960s.

-- figure 9.17 --

These figures are particularly impressive given fantastic growth over in the same period in overall wealth and productivity in the United States. If the minimum wage in the U.S. had kept up with the growth of productivity in the U.S. since 1968 it would have been $18.30 in 2008.[6] Even if had only grown as fast as average earnings in the private sector (which grew more slowly than productivity), it would now be about $12.50.[7] In fact, the minimum wage has lagged so far behind the overall growth in the American economy that it has become largely (not entirely) irrelevant in labor markets. As late as 1980, some 15% of hourly workers were paid the minimum wage. By 2008, that had fallen to a mere 2.3% of hourly workers.

Another way that wages rise is through worker bargaining with employers in labor markets. Here, especially for less educated workers, it is important that individual workers be able to bargain with employers as a group. They simply lack the labor market position, as individuals, to move employers on their own. In America, as in most countries, the best means of collective bargaining is through independent worker organizations, or unions. As we still see in more detail in chapter 21, however, American labor law makes it particularly difficult for workers to form unions.

One could however, imagine raising the minimum wage much further, and connecting it to the rest of the labor market by indexing it to inflation or setting it to some constant share of the median wage. And one could imagine making it easier for workers to join with other workers in collective bargaining with employers. One could also imagine imposing higher environmental standards on employers, and conditioning any subsidies to them on performance, with "clawbacks" of those subsidies if they did not perform. We might also require employers to provide health insurance, or pay into a federal fund that did that, or require the same for worker training. All these sorts of policy steps would make it more difficult to pursue the low road option. They would effectively close it off.

Paving the high road

Encouraging higher wage and other standards, and facilitating collective bargaining, would be among the "sticks" needed to drive employers toward the high road. What about "carrots"?

A first answer to this question is that closing off the low road would, for many firms, be carrot enough. Relief from competition from low road firms would be of immediate benefit to

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[6] Between 1968 and 2008, labor productivity in the nonfarm private sector grew from 66.9 to 140.9 (using an index with 1992-100), or 110%. In 1968 the minimum wage was, in 1968 dollars, $1.60, which is the equivalent of $8.70 in 2008 dollars. Thus, if the real value of the minimum wage had grown at the same pace as productivity, it would have been $18.30 in 2008.

[7] The average hourly earnings in private industries in 1968 was $17.47 in 2007 dollars, and $26.13 in 2007. The total growth in mean earnings for the period was thus 49.5 percent. In 2008 dollars, the 1968 minimum wage was $8.70. Thus, if the real value of the minimum wage had grown at the same pace, it would have been $12.95 in 2008.

high road firms, or those wanting to get on the high road. It would give them some breathing room. At present, such “good” firms often pay the cost of “bad” ones. All else equal, firms that pay their fair share of taxes and offer their workers decent wages and health benefits, for example, are at a competitive disadvantage with firms that do none of these things. As if that’s not bad enough, however, they often wind up subsidizing the very firms that are unfairly outcompeting them.

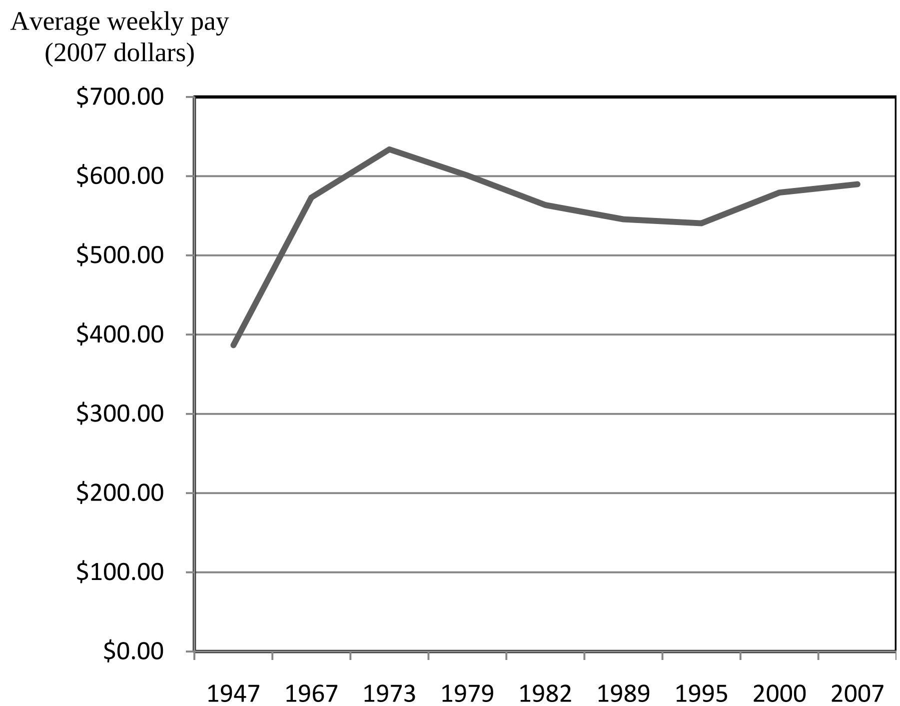
Just because a firm doesn’t pay its taxes doesn’t mean it won’t insist on police protection and basic infrastructure, which taxes pay for. Just because it doesn’t pay its workers enough even to owe taxes doesn’t meant that those workers won’t want the same sort of basics, and decent schools for their kids, and care at the emergency room or public clinic when the kids get sick, maybe even a safe park to play in. As economists are fond of saying, “there is no free lunch.” If some public good or service costs money, somebody’s paying for it. Low road firms, by externalizing those costs on to the rest of the society are the ultimate free-riders.

But if getting rid or eliminating their low road competitors isn’t enough, there are other things that society can do to make the high-road easier to walk for firms. What they need most, it turns out, is that institutional infrastructure we talked about before. They need decent schools and training systems whose costs they can share with other firms. They need help in making sure their remaining collective action problems are solved through partnerships with their competitors in producing specialized public goods of concern to them all. They need modernization services that alert them to new technologies to improve productivity. They often need help in getting through that transition trough.

Other countries, more than the U.S., recognize these things. They have long since decided to take the high road, recognize that it’s the only way they will prosper in a world with an awful lot of poor people who want to live as well as we do. They invest in public goods — education, advanced transportation and communications infrastructure. They reduce their waste — of energy, people, non-renewable physical resources of all kinds. And they and their working classes make sure that, for that effort, they capture some of the productivity gains that result.

We know such a high road is perfectly possible under capitalism, since other capitalist democracies are pursuing it. We just haven’t made up our minds, and gotten organized, to do that in the United States.

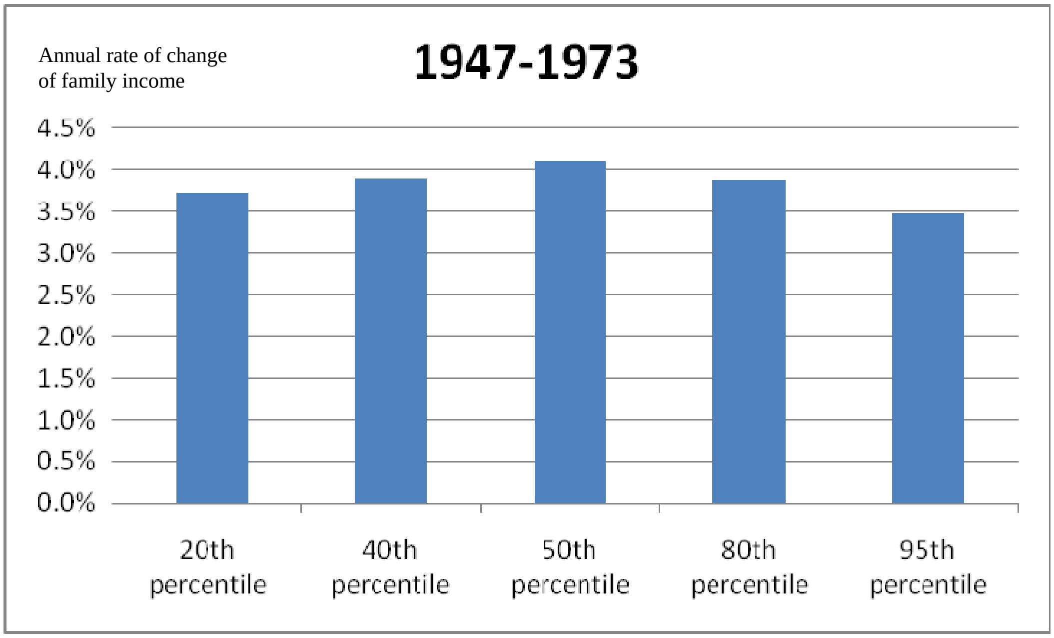
Figures & Tables for Chapter 9

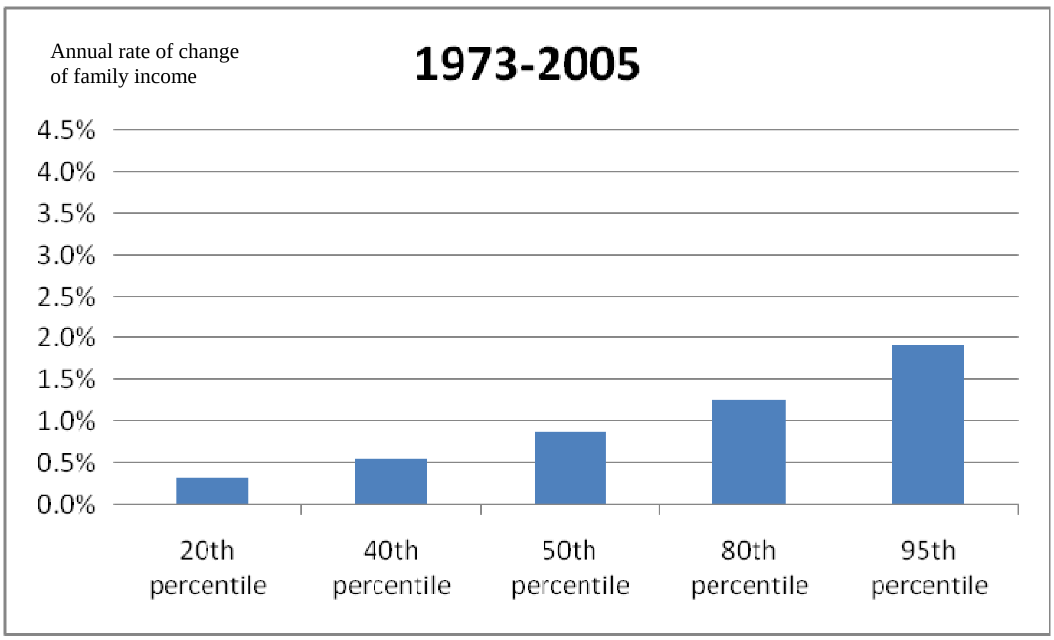


Note: Figures are for private production and nonsupervisory employees who account for more than 80% of private wage and salary employment,

Source: *The State of Working America, 2008/9.* Table 3.4

Figure 9.1
Average real weekly earnings of private production and nonsupervisory workers, 1957-2007 (2007 dollars)

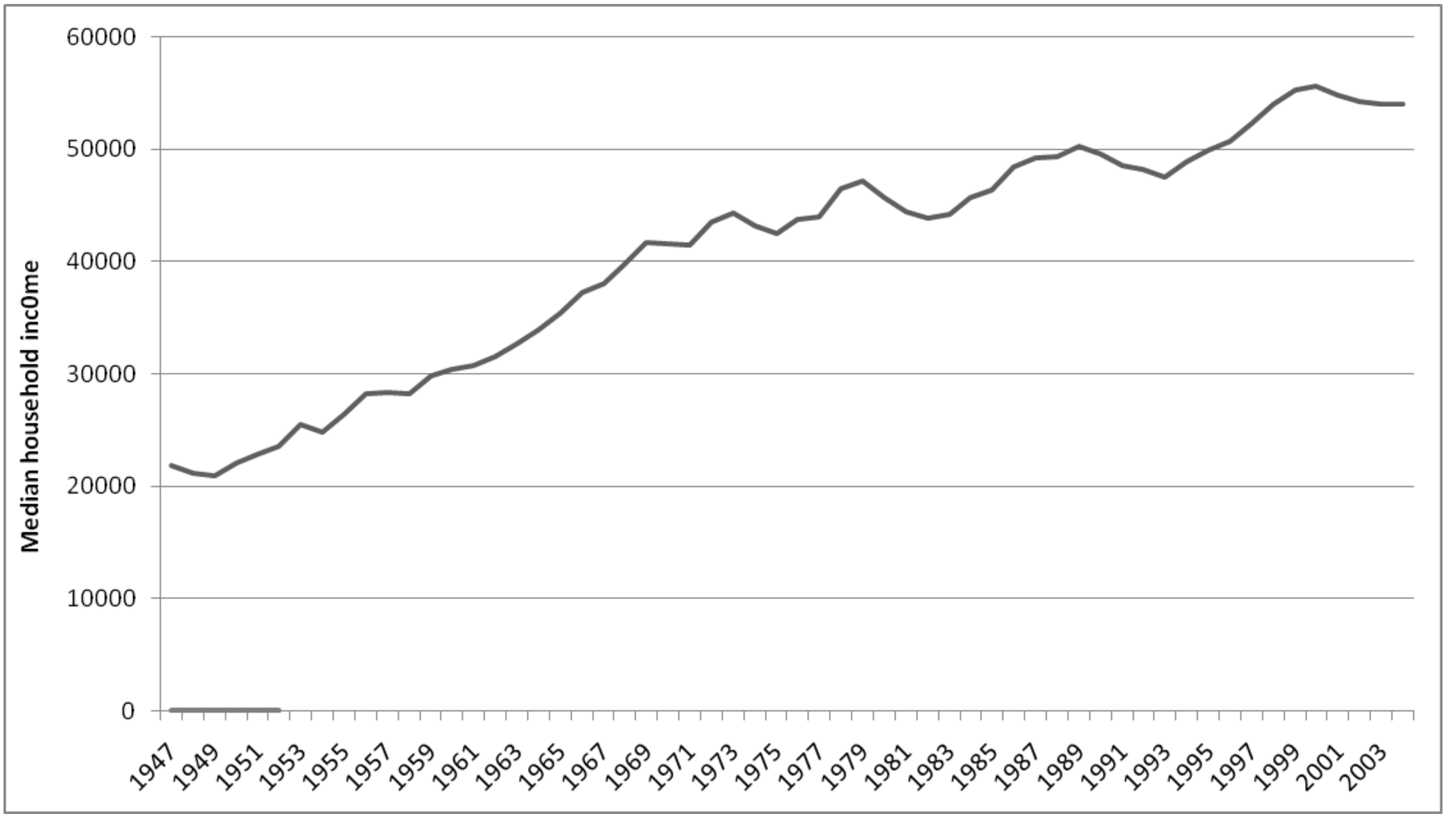




Note: *Income is measured at the upper limit of each income group*

Source: State of Working America, 2006/7 Table 1.10

Figure 9.2
Rate of Gorwth of family income by income group, 1947-2005.

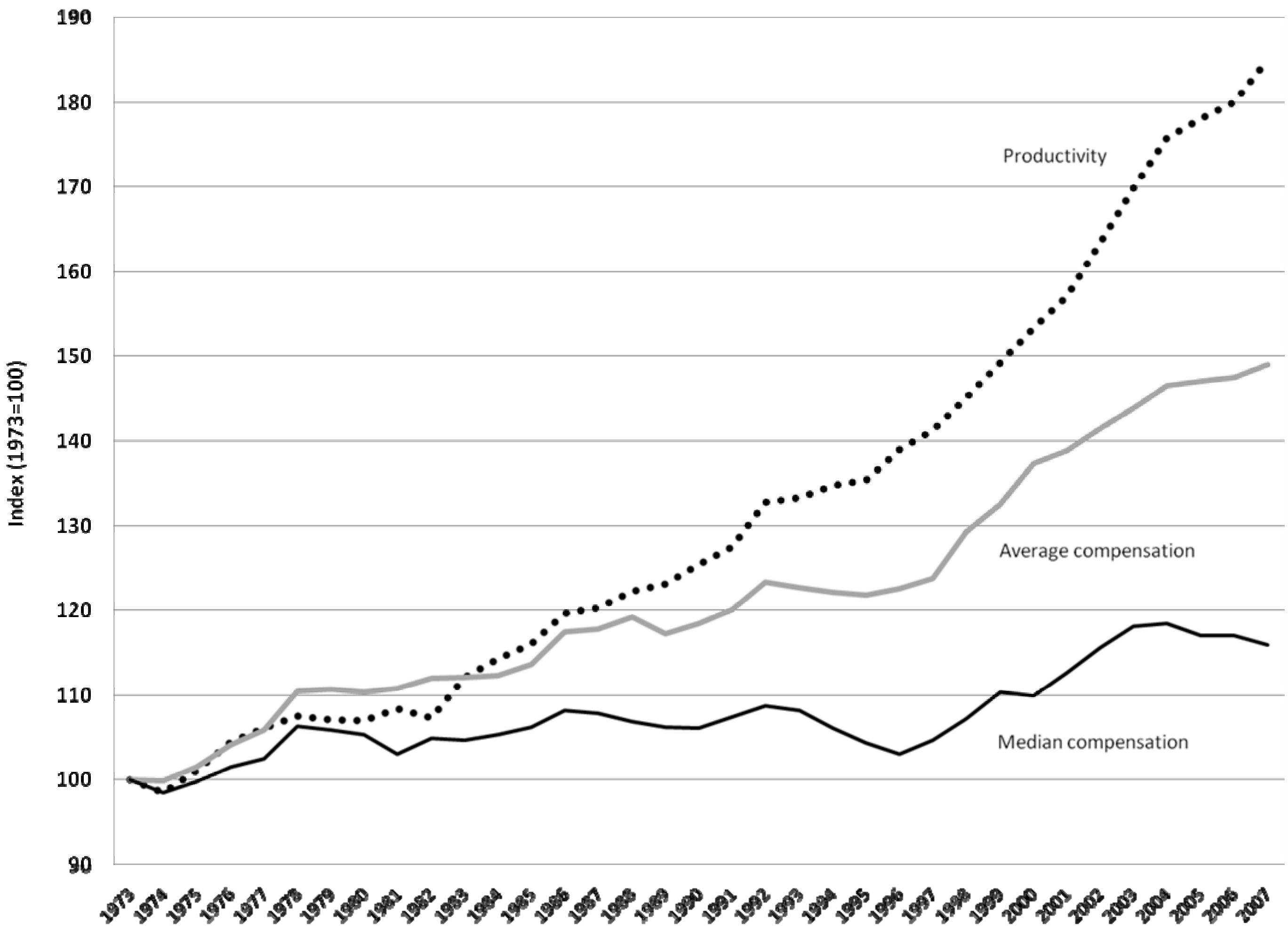


Source:

Figure 9.3
Median household income, 1947-2004

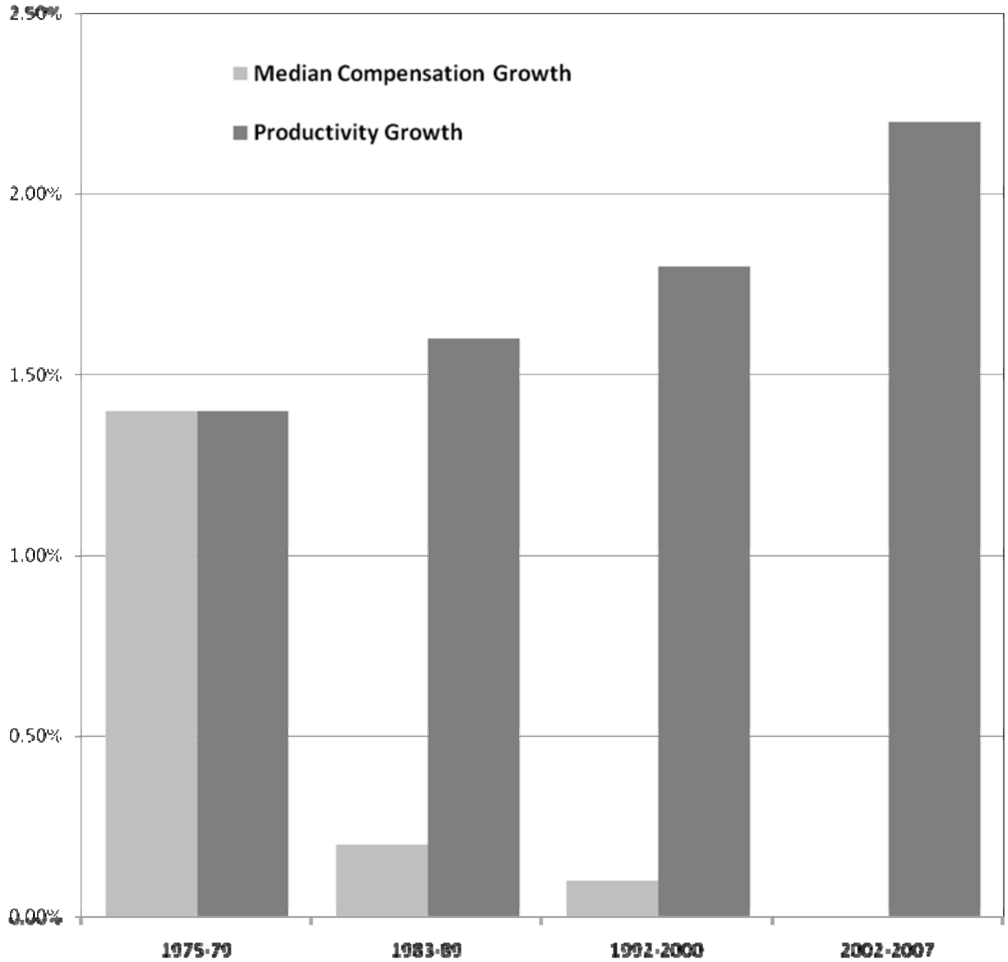
Source: SWA 2008/9. Tables 3.5 and 3.7

Figure 9.4
Median real hourly wages for male and female employees, 1973-2007 (2007 dollars)



Source: Source: The State of Working America 2008/9, figure 3O

Figure 9.5
Trends in productivity and median earnings, 1973-2007



Source: State of Working America, 2008/9 Table 3.1

Figure 9.6
Annual growth rates in productivity and compensation during periods of economic expansion, 1975-2007

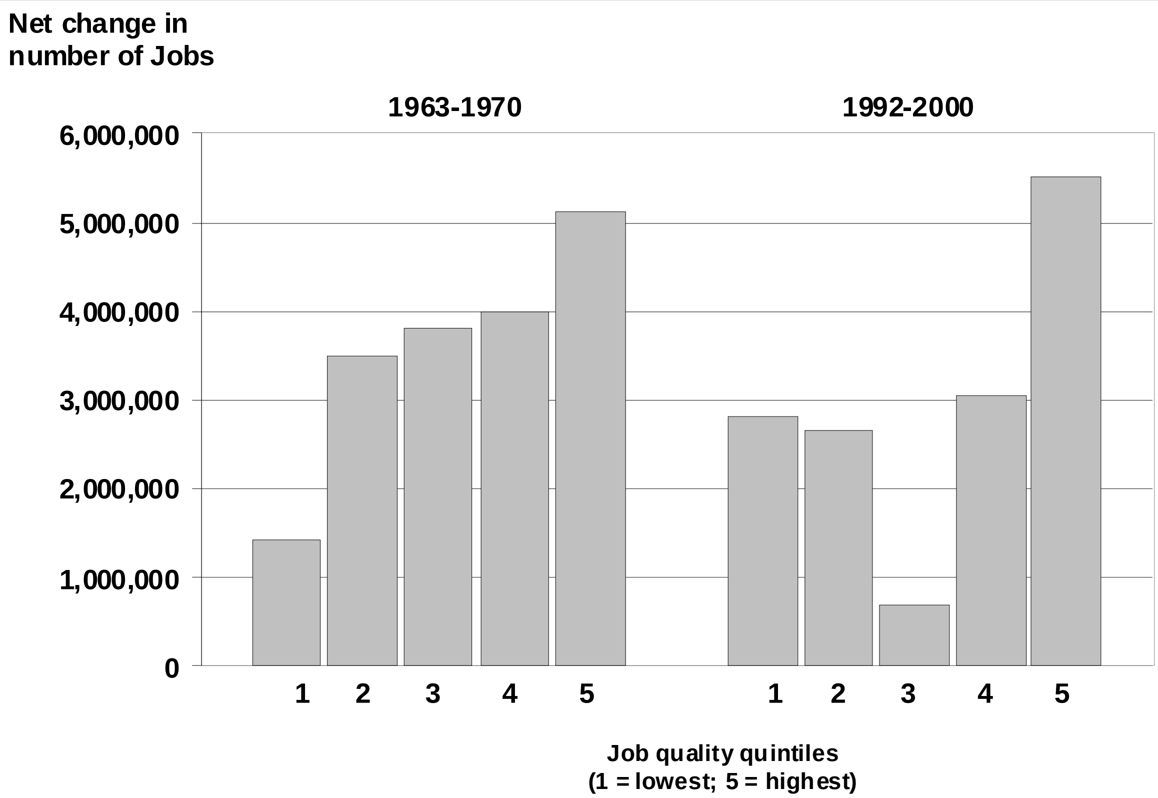


Figure 9.7. Patterns of Job Growth in the 1960s and the 1990s

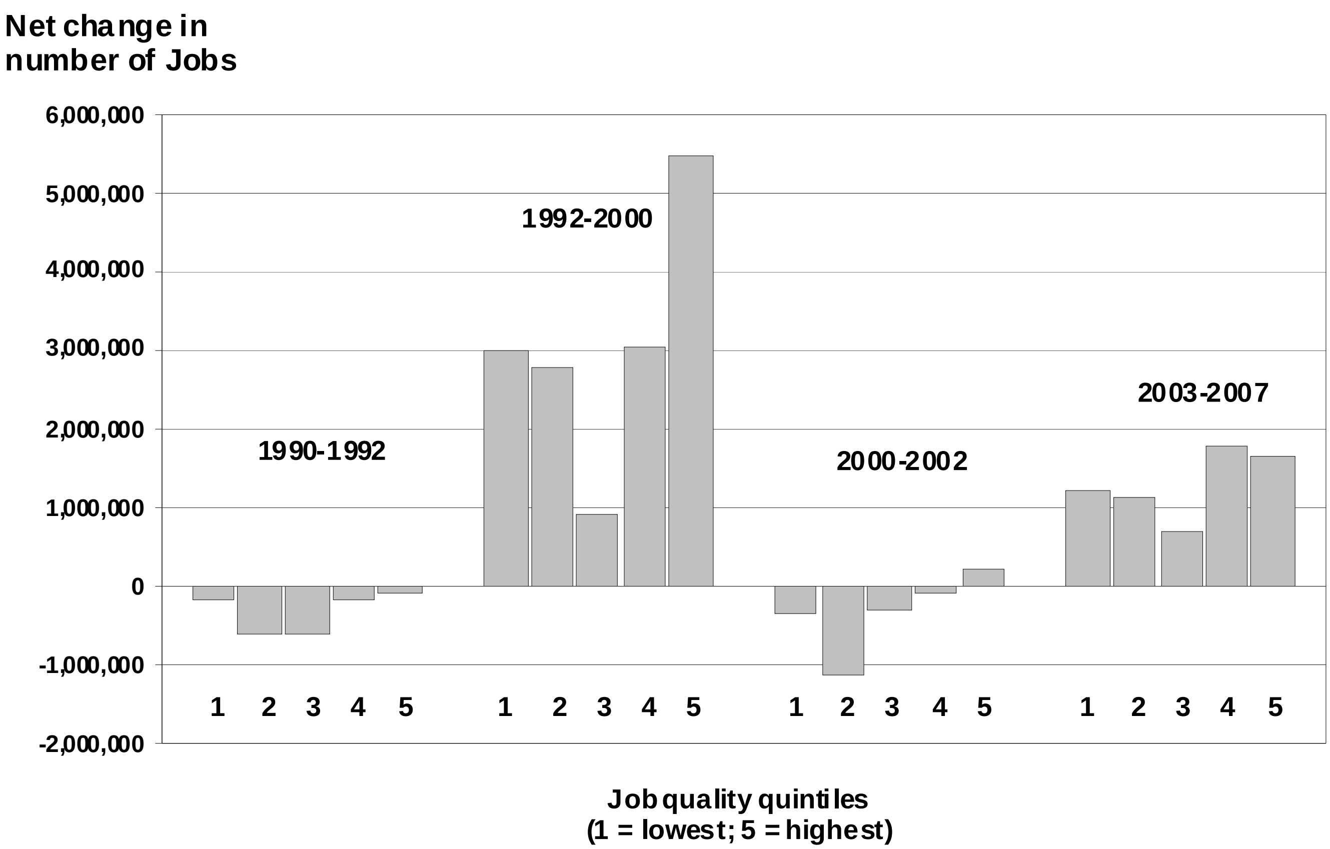


Figure 9.8. Patterns of Job Growth and Decline, 1990-2007

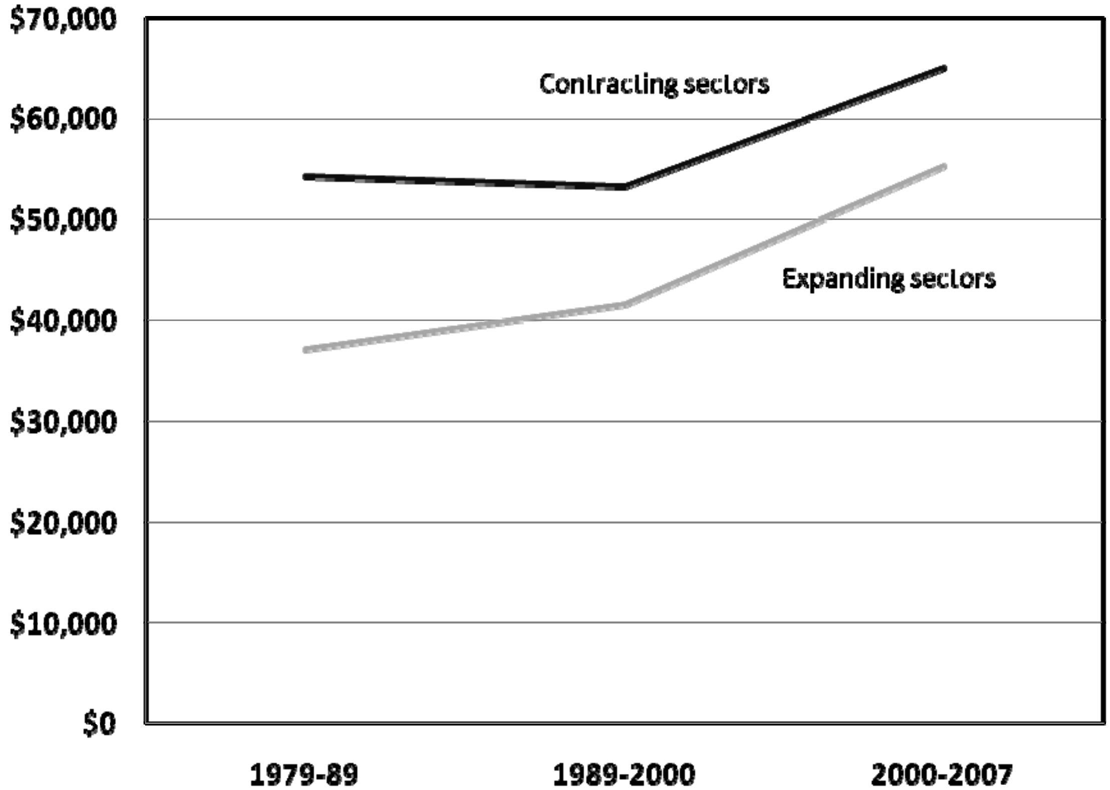
ECONOMIC SECTOR	1979	1989	2000	2007	Hourly Compensation 2005	Percent college graduate, 2005
Goods producing	**27.8%**	**22.3%**	**18.7%**	**16.1%**	**$29.37**	**18.6%**
Mining	1.1%	0.7%	0.5%	0.5%	$37.07	15.6%
Construction	5.1%	4.9%	5.2%	5.5%	$28.48	9.6%
Manufacturing	21.6%	16.7%	13.1%	10.1%	$29.47	23.3%
Service Producing	**72.2%**	**77.7%**	**81.3%**	**83.9%**	**$23.58**	**32.0%**
Transportation, utilities	4.0%	3.8%	3.8%	2.7%	$20.48	16.9%
Wholesale trade	5.0%	4.9%	4.5%	4.4%	$27.44	25.5%
Retail trade	11.3%	12.1%	11.6%	11.3%	$15.23	15.9%
Information	2.6%	2.4%	2.8%	2.2%	$36.38	42.4%
Financial, insurance, real estate	5.4%	6.1%	5.8%	6.0%	$32.80	39.4%
Other services	26.0%	31.8%	37.0%	40.1%	$22.86	37.0%
Government	17.9%	16.6%	15.8%	16.1%	$36.55*	49.4%

*Figure is for State and local government employees only

Source: *State of Working America, 2008/9 Table 3.25*

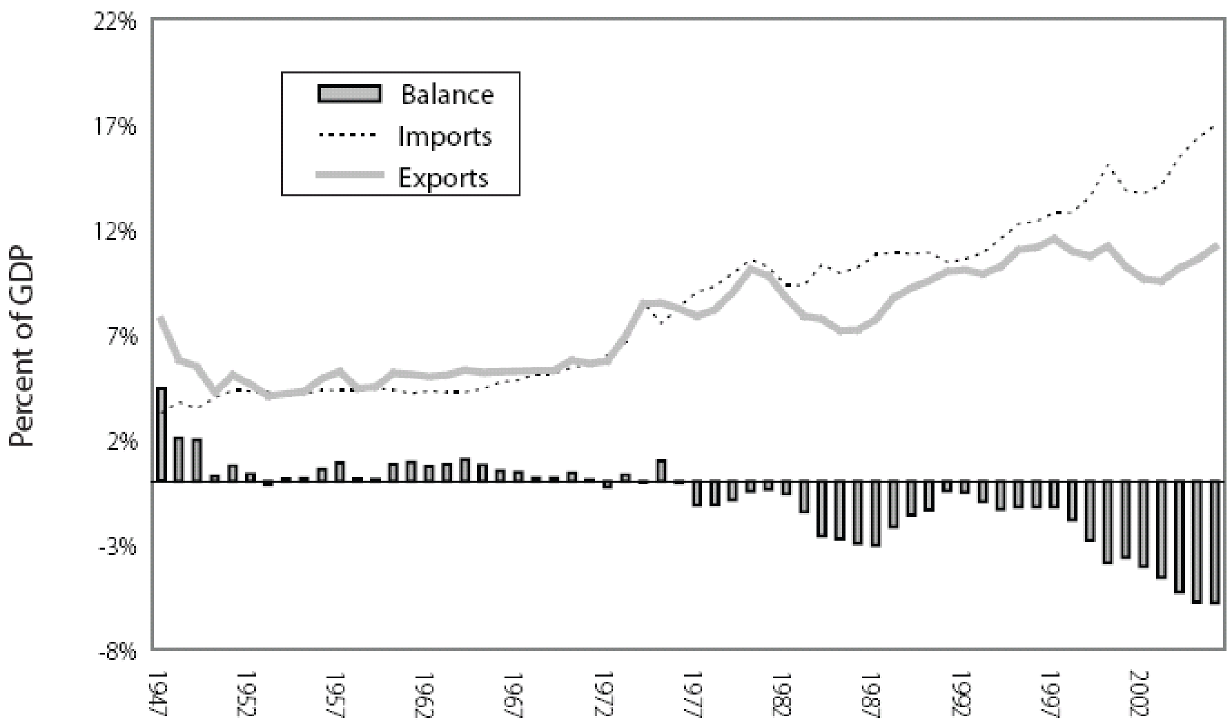
Table 9.1 Employment distribution across economic sectors, 1979-2007

Annual compensation
in unadjusted dollars

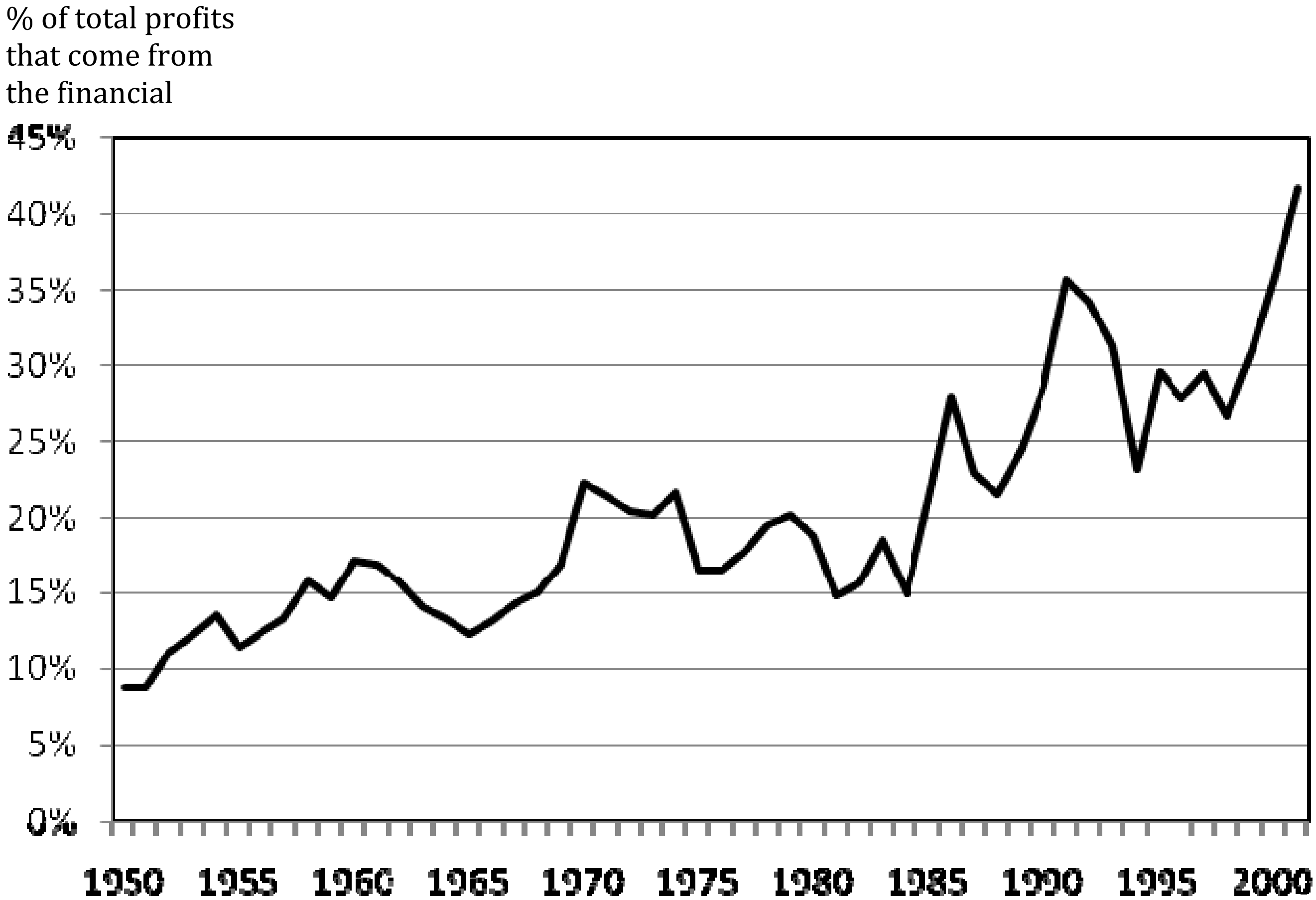


Source: *The State of working America, 2008/9* Table 3.26

Figure 9.9
Annual Pay in Contracting and Expanding Economic Sectors, 1979-2007



Source: *the State of Working America 2008/9* Figure 3V.
Figure 9.10
Imports, Exports, and trade balance as a percent of GDP, 1947-2007



Source: data provided by Greta Kripner

Figure 9.11
Financialization of the American Economy

	"Low Road" Capitalism	"High Road" Capitalism
Competitive strategy	Primarily price	Primarily value (uniqueness, performance)
Product market	Mass goods, homogeneous products	Diversified, high performance goods and services
Jobs	very specialized	multitask
Skill level and scope	Low, narrow	High, wide
Training	Limited, job specific	Extensive, including meta skills
Job autonomy	Low	High
Incentives	Punishment, fear of being fired	Promotions, future job prospects, pay raises, bonuses
Hierarchy	rigid differentiation of managers and workers with many managerial layers	low differentiation of managers and workers with few layers
Wages	relatively low wages	relative high wages
Environment	Low attachment if any	Higher attachment via attention to production waste & concern for community quality
Attachment to place	As little as possible	Higher, given dependence on institutional infrastructure

Table 9.2 High Road and Low Capitalism

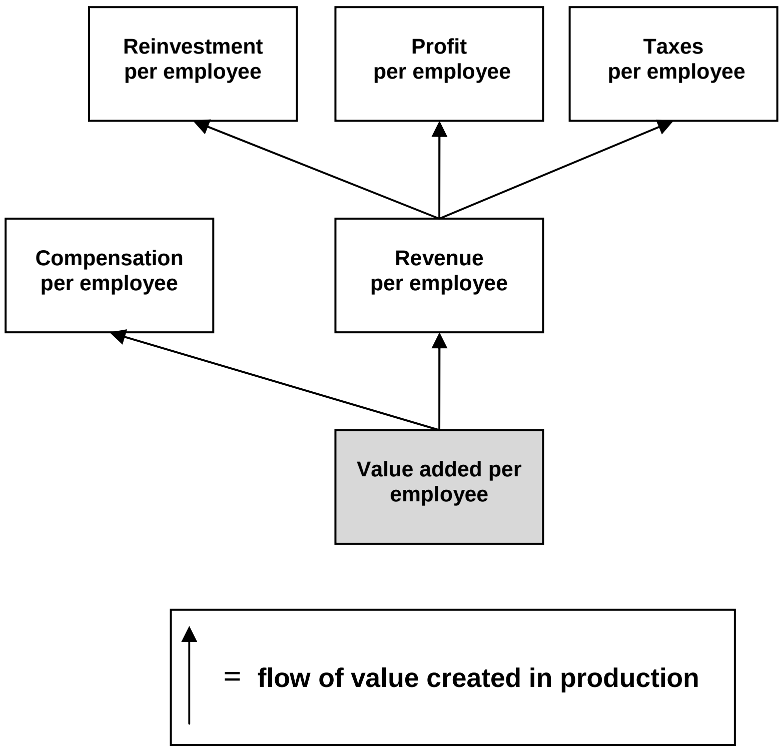


Figure 9.12 Internal Cost Structure of Firm

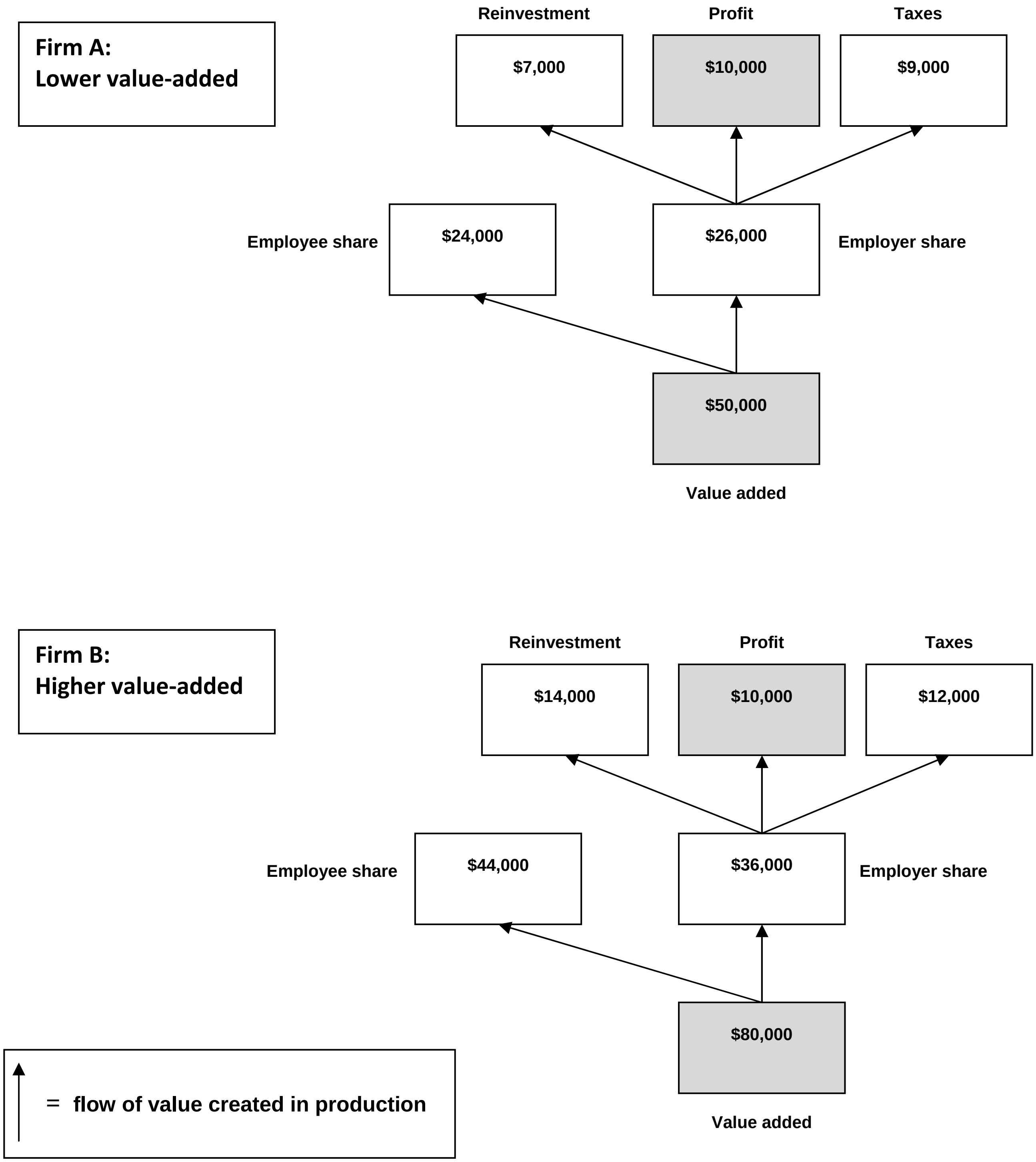


Figure 9.13
Illustration of two firms with same profits per employee but different amounts of value created in production

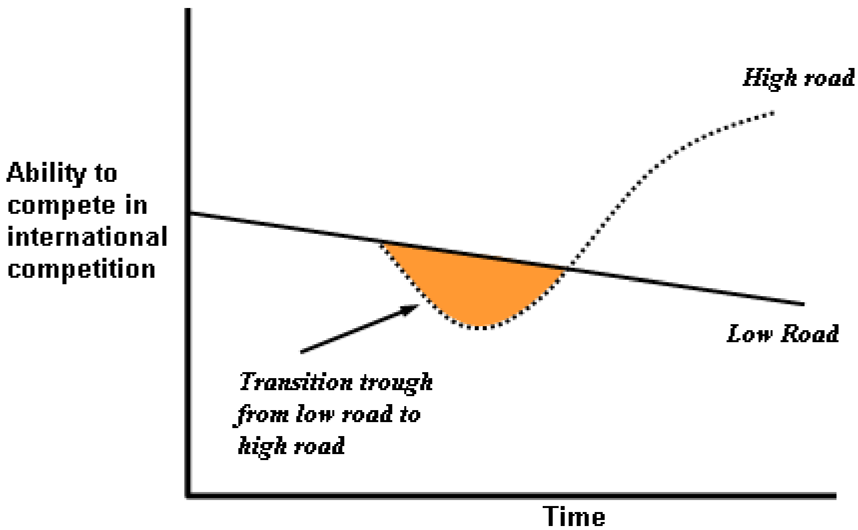


Figure 9.14 The transition cost problem

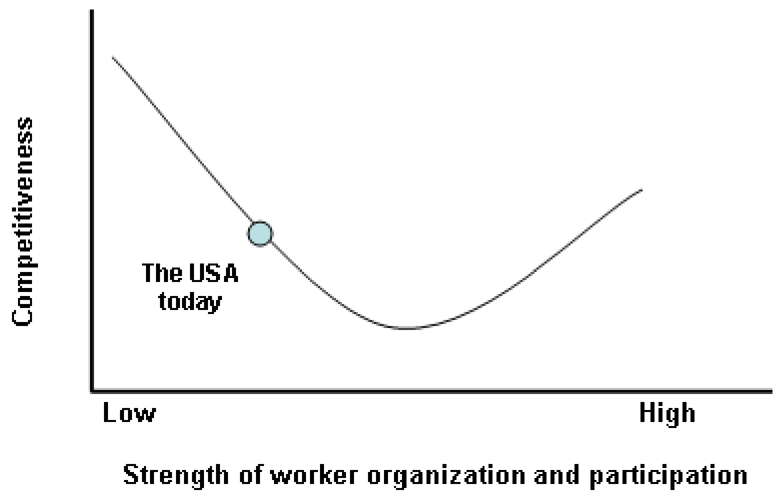


Figure 9.15
The relation of worker organization and participation to the competitiveness of capitalist firms

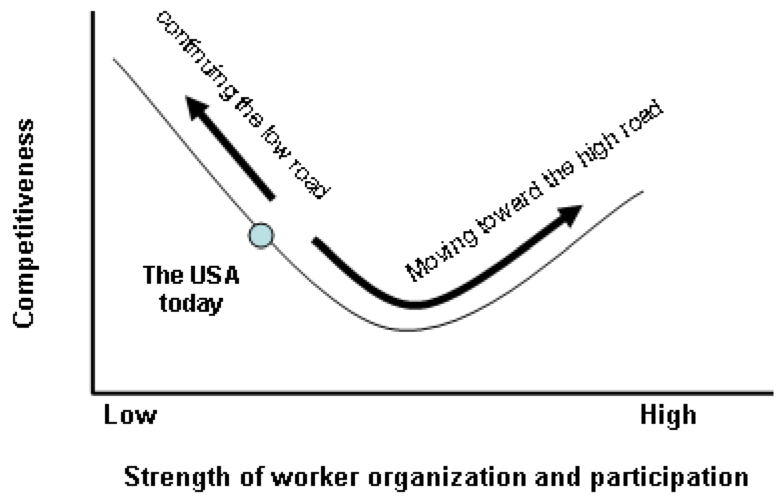
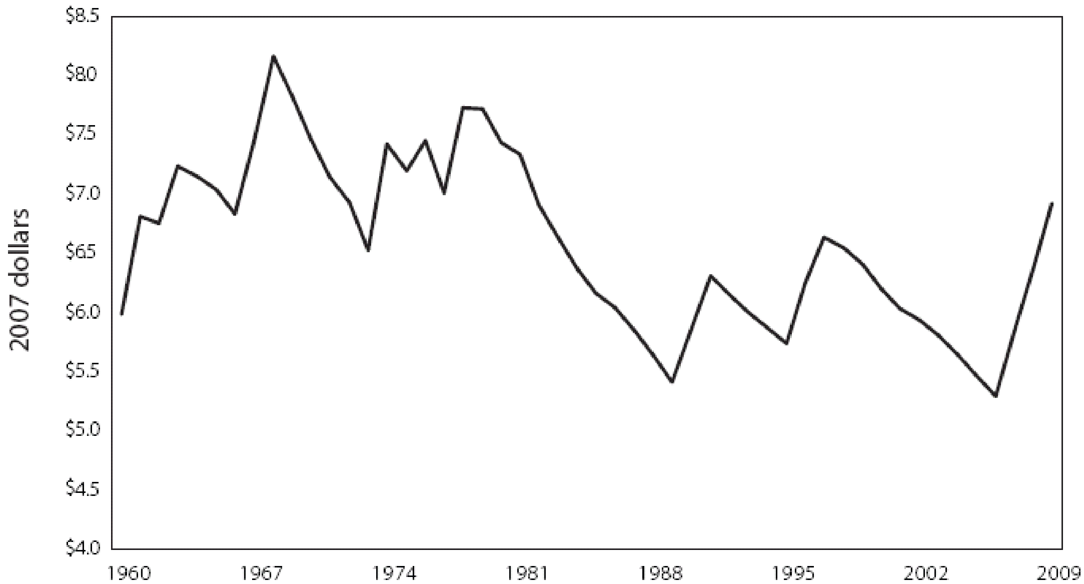


Figure 9.16
Worker organization and high road capitalism



Source: *The State of Working America 2008/9,* Figure 3AA

Figure 9.17
The Real value of the minimum wage, 1960-2009

PART II
FAIRNESS AND INEQUALITY

Final draft, August 2009

The next six chapters explore the problem of fairness and inequality in American society. Inequality is central to moral concerns in thinking about social institutions. Nearly everyone thinks that certain kinds of inequality are unfair. In contemporary American society, for example, few people would defend inequalities in legal rights based on race or gender or religion. There are other kinds of inequalities that most people feel are just facts of life and are not of any general moral concern. There are great inequalities in physical strength among people, and while this may matter in some contexts, few people see this inequality in and of itself as morally troubling. And, of course, there are inequalities whose moral standing is deeply contested. Consider the following:

- In 2007 the average CEO in the United States earned about 340 times the average nonmanagerial employee.
- While women make up nearly 45% of the labor force, only about 3% of the Chief Executive Officers of the largest U.S. corporations are women.
- Young African-American men are 7.5 times more likely to be in prison than white men of the same age.
- Roughly one out of five children in the United States live in poverty.
- The probability of the son of a manual worker becoming professional is ?% that of the son of a professional.

To varying degrees, the claim that each of these is an example of an unjust inequality is contested. These disagreements are linked to disagreements over the underlying explanation of the specific inequality: if the explanation for why women are less represented among top managers is simply that they freely choose other kinds of career paths, then many people would conclude that there is nothing unfair about the inequality of outcomes; if young African-American men commit six times more crimes than young white men, then their disproportionate imprisonment might not be viewed as reflecting an injustice; if the children of manual workers are less academically talented or motivated, then many people would feel that there is nothing unfair in their having a lower chance of becoming a professional. But the contested quality of judgments about the fairness of inequality may also depend upon underlying philosophical views about what makes an inequality fair or unfair. Many people would argue that it is unfair for a CEO to earn 400 times an ordinary worker even if this pay differential is the result of free market competition and meritocracy, and that it is unfair in a rich society for children to live in poverty regardless of the explanation for why their parents lack adequate income.

In this part of the book we will explore the kinds of inequalities in contemporary American society that raise moral issues of fairness and injustice. We will begin in chapter 10 by clarifying what we mean by fairness and its relationship to the problem of social and economic inequalities. Chapter 11 will then explore a particularly salient concept in the analysis economic inequality, class. Chapter 12 will examine the empirical patterns of poverty, wealth and inequality in the United States today, and discuss the alternative explanations for these patterns. Chapter 13 will examine possible remedies to both extreme inequality and poverty in the U.S. Chapter 14 and 15 will shift our attention from economic inequalities to inequalities rooted in what sociologists call “ascriptive characteristics” – characteristics that a person is born with. Chapter 14 examines racial inequality in the United States, briefly charting its historical development and variations, paying particular attention to the deep connection between racial inequality and class. Chapter 15 explores the dramatic transformations of gender relations since the middle of the 20^{th} century and the remaining forms of gender inequality which pose challenges today.

Chapter 10
Thinking about fairness and inequality

Final Draft, August 2009

In most societies there are certain broadly shared beliefs about what is socially just and unjust, what is fair and unfair. Here is the basic problem: we observe some empirical case of social inequality – some people are better off than others or their lives are more fulfilling than others or they are healthier than others. These are observations. And we ask: is the observed inequality just or fair? Does the inequality violate some principle of justice? Now, some inequalities are simply cases of bad luck – one person gets hit by lightening, another does not. There is a dramatic inequality in their fates. And there is a sense, of course, in which one could say (as kids do): that's not fair; the person who got hit by lightening "didn't deserve it." Such expressions reflect a deep moral intuition that most people have: *people should get what they deserve and deserve what they get.* This is why when someone gets struck by lightening we say "that's so unfair, they didn't deserve that."

When we talk about a *social* injustice – not just the unfairness of bad luck – what we mean is that there is an inequality which is unfair *and which could be remedied* if our social institutions were different. Something *could in principle* be done about it. When we say that it was a social injustice for African-Americans to be denied admission to all-white universities before the end of racial segregation in America what we mean is that it was not just "bad luck" to be born black and thus denied admission, but that this grossly unfair inequality in educational opportunity could have been remedied by a change in social institutions. This does not mean, of course, that it was *politically* possible to remedy that injustice in the 1920s or 1930s. Racial segregation was always a profound social injustice, as was slavery before it, but the social forces supporting segregation were so powerful and cohesive that until the 1950s and 1960s they were able to successfully repress struggles against segregation and maintain those institutions. The claim that an inequality is unjust, therefore, can be seen as an indictment of the way in which existing configurations of power block the social changes needed to reduce or eliminate the inequality in question.

Discussing problems of social justice quickly becomes really complicated, since a diagnosis of injustice really requires two judgments: first, a *moral judgment* that an inequality is unfair, and second, a *sociological judgment* that this unfairness could be remedied by a social change. It's not fair that some children are born with physical disabilities – they don't "deserve it". But it is not in and of itself necessarily a social injustice.[1] What becomes a social injustice is if there are things we could do to minimize the effects on people's lives of the unfairness of such "bad luck" and fail to do so. The lack of curb cuts in sidewalks is an injustice for people in wheelchairs. The lack of affordable prosthetic limbs is an injustice for amputees. To insure that curb cuts exist requires a change in rules governing urban planning. To insure that everyone who needs a prosthetic limb can afford one requires a change in the rules governing access to medical services. Both of these constitute social changes. And since

[1] Being born with a disability could itself be a social injustice if the disability was itself the result of a social injustice, such as lack of access to good prenatal medical care by the mother.

remedies such as these involve changes in the uses of resources, they almost inevitably trigger resistance and conflict from those who stand to lose from the social change.

When there is an inequality that is also an injustice – that is, an unfair inequality that could be remedied -- we can expect there to be a set of power relations operating in the situation which block the necessary remedies. Injustices do not continue just because of some law of inertia; they continue because people are unwilling to pay the costs to remedy the injustice and they have sufficient power to avoid doing so. This combination of inequality, injustice, and power is what we will call *oppression*.[2]

In this chapter we will focus on the moral dimension of inequality and try to clarify what we mean when we say that an inequality among people is unfair. We will later talk about remedies.

The Justice and Injustice of Inequalities: Fair Play v*ersus* Fair Shares

Consider, first, an easy case: Two farmers each have identical plots of land for gardens. Each has the same time and resources available for growing vegetables. One works hard, the other does not, and at the end of the summer one has lots of produce and the other has little. Most people would say that there is nothing unfair in this inequality. To be sure, something could be done about it – you could redistribute the tomatoes. But most people would say that *that* would be unfair: the lazy gardener would then have a summer of leisure + equal tomatoes with the farmer who worked hard all summer. This would be an injustice to the hardworking farmer.

Most examples of inequality we observe in a society like the United States are not so simple. Let's examine three additional cases, one of which almost everyone would consider an example of injustice, one of which most people would not, and one of which would be a source of disagreement:

Case 1. A police chief will only hire personal relatives – sons, daughters, cousins – as police officers.

Case 2. A small shop-owner is only willing to have his son or daughter become a co-owner of the store.

Case 3. In the United States, one of the richest countries in the world, there are millions of people, children and adults, who live in desperate poverty.

In the first case there is a consensus – at least in liberal democratic capitalist societies – that it is unfair for a public official to only hire family members into jobs. Nepotism is widely considered unfair. In the second case there is also little disagreement. A small shop owner has the right to decide who will or will not be a co-owner of the business. As long as the shop owner is the legitimate owner of the business and acquired it in a legitimate way, then most

[2] Words like "oppression" have considerable emotional bite for they are laden with moral judgments. Some sociologists argue that such terms should be kept out of sociological analysis. In this view it is fine to use descriptive terms like "racial inequality", and perhaps even racial *domination* – since defining a group as "dominant" does not inherently imply a moral condemnation. But a term like "oppression" should be avoided because it invokes inherently contested moral stances. We feel that coming to terms with the moral issues bound up with inequalities – and thus making a judgment about the justice or injustice of existing social arrangements – is an essential part of social science, and thus words like social justice and oppression are needed to make these judgments explicit.

people would say there is nothing unjust in deciding that only family members can become co-owners rather than someone else who might be more qualified.

For the third case, however, there is a lot of disagreement. Many people believe there is nothing unjust about having lots of poor people in a rich country; it is too bad, but not necessarily unjust. The argument usually goes something like this: The United States is a land of opportunity, and even if it is not exactly true that everyone has *equal* opportunity, nevertheless there is *ample* opportunity for anyone who works hard to make it. Like the lazy farmer who ends up with little produce at the end of the summer, poverty is largely the fault of those who are poor. And besides, as libertarians like to argue, the rich and successful have a right to what they have earned through their own efforts, and it would be an injustice to force them to help the poor. On the principle of "two wrongs don't make a right" it is unfair to take from the rich to give from the poor *even if* the poverty itself is unfair.[3] Other people argue that poverty in the midst of plenty represents a deep injustice. While there may be some cases of poor people who have squandered their resources and opportunities, most poor people do not bear full responsibility for their condition of poverty, and certainly poor children bear no responsibility for their deprivations. Much of the inequality in contemporary American society is the result of injustices in the ways in which our institutions and rules are organized rather than the outcome of lazy or irresponsible behavior within a fair process. What is more, if there is a problem of self-destructive behavior in poor communities – what some sociologists call a "culture of poverty" – this is largely the result of the despair and alienation generated by the objective deprivations, disadvantages and lack of opportunities people face in those communities. These are quite sharply polarized views and underlie many of the political disagreements about what, if anything, should be done to reduce poverty.

Why does it matter whether or not you think some form of inequality is unjust? This matters because when people feel something is unjust they are more likely to support efforts to change social institutions than when they think it is just. People are often willing to do things that go against their own personal interests when they think this is necessary for justice. Many affluent people, for example, believe that it is unjust in a rich country for poor children to be hungry and that therefore it is a good thing to use taxes to pay for food stamps and health care for poor children, even though they pay the taxes. So, the stakes can be quite high in deciding who deserves what, what kinds of inequalities are justified, what kinds violate principles of justice, and what should be done to redress an injustice.

Let us now look more closely at different ways of understanding what it is that renders an inequality a matter of injustice. A useful contrast between two ways of thinking about the fairness of what people get is captured by the expressions *fair play* and *fair shares*.[4]

In the fair play conception, inequalities are fair so long as the rules by which people compete for valued goods are fair. The key metaphor is of a sporting competition. In sporting events there are winners and losers, and the losers have no complaint as long as there is an equal playing field, no cheating, and a fair umpire. In the world at large, if there is no

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[3] The libertarian argument acknowledges that it might be morally desirable for the rich to help the poor, but that forcing them to do so would nevertheless be a violation of their rights. The most influential contemporary elaboration of this view is by Robert Nozick in *Anarchy, the State, and Utopia* (New York: Basic Books,1974).

[4] The use of the contrast between fair play and fair shares as a way of understanding the moral dimension of inequality comes from William Ryan, *Equality* (Pantheon, 1981)

discrimination and no artificial barriers to each person's "pursuit of happiness", then high levels of inequalities of outcomes are fair and just. Or, to use another common way of expressing this idea, so long as there is something approximating *equal opportunity*, inequality of results is unproblematic.

In the fair share view of equality and inequality, everyone is entitled to a share of society's resources sufficient to live a dignified, flourishing life. "Sufficient" means having enough to be able to participate fully in the exercise of rights and liberties, to be able to exercise personal freedom and develop one's talents. Particularly in a rich society, everyone has a basic human right to good health care, to decent housing, adequate nutrition. It is not enough that there is a fair competition for these valued goods; the losers in that competition still deserve a "fair share" of society's bounty.

Both principles are deeply embedded in American life, but fair play is the dominant view. Most Americans believe that so long as everyone has equal opportunity, then inequalities in what people earn don't really matter. Bret Favre and Bill Gates deserve their high incomes because they didn't cheat to get what they get, they worked hard, they competed fairly. They get what they deserve and deserve what they get.

Still, for many people there is a niggling sense that, by itself, fair play in the distribution of income and other valued goods is not an entirely satisfactory principle. While suffering because of "bad luck" is consistent with a fair play doctrine – after all, many athletes lose competitions because of random bad luck – it seems a little harsh to treat bad luck in life the same way we treat bad luck in a football game. In addition to the ideal of equal opportunity, therefore, many – perhaps most – Americans also feel that everyone has at least a right to have their basic needs met, and at least some Americans believe that everyone has a right to live above the poverty level. Inequalities *above* that level may be justified on the basis of fair play, but everyone has the right to live above poverty and thus the fair shares principle should prevent inequality from pushing people below poverty.

Even if one rejects fair shares as a general argument for redistribution, there is another fundamental problem with fair play as the exclusive moral principle governing acceptable inequality. This concerns the fate of children. So long as children are raised in families, then large inequalities in the life circumstances of parents profoundly undermine equal opportunity for children. At first glance it seems that fair play and fair shares are radically different ideas: the former concerns the fairness of opportunity to acquire income and says nothing about the actual distribution; the latter says nothing about the process of acquiring income, but focuses only on the fairness of the shares people acquire. In reality, however, these two principles interact, especially in the lives of children: If we want to have children with remotely equal opportunities in life, then we cannot allow any children to grow up in conditions of dire poverty and large inequalities. This means that if you are really serious about the fair play idea of equality of opportunity, then you also have to consider the problem of the distribution of outcomes – fair shares – as a means for achieving even rough equality of opportunity – fair play. What this means is pretty radical: high levels of inequality in income and wealth undermine the principles of fair play itself.

Complications: Defenses of Unjust Inequality

Even if you decide that having poor children in a land of plenty is unjust because it violates the principles of both fair play and fair shares, this does not necessarily imply that it would be justified to redistribute wealth and income to remedy the situation. There are two sorts of reasons one might give to defend maintaining unjust inequalities: First, the means needed to rectify the injustice may themselves violate some other important value, and second, there may be pragmatic reasons why it would be a bad idea to redistribute income.

The problem of conflicting values

At the center of the idea of the value of fair play is equality of opportunity, and in contemporary American society, at the core of equality of opportunity is equality of access to education. To insure that all children have even approximate equality of educational opportunity, however, would require putting significant restrictions on what parents are allowed to do for their children. Specifically, rich parents would not be allowed to send their kids to expensive private schools or pay for expensive private tutoring for standardized exams because this would give their kids an unfair advantage. So long as parents are free to spend whatever they like on their children, then they can purchase advantages which violate equality of opportunity. The principle of justice of fair play, therefore, would justify imposing such restrictions on parents. But we also place a high value on parents being able to help their children – both because we value the parent/child nurturance relationship and because we value freedom of people to make choices in how the spend their money, and giving special help to your child is such a choice. So, to truly and deeply rectify the unjust inequality of opportunity for education of poor children conflicts with other important values. When such conflicts of values occur, it is always a very difficult problem to figure out how to manage the trade-off, how to balance the compromise between the two values.

If, on balance, one decides that the value of freedom of choice and parental autonomy to help their children is so much more important than the value of fair play that it must be fully respected, then one is stuck with the unpleasant fact of supporting the perpetuation of a social injustice. The inequality in opportunity doesn't magically become just simply because some other value – parental autonomy and freedom to spend one's money – is seen as more important. Defenders of parental rights and property rights (i.e. rights to do with one's money what one chooses), therefore, should honestly admit that their strong support of these rights generates an injustice.

The implication of this conflict of values is that the distribution of income and wealth that results from these unjust unequal opportunities would itself be unjust. This, then, means that the arguments for redistribution on the basis of the principles of fair shares gain strength, since under these conditions the shares that go to the children of wealthy adults are clearly unfair *by the very criterion of fair play.* The ironic result of these conflicting values is thus the following: *If* you believe strongly that parents should have the right to give special advantages to their children, then you should also support a redistribution of income to counteract the unfairness of the resulting income distribution.

The Pragmatic issue: is inequality "good" for society?

A "Pragmatic" argument for something is an argument that focuses on practical consequences and conditions rather than strictly on moral issues. In addition to conflicting values, many people argue that inequalities – even if unfair – should not necessarily be significantly reduced because *the poor may be made worse off by redistributing wealth or income to them*. In the extreme case imagine that it were the case that if we redistributed wealth in a significant way the economy would collapse which would result in the poor starving. Remember, in the end a social injustice is an unfair inequality *that can in principle be eliminated*. Well, if the poor would be made much worse off by significantly reducing an inequality then, perhaps, it would be better to leave it in place. This is the standard pragmatic defense of inequalities that might otherwise be suspect. This, of course, sounds like a self-serving ideology of privileged people, but it cannot be dismissed.[5]

What is the argument behind this pragmatic defense of inequality? The key idea is that inequalities are deeply connected to "incentives." There are two forms of the argument, one concerning the incentives of poor people and the second the incentives of more affluent people.

The incentive argument for poor people argues that if income is redistributed to the poor this will reduce their incentives to work hard and responsibly in order to improve their lives. Why work hard if you can avoid poverty without working? Redistribution therefore will permanently lock poor people at the bottom of the socioeconomic hierarchy. This will be especially bad for poor children for they will be raised in families without a strong work ethic or motivation for self improvement. So, even if it unfair for children to be poor since they bear no responsibility for their poverty, redistribution will ultimately make their lives worse.

The argument for the incentive effects on more affluent people goes like this: In order to get people to be productive, to work hard and invest, they need incentives. If people work hard and invest, they produce more. This energizes the economy and leads to economic growth, which ultimately benefits the poor. This is the essential argument of what has come to be known as "trickle down economics": by cutting taxes of high earners, they will increase their effort and invest more which increases economic growth in ways that benefit everyone: a rising tide raises all boats. The causal connections in this argument are illustrated in Thesis 1 below:

Thesis 1**:** Inequality → incentives → people are motivated to work harder and invest more → enhanced productivity and prosperity → ultimately benefits the poor

By itself this thesis merely states that *some* level of inequality is needed to give people the incentive to work hard and invest, but it says nothing about how much inequality is needed to produce this effect. Defenders of existing levels of inequality in the American economy therefore make a second argument: whatever level of inequality is spontaneously generated by market interactions generates the necessary incentives to get people to invest as much as can be profitably invested and to work as hard as is economically efficient. Since all transactions in the market are voluntary, no employer will make a wage offer unless the employer thinks it is profitable to do so, so if high wages are offered as an incentive to some people it is because of the productivity that this employment will generate. The same logic applies to investors. Since investors always have the option of consuming their capital rather than investing it, and since

[5] One form of this argument is embodied in the arguments for justice of the most influential political philosopher of the second half of the twentieth century, John Rawls. Rawls argues for what he calls the "difference principle" which is, roughly the following: a level of inequality in income is just if it is the case that any reduction of the degree of inequality would worsen the condition of the worst off. The goal is to maximize the minimum level of income, or what is called maxi-min. This basic idea is also invoked in defenses of tax cuts to the rich – and more generally in what is called "trickle down economics" – when it is argued that giving the rich more money ultimately benefits the poor since the rich will invest this additional income in ways that create jobs and expand the economy.

investments are voluntary, the levels of inequality generated by capital investments exactly reflect the incentives needed to get people to invest. This implies a second thesis:

> Thesis 2: Reducing inequality below the level generated by free markets → reduces incentives to work hard and invest → reduces productivity and economic growth → harms the poor

If this thesis were true, it would constitute a powerful argument against efforts to reduce inequality, for even if one judged those inequalities to be unfair, the remedies would not make life better for those at the bottom. The unfairness would not constitute a social injustice.

Critique of the pragmatic defense of inequality

The pragmatic defense of market-generated inequality rests on two important assumptions. The first is that the incentives needed to get people to work and invest are not themselves affected by the level of inequality in a society. Economists call this the problem of "endogenous preference formation." Suppose that it is the case that the amount of income needed to get people to work or invest depends upon cultural standards and expectations, and that these in turn are shaped by the level of economic inequality in a society. If this is the case, then high levels of economic inequality will tend to foster cultural frameworks and norms in which individuals at the top require greater incentives. CEOs in the United States are not notably more talented or hardworking than their Japanese or German counterparts, but they earn fantastically higher salaries at least in part because of the cultural expectations and norms that have evolved over time in the US.

The second assumption of the pragmatic defense of market-generated inequality is that the power of actors plays no role in how much they earn through the market. In a "free" market no one exercises power over anyone; no firms or individuals exercise power in the market. In the language of economists, there are no "monopoly rents" in the earnings of people in the labor market or in the profits of firms. If people have real power, then they are in a position to extract extra income through the use of threats of various kinds. CEOs and other high executives are able to raise their incomes in part because of the power they wield within firms. The earnings of workers in some industries are pushed down because of the weakness of unions to protect their interests in bargaining with employers. On the other hand, people with scarce talents and credentials also can use the "bargaining power" of their skills to acquire greater income than would be needed as an incentive to get them to use their talents and skills productively. In all of these cases, the levels of inequality in the resulting income distributions would be greater than needed simply to provide people with the necessary incentives to work and invest.

Of course, people who are in a position to use their power to extract high income are likely to defend their high incomes in terms of necessary incentives. Privileged elites will always say that they "need more" to be motivated to work hard, to produce, to save, to invest. They will fight against tax increases directed against the rich on the grounds that this will destroy the incentive to invest and thus everyone will be worse off as a result. Such claims are often – perhaps usually – self-serving rationalizations masking the simple desire to preserve privilege and advantage.

The level of inequality in a society, therefore, is not a simple function of the technically required incentives needed for market efficiency, but of a much more complex process through which threats and bluffs backed by power shape a range of economic practices that generate unequal earnings, and these in turn shape the cultural expectations and norms that become embodied as preferences and incentives. These complex processes are ignored by the simple pragmatic argument for inequality.

A pragmatic argument against high inequality

It is important not to think that "pragmatic" arguments about inequality always provide support for the status quo. There are also strong pragmatic arguments *against* high levels of inequality. Excessive inequality can have all sorts of undesirable practical consequences. Two considerations are particularly important here: the impact of inequality on the costs of social control, and the impact on democracy.

First, high levels of inequality undermines a sense of community which can generate resentment, conflict, and an erosion of any sense of mutual obligation among people. This in turn fuels crime and social disorder which negatively effect productivity and economic efficiency. Social conflict and disorder are costly both because of their directly destructive effects and because of the social control costs needed to contain them: police, prisons, security guards, and so on. These are all drains on the economy linked to inequality. The social resentment and erosion of a sense of social solidarity generated by inequality also undercuts general values of cooperation and mutual obligation which reduces productivity within work itself. Where inequalities and competition are intense, more foremen and supervisors are needed to insure work discipline, and this, again, reduces economic efficiency.

The second critical effect of high levels of inequality concerns its impact on democracy: high inequality concentrates material resources in the hands of elites in ways that enable them to have a vastly disproportionate influence in political life, both at the local level and at higher levels of the political system. Furthermore, since high inequality erodes the sense of everyone being in the same boat – we are all in this together – the influence of wealthy elites on state policy tends to serve their interests over those of the broader public. We will explore these issues in Part III of the book when we discussion democracy.

Conclusion

Few subjects are more fraught with controversy than the problem of the justice or injustice of social and economic inequalities. It is difficult to have a calm discussion of these matters since powerful interests are at stake. If one decides that it is a profound injustice that nearly 13 million children are poor in the United States in the first decade of the 21st century then it is difficult to defend doing nothing about this. And doing something serious about poverty and inequality inevitably means that at least some of the privileges and advantages of people who manage to do well under the existing rules of the game will be reduced.

Now, it is not the case that everyone who has advantages which may be reduced by remedies to injustice will actively oppose the remedy. People can have sufficiently strong moral commitments to social justice that they support public policies and social changes which challenge injustice even if they themselves do not gain from such changes. But many people in such a situation oppose such changes to existing arrangements out of narrow self-interest. They use power to defend their interests and thus turn an injustice into a form of oppression. This, of course, is a morally uncomfortable position. Rarely do people in such a situation forthrightly say: "I know this is a violation of moral principles of fairness and justice, but I am rich and oppose policies that will help the poor because I don't want to pay for them." Most people, it seems, feel a need to justify the defense of their advantages on moral grounds, and so their self-interest gets dressed up in moral language of one sort or another. And because there is a certain persuasiveness in these rationalizations, many people come to genuinely believe them.

CHAPTER 11
CLASS

Final Draft August 2009

In the previous chapter we explored the moral question of what it means to say that an inequality is unfair. In this chapter we will examine the problem of alternative ways of thinking sociologically about one domain of inequality – class. In the following chapters we will explore the empirical problem of inequality in America and how it has changed over time.

"Class", like many concepts in sociology, is a hotly contested idea. There is not even an agreed-upon definition of "class", let alone a consensus on the best theory of class. All approaches to class see class as a way of thinking about economic inequalities, but they use the word "class" in very different ways.[1]

The various approaches to class among sociologists fall into three broad categories. The first identifies class with the attributes and material conditions of life of individuals. The second sees class as mainly about the ways in which social positions give some people control over economically valued resources of various sorts while excluding others from access to those resources. And the third sees class as, above all, involving the ways in which economic positions give some people control over the lives and activities of others. We can call these three approaches the *individual attributes* approach to class, the *opportunity-hoarding* approach, and the *domination and exploitation* approach.

Class as individual attributes and material conditions of life

Both for sociologists and the lay public, the principle way that most people understand the concept of class is in terms of individual attributes and life conditions. People have all sorts of attributes including such things as sex, age, race, religion, intelligence, education, geographical location, and so on. Some of these attributes they have from birth, some they acquire but once acquired are very stable, and some are quite dependent upon a person's specific social situation at any given point in time and may accordingly change. These attributes are consequential for various things we might want to explain, from health to voting behavior to childrearing practices to income and wealth. People also can be characterized by the material conditions in which they live: squalid apartments, pleasant houses in the suburbs, or mansions in gated communities; dire poverty, adequate income, or extravagant wealth; insecure access to health services or excellent health insurance and access to high quality services. "Class", then, is a way of talking about the connection between individual attributes and these material life conditions: class identifies those economically useful attributes of people that shape their opportunities and choices in a market economy and thus their material conditions of life. Class should neither be identified simply with the individual attributes nor with the material conditions of life of people, but with the interconnections between these two.

[1] For a thorough discussion of alternative approaches to class, see Erik Olin Wright (ed), *Approaches to Class Analysis* (Cambridge: Cambridge University Press, 2005).

The key individual attribute that is part of class in contemporary American society within this approach is education, but some sociologists also include somewhat more elusive attributes like cultural resources, social connections, and even individual motivations. All of these deeply shape the opportunities people face and thus the income they can acquire in the market, the kind of housing they can expect to have, the quality of the health care they are likely to get. When these different attributes of individuals and material conditions of life broadly cluster together, then these clusters are called "classes". The "middle class," within this approach to the study of class, identifies people who are more or less in the broad middle of the American economy and society: they have enough education and money to participate fully in some vaguely defined "mainstream" way of life. "Upper class" identifies people whose wealth, high income, social connections and valuable talents enable them to live their lives apart from "ordinary" people. The "lower class" identifies people who lack the necessary educational and cultural resources to live securely above the poverty line. And finally, the "underclass" identifies people who live in extreme poverty, marginalized from the mainstream of American society by a lack of basic education and skills needed for stable employment.

In the individual attributes approach to class, the central concern of sociologists has been understanding how people acquire the attributes that place them in one class or another. Given that for most people economic status and rewards are mainly acquired through employment in paid jobs, the central thrust of most research was on the process by which people acquire the cultural, motivational, and educational resources that affect their occupations in the labor market.

Skills, education, and motivations are, of course, very important determinants of an individual's economic prospects. What is missing in this approach to class, however, is any serious consideration of the *inequalities in the positions themselves* which people occupy. Education shapes the kinds of jobs people get, but what explains the nature of the jobs which people fill by virtue of their education? Why are some jobs "better" than others? Why do some jobs confer on their incumbents a great deal of power while others do not? Rather than focusing exclusively on the process by which individuals are sorted into positions, the other two approaches to class analysis begin by analyzing the nature of the positions themselves into which people are sorted.

Class as Opportunity-hoarding

The idea of "opportunity-hoarding" is closely associated with the work of an early 20th century sociologist, Max Weber.[2] The idea is that in order for a job to confer on its occupants high income and special advantages it is important that the incumbents of those jobs have various means of excluding people from access to the jobs. This is also referred to by sociologists as a process of *social closure*: the process where by access to a position becomes restricted, closed off to some people. One way of doing this is by creating requirements for filling the job that are very costly for people to meet. Educational credentials often have this character: high levels of education generate high

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[2] Among contemporary American sociologists, the term "opportunity-hoarding" was used most explicitly by Charles Tilly, especially in his book *Durable Inequality* (Berkeley: University of California Press, 1999).

income in part because there are significant restrictions of the supply of highly educated people. Admissions procedures, tuition costs, risk-aversion to large loans by low income people and so on all block access to higher education for many people, and this benefits those with higher education. If a massive effort was made to improve the educational level of those with less education this would itself lower the value of education for those with high education, for its value depends to a significant extent on its scarcity.

Someone might object to this description of educational credentials by arguing that education also affects earnings by enhancing a person's productivity. Economists argue that education creates "human capital" which makes people more productive, and this is why employers are willing to pay them higher wages. While some of the higher earnings that accompany higher education reflects productivity differences, this is only part of the story. Equally important is the ways in which the process of acquiring education excludes people through various mechanisms and thus restricts the supply of people for these jobs. A simple thought experiment shows how this works: imagine that the United States had open borders and let anyone with a medical degree or engineering degree or computer science degree anywhere in the world come to the U.S. and practice their profession. The massive increase in the supply of people with these credentials would undermine the earning capacity of holders of the credentials even though their actual knowledge and skills would not be diminished.

Credentialing and licensing are particularly important mechanisms for opportunity-hoarding, but many other institutional devices have been used in various times and places to restrict access to given types of jobs: color bars excluded racial minorities from many jobs in the United States, especially (but not only) in the South until the 1960s; marriage bars and gender exclusions restricted access to certain jobs for women until well into the 20th century in most developed capitalist countries; religion, cultural style, manners, accent – all of these have constituted mechanisms of exclusion.

Perhaps the most important exclusionary mechanism that protects the privileges and advantages of people in certain jobs in a capitalist society is private property rights in the means of production. Private property rights are the pivotal form of exclusion that determines access to the "job" of employer. If workers were to attempt to take over a factory and run it themselves they would be violating this process of closure by challenging their exclusion from control over the means of production. The capacity of owners to acquire profits depends upon their defense of this exclusion, which we call "property rights." The core class division within both Weberian and Marxian traditions of sociology between capitalists and workers can therefore be understood as reflecting a specific form of opportunity-hoarding enforced by the legal rules of property rights.

Exclusionary mechanisms that shape class structures within the opportunity-hoarding approach do not operate only in the most privileged parts of the class structure. Labor unions can also function as an exclusionary mechanism, by protecting the incumbents of jobs from competition by outsiders. This does not mean that on balance unions contribute to increasing inequality, since they may also act politically to reduce inequalities and they may effectively reduce inequalities generated by other mechanisms of exclusion, especially mechanisms connected to private ownership of the means of production. Still, to the extent that unions create barriers to entry to certain jobs, they do create a form of social closure that raises the material conditions of life of insiders.

Sociologists who adopt the opportunity-hoarding approach to class generally identify three broad class categories in American society: capitalists, defined by private property rights in the ownership of means of production; the middle class, defined by mechanisms of exclusion over the acquisition of education and skills; and the working class, defined by their exclusion from both higher educational credentials and capital. That segment of the working class that is protected by unions is either seen as privileged strata within the working class, or, sometimes, as a component of the middle class.

The critical difference between the opportunity-hoarding concept of class and the individual attribute concept of class is this: In the opportunity-hoarding view of class the economic advantages people get from being in a privileged class position are causally connected to the disadvantages of people excluded from those class positions. In the individual attributes approach advantages and disadvantages are simply outcomes of individual conditions. To state this in a simple way, in the opportunity-hoarding conception, the rich are rich in part *because* the poor are poor; the rich do things to secure their wealth which contributes to the disadvantages poor people face in the world. In the individual attribute approach, the rich are rich because they have favorable attributes; the poor are poor because they lack these attributes; and there is no systematic causal connection between these facts. Eliminating poverty by improving the relevant attributes of the poor – by improving their education, cultural level, and human capital – would in no way harm the rich. In the opportunity-hoarding approach, in contrast, eliminating poverty by removing the mechanisms of exclusion potentially undermines the advantages of the rich in the existing system.

Class as exploitation and domination

This is the most controversial way of thinking about class. It is associated most strongly with the Marxist tradition of sociology, but some sociologists more influenced by Weber also emphasis exploitation and domination in their conception of class.

“Domination” and, especially, “exploitation” are contentious words in sociology because they tend to imply a moral judgment, not simply a neutral description. Many sociologists try to avoid such terms. We feel, however, that they are important and accurately identify certain key issues in understanding class. Both domination and exploitation refer to ways in which people control the lives of others. “Domination” refers to the ability to control the *activities* of others. Exploitation refers to the acquisition of economic benefits from the laboring activity of those who are dominated. All exploitation, therefore, implies some kind of domination, but not all domination involves exploitation.

In relations of exploitation and domination it is not simply the case that one group benefits by restricting access to certain kinds of resources or positions. In addition, the exploiting/dominating group is able to control the laboring effort of another for its own advantage. Consider the following classic contrasting cases: In the first case, large landowners seize control of common grazing lands, exclude peasants from gaining access to this land, and reap economic advantages from having exclusive control of this land for their own use. In the second case, the same landlords seize control of the grazing lands, exclude the peasants, but then bring some of those peasants back onto the land as agricultural laborers. In this second case, in addition to gaining advantage from controlling access to the land the landowner also dominates and exploits the labor of the farm worker. This is a stronger form of interdependency than in the case of simple exclusion, for here there is an on-going relationship between the *activities* of the advantaged and disadvantaged persons, not just a relationship between their *conditions*. Exploitation and domination are forms of structured inequality which require the continual active cooperation between exploiters and exploited, dominators and dominated.

Within the domination/exploitation approach class, the central class division in a capitalist society is between those who own and control the means of production in the economy – capitalists – and those who are hired to use those means of production – workers. Capitalists, within this framework, both exploit and dominate workers. Other kinds of positions within the class structure get their specific character from their relationship to this basic division. Managers, for example, exercise many of the powers of domination, but are also subordinated to capitalists. CEOs and top managers of corporations often develop significant ownership stakes in their corporations and therefore become more like capitalists. Highly educated professionals and some categories technical workers have sufficient control over knowledge (a critical resource in contemporary economies) and skills that they can maintain considerable autonomy from domination within work and significantly reduce, or even neutralize, the extent to which they are exploited.

In both the opportunity-hoarding and exploitation/domination approaches to class, power plays an important role. In both of these approaches, the inequalities in income and wealth connected to the class structure are sustained by the exercise of power, not simply by the actions of individuals. The inequalities generated by opportunity-hoarding require the use of power to enforce exclusions, and the inequalities connected to exploitation require supervision, monitoring of labor effort, and sanctions to enforce labor discipline. In both cases, social struggles that would challenge these forms of power would potentially threaten the privileges of people in the advantaged class positions. To repeat what we already have said: these advantages causally depend upon the mechanisms of exclusion and exploitation which impose disadvantages on others.

Class in America today

While sociologists have generally tended to base their research on one or another of these three approaches to class, there really is no reason to see them as mutually exclusive. Instead we can see the reality of class as being generated by the complex interactions of the different mechanisms identified within each approach. One way of combining the three approaches is to see each of them as identifying a key process that shapes a different aspect of the American class structure:

1. The exploitation and domination approach to class identifies the fundamental class division connected to the capitalist character of the economy: the class division between capitalists and workers.

2. The opportunity-hoarding approach identifies the central mechanism that differentiates middle class jobs from the broader working class by creating barriers which in one way or another restrict the supply of people for desirable employment.

> The key issue here is not mainly *who* is excluded, but simply the fact that there are mechanisms of exclusion which sustain the privileges of those in middle class positions.
>
> 3. The individual attributes and life conditions approach identifies a key set of processes through which individuals are sorted into different positions in the class structure or marginalized from those positions altogether. Opportunity hoarding identifies exclusionary processes connected to middle class jobs. The individual attributes and life conditions approach helps specify what it is in the lives of people that explains who is excluded.

These three processes operate in all capitalist societies. The differences in class structures across countries are produced by the details of how these mechanisms work and interact.

Economic systems differ in how unfettered are the rights and powers that accompany private ownership of the means of production, and thus in the nature of the basic class division between capitalists and workers. As we have already discussed in earlier chapters, the United States has long been characterized as a capitalist economy with among the weakest public regulations of capitalist property. This is reflected in a number of critical facts about the United States: a very low minimum wage, which allows for higher rates of exploitation than would otherwise exist; low taxation on high incomes, which allows the wealthiest segments of the capitalist class to live in extraordinarily extravagant ways; weak unions and other forms of worker organization that could act as a counterweight to domination within production. The result is that among developed capitalist countries the United States probably has the most polarized class division along the axis of exploitation and domination.

In terms of the formation of a middle class through mechanisms of opportunity hoarding, especially those linked to education, the United States has historically had one of the largest middle classes. The U.S. was the first country to massively expand higher education, and for a long time access to higher education was very open and relatively inexpensive, allowing people with few resources to attend universities. The U.S. has also been characterized by a multi-tiered higher education system – with community colleges, junior colleges, liberal arts colleges, universities, public and private institutions – that made it possible for people to enter higher education later in life and to move from one tier to another. People could screw up as young adults, but if they "got their act together" there was at least the possibility of going back to school, getting a credential, and gaining access to middle class employment. This large and diverse system of higher education helped support the creation of a large number of middle class jobs. This was complemented, in the decades after World War II, by a relatively strong labor movement that was able to mute job competition for jobs in the core of the American economy that did not require higher education. This enabled unionized workers in those jobs to acquire income and security similar to the credentialed middle class.

Now, it was never the case, contrary popular rhetoric, that the United States was overwhelmingly a "middle class society". Most jobs in the American employment structure did not gain advantages from exclusionary credentials, and the labor movement never organized more than about 35% of the non-managerial, private sector labor force. Furthermore, in recent decades there has been an erosion of at least some of these processes of middle-class exclusion: the labor movement has precipitously declined since the 1970s; many kinds of middle class jobs have become less secure, less protected by the credentials associated with employment in such positions; and the economic crisis of the end of the first decade of the 21st century has intensified the sense of precariousness of many people who still think of themselves as being in middle class jobs. Thus, while it is still certainly the case that higher education, and increasingly, advanced academic degrees play a central role in creating access to many of the best jobs in the American economy, it is much less clear what the future prospects are for a large and stable middle class.

Finally, the American class structure has been characterized by a particularly brutal process through which individual attributes relevant to the fate of individuals in the class structure are formed. The educational system in the United States is organized in such a way that the quality of education available to children in poor families is generally vastly inferior to the quality of education of children of middle class and wealthy families. This deficit in publicly provided education for the poor is intensified by the extreme deprivations of poverty in the United States due to the absence of an adequate safety net and supportive services for poor families. The rapid deindustrialization of the American economy and the absence of comprehensive job training programs for people displaced by deindustrialization means that a significant number of people find themselves without the kinds of skills needed for the current job structure. The result is that the United States class structure is characterized by the highest rates of poverty and economic marginality of any comparable country.

Taking all of these processes together yields the following general picture of the American class structure at the beginning of the 21st century:

- An extremely rich capitalist class and corporate managerial class, living at extraordinarily high consumption standards, with relatively weak constraints on their exercise of economic power. The American class structure is the most polarized class structure at the top among developed capitalist countries.
- An historically large and relatively stable middle class, anchored in a expansive and flexible system of higher education and technical training connected to jobs requiring credentials of various sorts, but whose security and future prosperity is now uncertain.
- A working class which once was characterized by a relatively large unionized segment with a standard of living and security similar to the middle class, but which now largely lacks these protections.
- A poor and precarious segment of the working class, characterized by low wages and relatively insecure employment, subjected to unconstrained job competition in the labor market with minimal protections by the state.
- A marginalized, impoverished part of the population, without the skills and education needed for jobs above poverty, and living in conditions which make it extremely difficult to acquire those skills. The American class structure is the most polarized at the bottom and developed capitalist countries.

Chapter 12
Persistent Poverty and Rising Inequality

Final Draft, August 2009

People are generally interested in economic inequality for two somewhat independent reasons: First, income inequality is deeply connected to poverty, and poverty is of moral concern because of the deprivations and suffering associated with it. Second, inequality is also associated with concentrations of income and wealth among elites, and this also seems to many people to be undesirable, both because of the unfair advantages this often represents and because of the power such concentrations of wealth confer on the rich.

In this chapter we will look at both aspects of inequality, although we will give more attention to poverty. We will begin with a broad empirical sketch of patterns of poverty, wealth and inequality in the United States. This will be followed in section two with a discussion of alternative explanations of persistent poverty in contemporary America, which we will refer to as the “blame the victim” and “blame society” approaches. Section three will then discuss the principle social structural processes which contribute to rising inequality, persistent poverty, and high concentrations of wealth and income at the top in the United States today.

I. FACTS ABOUT POVERTY AND INEQUALITY IN AMERICA

We will examine three clusters of facts about poverty in the United States: comparisons with other countries; trends in poverty rates over time; and the racialized character of poverty in America.

Perhaps the most striking fact about poverty in America is that the United States has by a considerable margin the highest rate of poverty among all the developed capitalist economies (Figure 12.1).[1] The figures are especially disturbing for children, where the poverty rate in the United States is 3-4 times greater than in many European countries (see Figure 2.3 in chapter 2). Much of this difference across countries is directly attributable to public policies. Figure 12.2 calculates two child poverty rates across countries, the first based on household income *before* taxes and income transfer payments from government programs and the second based on household income *after* taxes and transfers. Before taxes and transfers, the child poverty rate in the United States around 2000 was 26.7%, not very different from the rates in Sweden (23.4%) and France (28.7%). These are the child poverty rates based on the income households earn in the market. The picture is completely different after taxes and transfers. The poverty rate among children in the United declines only slightly, from 26.7% to 22.4%, whereas in Sweden it drops to 2.6% and in France to 7.9%. Our first general observation, then, is that poverty rates are very high in the United States compared to other economically developed countries, and to a significant extent this is the result of public policies rather than simply the “natural” functioning of the market.

[1] In international comparisons, the standard definition of “poverty” is a household income that is less than 50% of the national median. This is also called *relative* poverty, since it defines poverty relative to the median standard of living in a country. This is generally considered a much more reliable measure for comparative analysis than “absolute poverty” defined by a “poverty line”, since the cost of living are so different in different countries.

-- Figure 12.1 and 12.2 about here --

Some people may be inclined to dismiss these observations because they are based on "relative poverty" measures rather than some absolute poverty line. After all, it is sometimes pointed out, people whose income is half of the median income in the United States today nevertheless have higher income than people living at the median fifty years ago.[2] Two comments on this: First, the quality of life one can obtain from a given amount of income depends in significant ways on cultural standards, not just on some absolute level of consumption. It really does matter for one's economic well-being if one is unable to participate in the mainstream standard of living of a society, and this is the situation for people whose income is less than half of the median. Secondly, there is very strong evidence that high levels of relative poverty are harmful to people beyond the simple fact of the poor having low income relative to prevalent social standards. A good example is the relationship in rich countries between levels of relative poverty and health. Figure 12.3 shows the relationship between the child poverty rate and the mortality rate among children younger than five years in 21 rich countries. While this chart does not prove that a high rate of relative poverty contributes to higher infant mortality, the strength of the association is strongly consistent with this interpretation.

-- Figure 12.3 about here --

Our second set of observations concerns change in poverty rates over time within the United States. For this analysis we will use the official U.S. poverty line as the basis for defining the poverty rate. It is, of course, very problematic to define a specific absolute threshold below which one is "poor". The basic idea is to define an income level above which it is possible to have adequate nutrition, housing, clothing and other basic necessities. The problem is that the notion of "necessities" is heavily influenced by cultural norms and social expectations, rather than simply technical or biological considerations. This is one of the reasons why in international comparisons poverty is generally defined relative to a country's median income rather than by some absolute level of income. In any case, in our analyses within the United States we will follow the standard convention of using the official government poverty line as the criterion for poverty. In 2009 for a single person the poverty line was $10,830 and for a family of four, $22,050.

In terms of the official poverty line, poverty rates both for children (Figure 12.4) and for adults (Figure 12.5) declined sharply in the 1960s in the wake of new government programs directed at poverty reduction. Since then, poverty rates among children have fluctuated up and down depending upon market conditions and changes in public policy. In 2007 the poverty rate for children under 6 years of age stood at just over 20%, a full 5% higher than it had been at its low point in 1969. Poverty rates for adults 18-64 have also risen slightly since the early 1970s, from a low of 8.3% in 1973 to 10.9% in 2007. If we look at extreme poverty – the percent of the poor who are living at less than one half of the official poverty line – the upward trend is even more dramatic (Figure 12.6). In 1976 around 28% of the poor lived in extreme poverty. By 2005 the figure was 43%. This rise in poverty rates and the rates of extreme poverty occurred in spite of the fact that the per capita gross domestic product – a measure of the overall wealth of the United States – more than doubled in period from the early 1970s to 2007. The United States is

[2] The median income for all families in 1947 (using constant 2006 dollars) was $23,235 while in 2006 it was $59,407.

therefore not simply a very rich country with high levels of poverty; it is a rich country in which increasing wealth since the early 1970s has not resulted in any reduction of poverty.

-- Figures 12.4 12.5, 12.6 about here --

Another aspect of changes in poverty in the closing decades of the twentieth century concerns the spatial distribution of poverty. Two things should be noted here. First, in terms of the regional distribution of poverty, in the 1960s and earlier the poverty rate in the South was much higher than in the rest of the United States (Figure 12.7). In 1969 the overall poverty rate in the South was 18%, whereas in the other regions of the country it was between 8% and 10%. By 2007 the rate in the South had declined to 14% and in the other regions risen to 11-12%. At the beginning of the 21st century, poverty is a widespread national phenomenon, not something concentrated in a specific region of the country. Second, before the 1960s poverty was especially acute in rural areas and small towns (figure 12.8). Even in 1969 it was still the case that poverty rates in non-metropolitan areas were nearly 50% higher than in central cities. This is no longer the case: poverty in nonmetropolitan areas has slightly declined since the 1960s and risen in the central cities, so that in 2007 central city poverty rates were slightly higher than those outside of metropolitan areas.

-- Figures 12.7 and 12.8 about here --

Our final set of observations about poverty concerns its connection to race. We will discuss this further in chapter 14. For now it is sufficient to note the dramatic difference in poverty rates across different racial categories (Figure 12.9). In 2005, a quarter of all African Americans and just over a fifth of Hispanic Americans lived below the poverty line compared to only a tenth of whites. Race and poverty are clearly closely linked. However, two things are important to note about this connection. First, the *disproportion* in poverty rates among African Americans compared to whites has declined over this period: in 1973 the poverty rate among African-Americans was 3.7 times greater than among whites; by 2005 this had declined to 2.3 (Figure 12.10). Second, even though poverty rates remain much higher among African-Americans and Hispanics than among white Americans, it is nevertheless still the case that the majority of poor people in the United States are white. In 2005, 57.3% of people living below the poverty line were white, 21.5% were African-American and 21.2% were Hispanic. This runs counter to the widespread belief that poverty is mainly a problem of minority communities. Poverty is an American problem that disproportionately affects African Americans and Hispanics, but affects millions of white Americans as well.

-- Figures 12.9 and 12.10 about here --

While poverty is certainly the most salient moral issue linked to economic inequality, it is not the only reason to study inequality. Inequality also matters because of the way it concentrates resources, advantages and power at the top of the distribution relative to the middle. As we saw in Figure 9.2 in chapter 9, in the quarter century after WWII all income strata experienced roughly the same annual rates of growth in income – about 3.5%/year. Since that time, the rate of income growth was much higher at the top of the income distribution than at the bottom or the middle. Figure 12.11 looks at the inequality generated by the top of the distribution over a much longer period, 1917-1998. This trajectory over time is sometimes called “the great U-turn”. Prior to the Second World War people in the top 10% of the income distribution earned between 40% and 45% of all the income earned in the United States. This dropped precipitously in the early 1940s and stayed around 33% for over three decades. Then, beginning in the late 1970s and accelerating the in the 1980s, the income share of this top group increased sharply, reaching 42% by the late 1990s.

-- Figure 12.11 about here –

The top decile is certainly an extremely privileged category. On closer inspection, however, the real growth in income inequality in the United States in the last decades of the 20th century was actually driven by fantastic increases in income in the top 1% of households. This is shown in Figure 12.12. This figure presents the ratios of the average household income of people in different income strata at three points of time. Three ratios are presented in the figure. The 50:20 ratio is the ratio between the average income of people in the middle quintile (which is almost exactly the same as the overall median income) and the average income of people in the bottom quintile.[3] This is a measure of how much inequality there is between the middle and the bottom of the income distribution. The 95-99:50 ratio is the ratio of the average household income of people in the 95-99th percentiles (i.e. those just below the top 1% of the income distribution) to the average household income of people in the middle. And finally the 99:50 ratio is the ratio of the average household income of the top 1% of households (the 99th percentile) to the middle. What Figure 12.12 shows is that the first of these ratios does not change at all in the period 1979-2000. The second ratio changes a little, indicating a modest increase in the degree of inequality between the between the middle of the income distribution and the 95-99th percentile. The real action, however, is in the ratio of average income of people in the top 1% of the income distribution to people in the middle. In 1979 the average income of people in the top 1% was 10 times that of people in the middle of the distribution. This increased to 15 times greater in 1989 and over 25 times greater in 2000. The overall increase in levels of inequality in the United States at the end of the 20th century is clearly driven by the extremely rapid increase in income among the very richest Americans.

-- Figure 12.12 about here --

One final set of data will complete our statistical portrait of inequality in America: inequality in wealth. Income is defined as the *flow* of money a person has available over a given unit of time; wealth is a *stock*, the amount of money and other assets that one owns at any given moment. Wealth takes many forms. For most people, the primary form of wealth is home ownership. When a person buys a home, usually they take out a loan (a mortgage), and their wealth consists in the difference in the value of the home and the amount they owe on the loan. This is called "home equity". As they pay off the loan over time and as the value of the home increases because of the market for houses (assuming, of course, that home prices are increasing), their equity in the home increases, and thus their wealth increases. Other forms of wealth include savings; investments in stocks, bonds and other financial instruments; real estate other than one's home; and many other things. A person's "net worth" is the difference between the value of all of these assets and whatever debts a person has. Financial net worth is the difference between the value of financial assets and debts.

Wealth in the United States is distributed much more unequally than income. Figure 12.13 indicates the percentage of all household income, net worth and net financial assets that go to the

[3] The middle quintile of an income distribution includes everyone from the 40th to the 60th percentile in the distribution. The median of the whole distribution – the 50th percentile – is close to the average income in this group since the income distribution within the middle quintile will be fairly symmetrical around the mid-point.

top 1% of households, the next 90% and the bottom 90%. In the case of income, the bottom 90% of households get a little under 60% of total income while the top 1% of households get about 18% of all income. That is a disproportionate share, to be sure, but it is nothing like the disproportion for overall wealth and financial assets: the net worth of the top 1% accounts for 33% of all wealth and 42% of financial assets. For the bottom 90% of households the corresponding figures are 29% and 19%. If we convert these into ratios of average wealth at the top and bottom of the distributions, the average net worth of the top 1% is about 100 times greater than the average net worth of the bottom 90% of the U.S. population, and the average net financial assets of this tiny group at the top is 200 times greater than the average of the bottom 90% (see Figure 12.14).

II. EXPLANATIONS OF PERSISTENT POVERTY: *BLAME THE VICTIM* AND *BLAME SOCIETY*

In both the scholarly literature and popular discussions about poverty it is possible to distinguish two broad ways of explaining poverty in the United States. The first of these is sometimes referred to as "Blame the victim."[4] The idea here is pretty simple and intuitive: You look around and see that some people are poor and others are not. Indeed, it is easy enough to find examples of adult siblings from the same family, one of whom is poor and the other has a steady well-paying job. So, if two people come from the same origins and face more or less the same opportunities and only one is poor, then surely there must be some difference between them that explains their different fates. The explanation for why people are poor, the reasoning goes, must lie in some flaw within poor people, not in the social system in which they live, and the solution to poverty, therefore, must be to somehow change the person, not the society.

Once you decide that the central explanation for poverty lies in the qualities of poor people, there are many different specific causal processes that could be at work. For example, one theory of poverty which once was quite popular, but now is generally not given much credibility among social scientists, is that poor people are generally genetically inferior to the non-poor. The most common version of this view identifies intelligence as the key issue: the poor have deficits in the genes that affect IQ. Such views were once particularly strong in discussions of poverty that linked poverty to race, but occasionally still resurfaces. As recently as the 1990s in their notorious book *The Bell Curve,* Richard Hernstein and Charles Murray argue that genetic deficits in intelligence are a central explanation for the high poverty rates among black people in America.[5]

There is one version of the blame the victim theory of poverty that remains quite influential. In this version, the deficit within poor people is identified as psychological dispositions closely connected to "culture". As a result, this explanation for poverty is sometimes referred to as the "cultural of poverty" thesis. The key idea here is that poor people have a distinctive pattern of cultural values which creates difficulty in delaying gratification and planning for the future. They don't save. They have difficulty controlling their impulses – for sex, for immediate pleasure, for anger, for obeying the law. The anthropologist Edward Banfield popularized this perspective in

[4] The term was coined by Ryan, William in his book *Blaming the Victim* (New York: Vintage, 1976)

[5] Richard Hernstein and Charles Murray, *The Bell Curve* (New York: The Free Press, 1994). This book has been thoroughly attacked by social scientists for serious methodological flaws. See, for example, Claude S. Fischer, et. al. *Inequality by Design: cracking the bell curve myth* (Princeton: Princeton University Press, 1996).

his study of poverty in Puerto Rico in the 1950s. He wrote that poverty is explained by "the existence of an outlook and style of life which is radically present-oriented and which therefore attaches no value to work, sacrifice, self-improvement, or service to family, friends or community."[6] These attributes may come from adaptations to past discrimination of a community, or they may come from other sources; but once they are inculcated inside of the person, they are hard to change. They become internalized psychological dispositions which get transmitted inter-generationally in an endless cycle of persistent poverty.

Blaming the poor for their poverty remains a popular way of understanding poverty in part because this provides explanations which do not threaten those with privilege. Poverty in the midst of plenty is a deeply disturbing fact of contemporary American society, and people with stable jobs and good incomes feel a need to justify their advantages. The most painless way to do this is to believe, if only vaguely, that the poor are somehow unworthy. While this is never fully convincing, especially because of the problem of children who cannot be seen as deserving to be poor, nevertheless it reduces the moral pressure on the middle class and the wealthy to take seriously the problem of changing institutions to eliminate poverty.

The alternative general approach to explaining poverty can be referred to as "blame society." While of course there may be some specific individuals who are poor and remain poor because of their personal attributes, mostly the poor are not very different from others in motivations, preferences, hopes, and aspirations. Indeed, many poor people work incredibly hard, patching together a number of badly paying jobs in order to barely meet basic needs. The most important causes of poverty, the argument goes, lie in the rules of the game and power relations of society, not the internalized cultural characteristics of poor people.

Consider the core psychological issue raised in the culture of poverty thesis: the problem of delayed gratification and impulse control. Is it really true that in general poor people suffer from an inability to delay gratification whereas middle class and rich people do not? Credit card consumerism in the middle class is profoundly present-oriented. Many middle class people, as we saw in the chapter on consumerism, accumulate large credit card debts paying exorbitant interest rates because they want things now and are unwilling to save. William Ryan, in his book *Blaming the Victim*, reports the following research that bears directly on the problem of whether or not poor people in general have more difficulty in delaying gratification than more affluent people: Children were given the choice of getting one Hershey candy bar immediately or two the following week as a reward for completing a task. In the experiment, this promise

> was either kept or not kept. When the experiment was repeated this was the only factor that differentiated between those who chose immediate gratification and those who chose to delay. Class and race were *not* related to delay. Those who had experienced a broken promise were the ones – not unsurprisingly – who were not willing to delay and therefore risk another disappointment….The situational variable, then, rather than class affiliation, determined the ability to delay.[7]

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[6] Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown, 1974), p. 87.

[7] William Ryan, *Blaming the Victim* (New York: Vintage Books, 1976), p. 133, reporting research by S. Miller, F. Riesmann and A. Seagull, "Poverty and Self-Indulgence: a critique of the non-deferred gratification pattern, " in *Poverty in America, edited by L. Ferman, J Kornbluth and A. Haber (revised edition: Ann Arbor: University of Michigan Press, 1968).*

Or think about another issue that is often seen as characteristic of the culture and dispositions of the poor: an amoral attitude towards social norms and crime. Do the poor really differ from the middle class or the rich all that much on these dimensions? A significant proportion of "respectable" wealthy people cheat on their taxes. There are frequent scandals of a rich person being nominated for a high political appointment whose appointment falls apart when it is revealed that they "failed" to pay all of their taxes. Why do sophisticated wealthy people who can easily afford to pay their taxes and hire professional accountants and lawyers to make sure that they do not make "mistakes" still cheat on their tax payments? The answer is pretty simple: they do so because they think that they can get away with it. The resulting theft comes to orders of magnitude more than property theft by the poor: in 2002 the total economic loss from property theft (burglary, larceny-theft, and motor vehicle theft) was estimated to be somewhere around $16.6 billion (in 2002 dollars) while the total amount of cheating on taxes in 2001 was estimated to be over $300 billion.[8] Even if some of this underpayment of taxes was simply due to errors, not deliberate cheating, tax cheating would still be vastly greater than property theft. If one adds to tax cheating the other kinds of corporate fraud that wealthy elites commit – think of the Enron scandal, for example – the disparity between the magnitude of theft by the rich compared to the poor grows even larger. It is hardly surprising, of course, that an executive in a large corporation or a prominent politician would never consider robbing a convenience store but is happy to steal from the public by cheating on taxes, padding expense accounts or cooking the books of a corporation, but this is really much more a function of the opportunities they face rather than of their character or moral values.

This, then, is the central thesis of the social explanations of poverty: *Circumstances of people across classes and economic conditions vary much more than values and personalities.* There are plenty of poor people and rich people with problems of impulse control, anger management and willingness to delay gratification, but these traits have very different consequences for their behavior and lives because of the circumstances in which they act. This is not to say that the experience of poverty has no impact on psychological states and dispositions of people to behave in particular ways, but simply that the most important difference between the poor and the rest of the society is the character of opportunities and circumstances they encounter, not their inherent attributes, personalities, or values.

There are some explanations for poverty that blur the distinction between blame the victim and blame society. For example, probably the most popular explanation for poverty in the United States among scholars centers on deficits in education among the poor. This explanation clearly identifies a social cause of poverty: the American school system fails to provide decent education for poor people. The "No Child Left Behind" legislation in 2001 saw as one of its goals remedying this deficit by holding schools accountable, closing bad schools, and in other ways reducing the educational achievement gap between children of middle class families and poor families. The educational deficit explanation, therefore, definitely identifies failed institutions as a central problem. Nevertheless, this explanation for poverty also embodies some of the aspects of the blame the victim approach to poverty, for the reason the failed educational system is seen

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[8] The tax cheating estimates come from the Internal Revenue Service "tax Gap estimates" reported on the IRS website, indentified as: IR-2006-28, Feb. 14, 2006. The property theft estimate is from the Federal Bureau of Investigation, *Crime in the United States, 2002: Uniform Crime Reports.* Washington, DC: U.S. Department of Justice, 2003.

as generating poverty is still because of the way this shapes a particular attribute of poor people – in this case their "human capital" or skills.

While the claim that poor people generally lack marketable skills may be completely accurate, this is not an adequate or complete explanation for the fact that they are poor. Having little education only explains poverty given the social environment in which the person lives, and this must also be part of the explanation for poverty. Or, to make the point in a slightly different way: explaining why particular people are poor is not the same as explaining the level poverty itself. This idea can be clarified by thinking of an entirely different kind of example: the way grades in a class are distributed to students.[9] Suppose a really nasty professor has a terrible grading curve where in a class of 20 students only one A and two B's are given, and everyone else gets a C or less. At the end of the semester Mary gets the A, and John and Melissa get the two B's, and George, among others, get a C. Now, if you ask the question, "why did Mary get an A?" it may well be the case that she was smarter, worked harder, studied more than anyone else in the course and had more knowledge of the material. And why did George get a C? He didn't have good study habits and didn't know as much. But surely this seems to miss the real process at work here: the real explanation lies in the social process through which the "rules of the game" were created and the power structure – the all-powerful mean-spirited professor – created those rules. If the power structure was different and students could vote on the grading curve, then there would be less "grade poverty" in the class. Explaining why a particular person gets a poor grade, in short, is not the same as explaining why there are so many poor grades in the class.

In the case of economic poverty, of course, the process by which the rules of the game are created and maintained are much more complicated than in the grading curve example. Nevertheless, it remains the case that the fact that low skills and limited education result in poverty depends upon the rules of the game through which jobs are created and income is distributed. In the United States there are many important needs that are not adequately met through the market economy and for which good education is not needed and the required skills could be fairly easily acquired: public infrastructure is crumbling, bridges need to be repaired, homecare services for the elderly need to be provided, buildings need to be retrofitted for energy conservation, afterschool program in central cities need to be expanded, and so on. The fact that there are not many above-poverty level jobs for people with relatively low education is as much the result of public policies around creating such jobs as it is a result of the low skills themselves. And furthermore, even apart from the problem of the weak public commitment to creating adequately paying jobs for everyone, public policies could do a great deal to alleviate poverty through more generous programs of publicly subsidized housing, income support, and other forms of income redistribution. None of this implies, of course, that lousy education for poor children is not a serious problem and a form of injustice. "Equal opportunity" is a fundamental value and an essential aspect of fairness. Nevertheless, poverty in a rich society does not simply reflect a failure of equal opportunity to acquire a good eduation; it reflects a social failure in the creation of sufficient jobs to provide an adequate standard of living for all people regardless of their education or levels of skills.

[9] This example comes from Alan Garfinkle, *Forms of Explanation*. (New Haven: Yale University Press, 1981).

III. Social structural causes of inequality and poverty in America

Saying that inequality and poverty are to be explained mainly by social processes is only the first step in an analysis. What remains to be elaborated are the specific social causes operating to generate specific patterns of inequality.

We will approach this problem by discussing three kinds of inequalities generated within a capitalist market economy:

> 1) Inequalities generated through *exclusion from labor markets*: i.e. between the stably employed labor force and marginalized categories of people.
>
> 2) Inequalities generated *within labor markets*: i.e. between well paid workers and badly paid workers.
>
> 3) Inequalities generated through non-labor market income: i.e. between wealthy and nonwealthy individuals.

If we want to sort out the causes of overall economic inequality within the United States, we need to look at the social processes that determine each of these.

1. Marginalization: the problem of acute poverty

"Marginalization" refers to a situation in which a person is, through one mechanism or another, unable to get access to the necessary means to acquire a basic livelihood. In developing countries this is an acute problem: landless peasants leave rural areas for the city and are unable to find stable paid work. They live in shanty towns and eek out a marginal existence in various ways: as scavengers in refuse dumps, as street venders, as informal day laborers, and so on.

In the United States marginalization occurs because of the mismatch between the distribution of skills in the population and the distribution of jobs in the economy. This mismatch in recent decades has intensified because of the decline of manufacturing. Heavy industry, relying largely on manual labor, used to be a good source of employment for people with limited education. Much of the work was unskilled or semiskilled, and in any case many of the skills needed in the more skilled jobs were learned on the job rather than in school. The rapid deindustrialization of America beginning in the 1970s destroyed those kinds of jobs.

Marginalization in the contemporary American economy is generated by the lack of good employment for people with low or outmoded skills and low education. This is not, as we have already stressed, just a problem of inadequate skill formation; *it is equally a problem of inadequate job creation*. Some people argue that the problem of acute poverty could be solved by a dramatic improvement in education for the poor, giving everyone the knowledge and skills needed to compete effectively in the high tech, information economy. Improving education, of course, would be a very good thing, but it would not completely solve the problem of marginalization. Regardless of the effectiveness of the system of education, not everyone will acquire the knowledge and skills needed for stable good paying jobs in the high tech sectors of the market economy. And even if it were the case that everyone could acquire such skills, there is no guarantee whatsoever that increasing the supply of people with these skills would generate the necessary number of jobs requiring those skills.

2. Inequalities *within* labor markets: the working poor and large wage inequalities at the top of the earnings distribution.

The second source of economic inequality occurs among people with stable employment. Two issues are particularly important here: First, increasingly since the late 1970s there has been a dramatic increase in inequality at the top of the pay scale, especially among managers in corporations and professionals. Second, large numbers of jobs in the American economy only pay poverty-level wages. This is referred to as the problem of the "working poor". Figure 12.15 shows the trends in real hourly wages of male and female workers at the 20th percentile from 1973-2005. The horizontal line in this figure shows the wage level for a full-time worker needed to bring a family of four above the official "poverty line". At no time during this period were wages of female workers at the 20th percentile sufficient to do this, while for male workers at the 20th percentile their wages hovered just below or above this level. Taken together, the escalation of high pay at the top of the labor market and the continued existence of large numbers of badly paid jobs at the bottom generates very high levels of overall earnings inequality generated within American labor markets.

-- Figure 12.15 about here --

The two most common explanations for why earnings inequality within the paid labor force has increased since the 1970s center on technological change and globalization. The argument goes like this: Because of the rapidity of technological change in the last quarter of the 20th century, particularly in information technologies, high education and technical skills have become much more valuable to employers and as a result the inequality between skilled and unskilled and between the highly educated and less educated has increased. This occurred precisely in the period where international competition also increased. As a result American firms were increasingly involved in competition with low wage foreign producers, and this put downward pressure on less skilled jobs. The combination of the effects of globalization on the wages of low-skilled workers and technological change on the wages of highly educated workers generated the dramatic increase in overall earnings inequality.

Technological change and globalization certainly contributed to rising inequality, but they do not provide an adequate explanation of the magnitude of either the level of inequality in earnings in the United States or the degree to which it has increased. Empirical research on this issue indicates that at best the effects of these two processes on increasing inequality are modest.[10] Rapid technological change and increasing global competition since the 1970s characterize all developed capitalist economies from Sweden to France to Japan to the United States. Yet, in some of these countries earnings inequality has changed hardly at all over this period, and in none of them is the level of poverty and inequality as high as in the United States.

We want to emphasis two other, interconnected processes that have played a particularly important role in the United States: the decrease in government regulation of labor markets, and the increase in competition within labor markets.

In all labor markets in capitalist societies, people with high levels of education, skills and talents will generally be paid more than people with low skills and education, but the degree of

[10] A good overview of this research can be found in Lane Kenworthy, "Inequality and Sociology." *American Behavioral Scientist* 2007. 50: 584-602 and Martina Morris and Bruce Western, "Inequality in Earnings at the Close of the Twentieth Century." *Annual Review of Sociology* 1999, 25: 623-657.

inequality associated with this universal association depends on other institutional features of the labor market. Specifically, we need to understand the institutional processes through which wages are connected to jobs and jobs are filled by people. Imagine two kinds of systems through which wages are linked to jobs and people:

1. *Intense individualized competition.* In this system, people in the labor market are constantly bidding against everyone else for jobs and earnings. There is continual jockeying around, with employers lowering and raising wages as they compete for employees, and employees constantly looking for new jobs which offer high wages. There are no effective minimum wage rules, so employers pretty much pay what market forces allow. Employers can hire and fire, promote and demote employees without significant restrictions imposed by government or by organized labor. Employees are continually evaluated according to their "merit" relative to other employees, and their pay adjusted accordingly. Individuals make individual employment bargains with their employers; labor unions play no role in the process.

2. *A labor market governed by rules which dampen competition.* Employees are governed by employment contracts which make it difficult for employers to fire workers or lower wages. Wages are partially based on seniority rather than intense individual competition and continual performance evaluation. Workers have high job security and thus employers have to seek ways of forging stable cooperation and productivity improvements among the existing workforce, rather than continually looking for "better" workers. Unions support wage rules which reduce wage spread and the government imposes significant constraints on employers pay policies, especially through a high minimum wage. Collective bargains dominate the employment relation rather than individual deals.

The first of these systems generates much greater wage inequality than does the second, both because of the ways in which it pulls down wages at the bottom of the labor market and because of the way it pulls up the earnings of people at the top of the labor market. While no actual society can be considered a pure example of one or the other of these, the United States is the closest to the first type of labor market of any of the developed capitalist countries, and if anything since the 1970s has moved closer to the competitive labor market model.

There are a number of reasons why the deregulation of labor markets and the intensification of competitiveness within labor markets will tend to escalate inequality in earnings:

First, the constant adjusting of pay upwards and downwards as people compete for jobs leads to a greater spread of earnings over time. Success in intense competition tends to generate cumulative gains over time because early success acts as a signal to other employers about the desirability of a particular employee. In a complementary manner, "failure" in a labor market – for example, losing one's job – acts as a negative signal even if the failure was not under the person's control. There are always winners and losers in market competition, but in weakly regulated markets with high stakes competition, the consequences of winning and losing tend to cumulatively intensify overall inequality.

Second, in certain labor markets competition takes the form of what Robert Frank has called "winner-take-all" competitions.[11] A winner-take-all market is one in which very small

[11] Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us* (Penguin, 1996)

differences in performance generate big differences in pay. This is like in the Olympics in which the gold medal winner of a race receives all of the fame and fortune, even though the difference between first and second place may be only hundredth of a second. While true winner-take-all markets in which there is a single winner are rare, many labor markets for high paying jobs have some of the features of such markets: corporations are prepared to pay enormous salaries for people they consider to be the “stars” in particular fields. This tends to ratchet up the salaries at the top of the pay scale, particularly when the competitive arena expands from local to regional to national and even international arenas. To the extent that labor markets become more like winner-take-all competitions, overall earnings inequality within those markets will increase.

Third, one of ways that competition can be muted is through social norms which define what kinds of behavior in the market are acceptable. Is it acceptable for an upper manager in a firm to be constantly on the lookout for higher pay in another firm, or is it expected that managers display real loyalty to the corporation for which they work? Does jumping from firm to firm to increase one’s pay indicate healthy ambitiousness or a lack of commitment to the future of the firm in which one is working? In the decades around the middle of the 20th century there were fairly strong norms – informal rules and expectations – within corporations that held managerial salaries in check. Writing in 1967 the economist John Kenneth Galbraith wrote that “Management does not go out to ruthlessly reward itself – a sound management is expected to exercise restraint…There are few corporations in which it would be suggested that executive salaries are at a maximum.”[12] Managers and executives were expected not to constantly try to maximize their personal gain, but to act on behalf of the interests of the corporation for which they worked “in accordance with accepted cannons of behavior”.[13] Managers and executives in corporations were still well paid, but the norms and expectations of the era kept their salaries somewhat in check. Beginning in the 1970s and accelerating in the 1980s those norms disintegrated, particularly for the top leadership of large corporations. The dramatic rise in the salaries at the very top, in turn, tended to pull up salaries of managers in tiers below the top. In many corporate settings by the end of the century, not moving from job to job was seen as an indicator either that there must be something unsatisfactory with the quality of one’s work or that one lacked competitive drive.

These changes in norms concerning behavior and earnings have also occurred within the professions, not just in corporate hierarchies. Pay for professors in American Universities has traditionally been governed by a combination of seniority rules, academic rank, and merit pay. Professors who publish a lot and have strong academic reputations receive merit pay increases, but equally professorial rank and seniority were important in determining salaries. Since the 1970s “playing the market” has become an additional powerful force in determining faculty pay. In some universities Deans explicitly tell faculty members that if they want a pay increase they need to get an outside offer from another university, which then generates a “retention offer”. The result is that it now happens not infrequently that high profile professors, with no serious intention of leaving their university, seek outside offers simply to trigger a bidding war between universities. This can sometimes lead to fantastic pay increases of 100% or more. In the past

[12] John Kenneth Galbraith, *The New Industrial State* (Princeton: Princeton University Press, 2007, originally published 1967) p.146.

[13] John Kenneth Galbraith, *The New Industrial State,* p. 151

such behavior would have been viewed as quite disreputable. The social norms which dampen market competition in academic labor markets have clearly weakened.

Increased competitiveness, tendencies towards winner-take-all markets, and weakening social norms that dampen income maximizing strategies have all had particularly important effects on increasing inequality at the top of the earnings distribution. The decline of government regulation of low wage labor markets and the virtual collapse of the union movement has especially harmed the bottom of the labor market. The most obvious form of this deregulation is the destruction of an effective minimum wage as described earlier in chapter 9. This directly has allowed the wages in low-wage jobs gradually decline, not just for minimum wage jobs themselves but for jobs paid just above the minimum wage whose pay scales are pegged to the minimum wage. Economists have estimated that wages in roughly the bottom 11% of jobs are directly affected by the level of the minimum.[14] Other forms of government deregulation of low wage labor markets include lax enforcement of workplace regulations, which have allowed a growth of sweatshops in some cities, the increasing employment of illegal immigrants often paid below the minimum wage, and an extremely hostile stance by the government towards labor unions. All of these have the effect of keeping wages at the bottom of the labor market low and thus increasing the distance between the bottom and the top in the distribution of earnings.

3. Wealth Inequality

Economic inequality is not simply the result of earnings inequalities generated through paid employment; it is also generated by inequalities in wealth. Wealth inequality, as we saw in Figures 12.13 and 12.14, is much more unequally distributed the earnings inequality. In the last decades of the twentieth century, there was a significant increase in the diffusion of financial assets and home ownership in the American population: home ownership rates increased (at least until the crash of housing market in 2008) and more people owned at least some stocks than in the past. Yet this did not result in any reduction of overall inequality of ownership of wealth. Three processes in the economy reinforced wealth inequality.

First, inequality in labor market earnings itself contributes to inequality in wealth since people with high labor market earnings are in a much better position to use some of their earnings for investments in wealth-generating assets than are people with more modest earnings. The fantastic rise in employment earnings at the high end of the labor market has allowed well paid professionals and corporate managers to turn surplus earnings into investments of various sorts.

Second, as we briefly discussed in chapter 9, since the 1970s there has been a dramatic change in the character of the American economy that some analysts have called “the financialization of the American economy.” This is a complex process, but basically it means that beginning in the late 1970s until the financial crisis of 2008, the American economy shifted from an economy within which profits were mainly being generated in production and trade to an economy in which most profits were being generated within the financial sector through the buying and selling of assets of various sorts rather than directly through the production of goods and services.

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[14] For estimates of the spillover effects of minimum wages, see Alan Manning, *Monopsony in Motion*. Princeton: Princeton University Press, 2003.

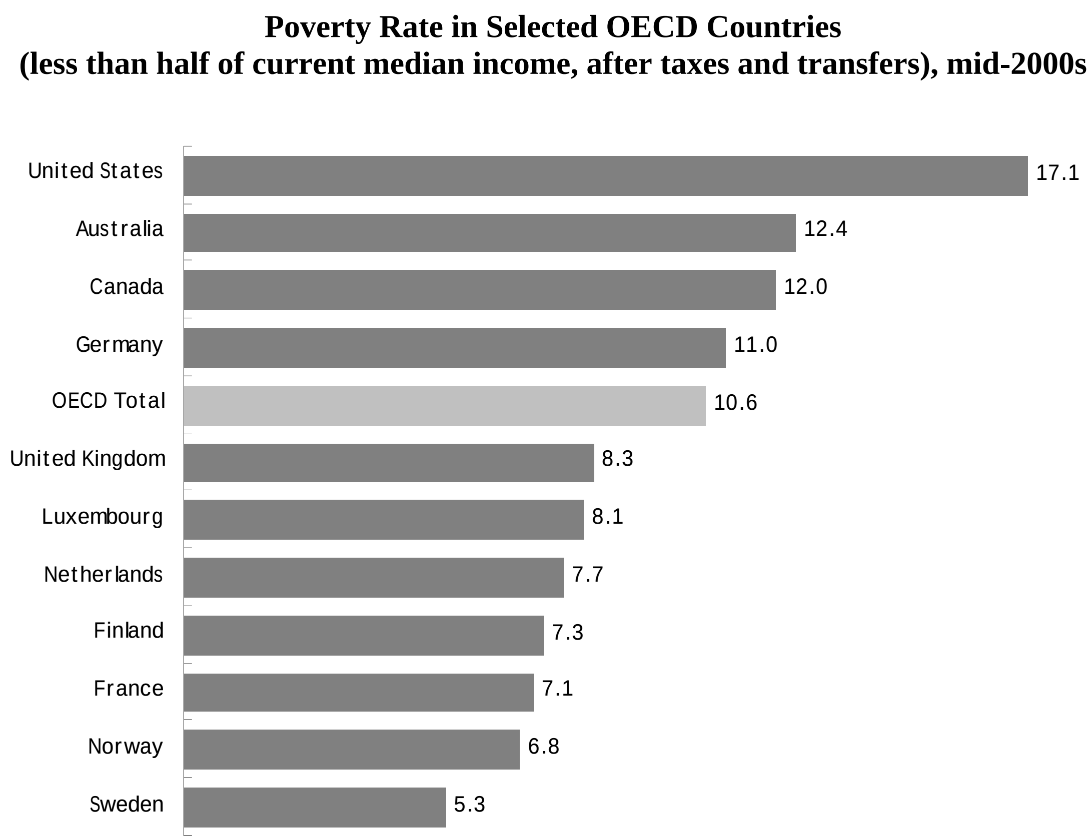
This financialization of the economy was to a significant extent the result of the decisive deregulation of the financial sector that occurred in the 1980s and 1990s and the increasingly speculative character of investments within that sector. Speculation refers to a strategy of investment in which a particular asset is purchased not mainly because of the flow of income that will be generated by that asset – for example, dividends from buying a stock in a company or rent from buying an apartment building – but rather from the expectation that the value of the asset itself will increase over time. When speculation becomes particularly intense, the result is often what is called a "speculative bubble". This is a situation in which the price people are prepared to pay for a particular asset gets increasingly out of line with what might thought of as its "real" economic value, and the price keeps getting bid up by the expectation that the price in the future will continue to rise. When, eventually, people begin to realize that the price in the future is likely to decline they abandon the assets and the bubble bursts. What deregulation of the financial sector did was open up a wide range of new strategies for this kind of financial speculation without any meaningful supervision. The result eventually was the financial crisis of 2008. But until that happened, enormous amounts of money were made in the financial sector. These gains were overwhelmingly captured by the wealthy.

The third process which reinforced wealth in equality concerns the change in the relationship between productivity growth and wage growth since the 1970s (see figures 9.5 and 9.6 in chapter 9). Prior to the 1980s there was a rough correspondence between the growth of labor productivity – how much value people produced per hour of labor – and the growth of hourly wages. Since around 1980, this correspondence has largely disappeared: there has been considerable growth in labor productivity in the economy while hourly earnings remained quite stagnant. What this means is that an increasing portion of the economic value created by the increased productivity was going to owners of assets rather than to the producers themselves.

There have thus been three significant economic shifts in this period all of which reinforce inequality of wealth: earnings inequality has increased dramatically creating much more discretionary income in the upper tiers of the earnings distribution which can be invested in wealth; income has shifted from the people doing the work in the economy to those owning assets; and profits have shifted from sectors which actually produce goods and service, to the financial sector.

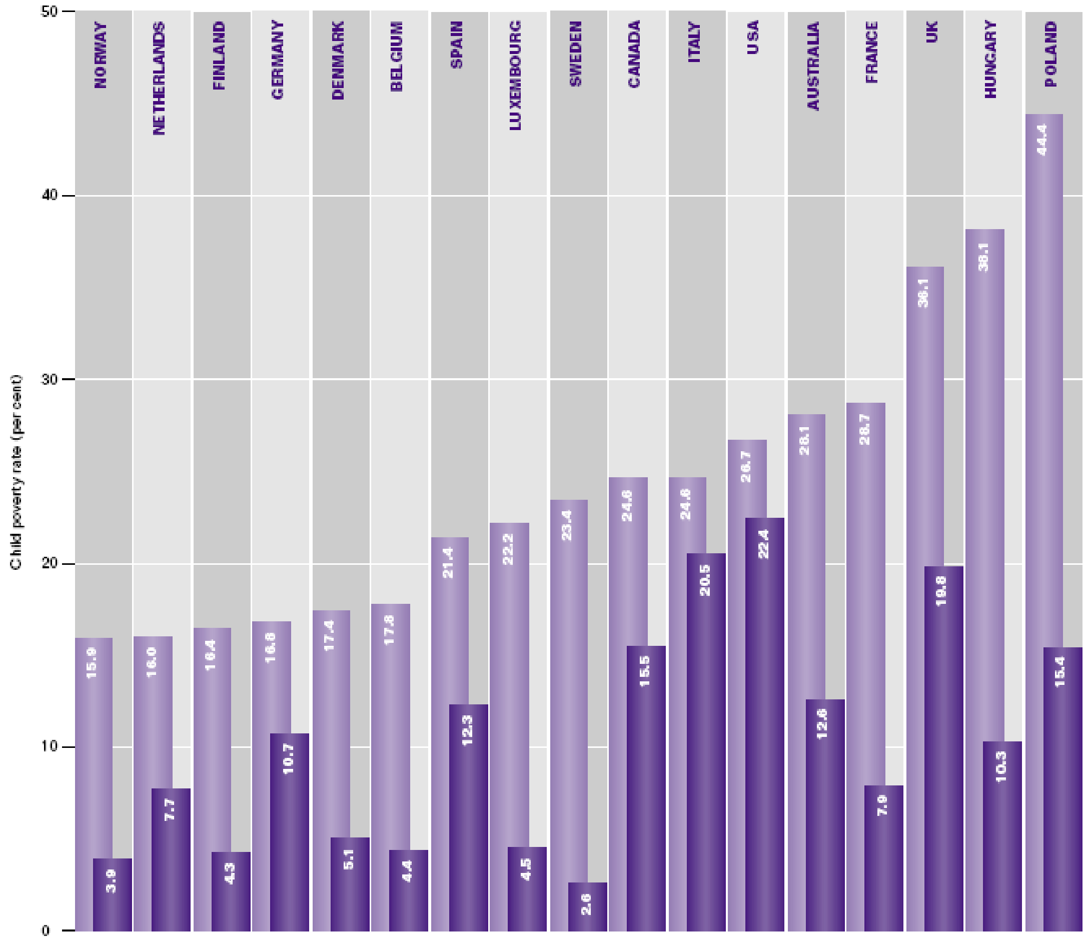
The financial crisis that began in 2008 has destroyed trillions of dollars in financial assets, and while real human suffering from the crisis has been felt largely by people who have lost their jobs and houses as a result of the crisis, the decline in the stock market and the collapse of a number of powerful financial institutions has heavily hit the wealth of people at the top. In the short run, at least, this will result in a reduction of wealth inequality.

FIGURES FOR CHAPTER 12



Source: OECD.Stat, "Poverty Measure: Headcount ratio after taxes and transfers"

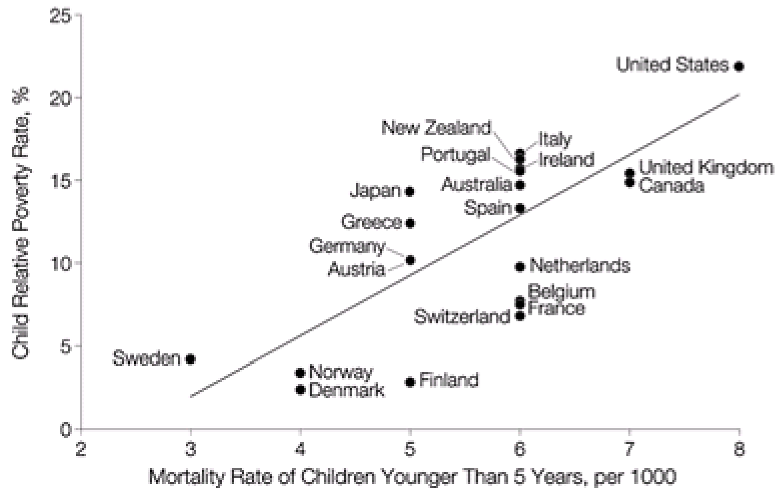
Figure 12.1
International comparison in Poverty Rates among wealthy countries



Note: The taller bars show the poverty rates based on household income *before* taxes and transfers while the lower bars show the rates *after* taxes and transfers. The poverty line in both cases is defined as 50 percent of the median income after taxes and transfers.

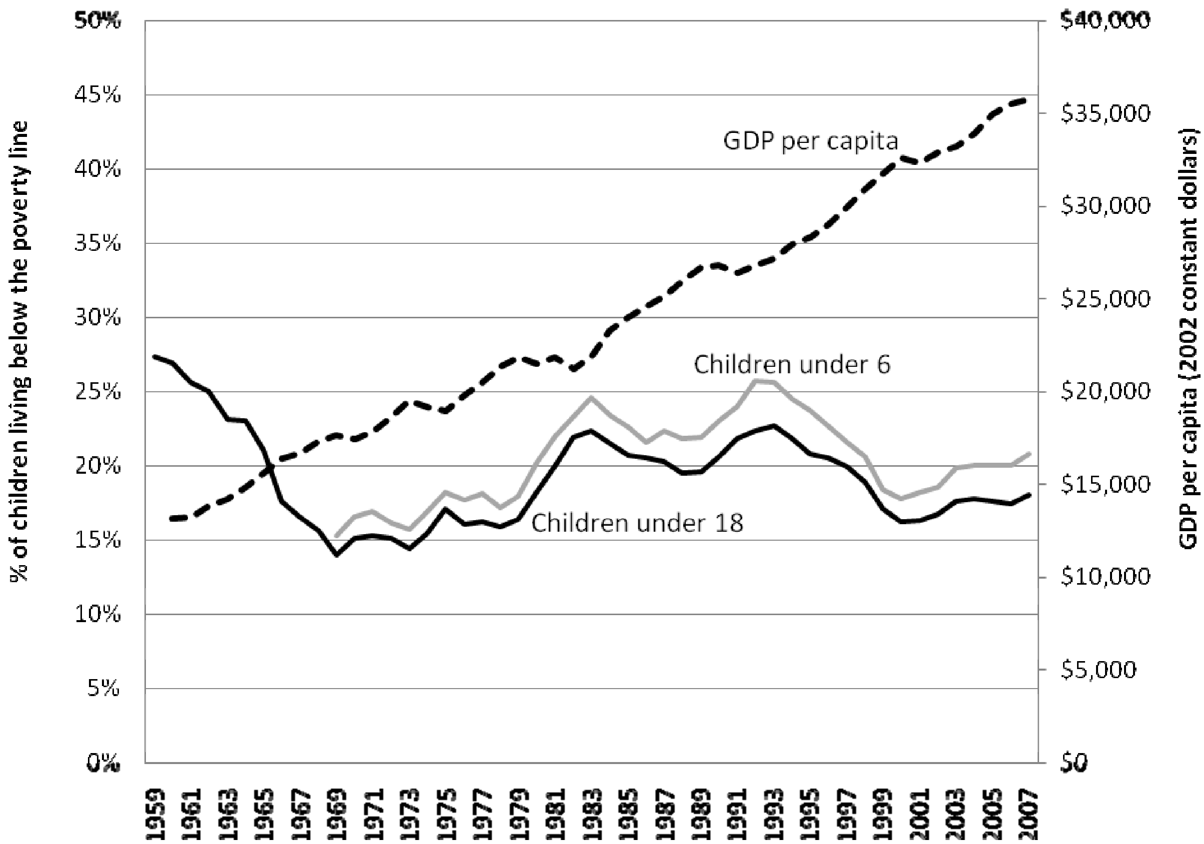
Source: *The league table of child poverty in rich nations, (Florence, Italy: UNICEF Research Center, 2000*

Figure 12.2
International comparisons of child poverty rates before and after taxes and transfers



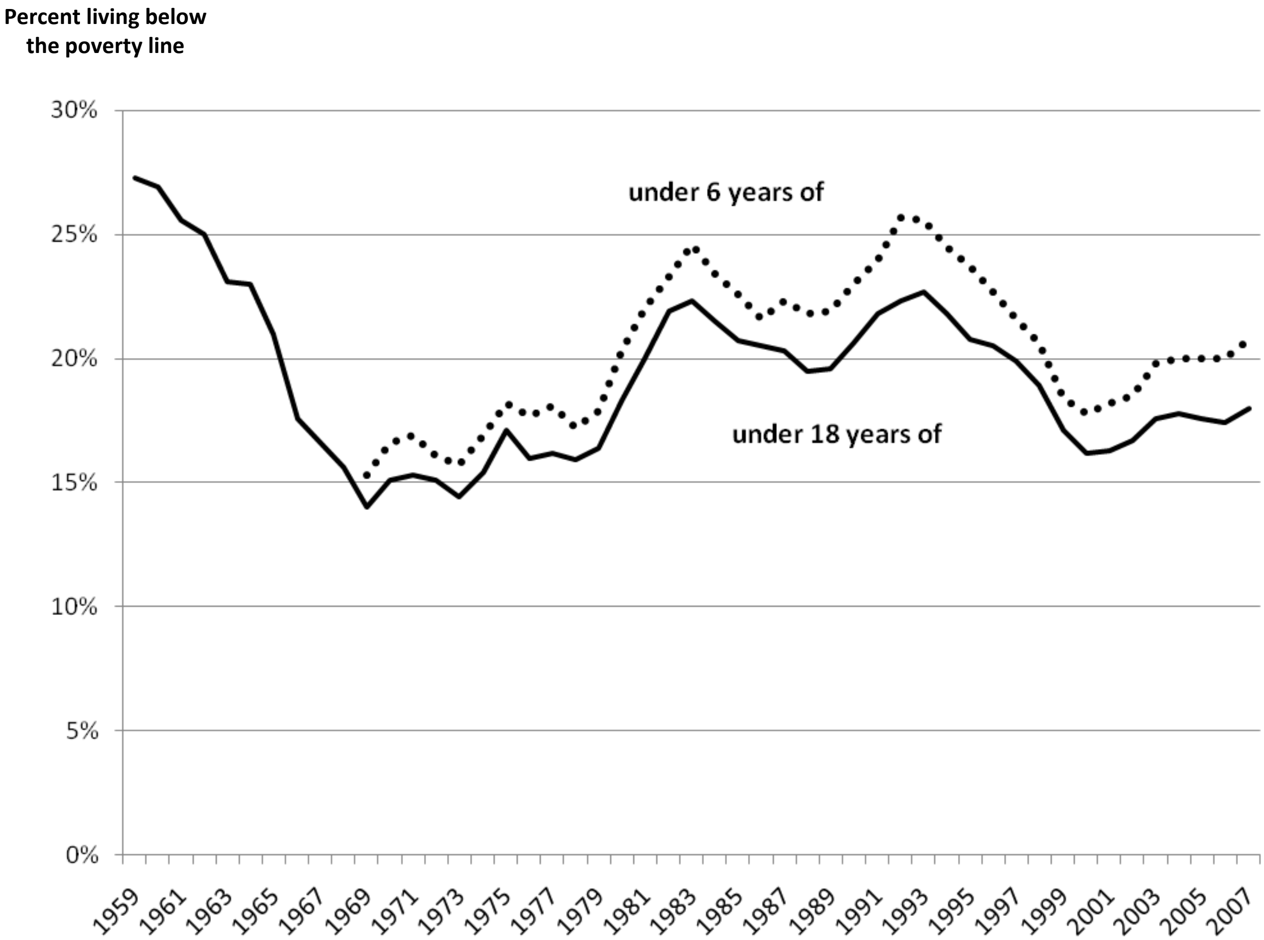
Source: Eric Emerson, "Relative Child Poverty, Income Inequality, Wealth, and Health," *JAMA.* 2009;301(4):425-426.

Figure 12.3
The Relationship between Relative child Poverty and under age 5 mortality in high income OECD countries



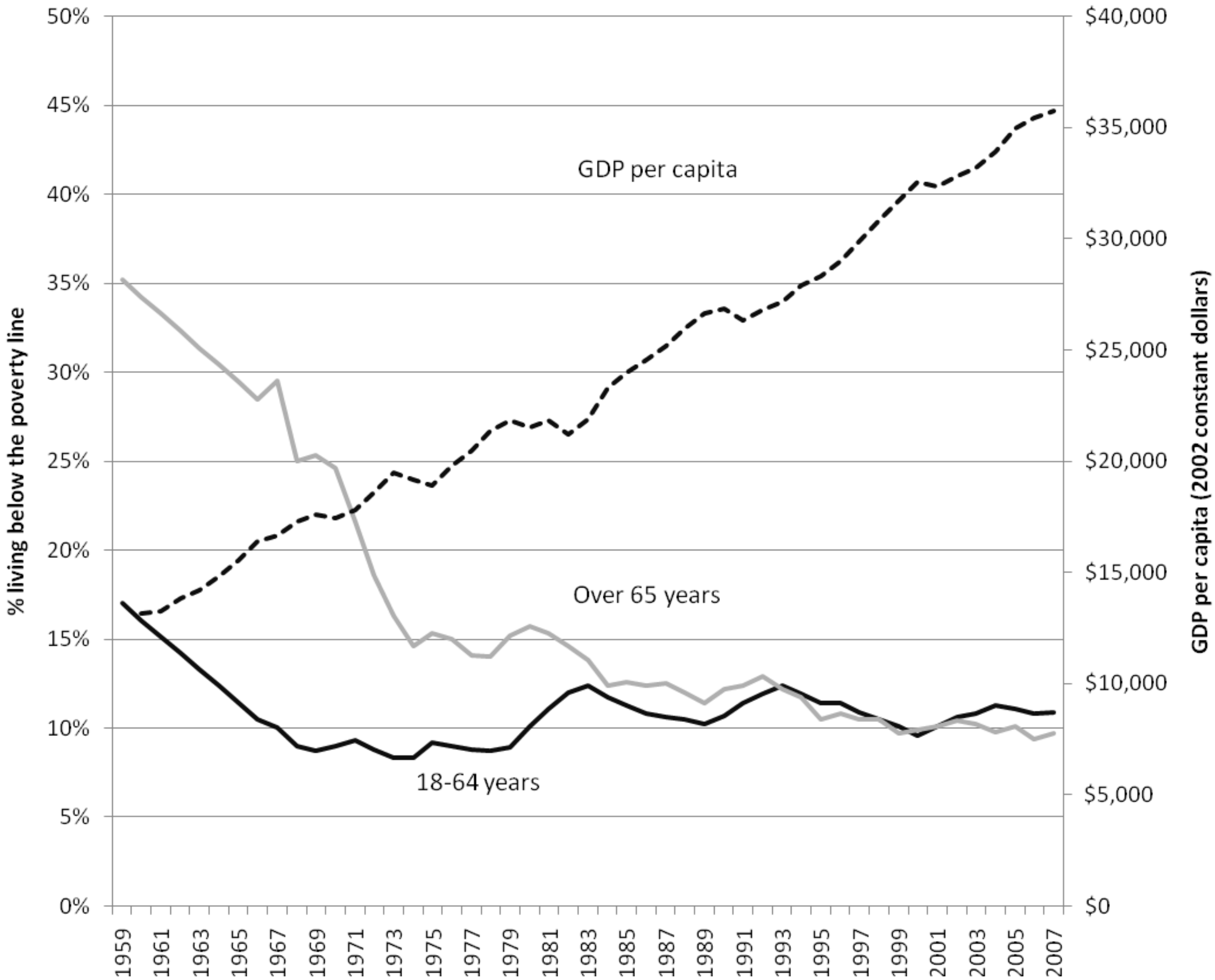
Note: "Poverty Rate" is defined as the percentage of children living below the official poverty line
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.4 Poverty Rate among children, 1959-2007



Note: "Poverty Rate" is defined as the percentage of children living below the official poverty line
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.4 Poverty Rate among children, 1959-2007
[Alternative graph without the GDP line]

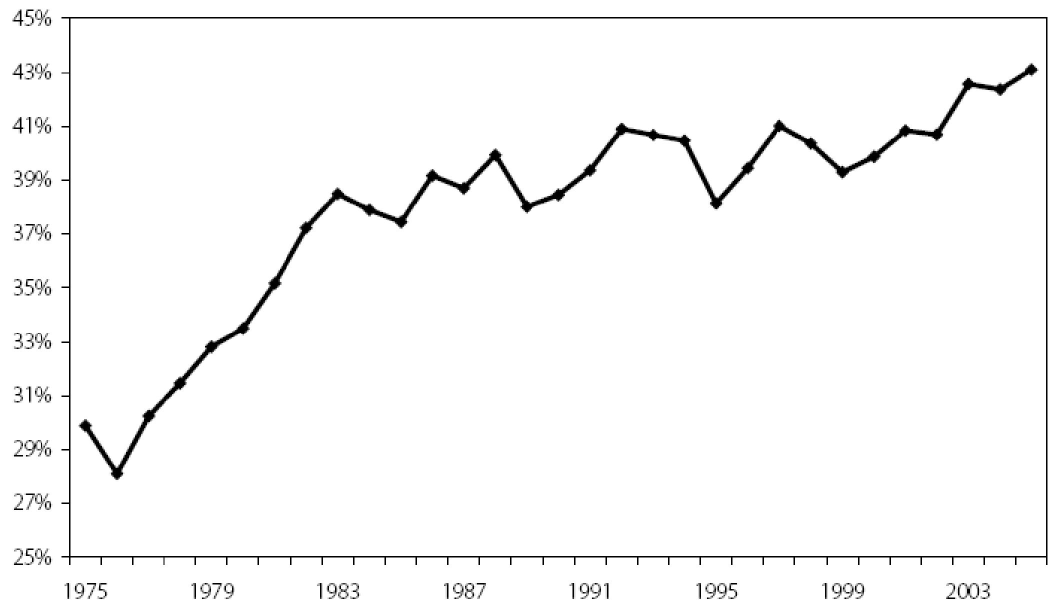


Notes: “Poverty Rate” is defined as the percentage of people living below the official poverty line. The data for 1960-1965 are interpolated.
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.5 Poverty Rate among Adults, 1959-2007

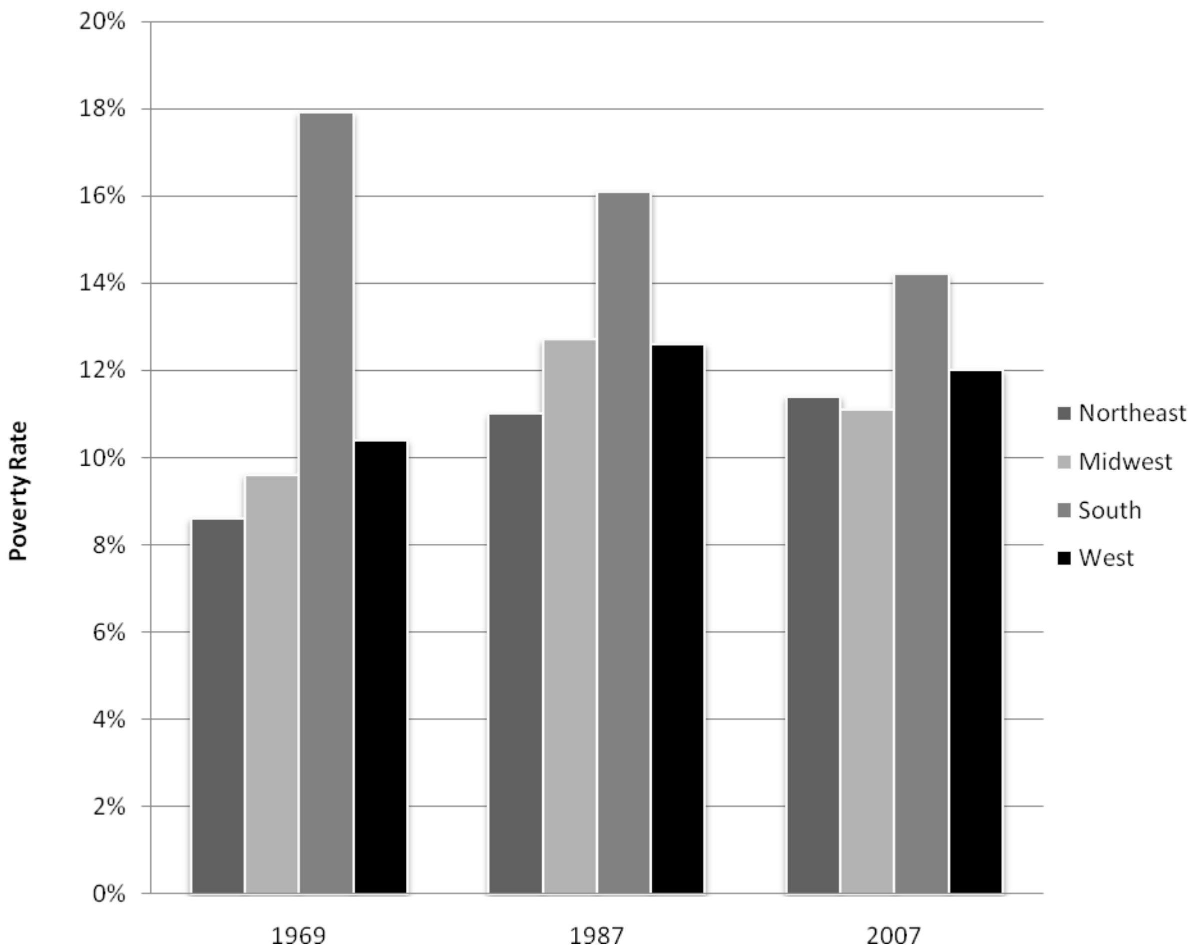
Notes: "Poverty Rate" is defined as the percentage of people living below the official poverty line. The data for 1960-1965 are interpolated.
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.5 Poverty Rate among Adults, 1959-2007
[alternative graph without the GDP line]



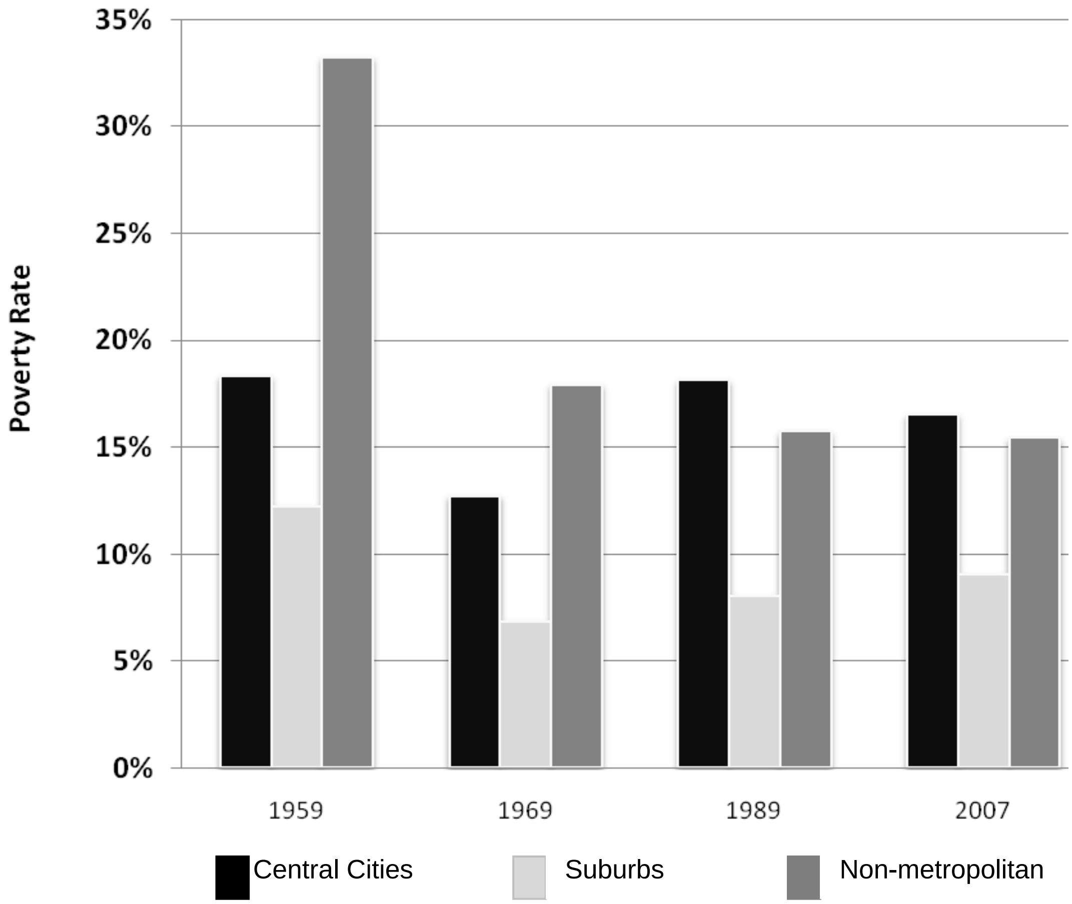
Source: Figure 6D from Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Figure 12.6 Percent of the poor below one half of the poverty line, 1975-2005



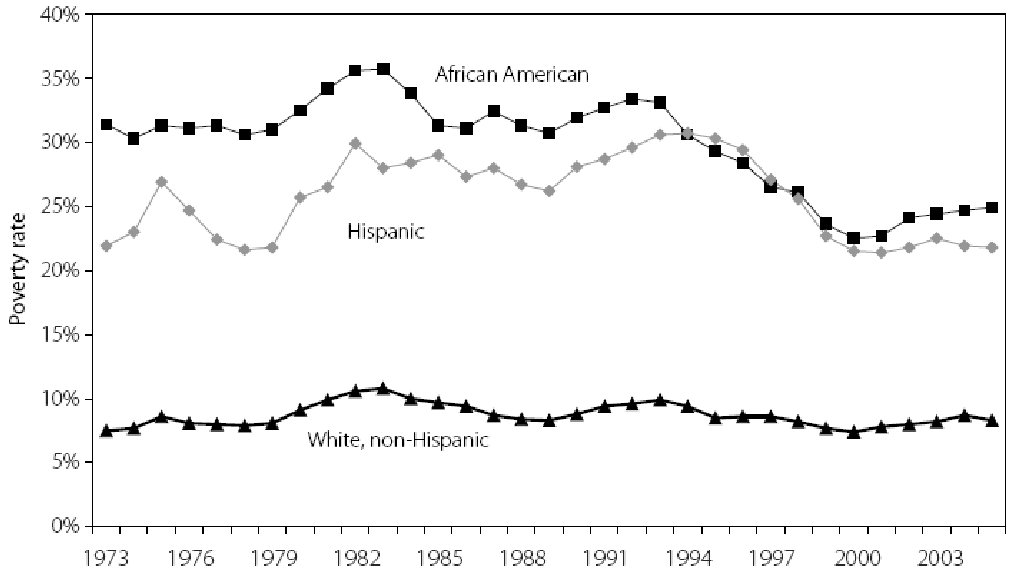
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.7 Poverty Rates across regions, 1969, 1987, 2007



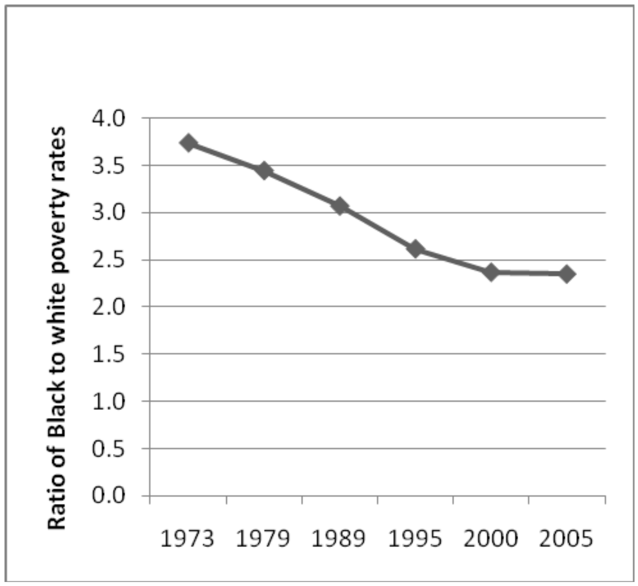
Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements.

Figure 12.8 Poverty Rates in Central Cities, Suburbs and non-Metropolitan areas 1959, 1969, 1989, 2007



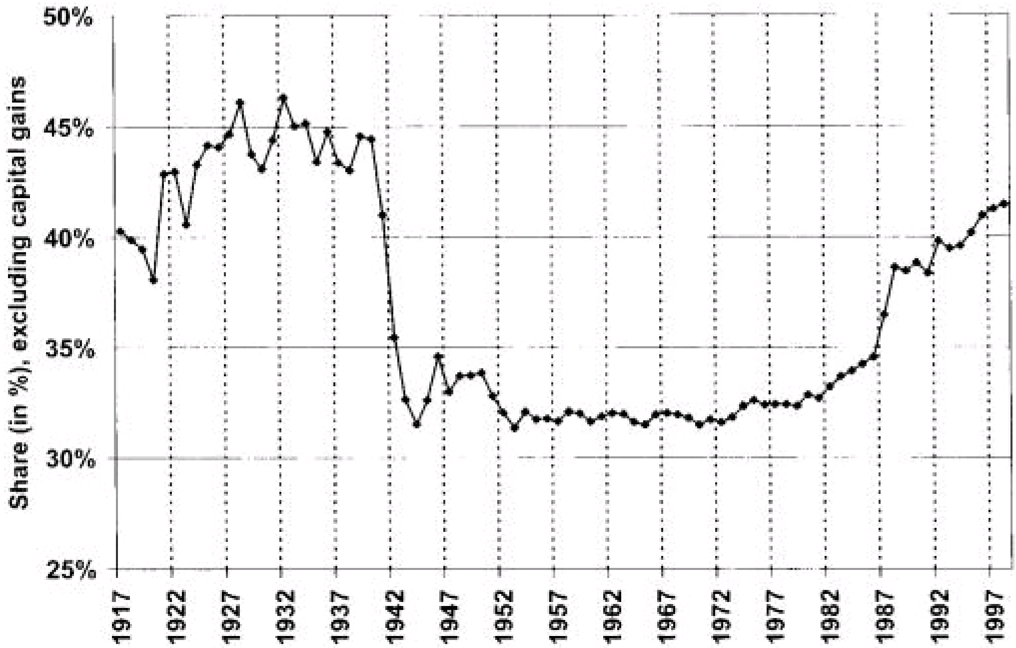
Source: Figure 6B from Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Figure 12.9. Poverty rates by race and ethnicity, 1973-2005



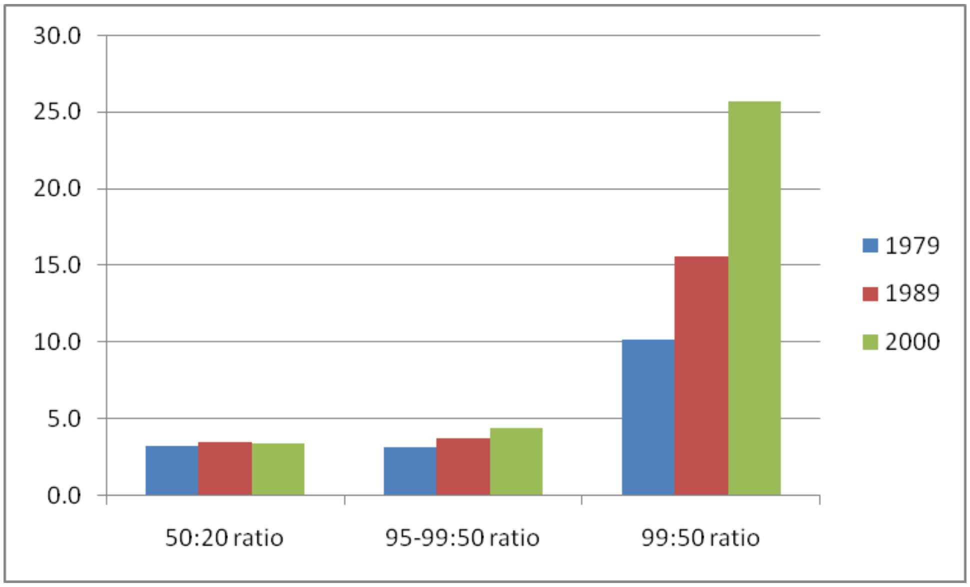
Source: calculated form Table 6.2 in Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto*, The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Figure 12.10
Ratio of Black to White Poverty rates, 1973-2005



Source: Thomas Piketty and Emmanuel Saez, " Income Inequality in The United States, 1913–1998", *The Quarterly Journal of Economics* Vol. CXVIII February 2003 Issue 1, pp.1-41

Figure 12.11
The Top Decile Income Share, 1917–1998

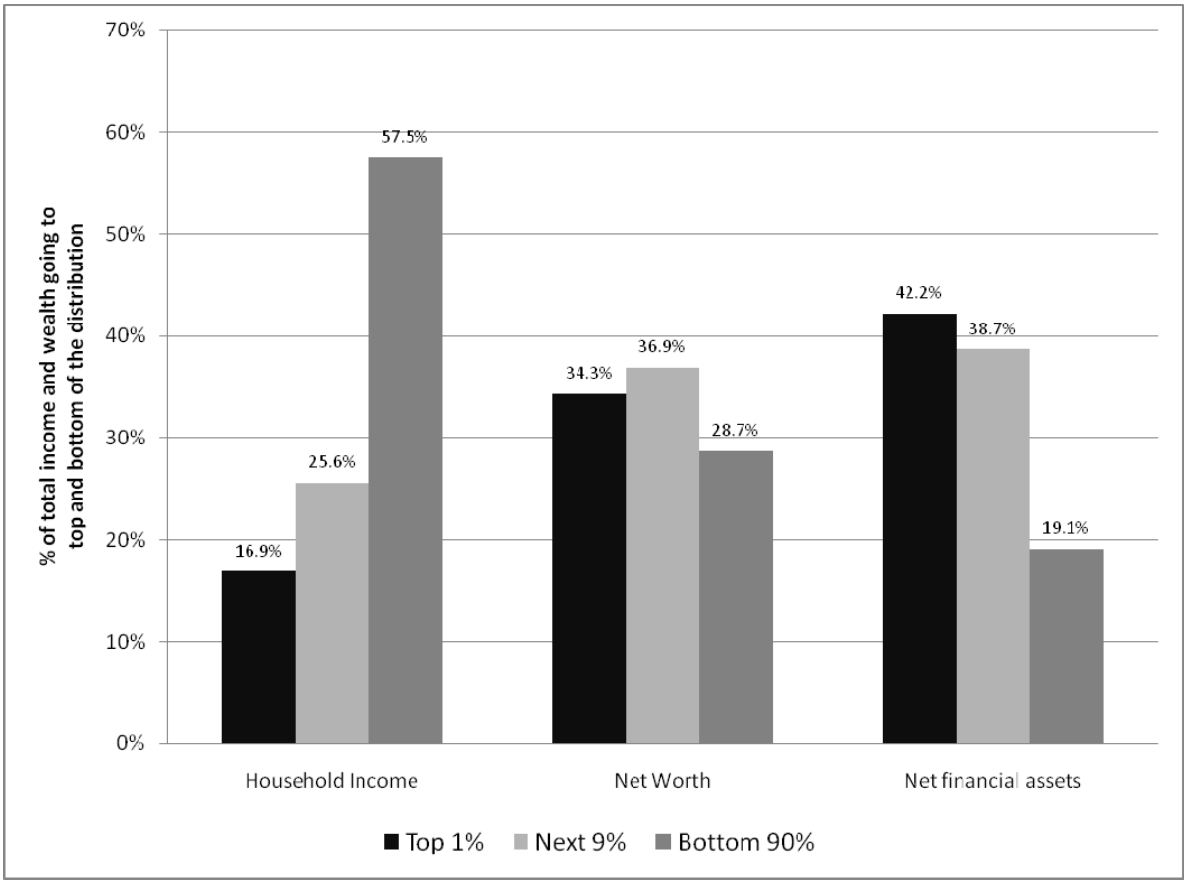


Source: Calculations based on Table 1.11 from *The State of working America 2006.2007*

Note:
These are ratios between the *average* household income within income groups. The average income of the middle quintile is very close to the median income since the income distribution *within* the middle quintile is not very skewed.

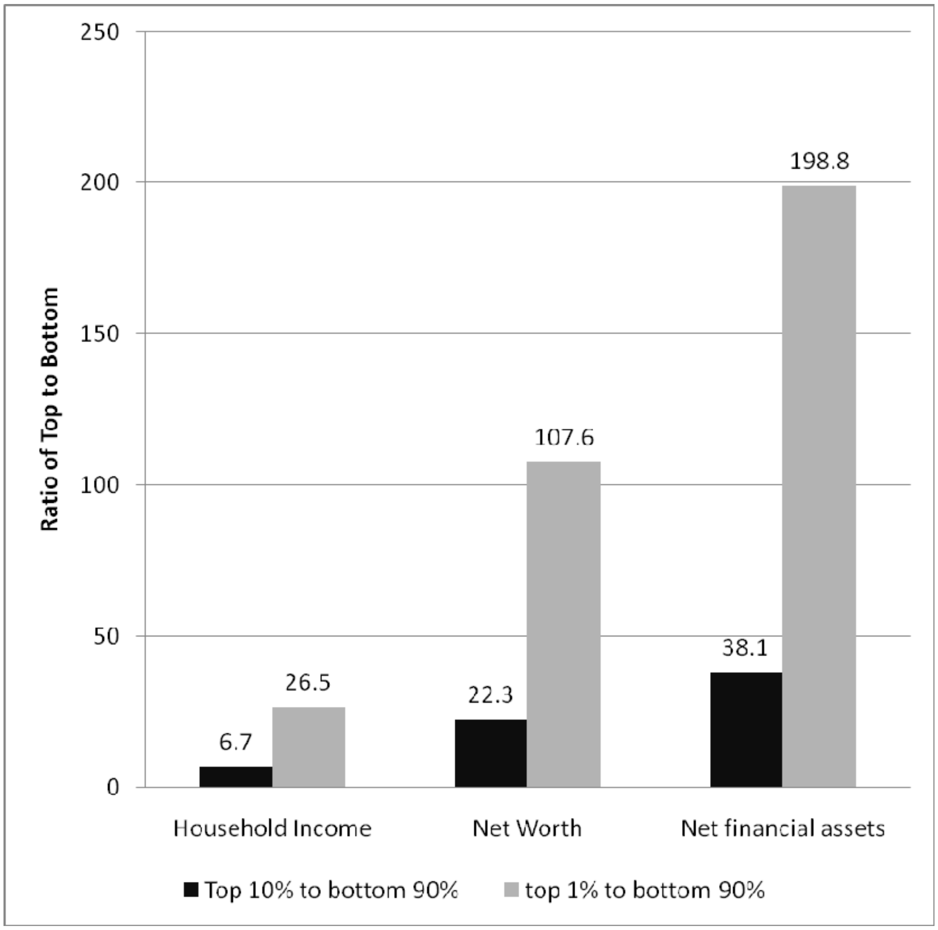
50:20 ratio =	The ratio of the *average* family income in the middle quintile to the average family income in the bottom quintile
95-99:50 ratio =	The ratio of the *average* family income of people in the 95-99th percentiles to the average family income in the middle quintile
99:50 ratio =	The ratio of the *average* family income of people in the 99th percentile to the average family income in the middle quintile

Figure 12.12
Ratios of income between different income strata, 1979, 1989, 2000



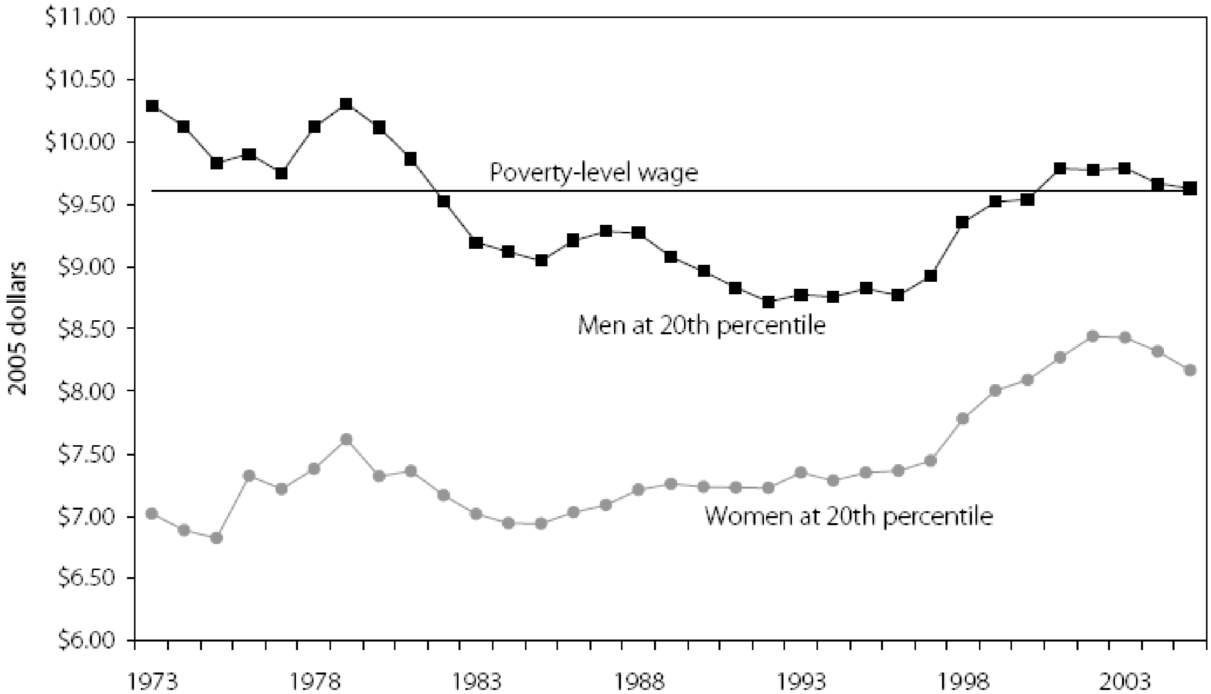
Source: Table 5.1 from Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Figure 12.13
Distribution of Household Income and Wealth, 2004



Source: calculations from Figure 12.

Figure 12.14
Ratios of average income and wealth of households at the top of the income and wealth distributions to average income and wealth at the bottom.



Source: Source: Figure 6L in Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Figure 12.15
Real hourly wages of low-wage workers, 1973-2005

CHAPTER 13
ENDING POVERTY IN AMERICA

Final Draft, August 2009

Poverty in the midst of plenty is an indisputable fact of American life. Nearly everyone feels that in a country as rich as the United States, this poses a moral challenge, particularly in the case of children living in poverty. Americans may endorse a strongly individualistic ethic in which people should be responsible for their own wellbeing and many may feel that redistribution from rich poor is somehow a violation of the right of people to do what they like with their own money. Yet it still seems unjust even to many ardent individualists that children suffer because of the poverty of their parents since clearly children are themselves not responsible for their plight, and so most people believe that something should be done.

Something should be done, but what? Before the 1960s the most significant program directly designed to reduce poverty in the United States was old age pensions provided through social security. Social security was an extraordinarily successful program. It began very modestly in the 1930s as one of the reforms of the New Deal, and by the end of the 20th century it had almost eliminated acute poverty among the elderly, particularly after medical care for the elderly was added in the 1960s. There were also some programs directed towards children, but these were badly funded and by any reasonable standard, grossly inadequate.

As part of the "Great Society" agenda of the 1960s there was a major effort at tackling the problem of poverty. Lyndon Johnson declared a "war on poverty" and launched a range of new initiatives. The most important of these was called "Aid to Families with Dependent Children", or AFDC, a dramatic expansion of an earlier program that dated from the 1930s. This was a moderately generous program of income transfers targeted to families with children. When combined with food stamps, medical assistance, and various kinds of housing subsidies it had a significant impact on the standard of living of poor children, even if it fell far short of eliminating poverty itself. This was the program that came to be known as "welfare".

AFDC was passed in the last period of vigorous liberal reform in the 20th century. By the 1980s when conservative politics were in the ascendency, welfare programs like AFDC were under concentrated attack on the grounds that the perpetuated rather than relieved poverty. The argument was pretty simple: by providing poor people with a "handout", welfare programs encouraged dependency rather than autonomy and responsibility. AFDC provided single women with incentives to have children outside of marriage in order to get welfare payments, and thus the system also undermined the family. Since there were no time limits and no work requirements, AFDC fostered a culture of passivity and irresponsibility. And on top of this, conservatives argued, welfare was riddled with fraud by "welfare queens" who drove Cadillacs and lived better than many hard-working wage earners. Liberals were also unhappy with the program. Some thought the programs were too stingy and still left children in poverty. Others felt that the specific structure of the programs had certain perverse effects called "poverty traps": since you had to earn below a certain level of income in order to qualify for welfare programs, and would thus lose your benefits if you earned above that threshold, the programs created a disincentive for people to incrementally improve their income from employment. Unless you could get a good paying job you were better off not working.

By the 1990s support for this kind of welfare had virtually disappeared. This lead to two principle developments during the decade. First, there was a significant expansion of a second kind of income support program, the Earned Income Tax Credit (EITC), designed to help the working poor rather than people outside of the labor force. The EITC is what is called a "refundable tax credit" and is given to working families with children whose annual earnings fall below a certain level. Unlike AFDC, it is only available to people in the paid labor force and is thus not subject to the central criticisms of traditional "welfare". Second, in 1997 AFDC was eliminated and replaced by a new program, the Temporary Assistance for Needy Families program (TANF) established by an act entitled the *Personal Responsibility and Work Opportunity Act.* Unlike the program it replaced, TANF assistance was only available for limited time periods, recipients were required to attempt to look for employment, and various provisions of the Act attempted to encourage marriage.

The act, in the words of President Clinton may have "ended welfare as we know it," but it has not ended poverty. As was shown in figures 12.4 and 12.5, the poverty rate has hardly changed at all since the late 1960s. It is true that the number of people receiving welfare payments from the government has declined dramatically since the end of AFDC: in 1996 over 12 million people received AFDC payments, while in 2008 only about 4 million received any support from TANF. But this has not resulted in significant improvements in the economic conditions of people at the bottom of the income distribution.

The rest of this chapter will explore a variety of ideas about what could be done that would significantly address the problem of poverty and economic inequality in the United States. We will begin by briefly discussing the concept of "welfare", and make the argument that in the United States today the main recipients of welfare are middle class and wealthy people, not the poor. We will then examine a number of proposals that would have a significant impact on poverty and inequality.

THE PROBLEM OF "WELFARE"

In the US "welfare" has become a dirty word. But what really is welfare? Here is one way that we might define the core idea:

> Welfare policies are any government subsidy to a particular group of people to provide them with certain kinds of material advantages that they would not have if things were just left to the market.

In this definition, welfare is not the same as all government programs; it is simply those government programs designed to give subsidies to people that gives them material advantages relative to what they would have had if things were left to the market.

Defined in this way there are really two main forms of welfare: *direct targeted government spending*, such as nutrition programs for poor children, public housing, income grants, tuition subsidies for university students, and government bailouts of failing corporations and large banks; and *tax subsidies,* such home mortgage deductions, tax breaks for corporations, tax deductions for charitable contributions and the earned income tax credit. Many people do not realize that tax deductions and tax credits are a form of government transfer for private purposes.

Consider the home mortgage tax deduction. If you pay $10,000 year in interest payments on a home mortgage and are in the 35% tax bracket (i.e. your income is sufficiently high that you are paying 35% in taxes on any additional income), this means that your income taxes to the government would be reduced by $3,500. This is exactly the same as the government transferring $3,500 to you in order to reduce your interest payments from $10,000 to $6,500.

Once we understand welfare in this broad way, it is clear that most welfare spending in the United States goes to the middle class and the rich. Here are some of the main examples:

*University students in public institutions***.** All college students in public institutions are recipients of massive welfare payments since the tuition they are charged generally only covers well under half of the costs of their education.[1] The rest comes for a variety of other sources, including things like endowments, but much of the cost of higher education is a subsidy from taxpayers. This raises significant social justice issues. After all, most taxpayers never went to college, and the average college graduate will earn considerably above the median income of all people. What this means is that less advantaged taxpayers are providing welfare payments to middle class students so that they can earn higher incomes later in life.

*Homeowners***.** The home mortgage interest payment tax deduction constitutes a massive subsidy to homeowners. What is more, since the magnitude of the subsidy is both a function of the size of the mortgage (the more expensive the house, the greater the subsidy) and the income tax rate paid by the homeowner (the richer the homeowner, the higher the percentage deduction for the interest payments), this particular form of welfare payments goes up the richer you are. In 2004, 48% of the housing tax subsidy went to people in the top quintile of the household income distribution.[2] This is clearly a form of welfare for the affluent. What is more, this subsidy is vastly greater than public assistance for housing for the poor. The budgetary authorization[3] for Federal housing assistance for economically disadvantaged persons declined from $56.4 billion (in constant 2004 dollars) in 1976 to $29.2 billion in 2004 while the tax subsidy on mortgages to homeowners increased by 260% in the same period, from $33.2 Billion to $119.3 billion.[4]

*Farm Subsidies***.** One of the most durable forms of welfare spending in the United States takes the form of agricultural subsidies. This averages more than $30 billion per year. These subsidies include substantial payments for tobacco farmers producing a crop that harms the health of Americans. There are huge direct subsidies for cotton farmers which give them a competitive

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[1] The tax subsidy for higher education has declined in recent years, so tuition has increased as a proportion of education costs. In 1998, the median tuition in public four-year universities and colleges covered 35% of total costs of education; in 2006 this had increased to 45%. In community colleges median tuition covered 23% of education costs in 1998 and 29% in 2006. These figures come from Jane W. Wellman, "The Higher Education Funding Disconnect: spending more, getting less," *Change: the magazine of higher learning*, November-December 2008, Figure 2.

[2] The tax subsidy for homeowners includes federal tax deductions for local property tax payments and a few other deductions besides the mortgage interest deduction.

[3] "Budgetary authorization" refers to the amount of money that has been authorized in the Federal Budget to be spent for a particular purpose. In the case of large infrastructure projects that take many years to complete, the budget authorization will typically be considerably larger than the actual outlays in any given year.

[4] Cushing N Dolbeare, Irene Basloe Saraf and Sheila Crowley (2004) "Changing Priorities: The Federal Budget and Housing Assistance, 1976 – 2005," *The National Low Income Housing Coalition*, available at http://www.nlihc.org/doc/cp04.pdf.

advantage against cotton farmers in poor countries. There are also myriad forms of indirect subsidies, such as inexpensive water for rice farming in arid regions of California. Overall, in 2006, 62% of all farm subsidies went to the wealthiest 10% of recipients, and 80% to the top 20%.[5]

Corporate welfare. The examples of government welfare for corporations are endless. Here are some from the politically conservative Cato Institute's "Handbook for the 105th Congress"[6]:

- Commerce Department's Advanced Technology Program ($200 million a year), which gives research grants to consortiums of some of the nation's largest high-tech companies. Those grants allow private companies to use taxpayer dollars to help them develop and bring to market profitable new products.
- The Export-Import Bank ($700 million a year) uses taxpayer dollars to provide subsidized financing to foreign purchasers of U.S. goods. Its activities include making direct loans to those buyers at below-market interest rates, guaranteeing the loans of private institutions to those buyers, and providing export credit insurance to exporters and private lenders.
- The Energy Department's Energy Supply Research and Development Program ($2.7 billion a year) aims to develop new energy technologies and improve on existing technologies. Its activities include applied research-and-development projects and demonstration ventures in partnership with private-sector firms
- Overseas Private Investment Corporation ($70 million a year) provides direct loans, guaranteed loans, and political risk insurance to U.S. firms that invest in developing countries.

Libertarians like those associated with the Cato Institute object to all of these subsidies since they oppose any use of taxation that goes beyond the most minimal needs of public order and the protection of private property. We, on the other hand, believe that many of these forms of government welfare may be entirely justified. It is probably good public policy to facilitate home ownership, and the mortgage interest tax deduction is one way of doing this. University education is in part a public good, and tax subsidies are certainly justified. Even corporate welfare and agricultural subsidies may serve useful public purposes in some circumstances, helping to overcome market failures, to solve prisoner's dilemmas, to reduce negative externalities of various sorts, to improve the lives of people and communities. The fact that such programs made be good public policy does not, however, negate the fact they are also welfare from which the more affluent primarily benefit and that the total spent on such programs is vastly more than the transfers to the poor that fall under what is usually called "welfare". As critics of the inequalities of these subsidies have sometimes said, this is "socialism for the rich, capitalism for the poor"

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[5] Environmental working group's Farm Subsidy Database, http://farm.ewg.org/sites/farm/

[6] Available online at: http://www.cato.org/pubs/handbook/handbook105.html.

SOLUTIONS TO POVERTY & EXCESSIVE INEQUALITY

Current discussions for reducing poverty have focused mainly on the issue of education and skill formation. As we explained in our discussion of high road capitalism, we too feel that a transformation of the institutions of skill formation is an important element of moving towards high road capitalism, and certainly any serious political project for ending poverty will include life-long education, beginning with high quality preschool and continuing through higher education, vocational education, and flexible episodic skill formation and retraining. Nevertheless, we do not feel that poverty and excessive inequality can be effectively dealt with just by education both because there will be no guarantee that the increased supply of educated labor will automatically generate sufficient numbers of appropriate, and because acquiring the skills and education for good-paying jobs will not be a sensible strategy for everyone.

Still, we believe that it is entirely feasible to *completely* eliminate poverty in America. To do so would require a significant reduction in the overall levels of inequality, and this means that the incomes of people at the top of the income distribution would have to be reduced. Poverty can be eliminated in a rich society. What is not plausible is eliminating poverty while leaving intact the power and privileges of the wealthy.

We will examine three clusters of programs and social changes that we believe would do much for eliminating poverty: The first of these involves partially decoupling the real standard of living of all people from their personal income; the second involves partially decoupling paid employment from the capitalist market; and the third, involves partially decoupling income from paid employment. We will briefly discuss the first two of these and then provide a more detailed discussion of the third.

Partially decoupling standards of living from earnings

Let us define in a general way a standard of living above poverty as having adequate, nutritious food, comfortable shelter, good health care, decent clothing, opportunities for recreation and entertainment, reasonable transportation, and sufficient income to be a full participant in the social life of a community. That is admittedly vague, since words like “adequate” and “comfortable” and “reasonable” hardly are sufficiently precise to give us a specific number. Nevertheless, for our purposes this is precise enough.

How much income a person needs to live above poverty defined in this way depends to a significant extent on how many of the components of this standard of living a person needs to purchase with their income and how much is provided through other means. The clearest example is healthcare: if everyone is publicly provided good quality health insurance that includes doctor visits, hospitalization, medications, nursing care, dental care and all other necessary health care services, then they need less income in order to live above poverty. If public transportation is well designed and cheap, and if cities have well-designed bike paths, then people have less need for a car, or at least in many families only one car would be needed. If communities have good parks, community centers, public swimming pools, libraries, ice skating rinks, community concerts, and so on, then people need to spend less money for recreation. If university education, vocational training and retraining, technical training and community colleges and other forms of lifelong education are free or heavily subsidized, the people need less income to deal with the uncertainties of jobs and the labor market. If good quality publicly funded childcare is available for all, then people need less earnings to cover those costs. Taken together all of these things constitute what some people call the "social wage." The social wage plus labor market earnings plus income derived from wealth (savings, investments, etc.) determine a person's standard of living. The greater the social wage, the smaller the burden there is on labor market earnings to raise a person above the poverty line. One critical social change to reduce poverty, therefore, is increasing the social wage.

Partially decoupling paid employment from the capitalist market: Publicly created jobs

The social wage will never be enough to constitute an adequate standard of living. People will still need money to buy things on the market. The labor market and paid employment will always be the main way most people get their income, but as we noted in chapter 12 there is little reason to believe that private capitalist firms will ever spontaneously provide sufficient jobs of the right kind. One solution is for a significant number of jobs paying reasonable wages to be created directly by public initiative. These jobs need not all involve direct employment by the state; publicly *created* jobs can be organized by community groups, nonprofit organizations, and other associations in what is sometimes called the "social economy."[7] Such organizations can be very effective in providing all sorts services that meet human needs, but they often have great difficulty in both providing those services and providing a "living wage" for the service providers. Publicly funded and subsidized jobs on a large scale could help solve this problem.

Partially decoupling income from earnings: unconditional basic income

The final proposal departs much more fundamentally from the basic way that American capitalism is organized. The idea of expanding the social wage and publicly funded and subsidized jobs would be a significant change in the United States, but both of these would build on already familiar elements in the economic system. Decoupling the income needed to purchase the basic necessities of life from earnings acquired in labor markets would constitute a much more fundamental break with existing ways of organizing things. While we do not think there is any chance that this proposal would be adopted in the United States any time soon, nevertheless we think it is an important idea and would have a range of very positive effects if it were implemented, and so it is worth thinking about.

This proposal is called *unconditional universal basic income,* or simply "basic income" for short.[8] The basic idea is quite simple: All citizens are given on a monthly basis an income sufficient to live at a no frills level above the poverty line. The basic income is given to everyone – it is universal – and it is given unconditionally – there are no work requirements or other conditions. The income is given to Bill Gates along with everyone else. It is a citizen right, just as free public education is a right for children, and free health care is a right for everyone in most countries. Parents are the custodians of the basic income given to their children (which could be at a lower level than for adults). Basic income grants replace all other cash transfer programs of

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[7] For a discussion of the social economy and the ways in which it might provide for good and meaningful employment of relatively less skilled people, see Erik Olin Wright *Envisioning real Utopias* (London and New York: Verso, 2010), chapter 7.

[8] For a thorough discussion of the idea of basic income, including a range of commentaries and criticisms, see Bruce Ackerman, Anne Alstott and Philippe van Parijs, *Redesigning Distribution: basic income and stakeholder grants as cornerstones for an egalitarian capitalism*, the Real Utopias Project, volume V, edited by Erik Olin Wright (London and New York: Verso, 2005),

the welfare state -- unemployment insurance, food stamps, cash payments for poor families, social security pensions, and so on – but not the kinds of government programs embodied in the social wage (education, health care, etc.). It is paid for out of general income taxes, so of course rates of taxation have to be increased. For high earning people taxes will rise by more than the basic income, so they will be net contributors. While the basic income is sufficient to live on, most people will want some discretionary income, and there is no disincentive to work since the rate of taxation on low labor market earnings will continue to be low.

Basic income is a sharp contrast to existing income-transfer programs designed to reduce poverty, nearly all of which are *means-tested*, given only to people whose income falls below some threshold. Basic income is a universal program, given to everyone. At first glance, it might seem that means-tested programs that are targeted to the poor would provide more resources for the people who need them most. This turns out not in general to be the case. The problem with means-tested programs is that by identifying a specific, well-demarcated category of beneficiaries, means-tested programs create a sharp division between those who receive the benefits and those who do not. Universal programs build bridges across groups, creating large potential coalitions in support of funding the program and symbolically affirming the idea that the program reflects a universal right, rather than charity. Targeted programs isolate recipients, symbolically stigmatizing them as needy, dependent persons incapable as acting like responsible adult citizens. As a result of these characteristics, universal programs tend to provide more, not less funds for the poor. As it is sometimes said: programs targeted to the poor are usually poor programs.

The idea of unconditional, universal basic income runs against the grain of the political and economic views of most Americans. It seems to reward laziness and undermine individual responsibility. And besides, many people will argue, it would simply be too expensive: even a rich country like the United States could never afford to give everyone, unconditionally, an above poverty basic income. We will discuss these objections in a moment, but before we do so let us look at what might be the potential benefits of a basic income system if it were implemented and if it were affordable.

First, and most important in the context of the present discussion, basic income eliminates extreme poverty without stigma because the grant is universal. No child will live in poverty if there was an unconditional, universal basic income guaranteeing everyone an adequate standard of living.

Second, if there was a well-funded, basic income in place, it would tend to make unpleasant work more costly. In the existing labor market badly paid jobs are often also the least pleasant. A basic income would make it harder for employers to recruit workers for unpleasant, boring, physically taxing jobs. Such jobs would either become better paid, or employers would feel pressure to get rid of unpleasant work through work reorganization and technical change. Basic income, therefore, is likely to create a bias in economic change towards labor humanizing innovations.

Third, unconditional basic income can be seen as a way of supporting a wide range of non-market economic activities, as well as engaging in market-oriented activities in new ways. For example, one of the problems in the performing arts is that in order for people to be actively engaged in the arts they have to eat, and it is often extremely hard to generate a basic income through their artistic activities. Many artists, actors, musicians, writers and dancers therefore need to work at low paying "day jobs" in order to earn just enough to be able to do their artistic work. An unconditional basic income would liberate them from this constraint. Similar problems confront people engaged in community activism of various sorts, nonprofit services, caregiving for children and the elderly, and many other activities that generate considerable social benefits. All of these would expand if the people engaged in these activities did not have to generate income to meet their basic needs through these activities. The same argument applies to the formation of worker-owned cooperatives. One way of organizing production for a market is through firms that are entirely owned by the people who work in them. Worker-owned cooperatives, however, are often very difficult to form and unstable because workers find it difficult to get the capital they need for their business in ordinary credit markets and because they need to generate income to live on right from the start. They cannot afford to start the business and wait several years before generating income. An unconditional basic income would both make it easier to get loans for the business, since the basic income would make the business more viable and thus more credit worthy, and it would give the worker-owners the necessary time to get the firm going.

Finally, basic income can be seen as guaranteeing what Philippe van Parijs, the leading theorist of basic income, has called "real freedom for all."[9] Real freedom refers to the ability of people to have the real capacity to make critical choices and act on them, to put their life plans into effect. In a world without basic income, wealthy people with assets have this freedom because they can make the choice whether or not they want to work for pay or not, and the children of rich parents have this freedom because their parents can provide them with the necessary resources to make such choices. What a basic income would do is give such "real freedom" to everyone. Most crucially, whether or not to enter the labor market to work for pay would become a real choice for people. All people, not just wealthy people, would have the freedom to exit the labor market – to care for children, to be an artist, to work as a community organizer.

These consequences of a basic income are attractive to many people. But will it work? Is it actually feasible? Critics of unconditional basic income typically raise two practical objections: First, if there existed a basic income above the poverty line, then so many people will stop working for pay that not enough income will be generated to provide the necessary taxes to fund the system. The basic income would collapse because tax revenues would plummet due to the lack of labor supply. Second, basic income will be so expensive that the tax rates would have to be so high that this would generate massive disincentives to invest and to work. Again, the basic income would collapse, this time because of a lack of investment.

These are empirical questions, and it is difficult to know exactly how people will react if a basic income were in place. There have been estimates made of the total cost of a basic income, and at least in those European welfare states that already provide something close to a basic income through a patchwork of targeted and means tested programs, the increased net cost is not all that great. Remember: the basic income replaces lots of existing income support programs, and it is also much cheaper to administer than other programs because of its simplicity. Even in the United States, which at the beginning of the 21st century has the lowest aggregate rate of

[9] Philippe van Parijs, *Real Freedom for All: What (if anything) can justify capitalism* (Clarendon Press, Oxford, 1995)

taxation among developed countries, the estimates of the tax increases needed to fund a basic income suggest that the tax rates would not cripple the economy.[10] Nevertheless, we do not know how people will react to a basic income, and it is possible that so many people would exit the labor force that it just wouldn't work. Its viability can ultimately only be tested in practice.

Even if we suppose that a basic income would work, many people will have doubts that it would be desirable. To many it will just seem wrong to give everyone money to live on regardless of their behavior or contribution to society. Paid work at least demonstrates that you are doing something useful for someone besides yourself. Basic income allows people to be lifelong couch potatoes without contributing anything. This just seems unfair to those people who do the work that generates the taxes that pays for the basic income.

These are indeed serious objections and certainly cannot be dismissed. We have two responses. The first rests on van Parijs' arguments for "real freedom for all". In the world in which we live rich people are able to do nothing without contributing anything to society, and yet are allowed to keep their wealth. Basic income merely extends this "right to be lazy" to everyone; or to say this in a more positive way: it extends the real freedom to make choices over work to everyone. The second response has a more pragmatic character. There are many values in play around inequality and poverty and around the alternative policies for dealing with these issues. All solutions to problems involve trade-offs. To be sure, the idea that some people will live off of the basic income and contribute nothing to society is distasteful. The problem is that putting a requirement for work or social contribution as a condition to receiving the basic income creates huge monitoring problems and opens the door for scams, deception, adjudications, and other perverse effects. These problems, in turn, would raise the costs of basic income. It is possible, therefore that the other good things about basic income – eliminating poverty in a rich society, especially for children; raising the price of unpleasant work and generating a bias in technical change which will reduce such work; opening up the possibilities for more nonmarket socially valuable activities; and providing a basic real freedom for all – are sufficiently compelling to outweigh the undesirable aspects of basic income. This is true for virtually all policies: it is almost never the case that a public policy perfectly embodies a salient social value and has no negative effects whatsoever. The political task, therefore, is to weigh the trade-offs rather than reject a policy simply because it involves trade-offs.

[10] See, for example, the estimates by Irving Garfinkle, Chien-Chung Huang, and Wendy Naidich, "The Effects of a Basic Income Guarantee on Poverty and Income Distribution" in Allsttot, et. al. *Redesigning Distribution.*

CHAPTER 14
RACIAL INEQUALITY

Final Draft, August 2009

Race and racial inequality have powerfully shaped American history from its beginnings. Americans like to think of the founding of the American colonies and, later, the United States, as driven by the quest for freedom – initially, religious liberty and later political and economic liberty. Yet, from the start, American society was equally founded on brutal forms of domination, inequality and oppression which involved the absolute denial of freedom for slaves. This is one of the great paradoxes of American history – how could the ideals of equality and freedom coexist with slavery? We live with the ramifications of that paradox even today.

In this chapter we will explore the nature of racial inequality in America, both in terms of its historical variations and contemporary realities. We will begin by clarifying precisely what we mean by race, racial inequality and racism. We will then briefly examine the ways in which racism harms many people within racially *dominant* groups, not just racially oppressed groups. It might seem a little odd to raise this issue at the beginning of a discussion of racial inequality, for it is surely the case that racial inequality is more damaging to the lives of people within the oppressed group. We do this because we feel it is one of the critical complexities of racial inequality and needs to be part of our understanding even as we focus on the more direct effects of racism. This will be followed by a more extended discussion of the historical variations in the forms of racial inequality and oppression in the United States. The chapter will conclude with a discussion of the empirical realities today and prospects for the future.

This chapter will focus primarily on the experience of racial inequality of African-Americans, although in the more historical section we will briefly discuss specific forms of racial oppression of Native-Americans, Mexican-Americans, and Chinese-Americans. This focus on African-Americans does not imply that the forms of racism to which other racial minorities have been subjected are any less real. And certainly the nature of racial domination of these other groups has also stamped the character of contemporary American society.

WHAT IS RACE?

Many people think of races as "natural" categories reflecting important biological differences across groups of people whose ancestors came from different parts of the world. Since racial classifications are generally hooked to observable physical differences between people, the apparent naturalness of race seems obvious to most people. This conception reflects a fundamental misunderstanding about the nature of racial classifications. Race is a social category, not a biological one. While racial classifications generally use inherited biological traits as criteria for classification, nevertheless how those traits are treated and how they are translated into the categories we call "races" is defined by social conventions, not by biology.

In different times and places racial boundaries are drawn in very different ways. In the U.S. a person is considered "Black" if they have any African ancestry. This extreme form of binary racial classification reflects the so-called "one-drop rule" that became the standard system of racial classification in the U.S. after the Civil War. Imagine how different the meaning of "race" would be in the US if the one-drop rule were reversed: anyone with any European ancestry would be classified as white. In Brazil, in contrast to the U.S., racial classifications are organized on a more continuous spectrum. In the U.S. all East Asians are considered a single racial category; in East Asia, on the other hand, Chinese, Japanese, Koreans and Vietnamese are considered separate races. The United States Immigration Commission in 1911 considered people of Irish, Italian, Polish, and English descent to be distinct "races", and the 1924 Immigration Act passed by Congress restricted immigration of what were termed "inferior races" from Southern and Eastern Europe. In Germany under the Nazis, Jews were considered a distinct race, not merely a religious group or an ethnic group. In Africa today, Tutsi and Hutu have sometimes been regarded as distinct races. Racial classifications are thus never simply given by biological descent even if they always invoke biology; they are always constructed through complex historical and cultural processes.

Racial *classifications* do not logically imply racial *oppression* (i.e. a social injustice backed by power). This is how ethnic distinctions are sometimes experienced: to be of Irish or Swedish or Italian descent in America is to share a certain cultural identity, and perhaps to participate in certain cultural practices as well, but this does not imply any forms of oppression involving these categories. Ethnic difference can be just that: differences. Racial classifications could in principle be simply a way of noting physical differences of various sorts that are linked to biological descent. However, in practice racial classifications are almost always linked to forms of unjust economic and social inequality, domination, and exclusion, as well as to belief systems that assign superior and inferior statuses and attributes according to race. Indeed, as a sociological generalization we can say that racial classifications become salient in people's lives primarily to the extent that they are linked to forms of socioeconomic inequality and oppression.[1] The term "racism" designates this intersection of racial classification with oppression.[2]

Racism and the Lives of White Americans

To study race in American society, then, is to investigate the ways in which racial classifications are linked to historically variable forms of oppression. The moral core of such an analysis is understanding the ways in which racial oppression imposes harms on people in the racially oppressed category. Nevertheless it is a mistake to think of racism as something that only affects the lives of African Americans, Native Americans, Asian Americans, Latinos and other racially defined "minorities". Racism has profoundly shaped American society and politics in ways that deeply affect the lives of white Americans as well, particularly the lives of working class and poor whites, not just the lives of minorities.

Racism harms disadvantaged groups within the white population in two principle ways. First, racism has repeatedly divided popular social and political movements, undermining their capacity to challenge prevailing forms of power and inequality. Ruling elites have often used race as part of a strategy of "divide and conquer" to protect their class interests. Numerous

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[1] Once a racial category becomes historically rooted and part of the daily lives of people it can also become an ethnicity – a category of people with shared historical experience, cultural practices and identities. This adds to the complexity of race as a form of social division.

[2] The word "racism" is sometimes used more narrowly to refer simply to beliefs and ideologies that have a racist content. We will use the term in a more encompassing way to include both the social relations and the systems of belief that link forms of socioeconomic injustice to racial classifications.

examples can be cited:

- In the 1880s and 1890s a radical political movement of workers and small farmers – the Populists – emerged in the Midwest and the South. For a time it appeared that black tenant farmers and small white farmers in the South might be able to make common cause against large landowners and Southern elites. At its height the Populists appeared to pose a potentially serious challenge to the dominant political parties of the period and even to the interests of dominant classes. Racial conflict eventually tore apart the agrarian unity of the Populists and contributed to the decline of the movement overall.
- Throughout the late 19th century and the first part of the twentieth century employers used racial minorities as strike breakers in industrial strikes. This significantly weakened the ability of unions to win strikes, and also contributed to deep resentments against blacks and other minorities within the white working class.
- In the late 1960s and early 1970s, in response to the civil rights movement, the Republican Party under Nixon adopted what came to be known as the "Southern Strategy" in which racial fears were deliberately used to get white working class voters to switch political allegiance from the Democrats to the Republicans. This strategy is credited by many scholars with ushering in an era of conservative politics which ultimately significantly harmed the economic interests of white workers by weakening unions, lowering the minimum wage, reducing job security.
- Research on wage inequality has demonstrated that in those cities and regions of the United States where the black/white wage difference is the greatest it is also the case that the wages of white workers are the lowest and inequality among whites is greatest.[3] What this suggests is that racial divisions within the working class weaken the ability of workers as a whole to bargain higher wages with their employers. White workers, in the long run, would be better off economically if there was less inequality and more solidarity between white and black workers.

In the absence of racial divisions and racial conflict, popular social forces would in general have been stronger, more capable of influencing political parties and challenging dominant class interests.

The second way that racism has negatively affected the interests of less advantaged segments of the white population is through the ways it has undermined universalistic aspects of the welfare state. Universal programs are programs that apply to all people. They are contrasted with targeted programs that apply only to special, designated groups. In general, as we noted in our discussion of poverty, universalistic programs tend to be better funded than targeted programs and to more robustly improve the conditions of life of people at the bottom of the class structure. In the critical period in which the American welfare state was initially created – the New Deal in the 1930s – there was strong opposition by Southern Democrats to universalistic policies because of the ways such policies would benefit Black Americans as well as White Americans. In spite of the widespread poverty in the South, the Democrats in the South were extremely conservative on social welfare issues and effectively blocked the possibility of

[3] See Michael Reich, *Racial Inequality: A Political-Economic Analysis*, Princeton University Press, 1981

national universalistic programs because of racism. For example, in the legislation that set the basic framework for labor law and the rights of unions they insisted that provisions be included which would effectively exclude most black labor from union rights, and social security initially excluded domestic workers and agricultural labor for the same reasons. Universal health insurance was off the table at least in part because of opposition to universalism. While many of the exclusions of the New Deal have since been eliminated, they nevertheless helped create a type of welfare state averse to the kind of universal programs that we see in most developed capitalist democracies. Racism played an important role in this. This has harmed the interests of the majority of whites.

The Historical Trajectory of Racial Oppression

While racism may harm significant segments of the racially dominant group in American society, nevertheless racism is above all a form of domination that harms the racially oppressed groups. These harms have been a core part of American history, and not merely of distant history. It is hard to overstate this point: it is only in the most recent past that the classical liberal idea of equality before the law has been extended to include racial minorities, and even today in many critical respects such equality remains more promise than reality.

In this section we will explore historical variations in the distinctive forms that racial oppression has taken in the United States. This will, of necessity, be a highly simplified and stripped down historical account. Its purpose is to help give specificity to the current problem of racial inequality in American Society by seeing what has changed and what remains. We will focus on the five primary forms of racial oppression that have occurred in United States history: genocide and geographical displacement; slavery; second-class citizenship; non-citizen labor; diffuse racial discrimination. These constitute an overlapping historical sequence, with different racially defined groups being the subjects of different forms of racism in different historical periods.

1. Genocide and geographical displacement

When European settlers came to North America they encountered an indigenous population that had effective control over the most important economic resource of the time: land. From very early on, displacement and genocide were the central ways of dealing with the inevitable conflicts over this resource, first by the British colonies and later by the U.S. Government. The 19th century folk saying “the only good Indian is a dead Indian” reflects the moral monstrosity of this stance. Most often the land was simply confiscated by force and the indigenous inhabitants driven off or killed. Occasionally land was formally ceded by Native American tribes through treaties in the aftermath of military defeat. When treaties occurred, they guaranteed the native people making the treaty certain rights in exchange for the agreement. Often these rights were subsequently ignored.

Such displacements were claimed to be justified on the grounds that the native people were uncivilized “savages” and did not really “own” the land since they were often nomadic or semi-nomadic without permanent settlements and permanent cultivation of particular pieces of land. But even in instances where Native Americans were agriculturalists and did have such settlements there was little hesitation in forcibly evicting them from the land. The removal of the Cherokee Nation from the Southeastern United States by Andrew Jackson in the 1830s is the best known instance. The Cherokees had deliberately adopted a policy of assimilation into

American ways of life, living in settled communities, practicing extensive farming, and even owning slaves. In spite of this, white settlers coveted their lands, and Andrew Jackson used the military power of the Federal Government to force the Cherokees – and the other Native American peoples of the Southeast – to move west of the Mississippi.

By the end of the 19th century this displacement was complete and Native Americans were largely confined to bounded geographical spaces called Indian Reservations. The precise legal standing of these reservations has varied over time, but generally they have been accorded semi-sovereign status with at least some rights of self-government. In the 21st century Native Americans are no longer required to live on Indian Reservations. They are now full American citizens and can move freely about the country. Nevertheless, the lives of many Native Americans are still deeply marked by the legacy of the severe forms of racial oppression and geographical isolation to which they were historically subjected. As a group, they are economically among the most deprived segment of the American population, particularly when they live on Indian Reservations.

2. Slavery.

Everyone knows that most people with African ancestors living in the United States today are the descendants of people who were the property of white Americans. Everyone knows this, but it is easy to lose site of what this really means. Human beings were *property*: they were owned in the same sense as a horse can be owned. They could be whipped and branded and in other ways physically harmed with virtually no legal restrictions. The killing of a slave by a slave master was almost never punished. The rape of slaves was a common practice. Slave owners were free to split up families and to sell the children of slaves.

The fact that slave owners had absolute power over their slaves, of course, does not mean that all slave masters ruthlessly abused their slaves. Many slave owners accepted a paternalistic ideology in which slaves were regarded as children for whom they had moral responsibility, and certainly some slave owners tried to live up to that ideal. More importantly, slave owners were businesspeople for whom slaves were an important investment, and the value of that investment needed protection. Just as farmers have an incentive to be sure that their horses are well fed and not overworked to the point that their health and productivity is threatened, so slave owners had incentives to take care of their investments in the bodies of their slaves. Particularly after the international slave trade was banned at the beginning of the 19th century and thus the price of slaves increased, slave owners took measures to insure that the value of their investments did not deteriorate. As a result, by the time of the Civil War the calories consumed and material standard of living of American slaves was not very different, and perhaps even a little higher, than that of poor peasants and unskilled workers in many parts of Europe.

Some scholars have argued on the basis of these facts about improving standards of living of slaves in the 19th century that slavery was not as oppressive as often thought.[4] This claim minimizes the impact on the lives of slaves of the condition of such radical and complete unfreedom and the deep symbolic degradation that slaves experienced. The nature of the social structure of slavery meant that significant physical brutality was ubiquitous in spite of the modestly improving standard of living of slaves and the ideology of paternalism. Because

[4] The best known defense of this view is by Robert Fogel and Stanley Engerman, *Time on the Cross: The Economics of American Negro Slavery* (Second Edition). New York: W.W. Norton and Company, 1995.

slavery was a lifetime condition, slaves had very little positive incentive to work hard. Since the prosperity of slave owners depended on the effort of their slaves, this meant that slave owners had to rely very heavily on negative incentives – force and the threat of force – to extract such effort. As a slave owner in Arkansas stated, "Now, I speak what I know, when I say it is like 'casting pearls before swine' to try to *persuade* a negro to work. He must be *made* to work, and should always be given to understand that if he fails to perform his duty he will be punished for it."[5] Even slave owners who sincerely believed in their paternalistic responsibilities to care for their slaves justified this harsh treatment on the grounds that the childlike nature of their black slaves meant that force was the only thing that they understood.

The pervasive domination and exploitation of slavery was accompanied by pervasive forms of resistance by slaves. The most common form of resistance occurred in the mundane activities of the slave plantation: poor work, occasional sabotage, passivity. Runaway slaves were a chronic problem, and political conflict over how to deal with slaves who escaped to the North was one of the sources of tension that lead to the Civil War. Occasionally there were violent slave revolts, and while rare, this fueled an underlying fear of blacks among whites in the South and contributed to the massively repressive and violent apparatus of the slave state.

While slavery came to be restricted to the South in the course of the 19th century, it would be a mistake to see this form of racial oppression as exclusively affecting the South. The economy of the North was deeply linked to Southern slavery in the Colonial period, particularly through the notorious "triangular trade" in which Slaves were purchased in Africa with European goods, then sold in the Caribbean and North America and the profits used to ship Tobacco, rum and cotton back to Europe. Some have argued that the direct and indirect profits from this trade was the single most important source of capital accumulation in the colonies, including in New England.[6] At the time of the Constitutional Convention slaves were owned by northerners as well as southerners, and many of the founding fathers were slave owners. In the early years after the Revolution, slavery was still legal in a number of Northern States. In New York there were still 10,000 slaves in the 1820 census, and significant numbers of slaves were reported as late as the 1840 census in New Jersey. Right up to the Civil War, the Northern economy continued to be linked to slavery through textile manufacturing. Even after slavery was outlawed in the Northern States beginning in the late 18th century, the North collaborated with the South in allowing escaped Slaves to be captured and returned to the South, particularly after the Dred Scott decision of the U.S. Supreme Court.[7] And while it was true that in the years leading up to the Civil War abolitionist sentiment grew steadily in the North, many people in the North were perfectly content to let slavery continue in the South.

By the time of the civil war, there were nearly four million slaves in the United States, about 13% of the total US population. In the fifteen states in which slavery was legal, just over one in

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[5] Quoted by Kenneth Stamp, *The Peculiar Institution: Slavery in the Ante-bellum South*. New York: Knopf. 1975, p. 171

[6] See, for example, David Eltis, *Economic Growth and the Ending of the Transatlantic Slave Trade*. New York & Oxford: Oxford University Press, 1987.

[7] In the Dred Scott Decision of 1856, the Supreme Court ruled that an escaped slave remained the property of the original slave owner even if the slave managed to get to a state in which slavery was illegal, and thus it was legal for the slave owner to recapture the slave.

four white families were slave owners.[8] This is a higher proportion than families who hired maids and servants in the non-slave states.[9] In Mississippi the proportion of households that owned slaves was 49%.[10] While most of these Southern slave-owning families owned only a few slaves, this meant that the direct experience of owning another person of a different race was very widespread in the South. For the white population in the antebellum South, the racial oppression of blacks was not simply something that was part of the social environment in which they lived; it was a significant part of the daily routines in which they were active participants.

Slavery ended with the Civil War almost a century and a half ago, but of course its impact did not disappear simply because this form of racialized class relations had been destroyed. Slavery contributed to a particularly pernicious and durable form of racist beliefs that continues to influence American culture today. Slavery posed a deep cultural problem for the United States after the American Revolution: How could a country founded on the principles of "life, liberty and the pursuit of happiness" accommodate slavery? How was it possible to reconcile the devotion to liberty and democracy with the treatment of some people as the property of others? The solution to this deeply contradictory reality was the elaboration of racial ideologies of degradation and dehumanization of blacks as intellectually and morally inferior and thus not worthy of treatment as full persons. The attribution of intellectual inferiority meant that blacks were seen as lacking intellectual capacities for rational action, and thus, as in the case of children, choices should be made on their behalf by responsible adults. The attribution of moral inferiority supported the view of blacks as inherently dangerous, ruled by passions, both aggressive and sexual, and thus incapable of exercising liberty. These beliefs constituted the core of the racist culture forged under slavery and although such beliefs were increasingly challenged in the last decades of the twentieth century and are no longer seen as respectable, they continue to influence race relations to the present.

3. Second-Class citizenship

Slavery was abolished after the Civil War, but this did not mean a complete dismantling of legally-enforced racial oppression. On paper, the 14th Amendment to the U.S. Constitution, ratified in 1868, guaranteed equal protection of the law and full rights to all citizens, and the 15th amendment passed two years later explicitly specified these rights applied to all people regardless of race or color. If these Amendments had been taken seriously and rigorously enforced, then racial oppression could not have taken the form of second-class citizenship.

Second class citizenship refers to a situation in which some categories of citizens have fewer

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[8] According to Gavin Wright, a leading authority on slavery , "As of 1860, in the cotton-growing areas approximately one half of the farms did not own slaves; for the South as a whole, the percentage of slaveowning families declined from 36 in 1830 to 25 in 1860." Gavin Wright, *The Political Economy of the Cotton South*. New York: Norton.

[9] In the 1860 census, in the non-slave states, 506,366 people were classified as private household workers (housekeepers, laundresses, and other). The population of the nonslave states in 1860 was 19,410,197. Since, on average, households at that time consisted of about 5.3 people, this means that there were approximately 3,640,000 households in the non-slave states in the United States in 1860. The maximum percentage of these households which could have employed a private household worker was 14%, if (implausibly) no household employed more than one such worker.

[10] These figures come from 1860 census data reported on "the Civil War Home Page", http://www.civil-war.net/pages/1860_census.html.

rights than others. This can either take the form of an official, legally defined denial of some rights, or a less formal practical denial of rights. Laws which prohibit people who have been convicted of felonies from voting, for example, are an example of legally-defined second-class citizenship that is still common in the United States today.[11] Police practices which target certain groups of people for stricter law enforcement or judicial practices which systematically impose stiffer sentences on particular categories of people would be examples of unofficial second class citizenship. Public policies which treat some categories of citizens as more worthy of respect than others can also be seen as creating a kind of second class citizenship. Margaret Somers has argued that the public disrespect of poor African-Americans reflected in the abandonment of the people left behind in New Orleans during the Hurricane Katrina disaster in 2005 is a striking example of their denial of full recognition as equal citizens.[12]

Official second-class citizenship became the pivotal form of racial oppression in the United States, especially in the South, in the decades following the Civil War. The emancipation of slaves in the South posed a serious problem for large landowners who had previously relied almost entirely on slave labor for their incomes. Most slaves wanted to become small farmers, and there were moments in which the promise of "forty acres and mule" seemed to open the possibility of former slaves becoming a yeoman class of independent farmers. In order for this dream to have become a reality, however, widespread dispossession of large Southern landowners of their land would have been necessary, and in spite of the Civil War, the Federal Government was loathe to violate the rights of private property owners to this extent. As a result few ex-slaves were in a position to acquire land.

Large Southern landowners thus retained possession of the land, but they no longer owned the labor to work the land. In terms of the concept of class discussed in chapter 11, the landowners effectively hoarded the economic opportunities represented by land, but they no longer had complete control over a supply of labor to exploit. What was needed, then, was a new system to tie ex-slaves to the land and give planters effective control over their labor. In the decades following the Civil War Southern planters experimented with different arrangements, settling finally on a system called "sharecropping" by the last decade of the century. Sharecropping is a form of agriculture in which tenant farmers pay rent to landowners in the form of a certain percentage of the total crop grown on the land. The profitability of landowning depends on what that percentage is, and this in turn depends upon the bargaining power of the tenant farmers. It is of considerable advantage to landowners, therefore, to have a politically weak and economically vulnerable population available to be tenant farmers. This is what the denial of full political and legal rights to blacks in the South accomplished. This new form of racism, which came to be known as Jim Crow, played a central role in consolidating the new agrarian social order in the South by the end of the 19th Century.

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[11] In the United States today there is considerable variation across the 50 states in the political rights of ex-prisoners. According to *the Sentencing Project* (http://www.sentencingproject.org/), 35 states prohibit felons from voting while they are on parole and 30 of these states exclude felony probationers as well. In most states, once a person has completed a prison sentence and parole all of their rights are restored; they become full citizens once again. Two states deny the right to vote to all ex-offenders who have completed their sentences. Nine others disenfranchise certain categories of ex-offenders and/or permit application for restoration of rights for specified offenses after a waiting period (e.g., five years in Delaware and Wyoming, and two years in Nebraska). It is not surprising that the harshest rules denying political rights to ex-prisoners can be found in the Southern States.

[12] Margaret Somers *Genealogies of Citizenship* (Cambridge University Press, 2008).

The rules of racially-based second-class citizenship in the South had a number of key components. The most obvious, of course, were the laws which effectively denied blacks the right to vote. Typically these took the form of literacy tests which were much more strictly enforced against blacks than against whites, but at various times and places in the South other devices were used to accomplish this black disempowerment. Harsh vagrancy laws in the South were also used to prevent blacks from seeking better employment. While officially such laws did not have a racial character, their application was directed primarily against blacks and significantly impeded their movement. These kinds of directly repressive laws were reinforced by a wide range of segregationist laws which excluded African-Americans from white schools and universities, hotels and restaurants, and relegated blacks to segregated facilities in public transportation. And lurking in the background of all of these forms of legal segregation was widespread legal and extra-legal violence directed against blacks. The Ku Klux Klan was tacitly supported by the state and allowed to terrorize black communities. Lynchings were the most extreme form of such violence and were a common event in parts of the South from the 1880s through the first decades of the 20th century (Figure 14.1). But violence against blacks was not simply tolerated by state authorities in the South; it was also official state policy. This is revealed starkly in the statistics on executions for rape by race in the period before the 1960s (Figure 14.2). From 1930-1960 between five and 25 black men were executed annually for rape in the United States, nearly all in the South, whereas for whites the numbers were never more than 4 and in most years zero or 1.

-- Figures 14.2 and 4.3 about here --

In 1900 roughly 90% of the black population in the United States lived in the South, mainly in rural areas. In the North, African-Americans were not denied the right to vote, but it would be incorrect to see the problem of second-class citizenship as exclusively a Southern problem. Even though there were generally laws prohibiting school segregation in Northern states (with the exception of Indiana, the one Northern state that allowed local school districts the legal option to officially segregate their schools), in practice many school broads in the North enforced racial segregation. The landmark Supreme Court case against school desegregation – *Brown versus Board of Education* – was a case brought in Kansas, not a Southern state. Laws against inter-racial marriage were present in 36 states in the 1920s, and were still in place in nearly half of the States in the 1950s. The Federal Government itself supported segregationist principles, in both the civil service (after Woodrow Wilson imposed segregation in the civil service in 1913) and in the military until Truman desegregated the armed forces in 1948. During the New Deal, some of the landmark Federal legislation – for example social security and labor rights laws – explicitly excluded coverage of types of jobs which were predominantly filled by blacks. Thus while the most restrictive forms of second class citizenship for African-Americans occurred in the South, this was a national problem. Racism was a system of explicit legal denial of equality to people based on their race in the United States until the 1960s.

Just as slavery, in spite of its extreme repressiveness, was accompanied by resistance by slaves and political opposition by abolitionists, the legalized segregation of second-class citizenship also met with resistance, both by African Americans and some white supporters of civil rights. Such opposition to segregation was often met with extreme forms of violence. Lynching of blacks was a common occurrence in the South, and rarely were perpetrators punished. Efforts at passing national anti-lynching laws failed. Segregationist laws and practices were maintained by violence and terror through first decades of the 20th century.

Following the Second World War things began to change. A number of factors were important. First, the United States had just fought a war against the Nazis and because of the extreme racist ideologies of the Nazis, state-supported racism had been significantly discredited. Secondly, in the context of the Cold War and the effort by the United States to be the "leader of the free world", the racist legal institutions of second class citizenship were an international embarrassment, particularly given American efforts to gain influence in the newly independent ex-colonies of Africa and Asia. Third, during the 1930s and 1940s there had been large scale migration of African-Americans to the North where they became a more important voting block, and thus the issue of civil rights could more easily be translated into national politics. Finally, because of mechanization of agriculture and other economic changes, sharecropping had sharply declined in the South beginning in the 1930s, so that by the middle 1950s it was no longer central element of the Southern economy. This meant one of the crucial economic reasons for the highly coercive system of racial domination in the South no longer mattered very much.[13] Taken together, these factors meant that even though the struggles against segregationist laws in the South continued to be met with strong, often violent, resistance on the part of Southern whites and their State Governments, the civil rights movement gained considerably greater national support than it had earlier. By the late 1950s and early 1960s the Federal Government began to back these efforts, resulting in the landmark civil rights legislation of the middle 1960s.

While segregationist laws were eliminated in the 1960s, there are still legacies of these legal forms of second class citizenship today. In some parts of the United States a variety of rules around voter registration, for example, have the practical effect of reducing the rate of voter registration among African-Americans. Most notoriously are rules that permanently prevent people convicted of felonies from voting, even after they have fully served their time in prison and on probation. Such rules do not explicitly link disenfranchisement to race, but they were initially passed, usually at the end of the 19th century, as part of the effort of excluding African Americans from the electorate, and they continue to create a lower tier of citizenship closely connected race because of the much higher rates of imprisonment of African-Americans than of whites. Registration rules that require government issued voter IDs and which raise the costs of voting for poor people also disproportionately affect African Americans. Again, these rules are not officially framed in racial terms, but they have systematic racial effects, and the support for such rules is at least in part because of racial hostility. Police practices continue to target racial minorities, especially young African American men, and courts continue to give harsher punishments to African-Americans. A young black man driving a car in a white suburb is much more likely to be stopped by police for questioning than a white. This is sometimes jokingly referred to a DWB offense – driving while black. Equally important, there are a wide range of public policies – from the location of toxic dumps to the funding of education – which continue to implicitly assign greater value to the wellbeing and interests of some citizens than others. As in the case of police practices, such policies are never explicitly framed in racial terms. In these, and other ways, vestiges of state-backed second-class citizenship continue to play a role in structure racial inequality in the United States.

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[13] For an excellent discussion of the importance of the decline of sharecropping for the eventual destruction of segregation, See David James, "The Transformation of the Southern Racial State: class and race determinants of local-state structures", *American Sociological Review*, 53, 1988, pp.191-208.

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4. Non-citizen labor

The fourth form of racial oppression in American history revolves around the linkage between race and legal citizenship status. As everyone knows, the United States is a country of immigrants. Aside from Native Americans, everyone who lives in the United States is descended from people who came to North America from other continents sometime in the last few centuries. From the middle of the 19^{th} century, some categories of these immigrants were denied legal access to citizenship status. The first instance of this was the importation of Chinese "coolie" labor on the railroads. Large numbers of poor Chinese were brought to the United States by labor recruiters as a source of cheap labor to work on building the railroads in the West and other large scale infrastructure projects. Anti-Chinese feelings were generated by the repeated use of Chinese labor as a way of cutting wages of native-born white workers and breaking strikes. Eventually political mobilization against Chinese immigrants lead to the Chinese Exclusion Act which blocked the further immigration of nearly all Chinese and made those Chinese already in the United States permanent aliens, prohibited from obtaining U.S. Citizenship. In 1924 other severe restrictions on immigration were enacted, especially focused on prohibiting legal immigration from Asia, Africa and Latin America. For a 40 year period, until immigration reform in the 1965, legal immigration to the United States was almost entirely white.

In the 20th century, the most important category of racialized noncitizen labor is Hispanic, especially from Mexico. In the period from the early 1940s until 1964, a formal "guest worker program" for Mexican labor existed, generally called the "Bracero program," in which Mexican workers were brought to the US on contracts to work mainly in agricultural on a seasonal basis without the prospect of becoming citizens. Since the 1970s there has been an increasing flow of illegal immigrants (also called "undocumented workers"), again particularly from Latin America, who provide a cheap source of labor for American employers. The lack of full citizenship rights of these workers make them particularly vulnerable to very sharp forms of exploitation since they cannot join unions or defend themselves in court for various kinds of abuse – from mistreatment on the job and violations of safety conditions to not being paid their full wages.[14]

Not all undocumented workers are racial minorities. There are Canadians and white Europeans also working in the U.S. without legal status. Nevertheless, the intersection of illegal status with race is especially salient, since an identifiable racial minority who is an illegal worker is likely to be much more vulnerable. Pressures on employers not to hire illegal immigrants and on the government to deport them contributes to more diffuse hostility towards the racial minorities associated with illegal immigration.

5. Diffuse discrimination

There is a sense in which all forms of racism involve "racial discrimination" – i.e. treating people differently by virtue of their race. Here we use the term more narrowly to refer to situations in

[14] For a thorough documentation of violations of workplace regulations by employers of undocumented immigrants, see Annettte Bernhardt, Siobhan McGrath and James DeFilippis, "Unregulated Work in the Global City: employment and labor law violations in New York City," *The Brennan Center for Justice* (NYU: New York, 2007). The report documents the following violations: wage and hour violations, health and safety violations, workers' compensation violations, retaliation and violation of the right to organize, independent contractor misclassification, employer tax violations, discrimination, and trafficking and forced labor.

which such discriminatory action is not directly backed by the legal powers of the state. This includes a wide range of specific practices: employers not hiring or promoting someone on the basis of race; landlords only renting to people from certain racial groups; banks making it more difficult for racial minorities to get loans; salespeople in a store treating African-American customers differently from white customers; and so on. Often this kind of private discrimination is very difficult to detect because it occurs informally, behind the scene in the inter-personal encounters and decisions made in everyday life. In contemporary American society many such behaviors are in fact illegal, but since they are very hard to detect, laws against private discrimination are usually very difficult to enforce. Nearly half a century after the passage of civil rights legislation abolishing segregation and guaranteeing voting rights for African Americans, racial discrimination is still a reality in the United States.

While most white Americans probably regard private acts of discrimination as undesirable, whites generally believe that racial discrimination is largely a thing of the past, no longer having significant impact in the lives of people. Figure 14.3 presents responses by whites and African-Americans from 1985-2008 to a survey question concerning the importance of discrimination in explaining black/white differences in jobs, income and housing. For both blacks and whites the percentage saying that these differences were mainly due to discrimination has declined over time, but it is still the case that a majority of blacks respond yes to this question, compared to only 30% of whites. White Americans generally reject the idea that continuing forms of discrimination really constitute a form of oppression requiring serious public policy for its elimination: if African-Americans are disproportionately poor, this is because of their behavior and culture, not because of discrimination; if they drop out of school more than whites, this is because of peer pressure and lack of motivation; if young African American men are in prison at six times the rate of young white men, this is because they proportionately commit more crimes. Most white Americans believe that discrimination at most plays a marginal role in any of these conditions.

It is of course difficult to get evidence that demonstrates precisely how much of the racial inequality we observe is the result of discrimination. We will not attempt to solve this problem here.[15] What we will do in the next section is provide evidence for the continuing importance of discrimination impacting the lives of racial minorities in the United States today.

CONTINUING REALITIES OF RACIAL DISCRIMINATION IN THE 21ST CENTURY

The realities of racial relations in the United States at the beginning of the 21st century are the result of a decisive transformation that occurred in the middle of the 20th – the civil rights movement, the dismantling of the apparatus of legal segregation in the 1950s and 1960s and subsequent erosion of many of the cultural and economic supports of racial domination. While, as we will discuss below, racial discrimination remains a significant problem, this must be understood against the background of extraordinary progress since the 1950s.[16]

[15] Sometimes social scientists try to get a handle on this by examining all of the measurable factors that might affect forms of racial inequality and then treating the amount of inequality left "unexplained" as being the result of direct discrimination. This is not a very convincing research strategy since the results are highly sensitive to how well different factors are measured.

[16] The most influential discussion of the erosion of the structures of racial domination since the 1960s is William Julius Wilson's *The Declining Significance of Race* (Chicago: University of Chicago Press, 1978). Wilson's

Consider the transformations of cultural representations of African-Americans. By the 1980s the media began to routinely display positive images of African-Americans in television programs like the Bill Cosby Show. Black sports stars, singers and actors had become celebrities within the white population as well as among African-Americans. By the 1990s, African-Americans began to appear regularly in advertisements sentimentally depicting people in middle-American families, laughing, loving, working, playing. African-Americans began to appear in television programs in roles traditionally filled only by whites – doctors, lawyers, scientists – and in storylines in which race as such was not a central focus. In a popular movie in 2003, *Bruce Almighty*, God was played by the black actor Morgan Freeman. Books endorsed by Oprah Winfrey became instant best sellers.

Consider the transformation of the economic situation of African-Americans. In 1959 the median annual earnings for black men was 56% of the median for white men and the median earnings for black women was 41% of the median for white women. In 2006 the comparable figures were 69% for black men and 92% for black women. The education gap between blacks and whites has narrowed significantly (see Figure 14.4): in 1957 whites 25 years and older had a high school graduation rate over twice as high as for blacks -- 43.3% vs 18.4%; by 2008 the black rate was nearly the same as the white rate – 83% compared to 87%. Similarly for college degrees: in 1957, just before the major breakthroughs of the Civil Rights era, 11% of whites 25-29 years of age had completed 4 years of college compared to 4% of blacks; a half a century later the figures were 31.1% and 20.6% . The occupational distributions of blacks and whites have also become much more similar since the middle of the 20th century (see Table 14.1). In 1950 only 2% of black men in the labor force and 1.3% of black women were in managerial jobs, compared to 12% of white men and 5% of white women. Among men, therefore, blacks were about one fifth as likely to be managers as whites, and among women, blacks were about one quarter as likely. By 2000, the percentage of black men in the labor force who were managers had risen to 6.6% (about two thirds of the percentage for white men) and the percentage of black women in managerial jobs had risen to 8% (about three quarters of the figure for white women). A similar pattern occurred for other higher status and desirable occupations.

-- Figure 14.4 and Table 14.1 about here --

Consider the transformation of the political role of African Americans. In 1964 there were only 103 black elected public officials in the United States. By 2002 (the most recent date for which there is data) this number had increased to 9,470, 1.8% of all elected officials. Of these, 587 served in state legislatures and 39 in the U.S. Congress, and 8,844 served in city and county government.[17] In the 111th congress (2009-2011), 41 of 435 representatives were black, while only one senator was black. And the most stunning development of all: the election of Barak Obama as President in 2008. 43% of white voters voted for a black President. This would have been utterly unthinkable just a few decades earlier.

These are all significant developments. They are not simply superficial, cosmetic changes;

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argument has sometimes been mischaracterized as the emerging *in*significance of race. This is not his claim. What he argues is that the lives of disadvantaged African Americans is increasingly shaped by the brutal class realities of their lives rooted in urban economic structures and dysfunctional labor markets rather than directly in forms of racial exclusion and domination.

[17] These figures were provided by Richard Hart, database administrator for the *Black Elected Officials Roster*. (Joint Center for Political and Economic Studies, Washington, D.C.)

they constitute a profound erosion of the structures of racial domination and oppression. An erosion, yes; but not an elimination. In what follows we will begin by discussing the incompleteness of the transformation of racial inequality by examining continuing socio-economic disadvantages of African-Americans and certain other racial minorities. We will then examine the array of forms of discrimination that underwrite these disadvantages. The chapter will conclude with a discussion of the problem of affirmative action and the politics of anti-racism in the 21st century.

Stagnation in the erosion of racial inequality

Some of the figures we have just cited clearly demonstrate the incompleteness of the social transformation of racial inequality and oppression. It is true that in the four decades following the voting rights bill of 1964 black elected officials increased from virtually none to almost 2% of all elected officials, but African-Americans constitute about 13% of the population, so this is still a large under-representation. Occupational distributions among whites and blacks are more similar today than in the 1950s, but there are still significant gaps among desirable jobs. Furthermore, most of the convergence in distributions occurred in the 1960s and 1970s. Since the 1980s progress has been much slower. Figure 14.5 illustrates this for a number of desirable occupations. For example, for professional and technical jobs, the proportion for black women compared to white women increased from under 50% to 82% between 1950 and 1980, and then declined to 78% by 2000; for black men the proportion compared to white men increased from 29% to 54% between 1950 and 1980, but then only increased to 64% by 2000.

-- Figure 14.5 about here --

In terms of economic standing, median income for black families increased from around 50% of the median for white families in 1947 to 60% in 1967, but has not changed much since (Figure 14.6). The ratio of black to white wealth, as indicated in Table 14.2, has remained virtually unchanged since the early 1980s. Depending upon what indicator you use, average wealth in black households is at most about 20% that of white households and median wealth is generally under 10%. Median financial wealth is only 1-3% of the level of white households. Finally, as we saw in chapter 12, although the difference in poverty rates among blacks and among whites declined between 1973 and 2000, poverty rates among blacks remain much higher than among whites. The figures for black children remain especially high (Figure 14.7): In the early 2000s nearly 40% of black children under 6 lived below the poverty line compared to 16.6% of white children.

-- Figure 14.6, 14.7 and Table 14.2 about here --

Taken together, these figures reveal a stark reality in the United States today: While tremendous progress has been made in ending racial injustice, nevertheless, the economic inequalities between blacks and whites remain substantial. The causes for this are complex. Some of the inequalities are undoubtedly simply “legacies” of past injustices. If up to a particular point in time inequalities between groups were the result of legally enforced forms of oppression, and then those legal forms are destroyed, it would still take an extended period of time for the inequalities between groups to disappear *even if* there was no on-going discrimination. This fact has lead many people to believe that discrimination is no longer a significant issue in American life. As we shall see below, this is not the case.

Racial discrimination remains a daily and pervasive fact of life in the United States today. It occurs in a wide variety of institutional contexts and takes many forms. Here we will focus on five contexts of discrimination: mundane micro-interactions; housing; credit markets; employment; education; and the criminal justice system.

Mundane micro-interactions

Perhaps the most pervasive form of discrimination occurs in the context of ordinary, daily interactions on the street, in work, in stores, in classrooms. This is often very difficult for an outside observer to detect, but can be acutely felt by the person subjected to the discrimination. A Gallup poll study conducted in 1997 reports that about half of black respondents report that in the previous month they had experienced at least one form of such discrimination in daily interactions.[18] The following are well-documented forms that this can take:[19]

- In stores, black customers are more likely to be monitored and treated with suspicion by store employees concerned about shoplifting than are white customers. This is not simply the case for teenagers, but for middle class, well-dressed African-Americans as well.
- White people walking on city streets frequently cross the street when there is a black man behind them or to avoid passing a black man.
- Many middle class blacks report the experience of having to wait longer to be served in restaurants than white customers who arrive after they do.
- In a study of black male college students at elite historically white universities, the participants in the research reported many incidents of surveillance by campus police in which they treated with suspicion and asked for their I.D.s
- It takes, on average longer for a black man to get a taxi than for a white man. This can even be an issue when the man is well dressed and clearly affluent. A famous incident was reported in the New York Times: “But the actor Danny Glover was not laughing last month when several taxis declined to pick him up in Manhattan, presumably because Mr. Glover is black and stands 6 feet 4 inches tall. In lower Manhattan, the actor was forced to hide in the shadows while his daughter did the hailing. The driver had to be cajoled into unlocking the doors.”

While any given incident may seem petty, cumulatively, these kinds of interactions constitute a stream of lived experiences that communicate denigration and a lack of social respect. Psychological research shows that these kinds of experiences can have a significant impact on morale and self-esteem. In perhaps the best known experiment on the impact of discrimination and denigration, Jane Elliott, then a school teacher in Iowa, subjected students in

[18] Survey by Gallup Organization, January 4-February 28, 1997. Reported by Christopher Doob in the November 19, New York Times, “On Race, Americans Only Talk a Good Game; For Whites, Confusion.”

[19] These examples are drawn mainly from the following sources: Devah Pager and Hana Shepherd, “The Sociology of Discrimination: Racial Discrimination in Employment, Housing, Credit, and Consumer Markets” *Annual Review of Sociology* 2008. 34:181–209; Joe R. Feagin, “The Continuing Significance of Race: Antiblack Discrimination in Public Places,” *American Sociological Review*, Vol. 56, No. 1. (Feb., 1991), pp. 101-116; William A. Smith, Walter R. Allen and Lynette L. Danley, "Assume the Position . . . You Fit the Description": Psychosocial Experiences and Racial Battle Fatigue Among African American Male College Students” *American Behavioral Scientist* 2007; 51; 551

her elementary class to systematic discrimination on the basis of eye color: brown-eyes were superior, blue-eyes inferior. After two days of this treatment, the blue-eyed group performed much more poorly on a simple math test than the advantaged group. The same experiment was conducted using adults with the same results.[20] The experience of repeated social disrespect generates forms of stress, anxiety, and self-doubt that significantly undermine performance.

"Driving while black."

One of the best documented forms of on-going discrimination is traffic stops police for the "offense" that is ironically called DWB – driving while black. A Report by the Leadership Conference on Civil Rights provides systematic evidence that this practice is widespread:[21]

- Under a federal court consent decree, traffic stops by Maryland Police on Interstate 95 were monitored. In the two year period from January 1995 to December 1997, 70 percent of the drivers stopped and search by the police were black, while only 17.5 percent of overall drivers – as well as speeders – were black.
- In Volusia County, Florida, in 1992, nearly 70 percent of those stopped on a particular interstate highway in Central Florida were black or Hispanic, although only 5 percent of the drivers on that highway were black or Hispanic. Moreover, minorities were detailed for longer periods of time per stop than whites and were 80% of the cars that were searched after being stopped.
- A study of traffic stops on the New Jersey Turnpike found that 46 percent of those stopped were black, although only 13.5 percent of the cars had a black driver or passenger and although there was no significant difference in driving patterns of white and non-white motorists.
- A Louisiana State Police Department training film specifically encouraged the Department's officers to initiate pretextual stops against "males of foreign nationalities, mainly Cubans, Colombians, Puerto Ricans and other swarthy outlanders."
- In 1992, as part of a report by the ABC news program "20/20", two cars, one filled with young black men, the other with young white men, navigated the same route, in the same car, at the same speed through the Los Angeles city streets on successive nights. The car filled with young black men was stopped by the police several times on their drive; the white group was not stopped once, despite observing police cars in their immediate area on no less than 16 occasions during the evening.
- A July, 2008 Mew York Times/CBS News poll asked a national random sample of adults, "Have you ever felt you were stopped by the police because of your race or ethnic background?" 66% of black men responded positively compared to only 9% of white men.

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[20] Jane Elliott's experiments are presented in two documentary films "Eye of the Storm" and "A Class Divided". For a discussion of these films, see a review by Anthony J. Cortese in *Teaching Sociology*. Vol. 15, No. 4 (October 1987), pp. 450-452.

[21] *Justice on Trial: racial disparities in the American Criminal Justice System.* (The Leadership Conference on Civil Rights, Washington, D.C., 2000). p.2. The sources for each of these examples are given in the report.

This kind of racial profiling causes many innocent people being subjected to the humiliating experience of being hassled by the police for no good reason. It also contributes to the disproportionate arrest of young black men for nonviolent drug crimes that otherwise would not have occurred, since these racially-motivated traffic stops are frequently accompanied by searches.

Housing

Housing segregation is a reality in the US: in northern cities in the 1980s on average over 80% of people would have had to move to different neighborhoods to lead to random housing patterns.[22] In 1990 the levels of segregation were as high as they had been at the beginning of the 20th century.[23] Although research indicates that since 1980 there has been a modest decline in residential segregation, most American cities remain highly segregated along racial lines. This pattern of segregation is the result of four interconnected kinds of factors.

First, there is certainly some historic inertia from past practices. Until the civil rights era, in many cities real estate agents would simply refuse to show blacks houses in white neighborhoods. Until the 1974 Equal Opportunity Credit Act, "redlining" (the practice of banks not making loans to people in certain parts of cities) was legal in the United States and this certainly contributed to housing segregation. Even with no further discrimination, this would account for some of the existing segregation of American cities.

Second, there is a certain amount of self-segregation that occurs in which African-Americans may buy houses in predominantly black neighborhoods because it is more socially comfortable, less of a struggle, less likely to involve hostile interactions neighbors. While this does not directly involve discrimination in the housing market as such, nevertheless it reflects the on-going realities of racial hostility. According to Lincoln Quillan, "On surveys, most Whites say they prefer neighborhoods that are less than 30% Black…African Americans, on the other hand, strongly prefer neighborhoods that are 50% Black. These surveys suggest that Blacks prefer much more integrated neighborhoods than do Whites, but not entirely White neighborhoods."

Third, housing segregation is generated by what is called "white flight" – the tendency for whites to move out of a neighborhood once a few black families move in. White flight need not indicate that most whites are averse to living in a neighborhood with some black residents, but simply that they do not want to live in a neighborhood with many black neighbors. The reasons for these preferences are varied: for some it is directly a question of racist attitudes but for many the issue may be more about concerns for long-term housing values. Even if many white homeowners have no personal problem at all with living next to African American families, they may worry that increasing black residency will depress prices, and given that homes are for most people their own form of wealth, this may lead them to move. What this means is that once African-Americans begin moving into a previously all-white neighborhood, depending upon the distribution of racial preferences among whites in the neighborhood there

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[22] Douglas S Massey and Nancy A. Denton. 1993. *American apartheid: Segregation and the Making of the Underclass*. Cambridge, Mass.: Harvard University Press. p.63.

[23] Devah Pager and Hana Shepherd, "The Sociology of Discrimination: Racial Discrimination in Employment, Housing, Credit, and Consumer Markets" *Annual Review of Sociology* 2008. p, 188

can be a cascade of White exits.[24] While it may be the case that the "tipping point" for white flight may have changed – there was a time when a single Black family on a block was sufficient to trigger an exodus of white families and now the threshold is probably somewhat higher – this remains a continual problem in the segregation of neighborhoods in many cities.

Finally, there is strong evidence that active discriminatory practices continue to exist in housing markets. This is best demonstrated by what are called "housing audit" studies in which homebuyers of different races but with identical credit ratings and income, go to real estate agents for help in buying a house. The key issue is whether and in what ways there is differential treatment of these prospective homebuyers on the basis of race. Devah Pager and Hana Shepherd summarize the results of a series of large housing audit studies by the U.S. Department of Housing and Urban Development this way: "The study results reveal bias across multiple dimensions, with blacks experiencing consistent adverse treatment in roughly one in five housing searches and Hispanics experiencing consistent adverse treatment in roughly one out of four housing searches (both rental and sales). Measured discrimination took the form of less information offered about units, fewer opportunities to view units, and, in the case of home buyers, less assistance with financing and steering into less wealthy communities and neighborhoods with a higher proportion of minority residents."[25]

Lending

We have already shown that as a category Whites are much wealthier than African Americans: they have greater savings, they own more stocks, they have greater equity in their homes. Since assets that can be used as collateral plays an important role in getting loans, it would be expected that this wealth difference would directly translate into racial differences in the credit market. In addition to this, however, there is good evidence that African-Americans face discrimination in acquiring loans. Again, audit studies are the clearest evidence for this. Black testers with the same credit histories, wealth and income as white testers, are "less likely to receive a quote for a loan than are white testers and … are given less time with the loan officer, are quoted higher interest rates, and are given less coaching and less information than are comparable white applicants…. In two audit studies in which creditworthy testers approached subprime lenders, whites were more likely to be referred to the lenders' prime borrowing division than were similar black applicants. Further, subprime lenders quoted the black applicants very high rates, fees, and closing costs that were not correlated with risk."[26] Similar problems exist in credit markets for small business loans.

Employment

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[24] This kind of cascade was first systematically analyzed by the economist Thomas Schelling. Suppose there is a distribution of preferences within an all-white community about how many black residents are acceptable in which some white residents will leave if any blacks move in to the neighborhood, some will leave if there are 3% blacks, while for others the thresholds are 5%, 10%, 25% and so. Depending upon the distribution of such thresholds, a single black moving into a neighborhood can set in motion a cascade of exits, so eventually the entire neighborhood shifts from all white to all black. See Thomas Schelling, "A process of residential segregation: Neighborhood tipping," in *Racial Discrimination in Economic Life* edited by A. Pascal, pp. 157–184, D.C. Health, Lexington, MA., 1972

[25] Pager and Shepherd, p. 188

[26] Pager and Shepherd, p. 190.

Employment discrimination is very difficult to demonstrate since hiring decisions are made in private. Large scale statistical studies attempt to compare the probabilities of people of different races holding a given kind of job, adjusting these probabilities for a long list of characteristics of the person – age, education, skills, test scores, gender, and various other things. Generally such research does find that even after there is a long list of controls, whites are advantaged relative to blacks. Critics of such research, however, can always say that there is some unmeasured salient characteristic of the people that explains the racial gap.

This is why audit studies of hiring are valuable, for they make it possible to more carefully control for individual characteristics other than race. In one well-known study, racially identifiable names were used as the way to signal race to prospective employers. As the title of the published paper from the research asked “Are Emily and Greg more employable than Lakisha and Jamal?” Resumés which were otherwise substantively identical were sent to employers to see how they would react to the different names. The callback rate for white names was 50% higher than for black names. What might seem even more surprising, this difference increased with the level of qualifications of the resumes – the racial gap in callbacks increased with skill level.

In a second study, Devah Pager trained black and white male testers to apply in person for entry-level low-wage jobs in Milwaukee, Wisconsin.[27] Half of the testers had resumés which indicated that they had served 18 months in prison for a nonviolent drug offense, and half did not. In other respects the resumés indicated equal education and job experience. The study thus involved four “types” of people: white felons, black felons, white non-felons and black non-felons. Again, the empirical question is how different across these categories are the rates at which the applicants were called back for an interview. The results are shown in figure 14.8: 34% of the whites without prison records received callbacks, compared to 17% of the whites with prison records, 14% of the blacks without records, and 4% of the blacks with records. In other words, it is roughly as disadvantageous in labor market to be a white male with a prison record or a black male without a prison record.

-- Figure 14.8 about here --

These studies unequivocally indicate that active discrimination exists in labor markets. This does not mean that the employers in question personally dislike African-Americans or even that they believe people in one race are somehow inferior to another. Much of this discrimination is probably what economists call “statistical discrimination**”.** Employers believe that the average black worker will be less capable than the average white worker. This need not be because they believe in the inherent intellectual inferiority of blacks. It can be because they believe the quality of schooling of the average black workers is inferior to that of the average white worker. The important thing is that the employer has a belief that the average member of one racial category is a less desirable employee than the average member of another category. Since it is difficult and costly to get accurate information about the actual reliability and competence of any given individual, employers rely on these perceived group differences to make individual hiring decisions. This is perfectly rational and economically efficient even if it is morally unjustified and harmful. The result is discrimination.

[27] Devah Pager, *Marked: Race, Crime, and Finding Work in an Era of Mass Incarceration*. (Chicago: University of Chicago Press, 2007)

Education

Education has always been at the heart of conflicts over race. The key civil rights decision by the Supreme Court in the 1950s was over racial segregation in schools. In that decision, the Court rejected decisively the doctrine of "Separate but Equal" education for black and white children, arguing that "separate" was inherently unequal.

More than half a century after the end of legal segregation, school in many American cities remain sharply segregated, largely as a by-product of extreme residential segregation. This is particularly an issue in large American cities where the confluence of race and poverty means that inner city schools typically have very high concentrations of poor minority students compared to suburban schools. What is equally troubling, however, is not simply the racial concentration of schools, but the differences in funding for the schools of many poor black children compared to white children that are the result of this spatial segregation. This is not a simple matter to measure. If we look at average spending per pupil across school districts within states weighted by the number of students in different racial and ethnic groups, then it seems that on average in most states in the United States there is no difference in the per pupil spending on black and white children.[28] This method assumes, however, that within districts all students receive the same per capita funding. This is simply not the case. A study of within-district spending on specific schools in Baltimore, Cincinnati and Seattle "indicated district funding differences for high- and low-poverty schools ranging from $400,000 to $1 million."[29] These discrepancies were explained this way:

> Districts often allocate a certain number of staff to a school, rather than giving schools a per student amount for staff compensation. As teachers gain experience, they often take advantage of seniority rules to move to more affluent schools where students are perceived as easier to teach…This can lead to more experienced teachers clustering at low-poverty schools with vacancies at schools serving underserved populations filled by new teachers. As a result, new teachers (who have much lower salaries than experienced teachers) work disproportionately in schools in the poorest neighborhoods. Because of the large range in staff pay, schools with the highest needs within a district often receive substantially less funding because they employ the least experienced teachers.[30]

As a result, even though spending per pupil may be roughly equalized across districts within a state, "resources (including experience and qualification levels of teachers) vary dramatically across schools serving high- and low-income (and white and nonwhite) students. Schools serving low-income students typically have a larger percentage of inexperienced and non-credentialed teachers, and the variation in teacher qualifications is greater in large urban districts than in the state as a whole."[31]

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[28] Kim Rueben Sheila Murray, "Racial Disparities in Education Finance: Going Beyond Equal Revenues" Tax Policy Center, Urban Institute and Brookings Institution, Discussion Paper No. 29, November 2008., p.5

[29] Kim Rueben Sheila Murray, ibid p. 7

[30] Kim Rueben Sheila Murray, ibid p.8

[31] Kim Rueben Sheila Murray, ibid p.8

The national per pupil spending between blacks and whites also masks very large discrepancies between wealthy White suburban school districts and urban districts with high concentrations of poor Black students.[32] Figure 14.9 illustrates this for wealthy suburban schools and urban schools in New York and Chicago in 19XX. This large funding gap is partially the result of lower property values and thus less tax resources as these intersect patterns of housing segregation and discrimination. School funding, however, is never such a simple matter; it also depends upon the balance of political forces over how schools should be funded. As long as schools are funded to a substantial extent by local property taxes it will remain the case that wealthy communities will have better funded schools than poor communities. The unwillingness of state legislatures to fundamentally rethink the way schools are funded and create a genuinely uniform, egalitarian structure of funding is partially the result of ideological commitments to local control, but it is also shaped by the racial and class implications of creating more universalistic principles. However, even if the underlying motives of politicians and voters are not themselves shaped by racial considerations, the effect is serious discrimination in the opportunities for good quality education of black children.

-- Figure 14.9 about here --

The Criminal Justice System

Of all the domains in which we have discussed the persistence of discrimination, perhaps the most difficult to nail down is the criminal justice system. The problem is that while it is easy enough to demonstrate that African-Americans are arrested for criminal activity, convicted and sent to prison at much higher rates than whites, it is more difficult to demonstrate that racial discrimination inside of the criminal justice system is directly implicated in each of these disparities. African-American men have nearly seven times the rate of imprisonment as white men, but theoretically this could simply be because they commit proportionately seven times as many crimes. Racism could still be implicated in shaping the social and economic conditions that lead to such criminal behavior, but racial discrimination inside of the criminal justice system would not be a significant factor. We will first look at the basic data on racial disparities, and then examine the problem of discrimination.

Figure 14.10 presents imprisonment rates by race in 2004. Overall the rate for blacks is 2.5% (2,531 prisoners/100,000 people), 6.4 times greater than the white rate of 0.4%. The racial disproportion is even greater among men, especially young men between the ages of 25 and 29, for whom the imprisonment rate among blacks is 12.6%, 7.5 times greater than the 2.5% rate for white men in the same age group. If these rates were to persist into the future, it would mean that the lifetime probability of an African-American man spending time in prison would be 32%, compared to 11% for all men (see Figure 14.11).

-- Figures 14.10 and 14.11 about here --

[32] The issue here is that schools are considerably cheaper to run in small towns and cities than in large cities, not because the quality of education being provided is lower but because the cost of living is lower and thus salaries and other expenses are lower. Black children are concentrated in large cities where costs of living and teacher salaries are higher. On a state-wide level, high spending white suburban districts are counterbalanced by lower-spending white school districts in smaller cities and towns, making it seem that overall per capita spending on black and white children is about the same.

These rates of incarceration reflect the outcome of the process through which people move through the criminal justice system. This process has four principle steps: first, an offender needs to be arrested, second an arrested person needs to be charged and prosecuted or released without charge; third a prosecuted person need to be tried and convicted or acquitted; and forth a convicted felon needs to be sentenced to prison or probation. Figure 14.12 shows the percentage of African Americans at some of these steps for drug offenses. The proportion of regular users of illegal drugs who are black is very close to the proportion of the population as a whole who are black: blacks are roughly 13% of the US population and about 12% of regular drug users. When we look at the percentages for people within the criminal justice system the picture is entirely different: 35% of people arrested for drug offenses, 43% of the people convicted of drug crimes, and 54% of the people sent to prison for those offenses are black. Blacks clearly have a much higher probability than whites of being sent to prison if they are arrested for drug offenses.

-- Figure 14.12 about here --

These data certainly show that there are huge racial disparities in incarceration. Racial discrimination of various forms could play an important role in generating these disparities at every step of the process: racial biases and racial profiling by police could lead to disproportionate surveillance and arrests of blacks; racial biases within the processing of arrests could lead to more prosecutions of blacks; racial biases within court proceedings could lead to more convictions; and racial biases in sentencing could lead to more incarceration. It is a very difficult matter, however, to get solid, unequivocal statistical evidence for the magnitudes of such possible effects of racial bias. And even with good data, it is often very difficult to draw solid inferences about discrimination and bias from the results. Here is one illustration of the interpretative problem: Studies of racial bias in sentencing generally include some measure of the "prior record" of offenses of a convicted felon. It seems perfectly reasonable, after all, that a person with a longer record of criminal convictions should receive a harsher sentence. On this basis it is assumed that if a black and white who are convicted of the same crime with the same prior record get the same sentence, this indicates that there is no racial bias in sentencing. This would not, of course, rule out biases at earlier stages in the process, but at the stage of sentencing itself there would be no bias. However, if it is the case that there are significant racial biases in patterns of arrest, filing charges, prosecution and conviction that generate, on average, longer "prior records" for blacks than for whites, then the sheer fact that prior records are treated in the same way for blacks and whites itself embodies a racial bias. The judge in the courtroom who hands out the sentence may personally not be racially biased in any way, but the basis on which the sentence is made could still embody a racial bias.[33]

Given this kind of difficulty, it is important to be cautious in interpreting the results of statistical analyses of convictions and sentencing, and it should not be surprising that the results of different studies are inconsistent. A comprehensive review of this research published in 2000 characterizes the problem this way:

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[33] The problem of interpretation here is similar to some issues in assessing the relationship between test scores and admissions to academic programs. Suppose, for example, that middle class students who take the SAT test have all taken expensive private courses on how to do well on the test, and these courses on average raise test scores by 100 points, while poor students never get such special training. If an admissions committee at a university treats the scores of these students identically, a good argument can be made that this represents a class bias in admissions. A score of 1400 for the middle class student *means* "1300 + a Kaplan course" whereas the same score for a poor students means "1400". The same can be said about prior criminal records for black and white defendants.

> Critics of the sentencing process contend that crimes by racial minorities are punished more harshly than similar crimes by equally culpable whites. Other scholars challenge this assertion. They contend that the harsher sentences imposed on racial minorities reflect the seriousness of their crimes and prior criminal records as well as other legally relevant factors that judges consider in determining the appropriate sentence.
>
> The findings of more than 40 years of research examining the effect of race on sentencing have not resolved this debate. Some studies have shown that racial/ethnic minorities are sentenced more harshly than whites, even after crime seriousness, prior criminal record, and other legal variables are taken into account. Other studies have found either no significant racial differences or that blacks are treated more leniently than whites. Still other research has concluded that race influences sentence severity *indirectly* through its effect on variables such as bail status, type of attorney, or type of disposition, or that race *interacts* with other variables and affects sentence severity only in some types of cases, in some types of settings, or for some types of defendants.[34]

Still, in spite of these problems and inconsistencies, this review concludes that the preponderance of evidence suggests racial biases within the criminal sentencing:

> The findings of these studies suggest that race and ethnicity do play an important role in contemporary sentencing decisions. Black and Hispanic offenders—and particularly those who are young, male, or unemployed— are more likely than their white counterparts to be sentenced to prison; in some jurisdictions, they also receive longer sentences or differential benefits from guideline departures than do similarly situated white offenders. There is evidence that other categories of racial minorities—those convicted of drug offenses, those who accumulate more serious prior criminal records, those who victimize whites, or those who refuse to plead guilty or are unable to secure pretrial release—also are singled out for harsher treatment.[35]

There are some special instances in which clear and unequivocal evidence of racism within the criminal justice system can be found. One of these we have already noted: the research on systematic police biases in disproportionately stopping black motorists. Since the offense in these cases is easy to observe – speeding or erratic driving – it is possible to directly measure the extent to which police treat black and white motorists differently. The evidence is unequivocal: black drivers were not more likely to speed that white drivers but were much more likely to be stopped and questioned by the police. A second powerful piece of evidence comes from a study of the death sentences in murder convictions. In this research, photos of convicted murderers in death penalty states were obtained and people unconnected with the research were asked to rate the photos in terms of how stereotypically "black" they looked. The defendants were then divided into two categories: those that closely fit the stereotype of a black appearance and those that less closely fit the stereotype. The question then was whether these two groups of convicted murderers differed in the likelihood of getting a death sentence. The analysis adjusted these likelihoods for six nonracial factors that are known to strongly affect death sentences, including aggravating and mitigating circumstances, the severity of the murder, and various personal characteristics. The results are striking (Figure 14.13): when the victim is white, 57.5% of the black defendants whose appearance more closely fit the black racial stereotype were given the death sentence compared to only 24.4% of black defendants whose appearance fit that stereotype less well. When the victim was black, there was no difference in the percentages of these two categories receiving the death sentence.

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[34] *Cassia C. Spohn,* "Thirty Years of Sentencing Reform: The Quest for a Racially Neutral Sentencing Process," *Criminal Justice*, volume 3, 2000.p.429. (Internal references have been deleted from the passage).

[35] *Ibid.* pp. 481-2

-- Figure 14.13 about here --

Beyond the question of the forms of possible racial discrimination within the internal operation of the criminal justice system there is one other critical problem of racial bias that has powerfully affected the rate of incarceration of African-American men during the last two decades of the 20th century: the "war on drugs" and the targeting of minority communities for drug-related arrests. The war on drugs was a center-piece of the get-tough-on-crime policies championed by conservative political forces beginning in the 1970s and gaining ascendancy in the 1980s. A strong belief in the effectiveness of highly repressive strategies in combating crime and disorder is one of the hallmarks of conservative politics. In the last quarter of the twentieth century all aspects of a repressive response to crime increased: prison sentences became more likely for convictions; sentences became longer, particularly for repeat offenders; parole violations more harshly punished; judicial discretion for mitigating circumstances was reduced. The result was a rapid, massive increase in the prison population in the United States (Figure 14.14). In the half century before 1980 the incarceration rate was relatively stable, hovering around 100 prisoners/100,000 population. This changed dramatically around 1980, rising rapidly to well over 400/100,000 by the early 2000s. If jail inmates are added to this, the total incarceration rate increased from around 200 to 700 in this same period.

The law enforcement policies that fueled this rise in the prison population affected all categories of crime, but the increased severity of punishment was most dramatic in the case of drug offenses connected to the war on drugs. In the 1980s, arrests for drugs offenses rose by 125%, over four times as much as for other crimes. Even more critically, the rate of prison admissions per arrest for drug crimes increased much more rapidly than for other crimes (Figure 14.15): In 1980 only 2 out of every 100 people arrested for a drug crime were sent to prison, This increased five-fold to 10 prison admission for every 100 arrests in 1990. In comparison, for violent crimes in this period the increase was from 13 to 17 prison admissions per 100 arrests and for property crime from 6 to 10 admissions. As a result, the incarceration rate for drug offenses soared from 8 prisoners per 100,000 population in 1980, to 59 in 1990 and then 86 in 2001, more than a ten-fold increase. By comparison incarceration rates for property crimes only doubled and incarceration for violent crimes tripled.[36]

-- Figure 14.15 --

In principle, this increased repressiveness of the criminal justice system directed against drug use need not have disproportionately affected blacks. After all, the black population does not use drugs at higher rates than the white population. Research on self-reported drug use by high school students from 1980-2000 consistently shows significantly higher rates of use among white students than among black students and studies of hospital emergency room visits for drug-related emergencies indicate that "whites had roughly twice to three times the number of drug-related emergency room visits than blacks."[37] So, if the law enforcement efforts were strictly a response to drug activity, then the impact would not have been so focused on blacks and other minorities.

Figure 14.16 and 14.17 show how disproportionate was the impact of the war on drugs on

[36] These data come from Bruce Western, *Punishment and Inequality in America* (New York: Russell Safe Foundation, 2006), chapter 1.

[37] Bruce Western, *ibid.* p.47.

African-Americans. First arrests (figure 14.16): In the mid-1970s the black-white ratio for drug arrests was less than 2:1. Beginning around 1980 this inequality rose rapidly, so that by 1990 it was over 4:1. This increased inequality in arrest rates combined with the general increased likelihood of prison sentences for drug convictions, lead to a strong rise in racial inequality in imprisonment for drug crimes. Figure 14.17 presents trends in racial disparities in prison admissions for new sentences for four broad categories of crime: violent crimes, robbery and burglary, theft, and drug offenses. In the early 1980s, the black rates of new prison admissions for all of these categories were 5-7 times the rates for whites. In the second half of the 1980s, as the war on drugs intensified, this changed dramatically for drug offenses, the rate of black admissions to prison rising to 20 times the white rate by the early 1990s. This increase was to a large extent the result of changes in laws which imposed harsh mandatory sentences on certain kinds of drug offenses, most notably on offenses connected to drugs most commonly used in minority communities such as crack cocaine, and policing practices which targeted drug enforcement on minority communities.

-- Figure 14.16 and 14.17 about here

Cocaine, heroin and certain other illegal drugs are, of course, a serious problem, and their use and the violence associated with their distribution can have a devastating impact on individuals and communities. There are, however, a variety of possible collective responses to this problem. Instead of mass incarceration of people convicted of nonviolent crimes associated with illegal drugs, large scale resources could have been put into residential and community drug treatment programs, combined with serious job creation and urban revitalization projects. The fact that the war on drugs was targeted on minority communities and arrest and prison were at the center of the policy reflected a political strategy, not simply a natural response to a pressing social problem. "Law and Order" has always been a slogan of conservative political forces because it reinforces fear and fear tends to push people in a politically conservative direction. The politics of fear undermines political efforts at social and economic justice. In the historical context of the United States in the 1970s and 1980s, the war on drugs combined classic law and order themes with fears rooted in racial threats. The result was a set of highly repressive policies that significantly contributed to the increasing disproportion of backs in American prisons. These policies embody racial bias even if at the final stage of the process when a judge imposes a prison sentence race plays no direct role in the decision.

PROSPECTS FOR THE FUTURE: THE POLITICS OF RACIAL EQUALITY

The situation of race in America at the beginning of the 21st century can be characterized by three central features:

1. Considerable real progress has been made in the decades since the civil rights victories of the 1960s on many aspects of racial inequality. This has lead to the emergence of a solid black middle class of educated workers, professionals, and small businesspeople, as well as a significant presence of African-Americans within the corporate, cultural and political elite.
2. Discrimination continues to exist, both in mundane social interactions and in the major institutional contexts in which lives and opportunities are formed. These discriminatory practices harm people, they violate values of fairness, and they block the further advance of racial equality. They affect all African Americans – including the wealthy and middle

class – even if the consequences are most damaging for the poor.

3. Acute poverty and economic marginalization continue to characterize the lives of many African Americans and certain other minority groups. The intersection of the sharp deprivations generated by economic marginalization and continuing discrimination underwrites racial oppression in the United States today, reflected in the devastating rates of incarceration of young black men. The mass incarceration of poor, young black men, in turn, deepens their marginalization from the labor force and stable employment. As a broad generalization, compared to the middle of the 20th century, by the beginning of the 21st century race has become less salient and life-defining within the educated middle class and elite, but continues to intensively reinforce the deprivations and disadvantages of acute poverty.

Any serious political project to address these issues must deal directly both with the problems of economic deprivation and with continuing discrimination. The former we have already discussed in chapter 13. The array of proposals in that chapter designed to reduce economic inequality and eliminate poverty would also have a large impact on economic aspects of racial inequality, particularly if combined with a shift away from mass incarceration as a way of dealing with crime. Such policies might also indirectly somewhat reduce the impact of the various forms of diffuse racial discrimination in American society, but they do not directly address racial discrimination itself.

How, then, should we think about policies which might counter discrimination? One remedy, of course, is the courts, at least for those contexts in which discriminatory behavior is technically illegal. The examples of housing, lending and employment discrimination we have just discussed mostly reflect behaviors that violate legal prohibitions on discrimination. So, one solution is for the targets of such discrimination to sue the discriminator.

In most situations this is simply not possible in practice. Hiring decisions are made behind closed doors. The rejected candidate has no way of knowing who were the other candidates, what their relative qualifications were, and so on. After all, in the Milwaukee audit study, 69% of whites without prison records also did not get a callback, so on what basis could a black applicant make the claim of discrimination? Even in cases where the discrimination is more blatant, as happens sometimes in discrimination over promotion or pay, it is extremely difficult and costly for an individual to bring a suit against an employer. In the discrimination that takes place in real estate offices and lending institutions it is equally hard, if not impossible, to prove discrimination.

The principle alternative to using the courts to counter discrimination has been a set of policies that go under the name of "affirmative action." Affirmative action refers to a family of policies which give some kind of preference in a context of scarce resources to a traditionally disadvantaged category of people. The main contexts in which such policies have been implemented are admission to high education and hiring and promotions in jobs, but rules that require a certain proportion of contracts by cities to be to minority business would also constitute a form of affirmative action. Many specific devices are possible. The simplest is a quota system in which, for example, a certain proportion of the students admitted to a program are required to be African-American or other historically discriminated against groups. More complex systems allocate points to a wide variety of criteria relevant to admissions: test scores, interviews, extracurricular activities, special talents, economic disadvantaged, and so on. Race could be one of the criteria in such a list. This is not a quota system, but a system for giving some weight to race. A third strategy is to adopt selective admission criteria that are anchored in some condition that is highly correlated with race, but not race itself. Extra admissions points, for example, can be given a student who comes from a school with a high poverty rate, since the students in such schools will be disproportionately minorities. But regardless of the specific mechanism, all of these are devices through which more African-Americans and other historically disadvantaged groups would be admitted than in the absence of the program.

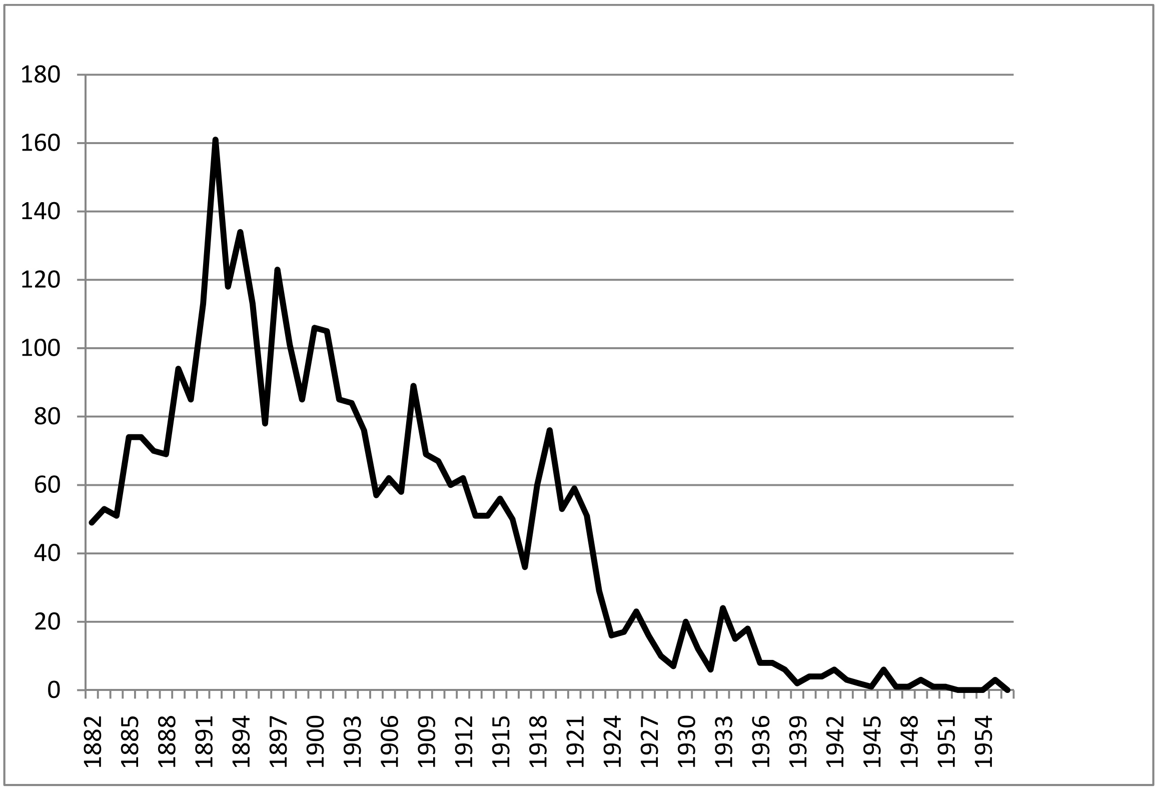
Many people strongly object to affirmative action on the grounds that it is “reverse discrimination”, but contrary to what is often thought, opinion polls consistently indicate that most Americans support at least some forms of affirmative action. In a Pew Research Center survey reported in 2003, 63% of respondents indicated that they favored “affirmative action programs designed to help blacks, women and other minorities get better jobs and education” and 57% said that the favored programs “which give special preferences to qualified blacks, women and other minorities in hiring and education”. Gallup polls have also consistently shown support for affirmative action in the 55-60% range. So there is considerable public support for such programs, even if many people also have their doubts.

And the fact of the matter is that there is basically no viable alternative to some form of affirmative action if we want to counter the pernicious effects of certain forms of discrimination. What affirmative actions policies do is create real incentives for employers and admissions officers to accept the additional costs needed to overcome statistical discrimination based on race and actively seek out the best minority candidates they can find. It is expensive to gather high quality information on applicants and actively recruit people from outside of ones spontaneous networks. In the absence of affirmative action in many contexts it is cheaper just to treat individuals on the basis of group characteristics. Affirmative action undermines the incentives that sustain that kind of discrimination.

The first African slaves were brought to the American colonies in 1619. Blacks have thus been in what was to become the United States for nearly 400 years. During 245 of these years they were slaves, subordinated in brutal and dehumanizing ways. This was followed by a century of legalized discrimination which ended less than 50 years ago.[38] So, for 345 out of almost 400 years – over 80% of American history – African-Americans have been subjected to state-enforced oppression justified through virulent racist ideologies. It is hardly surprising that racial discrimination continues to operate and economic inequalities associated with race have not yet disappeared. The spontaneous action of actors in the market will not be sufficient to eliminate these inequalities. For this to happen collective, public action is necessary, both against the economic marginalization associated with racialized poverty, and against the effects of on-going racial discrimination.

[38] This temporal breakdown of the experience of African-Americans is modified from S. Plous, “Ten myths about affirmative action” in S. Plous (ed) *Understanding Prejudice and Discrimination* (pp. 206-212). New York: McGraw-Hill.

FIGURES AND TABLES



Source: University of Missouri – Kansas City School of Law,
http://www.law.umkc.edu/faculty/projects/ftrials/shipp/lynchstats.html
Data from the Archives of Tuskegee University

Figure 14.1 Lynchings of Blacks per year, 1882-1964.

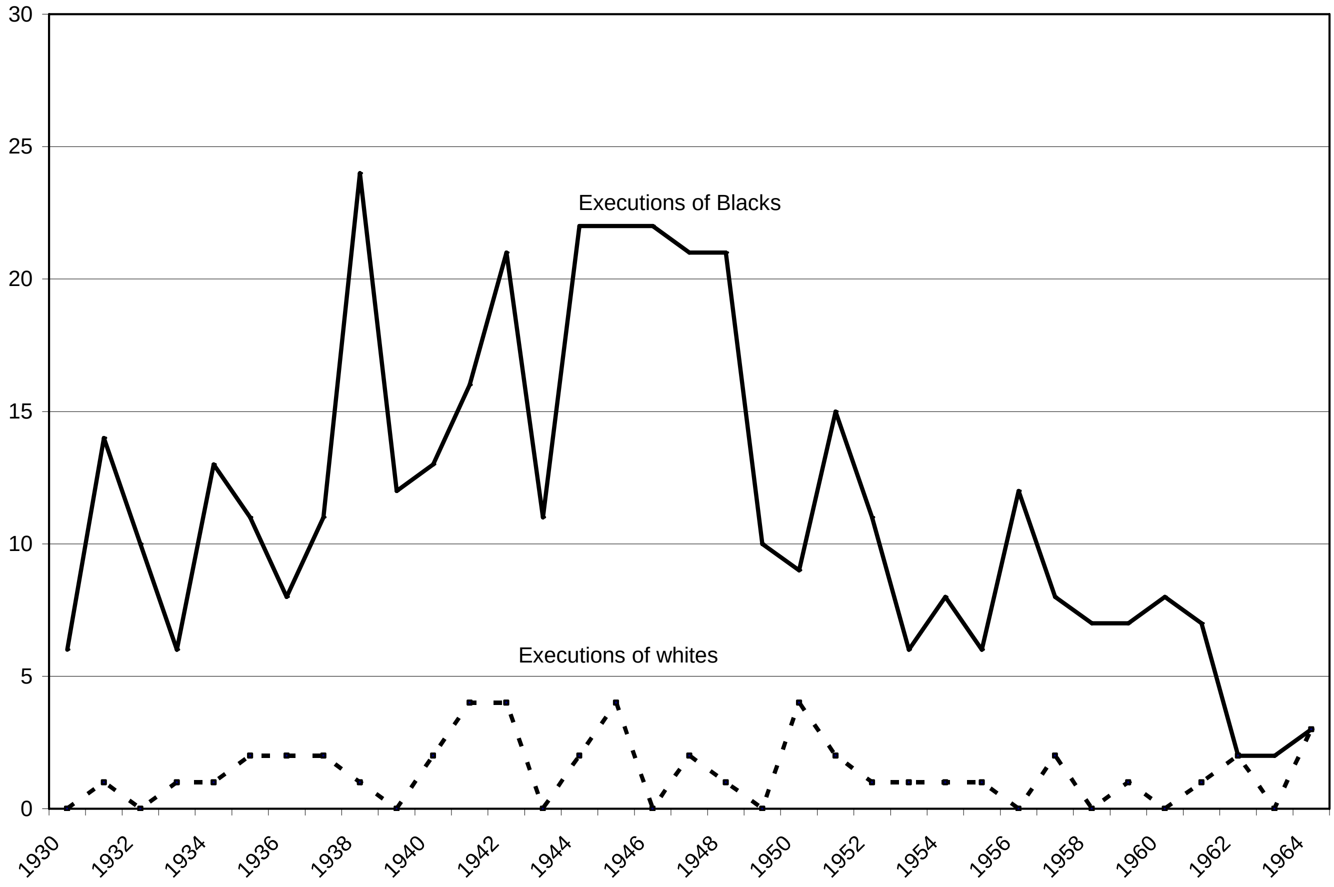
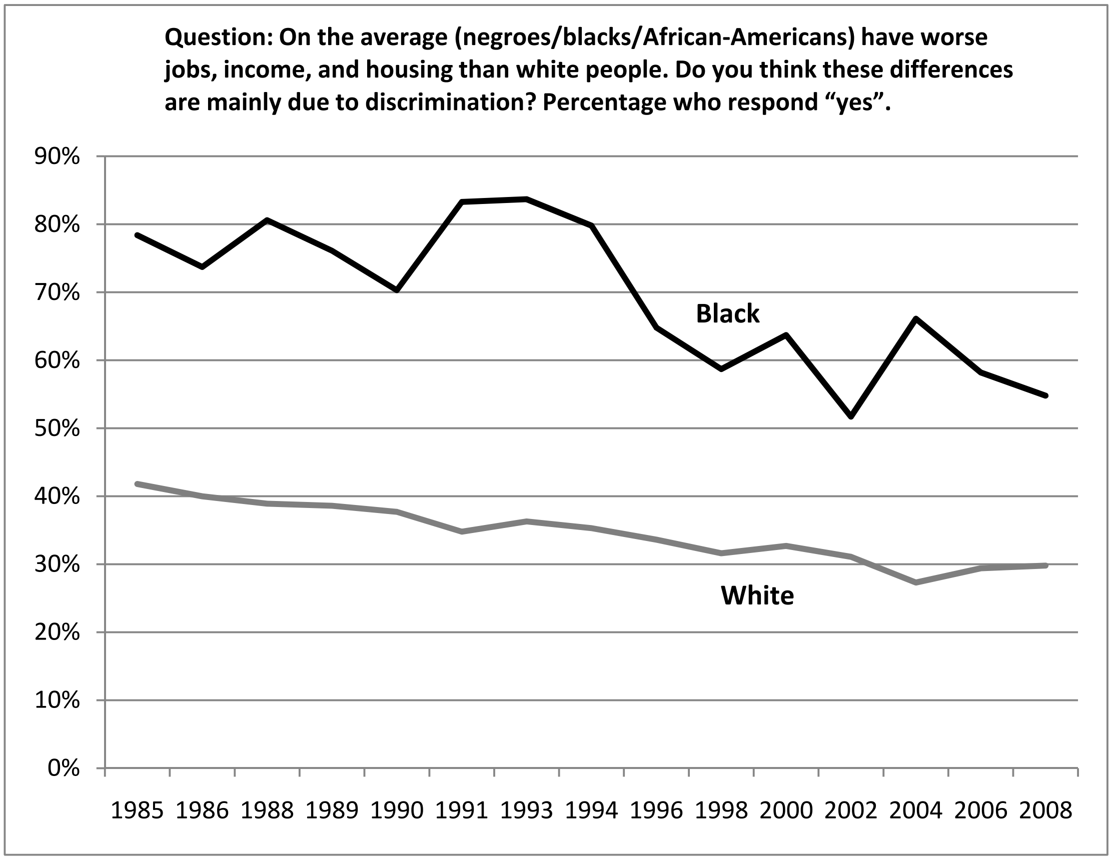
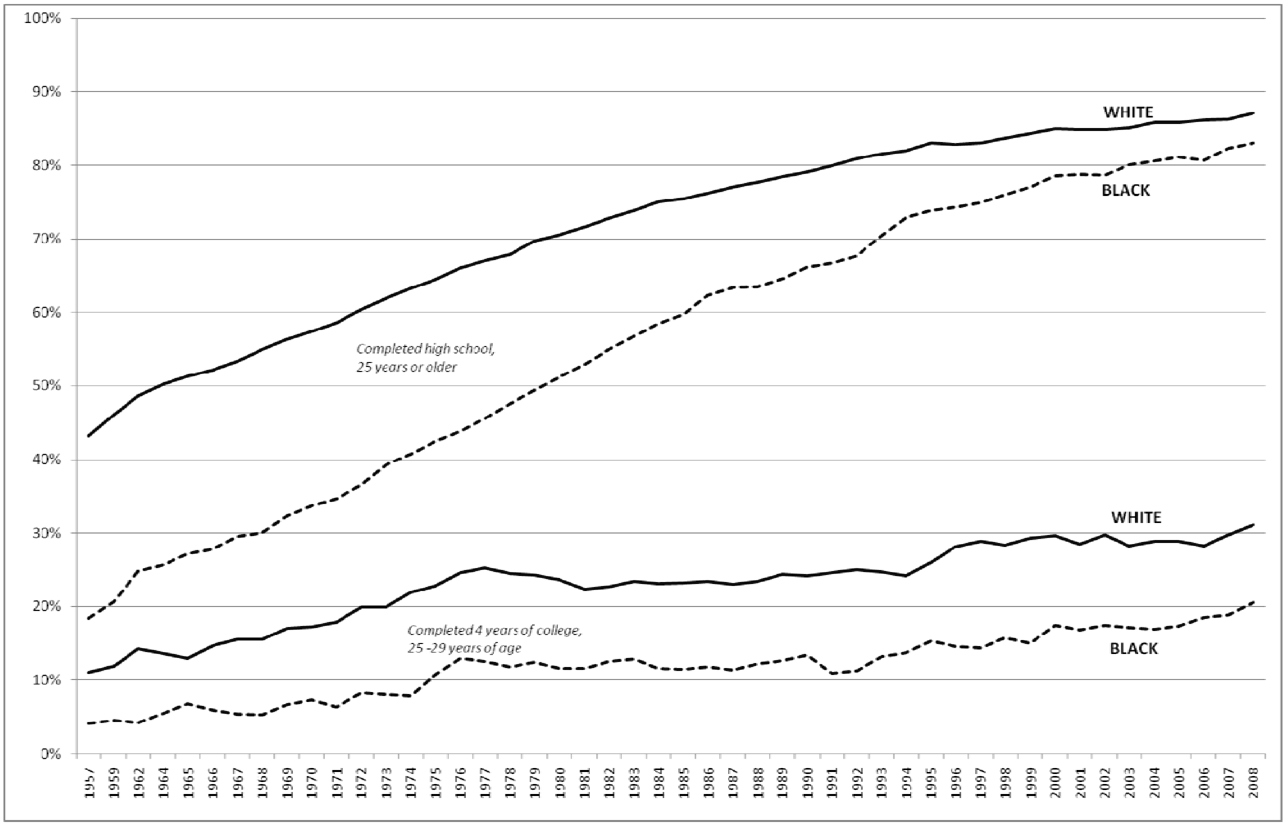


Figure 14.2. Executions for Rape by Race in the united States, 1930-64



Source: General Social Survey

Figure 14.3 Black and White attitudes towards importance of discrimination, 1985-2008



Source: 1960 Census of Population and Housing, using ipums interface. and 2007 American Community Survey, using ipums interface.

Figure 14.4
Black and white education levels, 1940-2008

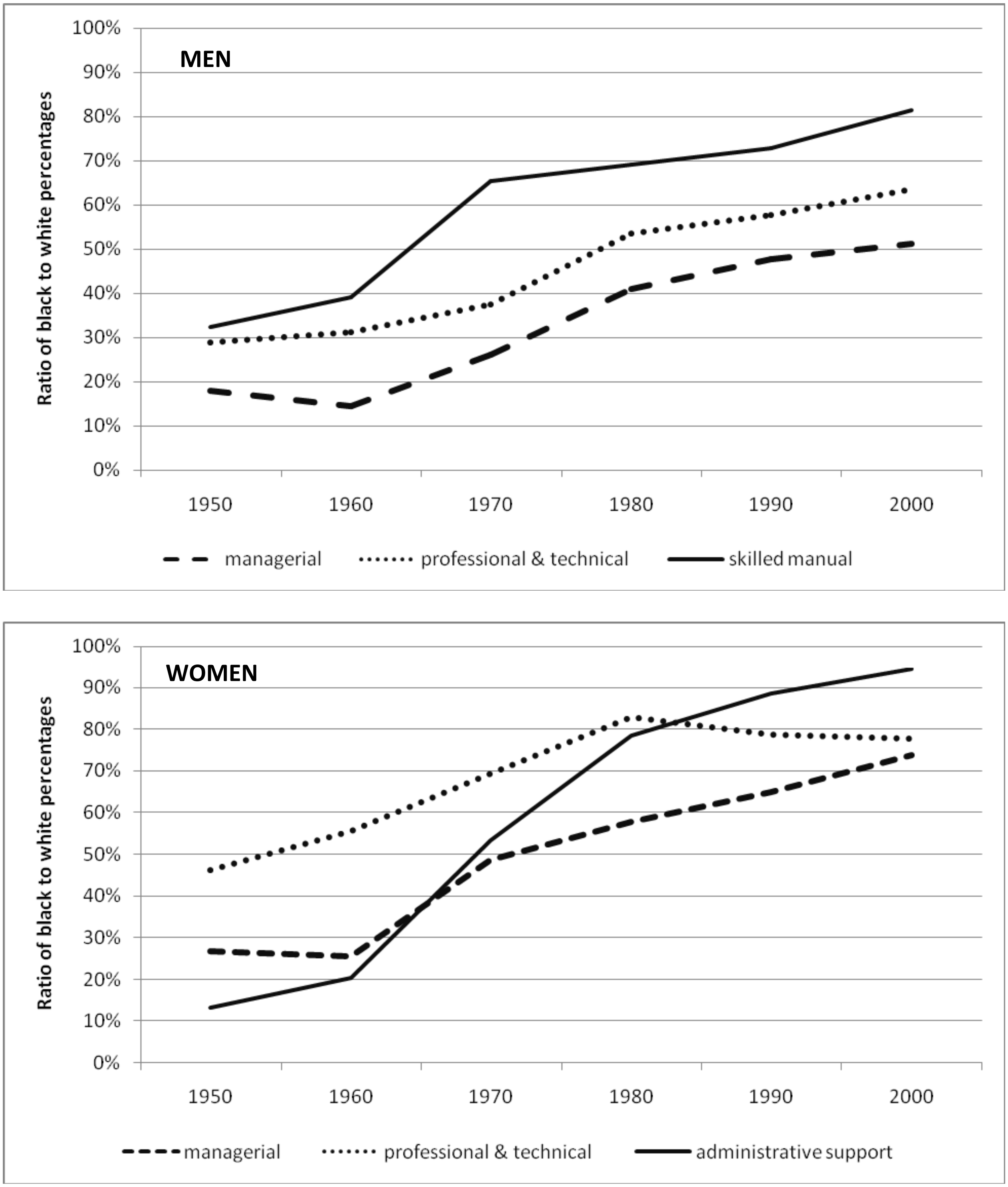
White men	1950	1960	1970	1980	1990	2000
Managerial[1]	11.9%	11.9%	12.7%	12.2%	12.9%	12.9%
professional & technical[2]	6.7%	9.1%	11.2%	13.0%	14.7%	15.7%
administrative support occupations	7.4%	7.2%	7.4%	6.5%	6.5%	7.4%
skilled manual[3]	12.1%	13.4%	13.3%	12.6%	11.0%	10.6%
construction, transportation & extractive	21.0%	20.9%	20.3%	22.5%	21.4%	20.8%
unskilled manual[4]	13.5%	13.5%	12.2%	9.6%	7.7%	7.0%
services & sales[5]	12.2%	14.3%	16.4%	18.5%	21.3%	21.4%
Farm[6]	15.1%	9.7%	6.5%	5.0%	4.5%	4.2%
Black men						
managerial	2.1%	1.7%	3.3%	5.0%	6.1%	6.6%
professional & technical	2.0%	2.8%	4.2%	7.0%	8.5%	10.0%
administrative support occupations	3.3%	5.0%	7.2%	8.7%	9.7%	10.9%
skilled manual	3.9%	5.2%	8.7%	8.7%	8.0%	8.6%
construction, transportation & extractive	34.5%	35.4%	30.6%	29.6%	27.4%	25.0%
unskilled manual	13.8%	15.8%	18.1%	14.6%	10.6%	9.3%
services & sales	15.2%	18.1%	19.5%	22.2%	26.2%	26.8%
Farm	25.1%	16.0%	8.3%	4.1%	3.4%	2.8%
White Women						
managerial	4.9%	3.8%	4.8%	7.0%	10.7%	10.8%
professional & technical	13.1%	12.4%	13.4%	15.7%	18.5%	22.2%
administrative support occupations	29.2%	31.9%	32.6%	30.2%	27.8%	25.3%
skilled manual	2.2%	4.2%	1.6%	1.9%	1.7%	1.9%
construction, transportation & extractive	1.1%	0.9%	1.7%	3.4%	3.1%	2.6%
unskilled manual	19.3%	14.1%	13.9%	9.1%	6.3%	4.8%
services & sales	26.4%	30.7%	30.7%	31.3%	30.8%	31.3%
Farm	3.8%	2.2%	1.2%	1.4%	1.2%	1.1%
Black Women						
managerial	1.3%	1.0%	2.3%	4.0%	6.9%	8.0%
professional & technical	6.1%	6.9%	9.3%	13.0%	14.6%	17.2%
administrative support occupations	3.9%	6.5%	17.4%	23.7%	24.6%	23.9%
skilled manual	1.1%	1.9%	1.3%	1.9%	1.8%	2.0%
construction, transportation & extractive	1.9%	1.5%	2.1%	4.5%	3.8%	3.4%
unskilled manual	16.2%	13.7%	16.5%	12.9%	9.6%	6.9%
services & sales	58.3%	58.1%	47.7%	38.9%	38.1%	38.3%
Farm	11.2%	10.4%	3.4%	1.1%	0.6%	0.4%

Source: Source: Authors' analysis of microdata samples from the Censuses of Population 1950, 1960, 1970, 1980, 1990, and 2000, as harmonized in Sobek Ruggles, et al, Integrated Public Use Microdata Series: Version 4.0 [Machine-readable database]. Minneapolis, MN: Minnesota Population Center [producer and distributor] 2008. Data dowloaded from http://usa.ipums.org/usa/

Definitions of occupational categories:

1. *Managerial*: Executive, administrative and managerial occupations; management related occupations
2. *Professional and technical*: Professional specialty occupations; technicians and related support occupations
3. *skilled manual*: precision production; mechanics and repairers
4. *unskilled manual*: machine operators, assemblers and inspectors
5. *services and sales*: sales occupations; private household; protective services; other services
6. *Farm*: farm operators and managers; other agricultural and related occupations

Table 14.1 Occupational Distributions within Race and Gender categories, civilian labor force, 1950-2000



Source: see Table 14.1

Note: The numbers indicate how likely, within a given gender category, it is for a black compared to a white to be in a given occupation. 100% thus means that, within a given gender category, it is just as likely for a black to be in a given occupation as for a white; 30% means that, within a gender category, the percentage of a given occupation among blacks is only 30% the percentage among whites.

Figure 14.5 Changes in the under-representation of African-Americans in desirable occupational categories

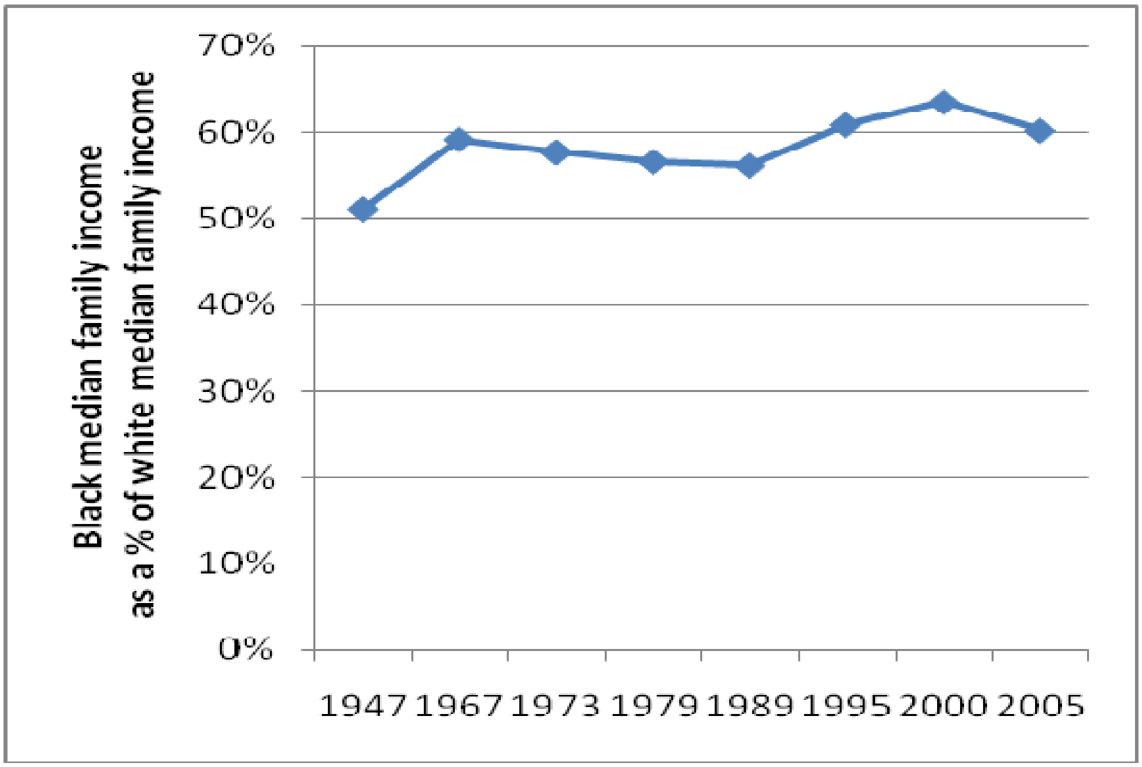


Figure 14.6
Black median family income as a percentage of white median family income

Wealth by race, 1983-2004 (thousands of 2004 dollars)

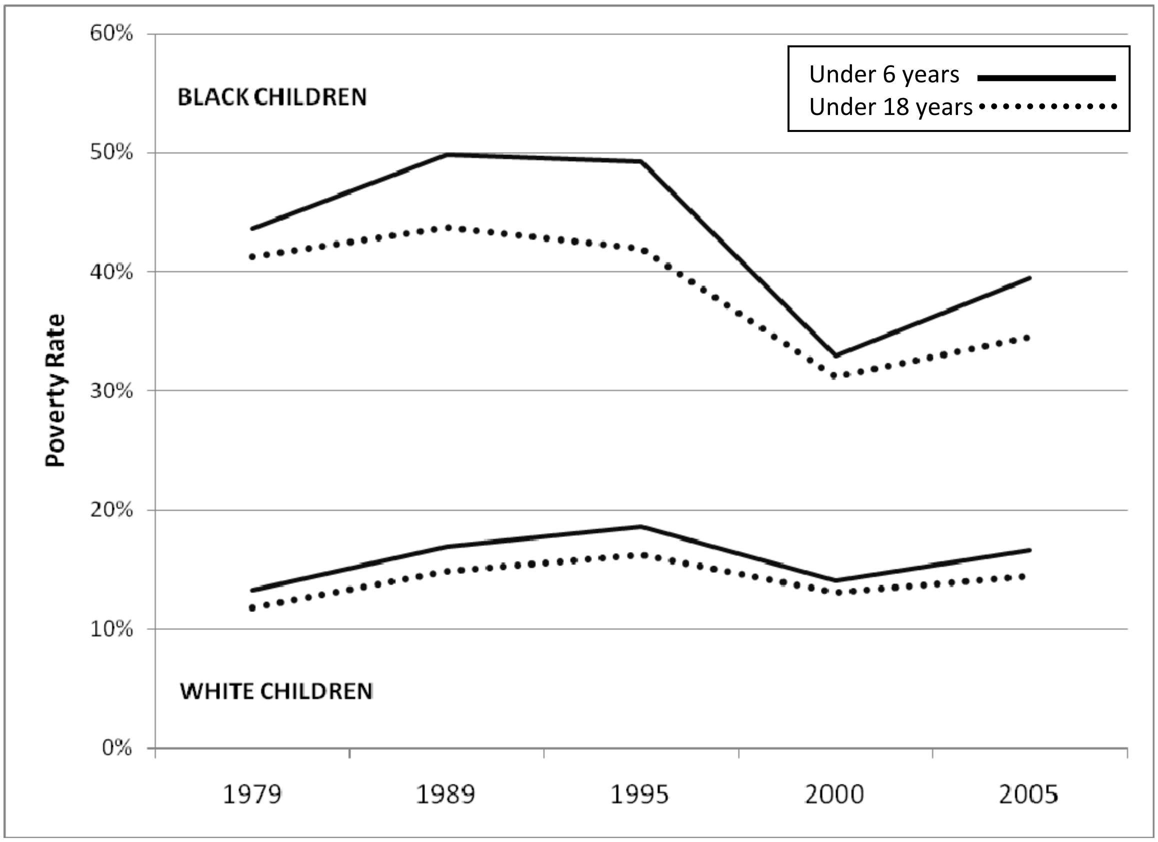
Race	1983	1989	1992	1995	1998	2001	2004
Average wealth*							
Black	$54.2	$57.1	$61.3	$50.5	$67.5	$70.8	$101.4
White	$287.9	$340.6	$329.6	$300.4	$371.9	$496.8	$534.0
Black-to-white ratio	0.19	0.17	0.19	0.17	0.18	0.14	0.19
Median wealth							
Black	$5.5	$2.5	$13.9	$9.1	$11.6	$11.4	$11.8
White	$82.9	$98.4	$82.6	$75.6	$94.6	$113.5	$118.3
Black-to-white ratio	0.07	0.03	0.17	0.12	0.12	0.10	0.10
Households with zero or negative net wealth (%)							
Black	34.1%	40.7%	31.5%	31.3%	27.4%	30.9%	29.4%
White	11.3%	12.1%	13.8%	15.0%	14.8%	13.1%	13.0%
Black-to-white ratio	3.0	3.4	2.3	2.1	1.9	2.4	2.3
Average financial wealth**							
Black	$27.3	$27.9	$34.9	$26.3	$43.6	$46.1	$61.5
White	$212.1	$257.5	$253.8	$233.6	$295.3	$394.3	$402.5
Black-to-white ratio	0.13	0.11	0.14	0.11	0.15	0.12	0.15
Median financial wealth							
Black	$0.0	$0.0	$0.2	$0.2	$1.4	$1.2	$0.3
White	$23.1	$31.2	$25.4	$22.4	$43.6	$44.9	$36.1
Black-to-white ratio	0.00	0.00	0.01	0.01	0.03	0.03	0.01

* Wealth defined as net worth (household assets minus debts).

** Financial wealth is liquid and semi-liquid assets including mutual funds, trusts, retirement, and pensions.

Source: Table 5.6 from Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

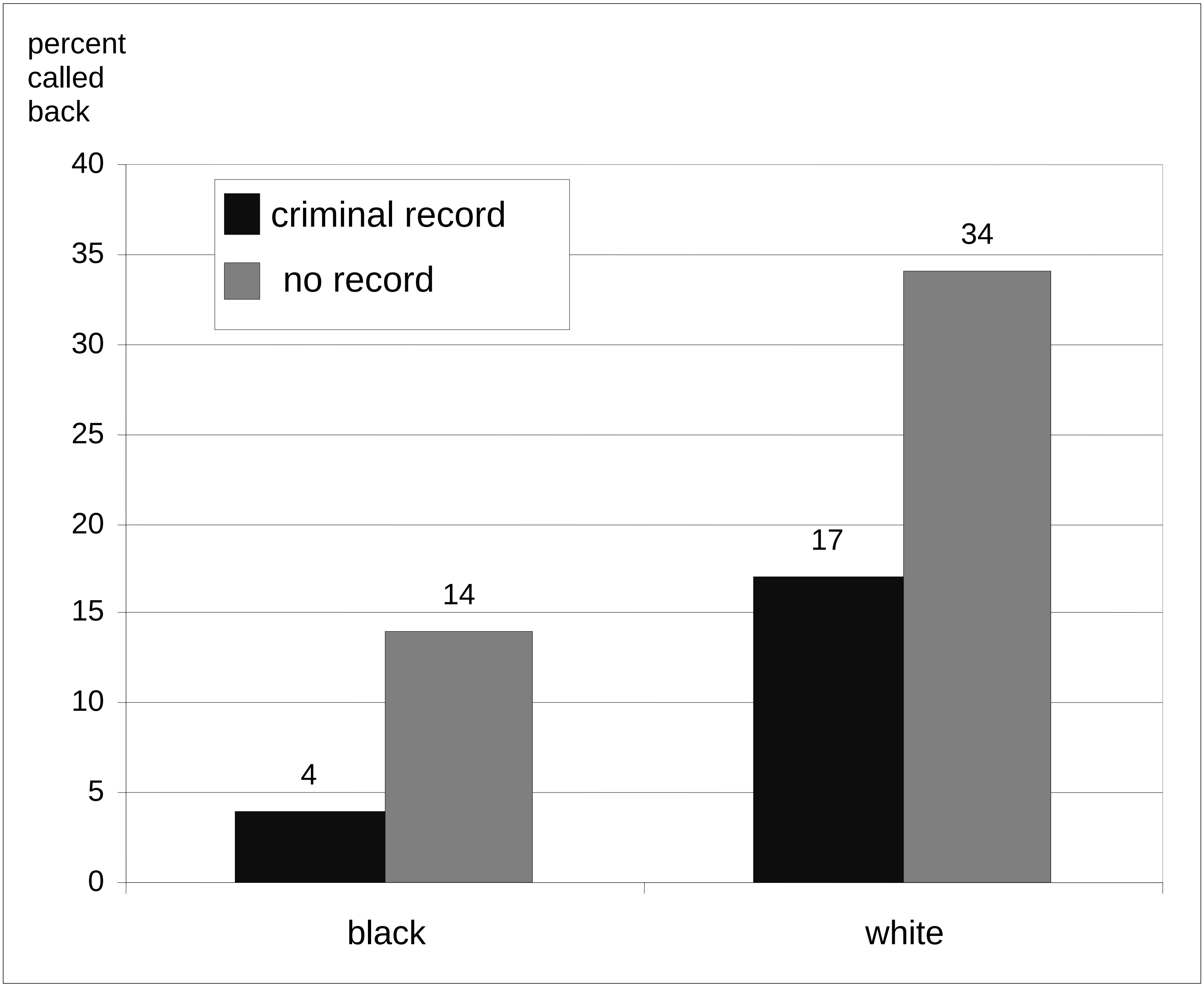
Table 14.2 Wealth by race, 1983-2004



Source: Table 6.3 from Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007*. An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

Note: the data for children under 6 were unavailable for 2005. The figure reported here is for 2003.

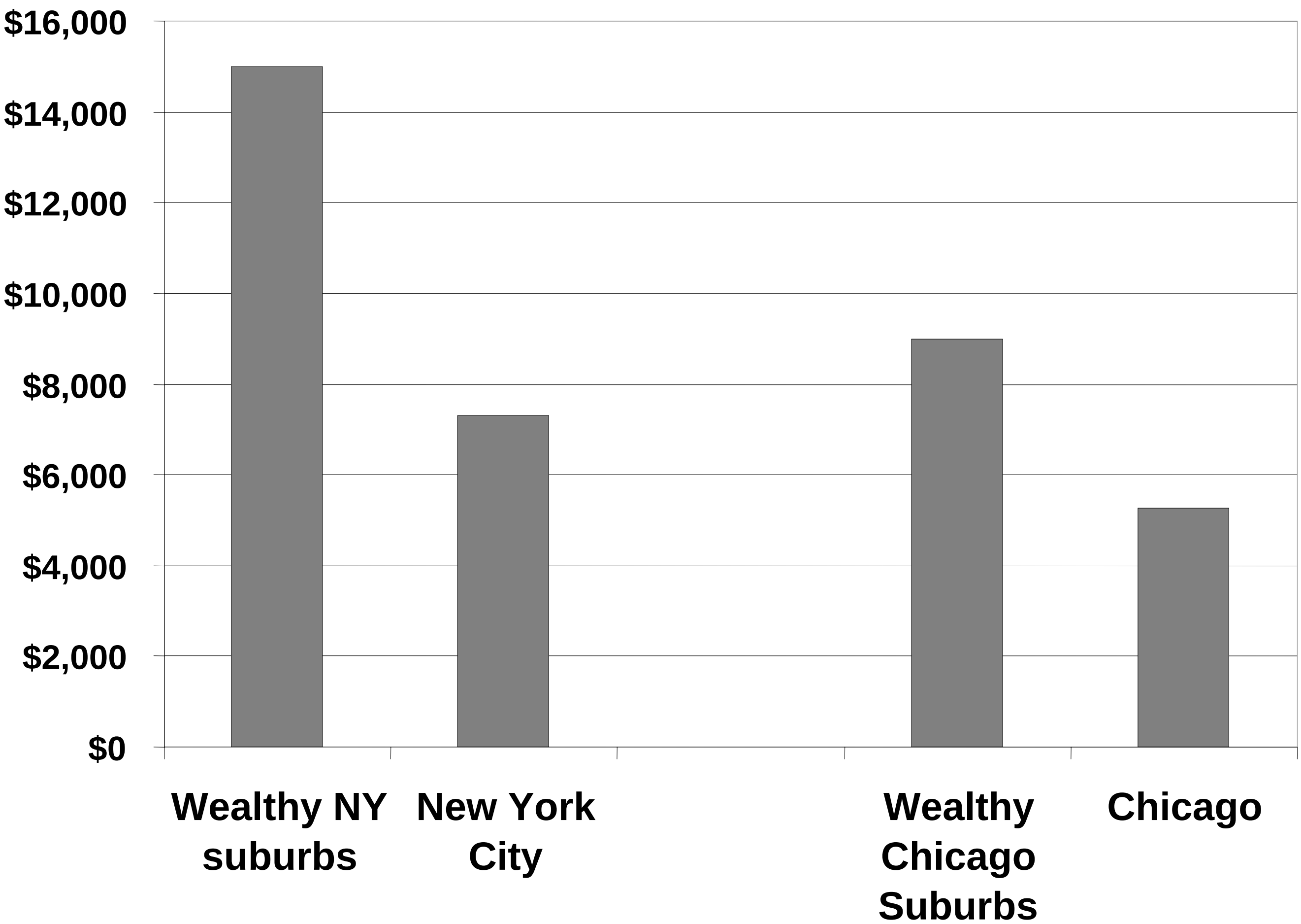
Figure 14.7 Child poverty rates by Race, 1979-2005



Source: Devah Pager, *Marked: Race, Crime, and Finding Work in an Era of Mass Incarceration*. Chicago: University of Chicago Press, 2007

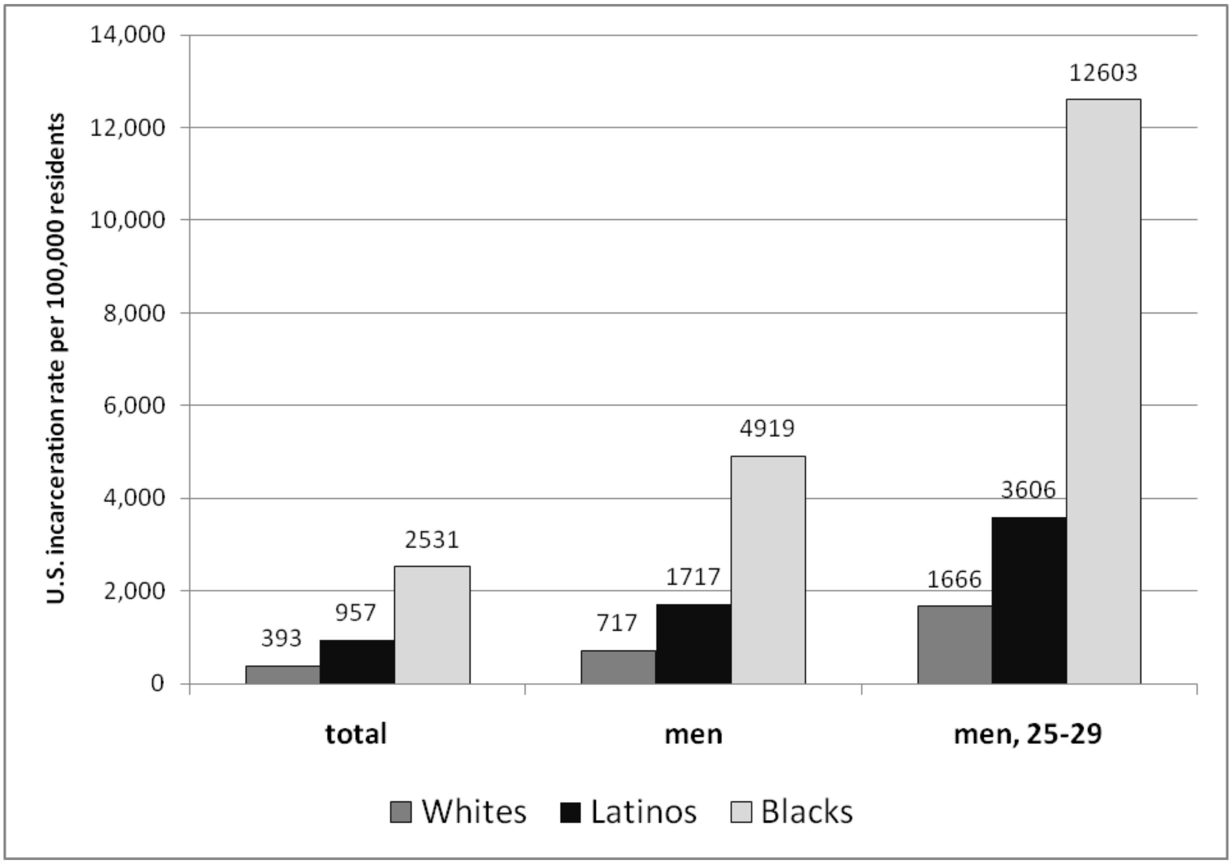
Note: The graph presents the percentage of job applicants to entry level unskilled jobs who were called back for an interview depending upon their race and criminal record (nonviolent drug conviction)

Figure 14.8
Results of an Audit study of the Effects of Race and Criminal Record on employment



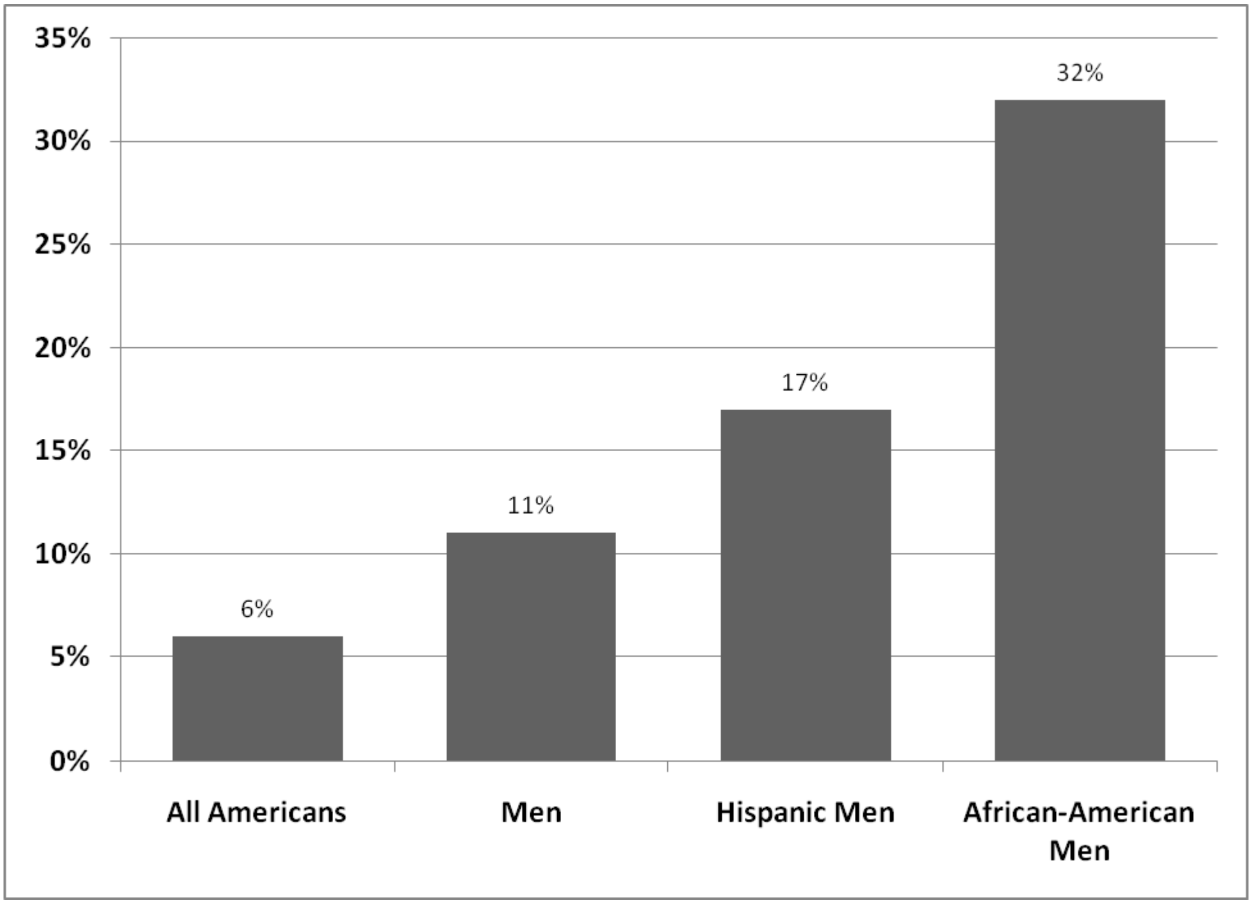
***Source*: need source**

Figure 14.9
Per pupil education spending in wealthy suburbs and core cities, New York and Chicago Areas



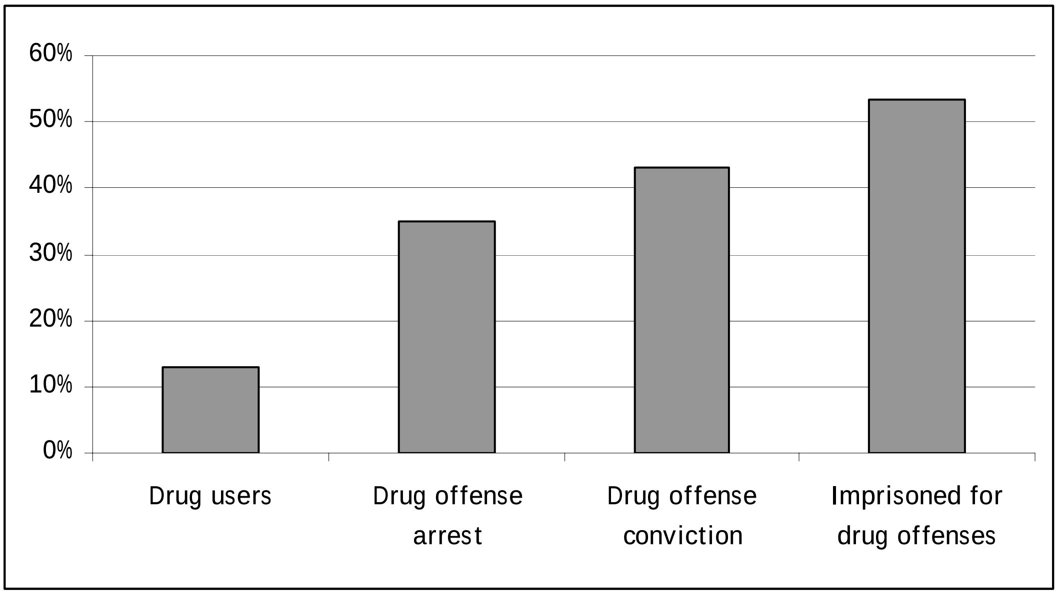
Source Prison Policy Initiative, Incarceration is not an equal opportunity punishment, 2005, http://www.prisonpolicy.org/

Figure 14.10 Incarceration rates by Race



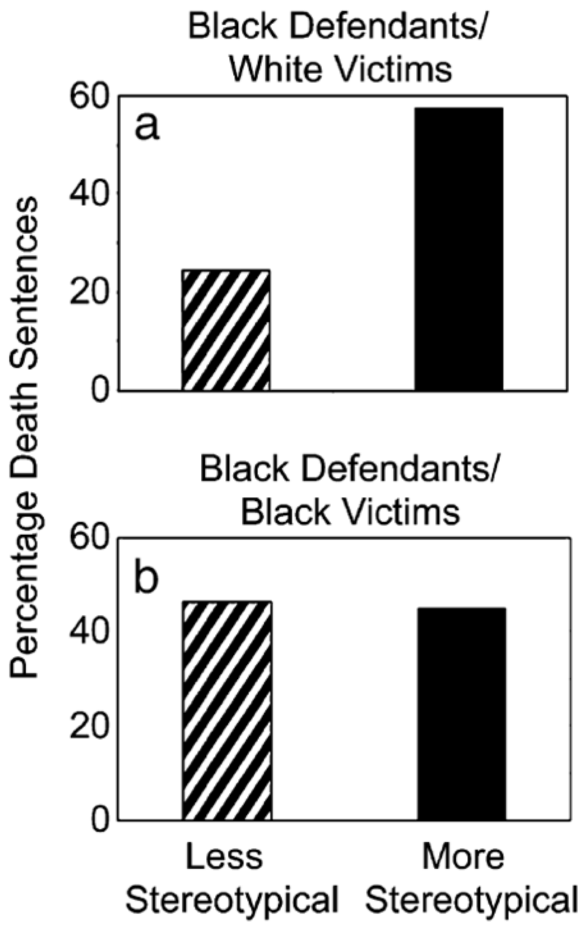
Source Prison Policy Initiative, Peter Wagner "Lifetime Chance of Being Sent to Prison at Current U.S. Incarceration Rates" (2003)
http://www.prisonpolicy.org/graphs/lifetimechance.html

Figure 14.11. Lifetime Chances of Being Sent to Prison



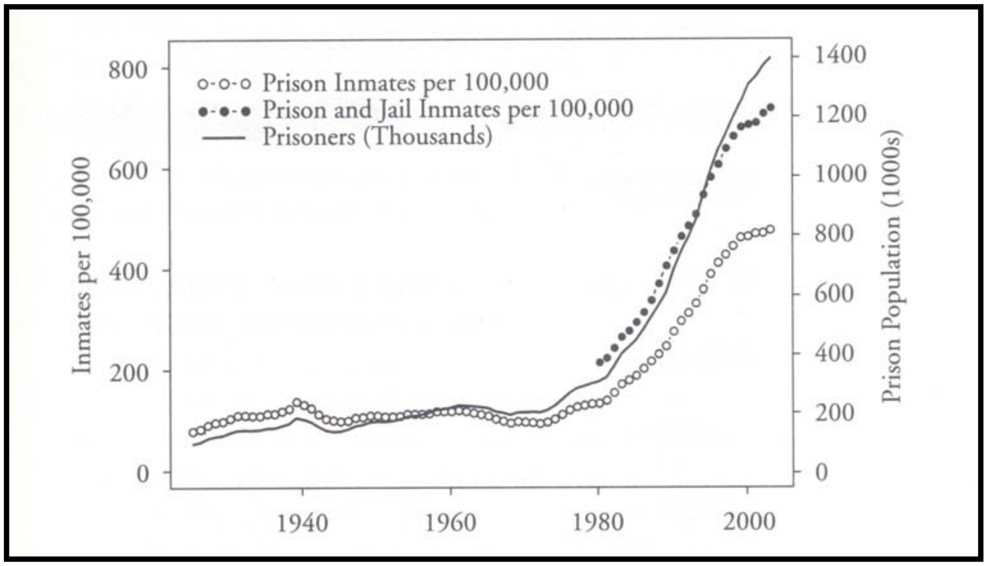
Source: Human Rights Watch 2008 report: *Targeting Blacks: Drug Law Enforcement and Race in the United States*

Figure 14.12
Percentage of people in drug-offense categories who are black



Source: Jennifer l. Eberhardt, Paul G. Davies, Valerie J Purdie-Vaughns, and Sheri Lynn Johnson, "Looking Deathworthy: perceived stereotypicality of Black Defendants Predicts Capital-Sentencing Outcomes," *Psychological science*, volume 15:5, 2006, pp.383-386

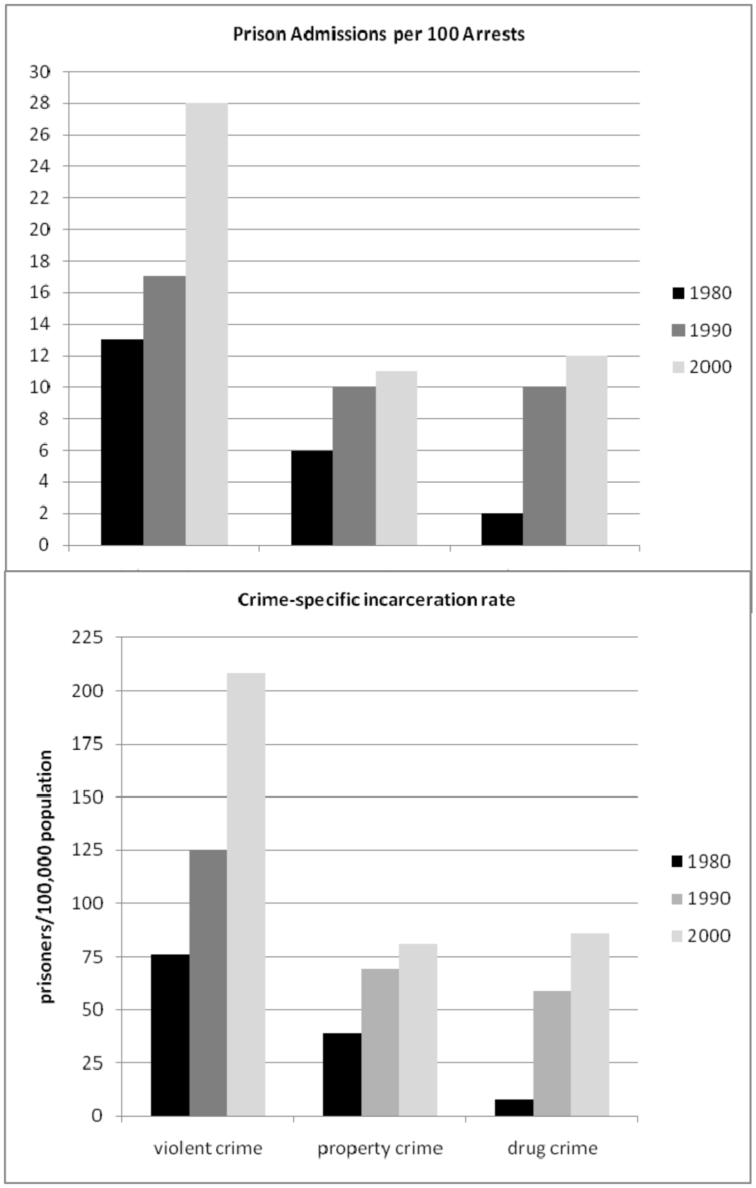
Figure 14.13. Black Racial Stereotypes and the Death Sentence



Source: Bruce Western, Punishment and Inequality in America (New York: Russell Safe Foundation, 2006), p.13

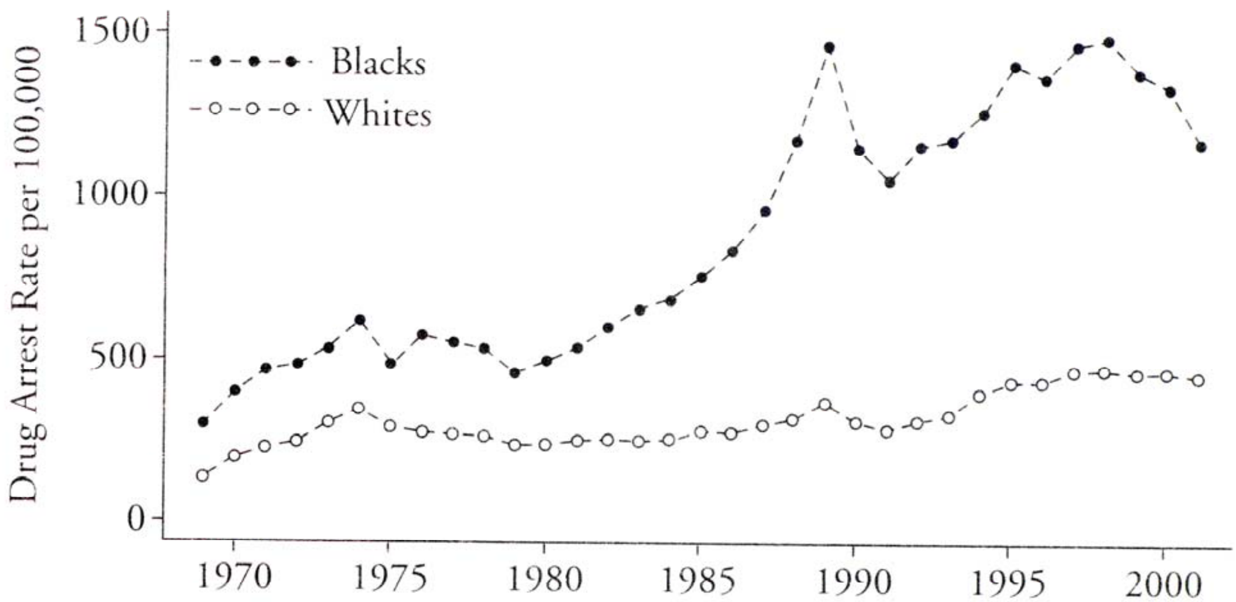
Note: Incarceration rates are shown on the left hand side of the graph; prison population on the right hand side.

Figure 14.14
U.S. Incarceration rates, 19302-2000s



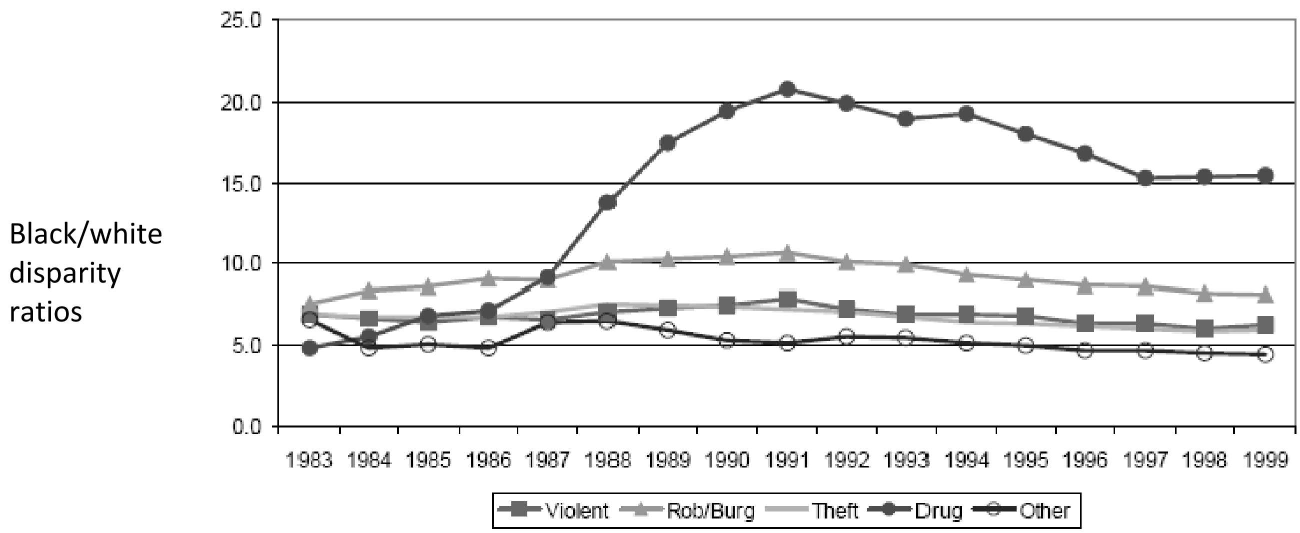
Source: Bruce Western, Punishment and Inequality in America (New York: Russell Safe Foundation, 2006),

Figure 14.15. Indicators of increasing intensity of punishments for drug offenses.



Source: Bruce Western, Punishment and Inequality in America (New York: Russell Safe Foundation, 2006), p.46

Figure 14.16 Arrests for Drug Offences, 1971-2001



Source: Pamela Oliver, "Explaining State Black Imprisonment Rates, 1983-1999", (unpublished manuscript, 2004). Figure 5. Data from the National Corrections Reporting Program.

Figure 14.18 Trends in Disparity ratios for New Prison Sentences, by Offense

CHAPTER 15
GENDER INEQUALITY

Final Draft, August 2009

The transformation of gender relations since the beginning of the 20th century is one of the most rapid, profound social changes in human history. For the more than 7,000 years of human history since settled agriculture and early states emerged, male domination has characterized the gender relations of these societies and their successors. Even at the beginning of the 20th century, men and women were generally viewed as occupying sharply different roles in society: a woman's place was in the home as wife and mother; the man's place was in the public sphere. Men had legal powers over the lives of their wives and children, and while wife beating was never strictly legal in the United States, its practical legal status was ambiguous and perpetrators of domestic violence rarely punished. To be sure, articulate critics of patriarchy – rule by men over women and children – had emerged by the end of the 18th century, and the movement for the right of women to vote was well under way by the end of the 19th century, but nevertheless, at the beginning of the 20th century the legitimacy of patriarchy was taken for granted by most people and backed by religious doctrines that saw these relations as ordained by God.

By the 21st century only a small minority of people still holds to the view that women should be subordinated to men. While all sorts of gender inequalities continue to exist, and some of these seem resistant to change, they exist in a completely different context of cultural norms, political and social rights, and institutionalized rules. Male domination has not disappeared, but it is on the defensive and its foundations are crumbling.

In this chapter we will explore the realities of gender relations in the United States at the beginning of the 21st century. We will begin by defining the concept of "gender" in sociological terms and explain what it means to talk about gender inequality and the transformation of gender relations. This will be followed by a broad empirical description of the transformations of gender in America since the middle of the 20th century, and an explanation of those transformations. This will provide us with an opportunity to explore a central general sociological idea in discussions of social change: how social change is the result of the interplay of *unintended* changes in the social conditions which people face and *conscious, collective struggles* to change those conditions. The chapter will conclude with a discussion of the dilemmas rooted in gender relations in the world today and what sorts of additional changes are needed to move us closer to full gender equality.

I. GENDER, NATURE AND THE PROBLEM OF POSSIBLE VARIATION

At the core of the sociological analysis of gender is the distinction between biological sex and gender: sex is a property of the biological characteristics of an organism; gender is socially constructed, socially created. This is a powerful and totally revolutionary idea: we have the potential capacity to change the social relations in which we live, including the social relations between biologically defined men and women. Sometimes in the media one hears a discussion in which someone talks about the gender of a dog. In the sociological use of the term, dogs don't have gender; only people living within socially constructed relations are gendered.[1]

This distinction raises a fundamental question in sociological theory about what it means to say that something is "natural". Gender relations are generally experienced as "natural" rather than as something created by cultural and social processes. Throughout most of history for most people the roles performed by men and women seem to be derived from inherent biological properties. After all, it is a biological fact that women get pregnant and give birth to babies and have the capacities to breastfeed them. Men cannot do this. It is biological fact that all women know that they are the mothers of the babies they bear, whereas men know that they are the fathers of particular children only when they have confidence that they know the sexual behavior of the mother. It is a small step from these biological facts to the view that it is also a fact of nature that women are best suited to have primary responsibility for rearing children as well, and because of this they should be responsible for other domestic chores.

The central thesis of sociological accounts of gender relations is that these biological facts by themselves do not determine the specific form that social relations between men and women take. This does not imply, however, an even stronger view, that gender relations have nothing to do with biology. Gender relations are the result of the way social processes act on a specific biological categories and form social relations between them. One way of thinking about this is with a metaphor of production: biological differences rooted in sex constitute the raw materials which, through a specific process of social production, get transformed into the social relations we call "gender".

Now, this way of thinking about sex and gender leaves entirely open the very difficult question of what range of variation in gender relations is stably possible. This is a critical question if one holds to a broadly egalitarian conception of social justice and fairness. From an egalitarian point of view, gender relations are fair if, within those relations, males and females have equal power and equal autonomy. This is what could be termed "egalitarian gender relations." This does not imply that all men and all women do exactly the same things, but it does mean that gender relations do not generate unequal opportunities and choices for men and women.

The sociological problem, then, is whether or not a society within which deeply egalitarian gender relations predominate is possible. We know from anthropological research that in human history taken as a whole there is enormous variation in the character of social relations between men and women. In some societies at some points in history, women were virtually the slaves of men, completely disempowered and vulnerable. In some contemporary societies they must cover their faces in public and cannot appear outside of the home without being accompanied by an appropriate man. In

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[1] There are peculiar circumstances in which animals could be said to have a socially constructed gender. In the spring of 2009 a female horse, Rachel Alexandra, won the Preakness stakes, one of the premier horse races in the United States. This horse was the first filly in 85 years to win this race. News headlines about the race included things like the MSNBC website banner "You go, girl! Filly wins Preakness Stakes thriller." Commentators before the race talked about Rachel Alexandra being able to "run with the boys." Since cultural representations are one of the aspects of "constructing" gender relations, this is an instance in which an animal's sex is being culturally represented as gender.

other times and places, women have had considerable autonomy and control over their bodies and activities. So, one thing is for sure: there is enormous empirical variation which we can observe.

What is much less clear is what sorts of variation are *possible*, and what sorts of possibilities that have not yet occurred could nevertheless be stable over time. For example, in all societies women have historically had primary responsibility for early-infant care; in no society has it been the case that the prevalent social norms backed the principle that fathers should be as involved in the care of babies as mothers. As a generalization from this empirical observation, therefore, we might conclude that strongly egalitarian norms about parenting of babies are not possible. Such a conclusion would be unjustified. Since this observed universal has occurred in a world characterized by certain specific economic, political and cultural properties, the empirical universality of this "fact" does not mean that this is simply a "natural" reflection of biological imperatives. Until the very recent past, for example, birth control was relatively ineffective; now it is reliable. Until the last one hundred and fifty years or so, most people had to spend most of their time producing food. This is no longer true. Until recently, because of relatively high infant mortality women needed to have many children in order to insure that there would be surviving adult children. For most people, this was essential if they hoped to have anyone to take care of them when they were old. Again, this is no longer the case in countries like the United States. Most of these changes have occurred only in the last few generations. Also, until the recent past, no governments were organized on popular-democratic principles and no cultures valued individual autonomy and liberal rights. All of these are historically novel developments of the past few centuries. What we do not know, then, is what new forms of gender relations might become possible and stable given these dramatically altered economic, cultural and political conditions. In particular, we do not know whether or not under the dramatically altered material and cultural circumstances of the United States and similar countries in the 21st century, fully egalitarian gender relations are possible.

Furthermore, *even if* we decided for some reason that it was indeed "natural" for women to specialize in taking care of infants, this would not actually resolve the question of whether or not it was *desirable* for there to be a cultural norm telling women that they should do most of the caregiving or whether or not egalitarian norms could never become dominant. Just because something is "natural" – in the sense of reflecting some underlying biological characteristics of people – does not mean it is desirable and untransformable. It is perfectly natural for a person to die from smallpox: our biological system is such that this infection often kills us. No one feels that this makes it undesirable to develop vaccines. Human beings are naturally omnivorous – we have the necessary enzymes to digest animal products and in all societies before "civilization" intruded on people in the form of settled agriculture, people were indeed omnivores, but this does not settle the question of whether or not it is possible and desirable to be a vegetarian. So, the sheer "naturalness" of inegalitarian aspects of gender relations – even if this could somehow be convincingly demonstrated – does not prove that egalitarian relations are impossible, let alone undesirable.

A final issue in play in thinking about possible transformations of gender relations concerns variations among men and among women in underlying biologically-rooted dispositions. It *may* be that because of genes and hormones, men are, on average, more aggressive than women and, on average, have stronger instinctual proclivities to dominate, and that woman because of genes and hormones are on average more nurturant and have stronger dispositions to engage in caregiving activities. However, regardless of what are the “natural” dispositions of the *average* man and woman, it is also equally certain that there is a tremendous overlap in the distribution of these attributes among men and among women. There are many women more aggressive than the average male and many men more nurturant than the average female. It is also virtually certain that whatever are the behavioral differences between genders that are generated by genes and hormones, society and culture exaggerate these differences because of the impact of socialization and social norms on behavior. You thus cannot take the simple empirical observation of the existing differences in distributions of these traits between genders and infer anything about what is the “true” biological difference under alternative conditions.

This general point about the relationship between the distribution of underlying biological dispositions in men and women and the distribution of manifest behaviors of men and women under existing social relations is illustrated graphically in Figure 15.1. This figure illustrates the distribution of time spent taking care of babies and young children by mothers and by fathers in two-parent households under two hypothetical conditions: The top graph represents this distribution in a society like the United States in which there are strong cultural norms which affirm that taking care of infants is more the responsibility of mothers than of fathers. The bottom graph represents the hypothetical distribution of such behaviors in a society in which the norms say that it is equally good for fathers as for mothers to take care of infants. In the first case girls are socialized to believe that they should take care of babies and the prevailing norms are critical of mothers who hand off that responsibility to others. In the second case both boys and girls are taught that it is good thing for both fathers and mothers to do intensive caregiving and the prevailing norms create no pressures for mothers to take on this responsibility more than fathers.

In this second, hypothetical world it could still be the case that mothers on average do spend more time in infant care. Even if there was no cultural pressure on them to do so, the underlying biologically-rooted dispositions could lead, on average, to some gender division of time spent on this task. We do not know how big the gender gap in caregiving of infants would be because it is not possible to do the experiment. But what we know virtually for certain is that the gap would be smaller than it is in the world in which we live today.

These observations on gender, nature, and the possibilities of much more egalitarian relations than currently exist constitute the theoretical background for the rest of this chapter in which we describe the empirical changes that have occurred in recent decades and explore the conditions which would make further changes towards gender equality possible in the future.

II. THE TRANSFORMATION OF GENDER RELATIONS IN AMERICA

What follows below is a brief descriptive tour through some of the major changes in patterns of gender inequality during the last decades of the twentieth century. The simple story is that there have been tremendous gains in the direction of greater equality, but significant inequalities remain.

1. *Legal Rights*

It is hard for most people alive today to really understand how it could be that before 1920 women in the United States did not have the right to vote. This was justified on many grounds: they were not as rational or intelligent as men; they were not really autonomous and would have their votes controlled by the men in their lives; like children, they were ruled by their emotions. The result is that women were not really full political citizens until the third decade of the 20th century. Even then, it would be many decades more before they had the same social and economic rights as men. Until the 1930s, married women were not allowed to travel on their own passports; they had to use their husbands. Until World War II, formal and informal "marriages bars" were in place in many parts of the United States, prohibiting married women from many clerical jobs and public school teaching. One historian described the logic of marriage bars for teachers this way: "Prejudice against married women as teachers derived from two deeply rooted ideas in American society: first, that women's labor belongs to their husbands, and second, that public employment is akin to charity. School authorities doubted that women could service their families and the schools without slighting the latter."[2] It was not until the passage of the Civil Rights Act in 1964 that discrimination against women in jobs, pay, and promotion was made illegal. Even though in the 1970s a Constitutional Amendment to guarantee equal rights for women – the Equal Rights Amendment – failed to pass the required number of states, by the end of the 20th century, virtually all of the legal rules which differentiate the right of men and women had been eliminated. Aside from a few isolated contexts in which women are barred from certain activities – for example, direct combat roles in the military – women now do, effectively, have equal formal rights to men.

2. *Labor force participation*

In 1950 only about 10% of married women with children under 6 were in the paid labor force; 90% were stay-at-home Moms (Figure 15.2) Even when the youngest child reached school age, at the mid-point of the twentieth century over 70% of married women were still full time homemarkers. This was clearly the cultural standard, at least for white women. For black women the norm was always weaker, although it was still the case in 1950 that 64% of black women with children over 6 did not work in the formal paid labor force.

-- Figure 15.2 about here --

By the beginning of the 21st century the situation had dramatically changed: Over 60% of mothers with children under six and nearly 80% of mothers with children in

[2] Eric Arnesen, *Encyclopedia of U.S. Labor and Working-class History* (CRC Press, 2006), p. 1359

school were now in the paid labor force. Continuous labor force participation with, at most, brief interruptions with the birth of a child, had become the new cultural norm. This is an extraordinarily rapid change in the relationship between women and the labor market, more rapid, for example, than the change in employment patterns that occurred during the industrial revolution.

3. *Occupational Structure and earnings*

The dramatic increase in female labor force participation has been accompanied by a significant change in the economic opportunities of women both in terms of the occupations women fill and the earnings they receive.

In certain occupations that were previously almost entirely male, women have made substantial headway (figure 15.3). In 1930, only 1.5% of Police officers, 1.5% of architects, 2.4% of lawyers, and 5.1% of doctors were women. By 1960 these figures had increased modestly to 3-7% across these categories. By 2007, the change was dramatic: woman were17.8% of policemen, 25.9% of architects, 31.7% of physicians, and 33.7% of lawyers. It will take, of course, many years for the proportion of women in a traditionally male occupation to approach 50% even if all barriers to women disappeared and half of all new entrants to the profession were women, since it takes time for the men who entered the system under the earlier conditions to all retire. One critical issue for the future of the gender composition of a profession, therefore, is the rate of increase of women who enter the professional training program. This too is happening: In the 1949-1950 academic year, 7.2% of students in medical school and 2.8% in Law school were women. This increased to 7% and 9% in 1969-70, and then took off, reaching 47% and 49% in 2006-7 (Figure 15.4).

-- Figures 15.3 and 15.4 about here --

These are real and important reductions in the gender segregation of certain important occupations. It would be a mistake, however, to conclude that the occupational structure as a whole has become degendered. Many occupations remain heavily dominated by one gender or another. A selection of occupations that are heavily sex-typed as either male or female is given in Table 15.1. In 2007 it was still the case that over 96% of secretaries, 97% of kindergarten and preschool teachers, and 97% of dental assistants were women. Among iconic male occupations, in 2007 women constituted only about 5% of airline pilots and just under 2% of carpenters and automechanics.

-- Table 15.1 about here --

Women have also made significant progress in earnings: the relative pay of women increased from 63% of male median hourly earnings in 1973 to 82% of male earnings in 2005 (Figure 15.5). Much of this gain comes directly from the increased labor market participation of women, since years of experience and continuity of employment in the labor market results in higher pay for both men and women. And some probably reflects efforts to eliminate pay discrimination against women. Still, even when you control statistically for experiences levels, education, skills and other factors, a pay gap remains between men and women.

-- Figure 15.5 about here --

Much of this gender gap in pay (after statistical controls) reflects the large differences in pay that continue to exist for jobs that are identified with women compared jobs associated with men: parking attendants typically earn more than pre-school teachers, for example. It is a difficult task to sort out exactly why such stereotypically female jobs generally earn less than stereotypically male jobs. Some of this may be due to what economists call "overcrowding": if women are highly-concentrated in certain jobs, either through discrimination or self-selection, then there will tend to be an oversupply of people competing for such positions, and thus the wages will be bid down. In this view, the lower pay for women simply reflects the supply-and-demand dynamics of markets. Many sociologists, in contrast, argue that wages are shaped by cultural expectations and norms, but simply by the supply and demand conditions of markets. Jobs that are associated with women are traditionally devalued, and the kinds of skills those jobs require deemed less valuable than the kinds of skills associated with male jobs. More specifically, skills connected to caregiving and nurturance are undervalued in markets. Much of the gender gap in pay between male and female jobs is linked to these cultural standards.

5. *Power*

Gender inequality in the extent to which women occupy positions which confer significant power is more difficult to assess than inequality in pay or in occupational distributions. One indicator is presence of women on boards of directors and top managerial positions in large corporations. In 2008, 15.2% of the seats on boards of directors in Fortune 500 firms were held by women, 15.7% of the corporate officers in those firms were women, and 3% of the CEOs were women (Figure 15.6). These figures certainly show a significant under-representation of women, but they also mark a significant improvement over the past. What is more difficult to ascertain is the extent to which the under-representation reflects systematic barriers and discrimination faced by women today. At least some of this under-representation of women at the top of managerial hierarchies is simply the historical legacy of the virtual absence of women from lower levels of the management structure 25 years ago, since women need to be in the pipeline of promotions to make it to the top by the end of their careers. How much of the rest of the under-representation is the result of gender-specific barriers and discrimination faced by women – especially the strong barriers referred to as the "glass ceiling" – and how much of it reflects the ways in which women themselves may choose not to compete in those hierarchies because of their personal priorities is an extremely difficult empirical question. It is particularly difficult because, of course, the choices women make may themselves be conditioned by the experience of barriers: the barriers make managerial careers for women more difficult, and by virtue of this they may decide it isn't worth the fight and thus they "select themselves" out of the competition.

-- Figure 15.6 --

What about women in positions of political power? Figure 15.7 presents the percentage of elected officials in the U.S. Congress, State Legislatures and Statewide elective offices. In 1979, only 3% of people in the US Congress were women, and only around 10% of people elected at the state level were women. By 2009 women constituted nearly a quarter of all people elected at the state level and just under 17% of people in Congress. This is certainly progress, but it still puts the United States well below most other economically developed democracies. As indicated in Table 15.2, the United States ranks 20th among developed democracies in the proportion of women in the national legislature. Sweden is first with 47%. Other Northern European countries are all above 30%. Even among the English speaking countries, which are generally lower than other European countries, only Ireland has fewer women in the national legislatures than does the United States.

-- Figure 15.7 --

5. *Transformation in family structure*

The period since the end of the WWII has also witnessed a dramatic and rapid change in the nature of family structure and the composition of households.

At midcentury almost 80% of all people lived in households in which there was a married couple. This meant that many adult children lived with their parents until getting married, or only lived on their own for a very short period. This was clearly the cultural standard. Other household forms were either deviant or transitional. By 2008 only half of all households consisted of a married couple. Households of a single person living alone increased from under 10% of all households in 1940 to almost 30% in 2009. The remaining households consisted of cohabiting unmarried couples (including same-sex couples), households headed by a single parent and households of single people with roommates (Figure 15.8). In the half century following the end of WWII the single, monolithic cultural model of household composition had largely disappeared and been replaced by a much more heterogeneous array of forms.

-- Figure 15.8 about here --

These changes in the distribution of types of households reflect important changes in family structures and marriage patterns over the same period. In the last half of the twentieth century in a variety of ways, marriage has become a less central and stable institution in many people's lives. In 1960, only 7% of women aged 30-34 had never married. By 2007 this had increased to over 27% (Figure 15.9.) For those who choose to marry, marriages have become much less durable: In the early 1950s, people who go married had only about a 12% probability of getting divorced within ten years. By the early 1980s this figure was nearly 30% (Figure 15.10). This very high rate of divorce for marriages in the 1970s and 80s meant that demographers estimate that eventually somewhere between 45-50% of these marriages will end in divorce.[3] Along with this decline in marriage, an increasing number of children are born to single mothers.

[3] Lynne Casper and Suzanne Bianchi, *Continuity and Change in the American Family* (Thousand Oaks: Sage, 2002), p.25. While it is easy to count the number of divorces in any given year, it is much more difficult matter to estimate the proportion of marriages that eventually end in divorce, since for a given cohort of marriages this percentage constantly increases over time until everyone in the cohort has died. The estimate of the percentage of marriages that end in divorce is therefore a projection into the future based on trends to the present. It is possible, however, to make broad comparisons across cohorts, such as the following: "14% of white women who married in the 1940s eventually divorced. A single generation later, almost 50 percent of those that married in the late sixties and early seventies have already divorced [by the early 1990s]." Amara Bachu, Fertility of American Women: June 1994 (Washington D.C.: Bureau of the Census, September 1995), xix, Table K. (Cited on page 5 of *The Abolition of Marriage*, by Maggie Gallagher).

Between 1940 and 1960 less than 5% of all births were to unmarried women. The percentage rose steeply from the 1960s to the 1990s, reaching 33% by the end of the decade (Figure 15.11). The result of these trends – more divorces and more births out of marriage – is that by 2000 only 55% of children aged 15-17 were still living with two biological parents.[4]

-- Figures 15.9, 15.10 and 15.11 about here –

These trends in family formation and family structure are complex and contradictory. Some of the childbirth by unmarried women occurs in stable families of co-habiting heterosexual and lesbian couples who either choose not to get married or who cannot legally marry. A certain proportion of single parenthood is deliberate, reflecting a conscious choice by women who want to have a child to do so on their own. Some divorces, even when there are children in the family, may be the best resolution of a bad marriage. But it is also certainly the case that divorce can be very disruptive to the lives of children, and single parenthood, especially under difficult economic conditions, can be enormously stressful. In any case, our central point here is not to pass judgment on these specific developments, but to emphasize how decisively the United States has moved from a society overwhelmingly dominated by a single model of the family to a much more heterogeneous array of family forms.

6. *Domestic division of labor within the family*

The family is one of the pivotal sites where gender relations are produced and reproduced. It is a central place where children first learn about the roles connected to gender, and where power relations built around gender are located. "Patriarchy" as an historically central form of gender relations means literally "rule by the father" and was firmly based in male domination inside of families. Gender relations are not formed only within the intimate relations of the family; they are constructed within the public sphere as well. But a good case can be made that the family constitutes the most fundamental arena within which these relations are forged.

A central aspect of gender relations within families is the division of labor over domestic tasks. In what has come to be known as the "traditional American family", the wife was a full-time homemaker, particularly when there were children living in the family, and the husband was the breadwinner. As a full-time homemaker, the wife/mother did virtually all of the housework and most of the childcare, except for some recreational activities. Husbands did many home repairs, took care of the car, and did certain heavy outdoor tasks like lawn mowing and snow shoveling. While it was never the case that all families followed this male-breadwinner + female-homemaker model, it was certainly the dominant American ideal in the middle of the 20th century, and the practical reality for a majority of households.

At the beginning of the twentieth century, the average woman between the ages of 18 and 64 did around 46 hours of domestic work in the home per week, while the average man did only about 4 (Figure 15.12). At the middle of the century this division of labor in the home was still pretty much intact. The roles of women outside of the home, however,

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[4] Lynne Casper and Suzanne Bianchi, *Continuity and Change in the American Family* (Thousand Oaks: Sage, 2002), p. 214

began to change rapidly in the decades after 1950 through increases in the labor force participation rates of married women, and increasingly changes in their occupational roles and relative earnings. Initially these changes in the public roles of women were not reflected in significant change within the division of labor in the home. As shown in Figures 15.13 between 1965 and 1975 men hardly increased their involvement in housework labor at all, while women decreased theirs quite a bit. The initial affect of increased labor force participation of wives and mothers was messier houses! But then, between 1975 and 1985 men did gradually begin to do more. This is especially dramatic for ordinary housework. In 1965 mothers spent 23 times more time cleaning house than did fathers. This declined to only 13.5 times more in 1975, but this was entirely because mothers on average decreased the amount of time they spent cleaning house from an average of around 19 hours a week to just over 12 hours a week. In both periods fathers typically spent less than 1 hour a week on routine housecleaning. By 2005 the ratio had declined to 4.3:1, but this time much of the change came from a doubling of fathers' housecleaning labor. This is still far from an equal sharing of housework, but it reflects some real movement in that direction. Full-time working mothers still do a second shift at home, and they have less free time than their husbands, but the disparity has begin to decline.

-- Figures 15.12 and 15.13 about here

7. *Sexuality*

Sexuality has an extremely complex relation to gender relations in general and gender inequality in particular. Some scholars have argued that one of the central motives historically for male domination centered on the problem of female fertility: the only way that men could guarantee that they were in fact the fathers of their children was to control the bodies of the women who were to be mothers of those children. Controlling female sexuality and fertility was therefore a central component of the social processes that generate male domination. The continuing controversies in American society over the availability of certain forms of contraception and, above all, abortion, reflect this age-old issue of the social processes through which biological reproduction are controled.

Sexuality is also tied to inequality in gender relations through sexual violence. Sexual violence both outside of marriage and inside of marriage is a central feature of male domination in many societies, including the contemporary United States. It both expresses the unequal power relations between men and women and helps to reinforce that inequality, as the greater vulnerability of women to such violence inhibits their easy movement in public spaces.

Social attitudes and treatment of homosexuality are also bound up with gender relations in so far as men and women having sexual relations with members of their own sex violates one of the core elements of the social norms regulating male/female relations. Certainly the idea of same-sex marriage is seen by many people as a direct threat to a conventional understanding of how families should be structured around traditional, inegalitarian forms of gender roles.

As is the case for the other trends we have discussed, the transformation of social norms and legal rules around sexuality has been dramatic since the middle of the 20th century. Part of this is anchored in technological changes, especially the invention and widespread dissemination of the birth control pill, which made the control by women of their own fertility much easier and reliable and opened the door – some people believe – for the "sexual revolution". Equally important were changes in laws around availability of birth control and the fairly rapid change in social norms about their visibility and accessibility. Even in the case of the most contentious aspect of control over female fertility – abortion – a majority of people in the United States believe that women should have the right to abortion. In 2009, only around 20-25% of people believe that abortion should be illegal in all cases, and a clear majority believes it should be legal in most or all cases.[5]

The transformations in sexual norms, however, go far beyond simply the issues of birth control. Sexual violence and sexual abuse have become much more heavily condemned and controlled since the middle of the twentieth century. Until the mid-1970s rape was a defined as a crime only if the perpetrator was not a spouse. By the first decade of the 21st century half of the states in the United States had completely removed the marital exemption from rape laws, and the remaining states treated it as a crime, but of lesser severity than rape outside of marriage. Sexual abuse of children has also become a much more salient issue, particularly in the aftermath of the repeated scandals of abuse of children by priests. Sexual harassment in workplaces, schools, and other public places, which once was regarded by many men as at worst coarse behavior, is now acknowledged as a form of serious intimidation of women that generates real harms.

Perhaps the most dramatic transformation of sexual norms concerns homosexuality. After all, sexual violence and abuse of children were always thought of as reprehensible; what has changed is the visible public attention these are given. In the case of homosexuality the prevailing attitudes, norms and the laws have changed in fundamental ways. In the 1950s homosexuality was a criminal offense in all states in the United States under the rubric "sodomy laws," even if the statutes were only erratically enforced. There were periodic police raids on gay bars and being revealed as a homosexual was grounds for loosing a job. Homosexuality was broadly regarded as immoral and shameful, and most homosexuals had to remain "in the closet" to avoid stigma and ostracism.

In 1961 Illinois became the first state to repeal its sodomy Law. By 2003 such laws had been repealed in throughout most of the United States except for Southern States and a few others. In 2003 the Supreme Court ruled that such laws were unconstitutional and that the state cannot restrict the right of adults to engage in consensual sexual activity.

By the beginning of the 21st century, laws criminalizing homosexuality had been ruled unconstitutional and the public acceptance of homosexuality as simply a variation on human sexuality had become fairly widespread. Discrimination in employment and housing against homosexuals is broadly viewed as illegitimate, and as of 2009 in many states it is illegal under anti-discrimination statutes. Even in the military, homosexuality was tacitly accepted under the awkward "don't ask, don't tell" policy adopted in the Clinton Administration, and it is very likely that by the second decade of the century formal restrictions on homosexuality in the military will be dropped. On the most high

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[5] Gallup Poll, May, 2009; Quinnipiac University Poll, April 2009; Roper Public Affairs and Media poll, May 2009.

profile hot button issue around gay rights – the legalization of same-sex marriage – by 2009 a majority of the public favored giving all of the substantive rights associated with marriage to same sex couples under the rubric civil partnership, even if a majority still opposed the use of the word "marriage" to designate these legal arrangements (Figure 15.14). Among younger cohorts, however, the most recent polls indicate that a majority favors full legalization of such marriages, while only 20% of people 65 and older do so. In California, a ballot proposition banning same-sex Marriage was almost defeated in the general election of 2008, and in that vote, over 60% of voters under the age of 30 supported legalized same-sex marriage (Figure 15.15). Given these sharp differences in attitudes by age group, it seems very likely that eventually same-sex marriage will become legal. In the 2000s, this has already happened in a number of Western European countries – the Netherlands, Spain, Sweden, Britain – and most others have formalized full civil unions with all of the legal rights of marriage. Eventually this will almost certainly happen in the United States as well as older generations that still harbor homophobic views die.

-- Figures 15.14 and 15.15 about here --

Given the salience of issues around sexuality in religion and culture, and given how restrictive the dominant cultural norms were in the middle of the 20th century, these changes are indeed striking. They constitute very substantial gains in individual autonomy and self-determination, and are also intimately connected to the transformation of gender relations in an egalitarian direction.

III. Explaining the transformation of gender relations

How do we explain these patterns? How do we account for the trajectory of changes in gender relations we are living through? The simple answer to this question focuses on the ways the massive changes in the American economy opened up new opportunities in the paid labor force for women, and how, as women took advantages of those opportunities this undermined certain traditional patterns of gender relations. These processes in turn opened a space for collective action by women's groups to challenge the rules of the game that discriminated against women and created barriers to their advancement, and the success of those challenges, in turn, accelerated the movement into the labor force and the erosion of some aspects of traditional gender relations.

Underlying this account are three different kinds of processes at work which interact to first erode the basis for traditional gender relations and then make possible their transformation: first, in the second half of the 20th century there were increasing inconsistencies in the interests of men, especially powerful men, in defending male domination; second, the erosion of the institutional system that systematically reinforced female domesticity weakened the interests of many women in existing gender relations; and third, the capacity for women to struggle against male domination increased. These processes created the context in which collective struggles, especially those organized by women, against the established rules of the game could achieve significant gains.

The problem of the interests of men[6]

Inequalities of power and privilege do not continue out of sheer momentum; they require considerable social energy and resources to be reproduced. If, over time, the interests of powerful people become less tied to a particular form of oppression, they are likely to devote less energy and fewer resources to sustain that inequality, and this makes the oppression in question more vulnerable to challenge. In the case of gender inequality, the interests of men in general, and elite, powerful men in particular, in maintaining certain aspects of male domination and gender inequality weakened over time. This doesn't mean that men ceased to be sexist. They have all sorts of attitudes and beliefs which impeded – and continue to impede – gender inequality. The key idea here is that many men also had interests which weakened their stake in male domination.

A good example of this is the economic interests of employers in capitalist firms, particularly once their need for highly educated, literate labor increases. Increasingly in the period after the Second World War, because of technological change and the growth in importance of the service sector in the economy, employers needed to find a new source of educated labor for white collar jobs. Women were an obvious potential largely untapped source of such labor. But to get women into the labor force it was necessary to ease the barriers to their participation. Once in the labor force, employers had interests in promoting talented employees, giving them more responsibilities, and so on. Now, employers were also overwhelmingly men and generally had sexist attitudes, and this continued to interfere with the most efficient hiring and promoting practices, particularly when sexism also allowed them to pay women less than men. For these reasons, male employers were rarely at the forefront of actively challenging sexism. Nevertheless, their interests in profit-maximizing of their capitalist firms and their interests as men in maintaining traditional gender relations often cut in opposite directions. This increasing incoherence of their interests undermined their determination to defend sexist practices when those practices came under challenge. Robert Jackson states this explanation for the erosion of women's subordination this way: "The driving force behind this transformation has been the migration of economic and political power outside the household and its reorganization around business and political interests detached from gender….Gender inequality declined because modern society transferred social power from people committed to preserving men's advantages to institutions and people whose interests were indifferent to gender distinctions....While prejudices against women still ruled many actions of men with power, *their institutional interests repeatedly prompted them to take actions incompatible with preserving gender inequality*." [7]

The crisis of female domesticity

Changes in the interests of men within the public sphere are only part of the story. There is also a second powerful cluster of processes at work in the radical transformation of gender relations: processes which have eroded the stability of the traditional role for women in the private sphere and therefore affect the interests of women with respect to

[6] The argument presented here concerning the importance of the weakening of coherent interests among men in male domination comes from the work of Robert M. Jackson, *Destined for Equality: The Inevitable Rise of Women's Status* (Harvard University Press, 1998)

[7] Jackson, *Destined for Equality*, p.2. italics added

gender relations. These processes have been described by Kathleen Gerson as generating a crisis of female domesticity in the United States.[8]

The American family in the 1950s can be seen as embedded in a systematic structure of interconnected, reinforcing social supports for female domesticity. There are five main elements in this system:

- *Stable marriages.* Stable marriages gave women a long time horizon in forming their expectations about the support that will be provided by their husbands and sense of security in these relations. This encourages economic dependency of women on men and reinforces the sense of the motherly role as "natural." Particularly in a world where most families had at least three or four children and mothers were not expected to work for pay while there were children living in the home, this encouraged an ideal of life-long domesticity for married women.
- *Blocked work opportunities*. When labor market opportunities for women are fairly restricted, domesticity becomes a more attractive practical alternative than when there are lots of interesting and well paid work opportunities available.
- *The family wage.* The family wage is the principle that the earnings of the "male breadwinner" should be sufficient to support a family. In the United States, the ideal of the family wage became the norm from the end of the 19th century until the middle of the twentieth. Especially if this is rising over time, this reduces pressures on household for the wife to earn income. The family wage was never a universal reality in the United States – in many poor families it was always for wives to bring in some income – but for middle class families this was a reality in the 1950s.
- *Cultural and social supports for domesticity*. The sheer fact that being a fulltime mother and housewife was such a common choice added credibility and support to the choice. Women were not isolated as homemakers because most women were homemakers, and this made the task of being a homemaker much easier. Housewives had many neighbors in the same position who could help each other out and validate the choices being made. This was the "normal" way for married women to live their lives, and being statistically normal contributed to this also being normative (viewed as desirable).
- *Cultural sexism.* Sexism as a cultural force also contributing to stabilizing female domesticity. The aphorism that "a woman's place is in the home" was backed by a wide range of beliefs about women and their competences: women are naturally nurturant and gentle, best suited for the role of mothers and homemakers; they lack the competitive drive and resilience of men needed for successful careers; men need a supportive wife to take care of them and stand behind them; and so on.

This was a real system, a coherent, interconnecting set of social forces that reinforced each other and sustained the pattern of gender relations in which women were very

[8] Kathleen Gerson, *Hard Choices*(Berkeley: University of California Press, 1986)

disproportionately housewives and men breadwinners. At its height, this system constituted a kind of self-sustaining equilibrium.

Beginning in the 1960s and accelerating in the 1970s every one of these elements eroded:

- The decline of permanent stable marriage meant that women could no longer count on the life-long financial support from a husband, so it was important for them to obtain skills and maintain their earning power. Economic dependency became an increasingly risky strategy once divorce rates rose.
- The expansion of work opportunities for women meant that the viability of alternatives to domesticity was increasing, even if these opportunities were still more restricted than those of men. The demand by employers for female labor increased dramatically in the post-WWII period.
- The decline of family wage, especially since early 1970s, meant that there was increasing economic pressures for women to work to sustain family income. This decline in the family wage was partially the result of the rapid decline in the labor movement which had long backed the principle of the family wage, but also of the general deregulation of labor markets that began in the 1970s.
- The cultural supports for the full-time housewife role began to erode in the 1960s. By the 1990s in many communities full-time housewives were a small minority, and as a result women in this role were much more socially isolated and, to some extent, less valued.
- Cultural anti-sexism became an important force beginning in the 1960s. This is reflected in language, in school books, in advertising, in the mass media. The cultural attack on sexism is still partial and incomplete, but it is unprecedented the extent to which images and role models of women in traditionally male roles of all sorts have become commonplace. There are advertisements with female construction workers, TV shows with female police detectives, and publicly visible and powerful female corporate executives and politicians. There is a much weaker development and cultural dissemination of images of men in traditional female roles, but nevertheless the idea that men can effectively and lovingly take care of babies is no longer a strange idea. The fact that in airport men's restrooms there are now almost always diaper changing stations is a small indicator of this cultural change.

Taken together, these forces mean that the taken-for-granted, self-reinforcing model of female domesticity has collapsed, and with that collapse the interests of women in transforming gender relations have also changed.

Capacities for challenge

The change in the interests of many men linked to changing economic conditions contributed to a weakening of male resolve to maintain traditional forms of male domination; the erosion of the culturally dominant model of female domesticity lead many women to see that their interests would be advanced by challenging male domination. The actual transformation of the rules of the game that back gender inequality, however, required collective action and challenge. What eventually came to be known as the "women's movement" was essential form this. The struggles took many forms: Court cases against specific forms of discrimination against women were brought by individuals and organizations. Women's political organizations were established to lobby for legislative change and play an active role in shaping political agendas. The Democratic Party took on equal rights for women as a central policy objective, even if there was uneven enthusiasm for actively pursuing this agenda. Women's caucuses and networks were formed within professional organizations and academic disciplines to pressure for changes in internal policies and priorities. Women's Studies programs were established in Universities and there was a proliferation of serious academic journals focused on gender. Sexist language and practices were challenged in public meetings and institutional practices. At times there were significant public protest demonstrations, but more often the challenges took the form of arguments within meetings where institutional decisions were made.

The trajectory of these challenges was by no means smooth. There were major defeats, such as the failure of the Equal Rights Amendment to the U.S. Constitution. Frequently the demands of women were mocked, and feminism as the articulated way of talking about gender relations and male domination, was often caricatured and denounced. Nevertheless, the cumulative effect of these challenges over time has been to fundamentally shift the terms of public discussion over gender. Overt defenders of male domination are on the margins of the public debate with virtually no chance of rolling back the major institutional and legal changes that have occurred. There is also virtually no chance that the major social structural changes around gender inequality will be substantially reversed. The United States is unlikely ever to return to a social pattern of high fertility and large families, with a predominance of stable life-time marriages in which most married women were full-time housewives and women no longer aspired to challenging careers in the public sphere. The issue now is how much further can we go in eliminating the remaining forms of gender inequality, not whether a regime of unequivocal male domination can be reinstated.

IV. Prospects for Further Transformation: remaining critical tasks

In the United States at the beginning of the 21st century, men and women both have complex and sometimes contradictory interests with respect to the problem of pushing forward the frontiers of gender equality. While most women benefit from greater gender equality, there are certainly some women who experience increasing equality as a threat, as imposing costs on them since this would further erode the historic protections of women that accompanied their economic dependency on men. For women who, for whatever reasons, embrace the ideal of life-long female domesticity and really want to be fulltime housewives and mothers, the decline of this cultural ideal and the accompanying social supports for such a life is harmful.

The ways in which many men have something to lose from further advances in gender equality are pretty obvious. There are certainly privileges for men that accompany gender inequality, privileges in the workplace and at home, that are undermined by gender equality: the removal of obstacles to women entering professions and managerial positions means that competition for these jobs increases. Some men, undoubtedly, would have gotten better jobs if women dropped out of the race. If there were true pay equity in the wage structure of jobs, the wages of some men would certainly decline. Because of resource constraints, gender equality in the funding of sports at universities means a reduction in funding for some traditionally male sports. At many universities some inter-collegiate men's sports had to be dropped altogether. And if gender equality within the division of labor in the home were to increase to the point that men shared equally in the time-consuming burdens of domestic tasks, then the leisure time of many married men would decline. But it is also true – and this is a really important point that is often neglected – that in certain important ways men potentially have much to gain from deeper and more robust forms of gender equality in American life. In a world of real gender equality men would have a richer array of life choices around parenting and work. The dominant models of masculinity make it difficult for many men to play a full and active role in caregiving activities within the family. It is very difficult for men to interrupt their careers to take care of small children. The dominant models of masculinity also promote intense forms of competitiveness that make many men miserable, working excessively long hours, losing site of more important things in their lives. Further advances towards gender equality will potentially involve a significant restructuring of the rules that govern the relationship between work and family, and this would give both men and women greater flexibility and balance in their lives. So, while men do have things to lose from a full realization of the ideal of gender equality, they also have potentially important gains.

In order to move more fully in the direction of gender equality, perhaps the key problem that needs to be solved is transforming gender divisions of labor within the family.[9] As we have seen, even after the major changes that have occurred in the participation of women in the labor force, as we have seen it is still the case that women spend considerably more time doing domestic labor – housework and childcare – than do men. This is in and of itself a source of gender inequality insofar as it means that married men with children have more free time than their wives, at least if the wife also works full time in the labor force. While there is no inherent reason why spouses should do exactly the same things in the household, from the point of view of egalitarian conceptions of fairness they should share equally in the burdens of domestic responsibilities and this means that whatever is the division of labor they should end up with the same amount of free time. This is not the case in most families.

The inequalities in the gender division of labor, however, have an impact far beyond simply the specific problem of free time available to men and women within families. It also deeply affects inequalities in the labor market and employment. The greater domestic burdens that, on average, married women have compared to married men act as a significant constraint on the kinds of jobs they can seek in the labor market. It also affects the attitudes of all employers towards prospective women employees.

It is one thing to demonstrate that the gender division of labor within the family constitutes one of the central social processes that impede further advances towards gender equality, and another to do something about this. Public policy can directly intervene in public forms of gender inequality in all sorts of ways: legal rules against discrimination, changing in funding formulas for university programs, affirmative action,

[9] For a wide ranging discussion of the linkage between the gender division of labor within the family and the broader problem of gender inequality, see Janet Gornick and Marcia Meyers, *Gender Equality: transforming family divisions of labor*, volume VI in the Real Utopias Project (London and New York: Verso, 2009).

etc. But it is basically impossible and undesirable to directly intervene in the domestic division of labor. The idea of a law mandating equal housework for men and women is ludicrous, and the vision of a housework police monitoring how couples share tasks is monstrous. So, if we are to move towards a more equal sharing of the time burdens of family life, this will have to occur through indirect means which change the incentives men and women have around these tasks and, perhaps, affect the balance of power of men and women within these domestic relations as they negotiate over domestic responsibilities.

Three policies are particularly relevant here: 1. Pay equity; 2. high quality publicly provided childcare services; 3. egalitarian paid parental leave.

1. *Pay equity*

There are two different ways of thinking about the problem gender equality in pay within the labor market: equal pay for *identical* work, or equal pay for *equivalent* work. The first of these prohibits paying a male and female nursery school teacher with the same seniority and responsibilities different salaries. But it allows for truck drivers and parking attendants to be paid more than nursery school teachers. The second sense of equal pay says that two jobs that have equivalent levels of skills and responsibilities should be paid the same. This is also called the “comparable worth” principle. This is a much more complex problem because it requires that we compare very different kinds of jobs and assess their skill and responsibility characteristics.

Equal pay for equivalent work would go much further in eliminating gender inequality in labor market earnings because it would directly undermine the strong tendency for jobs that are associated with “women’s work” to be less valued than traditionally male jobs. In particular this tendency has underwritten the low wages of various types of caregiving jobs.

There are two potential consequences of paying jobs on the basis of comprehensive comparable beyond simply improving the wages of workers in many traditionally female jobs. First, this is likely in the long run to lead to a decline of sex segregation of occupations. Many more men would eventually want to be daycare workers if these jobs paid as much as being a postal worker or a bus driver. It is not that lower pay is the only reason men stay away from traditionally female jobs, but it is surely one of the reasons. Second, and particularly important for the issue of the division of labor within families, strong forms of comparable worth would go a long way towards equalizing the average earnings of men and women, and this in turn would have an impact on the domestic conditions of negotiation over household tasks. One of the reasons why men do less work in the home is that they earn more in the labor market. This has important symbolic effects, making it seem that their time is more “valuable” than that of their wives. If husbands and wives earned roughly the same, then they would enter into negotiations over housework on more equal footing.

We do not want to oversimplify the complex process by which people navigate the many trade-offs and dimensions of their intimate lives. Much more is in play here than simply the power resources people bring into a relation. Men and women have habits and dispositions which shape their expectations within family relations and emotional vulnerabilities and needs which affect the outcomes of conflicts over housework and childcare. Still, within this complex process, a shift in the external resources a person can bring into the family plays a role, and this is the aspect of the problem that can be affected by public policies over pay equity.

2. *Publicly supported high quality childcare services*

The second public policy that could have a significant impact on the gender division of labor within families concerns the availability of childcare services, including early infant daycare, preschool programs, and afterschool programs. A fully developed system of such services would include daycare facilities within workplaces, neighborhoods, and schools. In the absence of such services, the responsibility for providing caregiving to children falls entirely on the family, and in practice this generally means mainly on mothers. This undermines the kinds of jobs they can seek and the hours they can work, and makes it much more difficult to move towards an equal sharing of responsibilities within the family.

3. *Paid parental leaves*

The final policy which would have a potentially important impact on the gender division of labor within the family is paid parental leaves for family caregiving responsibilities. These can be used at the birth of a child or for tending a sick family member. The United States shares with Australia the most limited legally required provisions for parental leave among all economically developed countries (see Figure 15.16). In the US there is no legal right for any *paid* family caregiving leave, and only two weeks of unpaid leave are required, and even this is only for businesses that employ over 50 workers. All other countries except for Australia have provisions for some degree of paid family caregiving leaves. In Sweden, for example, families are entitled to a total of 480 calendar days of paid child-based leave per couple. Of these 480 days, the first 390 are paid at 80% of the person's salary, and the rest at 180 Swedish kroners per day (which is about 18% of average wages). Mothers are also entitled to 14 weeks of paid maternity leave beginning seven weeks before birth. The 480 days of paid leave can be divided by mothers and fathers in whatever way they choose, except for a 60 day quota which is reserved for each parent. Naturally, as one would expect, the amount of leave taken by mothers is much greater than by fathers, but fathers have been slowly increasing the amount of leave they take.[10] Few other countries are as generous in their paid parental leave policies as Sweden, but every country (except Australia) provides at least some leave, and nearly all provide leave for fathers as well as mothers.

-- Figure 15.16 about here --

These kinds of requirements of paid family leave make it easier for families to juggle in a more balanced way the demands of paid work and family responsibilities. They do not, however, necessarily do much to change the gender division of labor within families, since when generous paid parental leaves are available, women are much more likely to take advantage of them than are men. Janet Gornick and Marcia Meyers have proposed a different format for these leaves which would encourage greater gender

[10] This description of Swedish parental leave policy comes from : Rebecca Ray, Janet C. Gornick and John Schmitt, "Who Cares? Assessing Generosity and Gender Equality in Parental Leave Policy Designs in 21 Countries" *Center for Economic Policy Research*, 2009

equality in their use[11]. Instead of allocating, as in Sweden, the paid leaves to *families*, the leaves should be allocated to individual spouses on a "use it or lose it" basis. For example, in the Swedish case this would mean that mothers and fathers would each get allocated six and a half months of paid leave at 80% of pay at the birth or adoption of a child. Employers would be required to keep the seniority clock ticking while a leave was being taken so that men (and of course women too) would not feel that they were losing out in their career advancement while on leave. Over time with such individualized leaves it would be expected that men would begin to take leaves more extensively.

These three policies – pay equity, high quality publicly funded childcare, and paid parental leaves – would help to change the environment in which men and women grapple with the difficult issues of transforming gender relations. A skeptic of these kinds of policy proposals might argue that the cultural norms around appropriate roles for mothers and fathers are too deeply ingrained for these kinds of policies to have much of an impact. Unless they are highly coercive, men will simply not take much advantage of paid leaves, and while pay equity and good childcare might be desirable in their own right, they will have little impact on what happens inside of families because of the resistance of men. There are indications, however, that unmarried young men and women in the United States today are strongly disposed to more egalitarian relations. Kathleen Gerson, a sociologist at NYU, has done intensive research on how young men and women think about the way they want to live their lives when they form families. From her research she identifies three different ideal models of family relations held by the subjects of her research:

- *A neo-traditional model* involving a permanent bond with an intimate partner in which one partner specialized in breadwinning and the other in caretaking (even if both held paid jobs).
- *A broadly egalitarian model* involving a lasting bond with an intimate partner, a search for personal balance between work and family, and a commitment to flexible, egalitarian sharing of earning and caring.
- *A self-reliant model* emphasizing self-reliance whether single, cohabiting or married, and a belief that it is important not to rely on a partner for breadwinning or caretaking even if one happens to be in a long-term relation.

The participants in her study were then asked which of these ideals would be their first choice. For those who picked the "egalitarian model" as their ideal, they were also asked which would be their fallback position if they were unable to have their ideal. The results are extremely revealing about ideals and dilemmas at this point in the history of transformation of gender relations (see figure 15.17). There was very little gender difference in the stated ideals: over two thirds of both young men and young women in the study endorsed the egalitarian family model. The fallback positions of young men and women, however, were completely different: 73% of women who preferred the egalitarian family said that if this was not possible, they would prefer the self-reliant

[11] See Janet Gornick and Marcia Meyers, *Gender Equality: transforming family divisions of labor*, volume VI in the Real Utopias Project (London and New York: Verso, 2009).

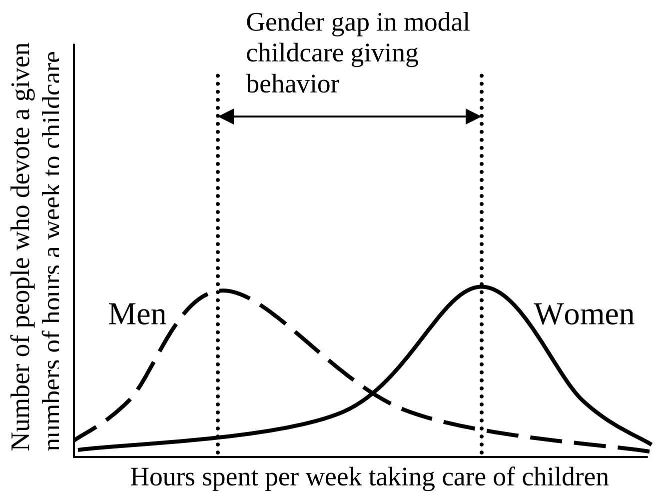
model over the neo-traditional model, whereas for men 70% chose the neo-traditional family model as their fallback position.

-- Figure 15.17 about here --

These preferences suggest that if young families lived and worked in an environment with strong supports for egalitarian relations, then in a significant proportion of these families men and women might collaborate in forging more egalitarian relations. Ultimately it is in the micro-settings of everyday life where men and women live their lives within gender relations that deeper forms of egalitarian relations will be created. This will certainly be a protracted process. Children born at the beginning of the 21st century already live in a dramatically transformed world of gender dynamics than the world of their grandparents. They will bring to the intimate relations they create as adults much more egalitarian expectations about the appropriate roles for men and women than in the past. With these expectations and, perhaps, greater institutional supports for equal sharing of domestic burdens, they may also be able to further erode the inequalities linked to gender that are rooted in the intimate settings of the family.

FIGURES AND TABLES FOR CHAPTER 15

I. Existing distribution of childcare labor among men and among women with children



II. Hypothetical distributions of childcare labor among men and among women with children in a world in which there were no gendered norms of appropriate childcare responsibility and no gender-specific costs to doing childcare.

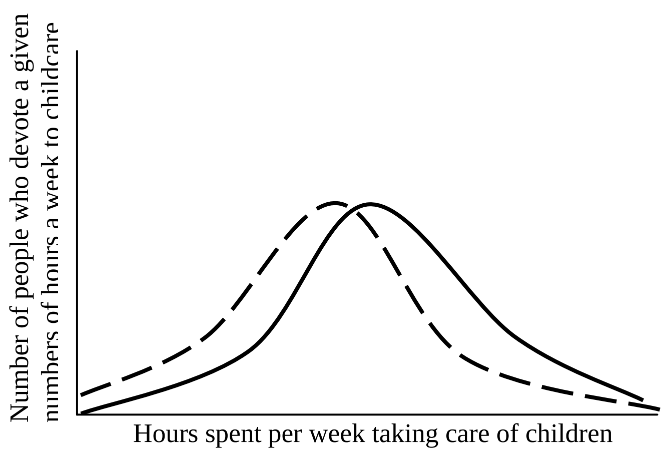
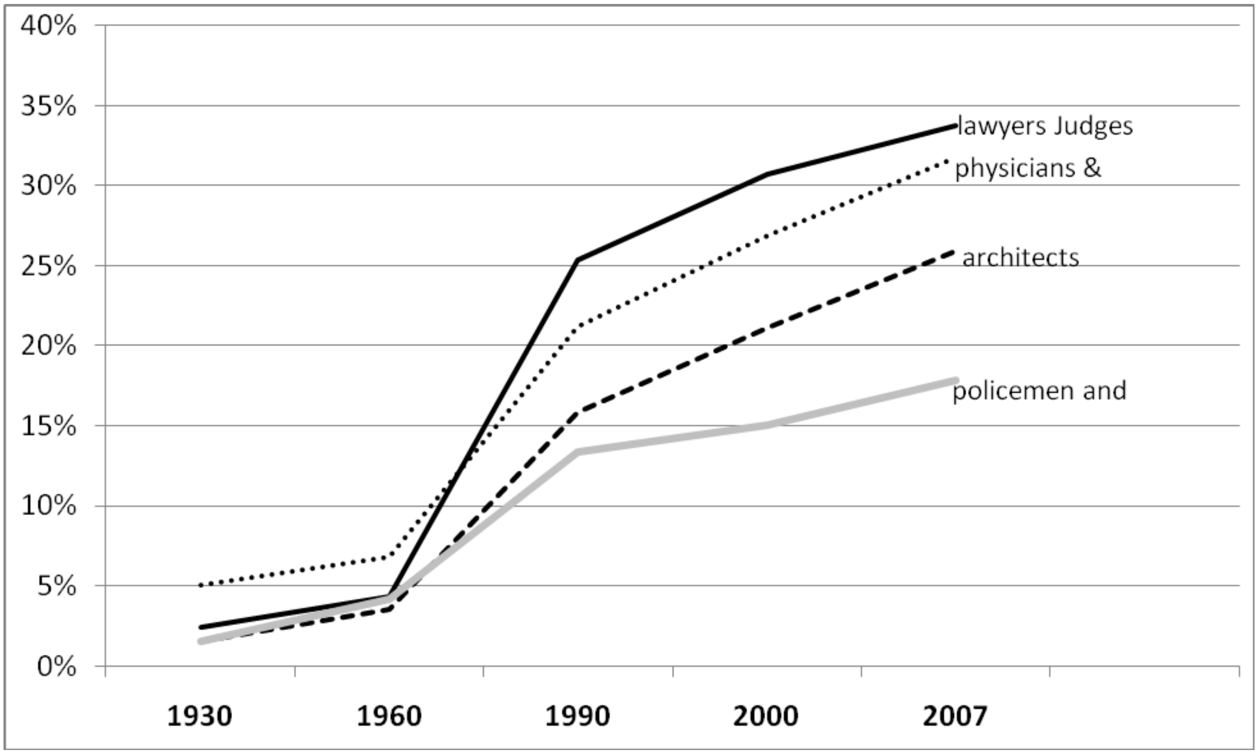
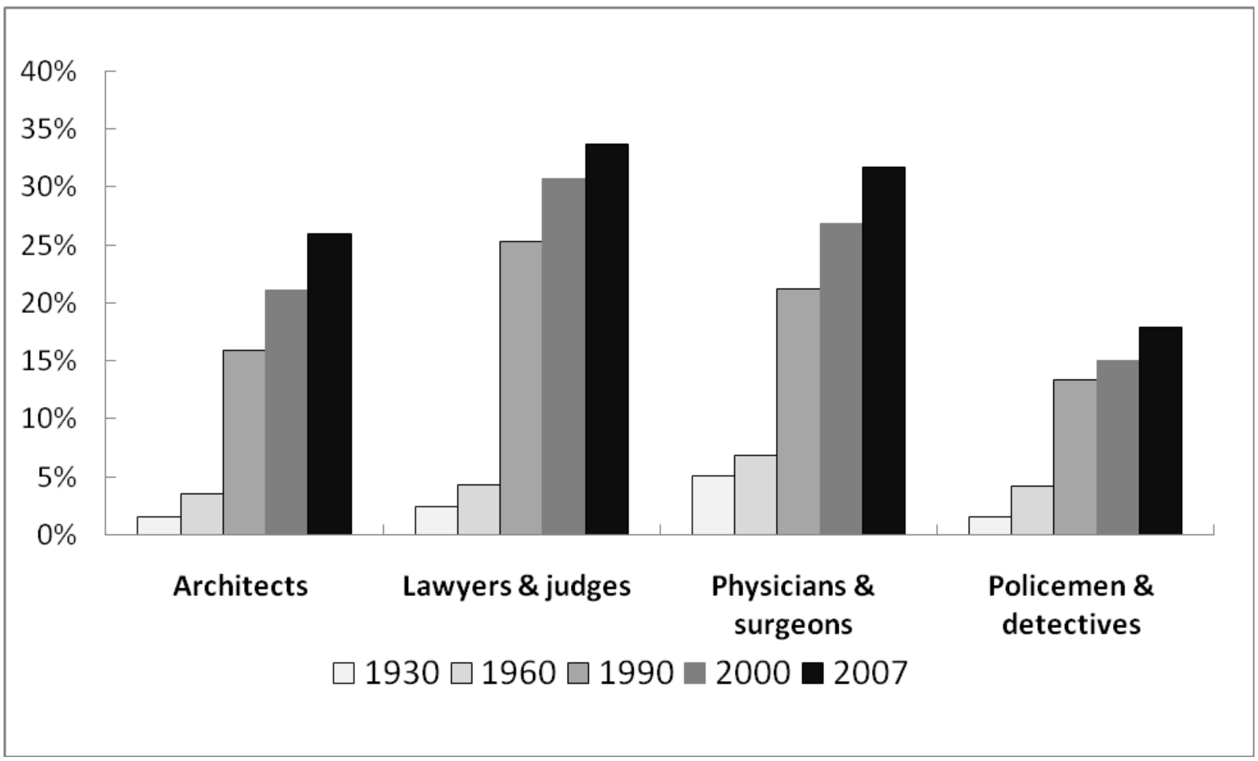


Figure 15.1
Hypothetical distributions of childcare provision by men and women living in households with children in alternative worlds

Source Historical Statistics of the US, “Female labor force participation rate, by race, marital status, and presence of children: 1880–1990.” 2000 & 2007: Statistical Abstract of the US, “Table 578. Employment Status of Women by Marital Status and Presence and Age of Children: 1970 to 2007.”

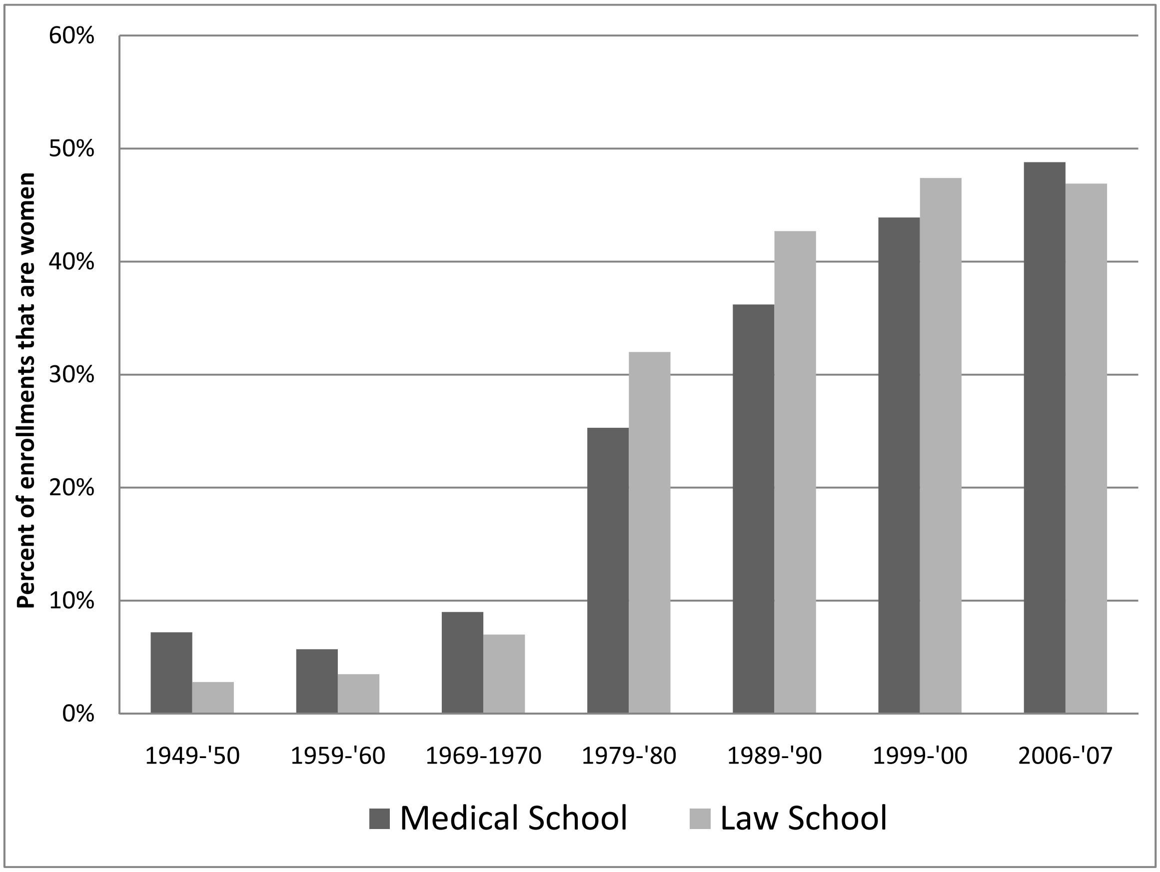
Figure 15.2
Labor Force Participation Rates of Married Women with Children, 1950-2000





Source: Source: IPUMS Census samples, 1850-2007 (variable: occ1950

Figure 15.3
Percent of People in Selected Traditionally Male Professions who are Women, 1930-2007 (alternative formats)



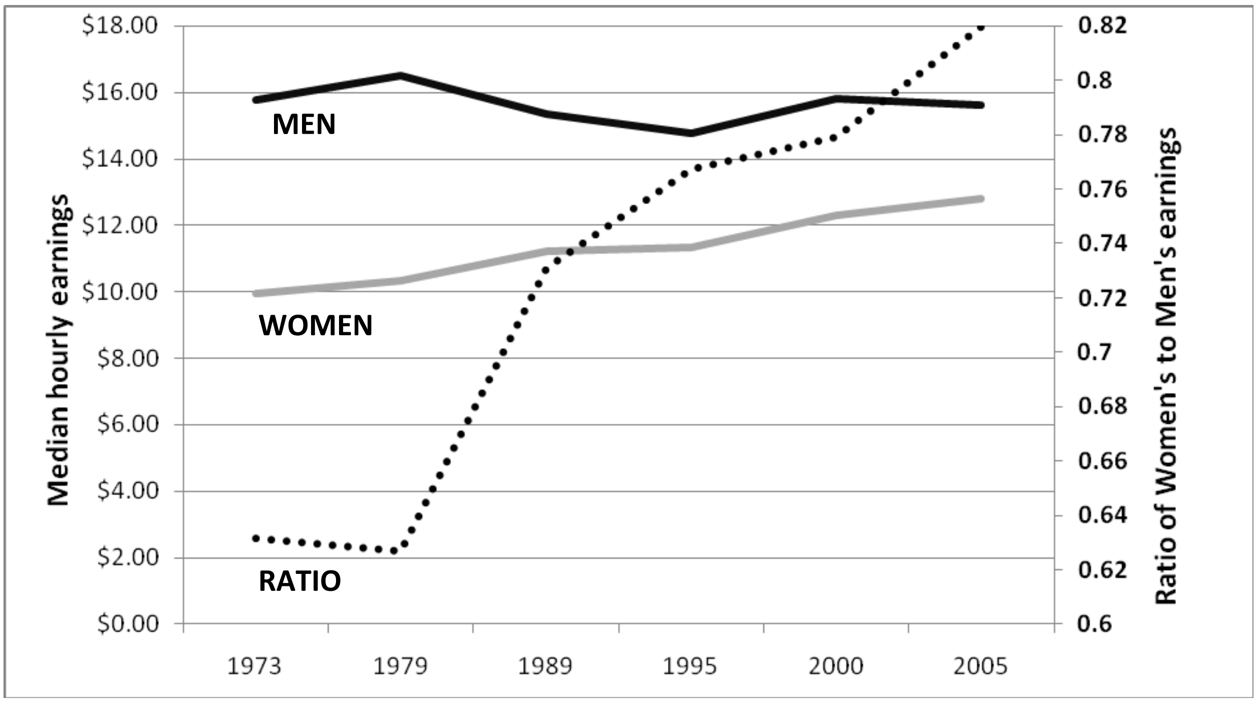
Source:

Figure 15.4.
Gender compositions of enrollments in Medical School and Law School 1949-2007

	Percent of people in occupation who are women				
	1970	1980	1990	2000	2007
Secretaries	98.1	98.8	98.6	96.5	96.1
Registered nurses	97.8	96.2	94.7	92.8	91.2
Dental assistants	98.6	97.9	97.1	96.8	97.1
Kindergarten and earlier school teachers	98.3	96.7	98.1	98.1	97.2
Carpenters	1.6	1.9	1.9	2.0	1.9
Airplane pilots and navigators	1.6	1.6	3.8	4.2	4.9
Automobile mechanics	1.6	1.4	2.1	2.1	1.7

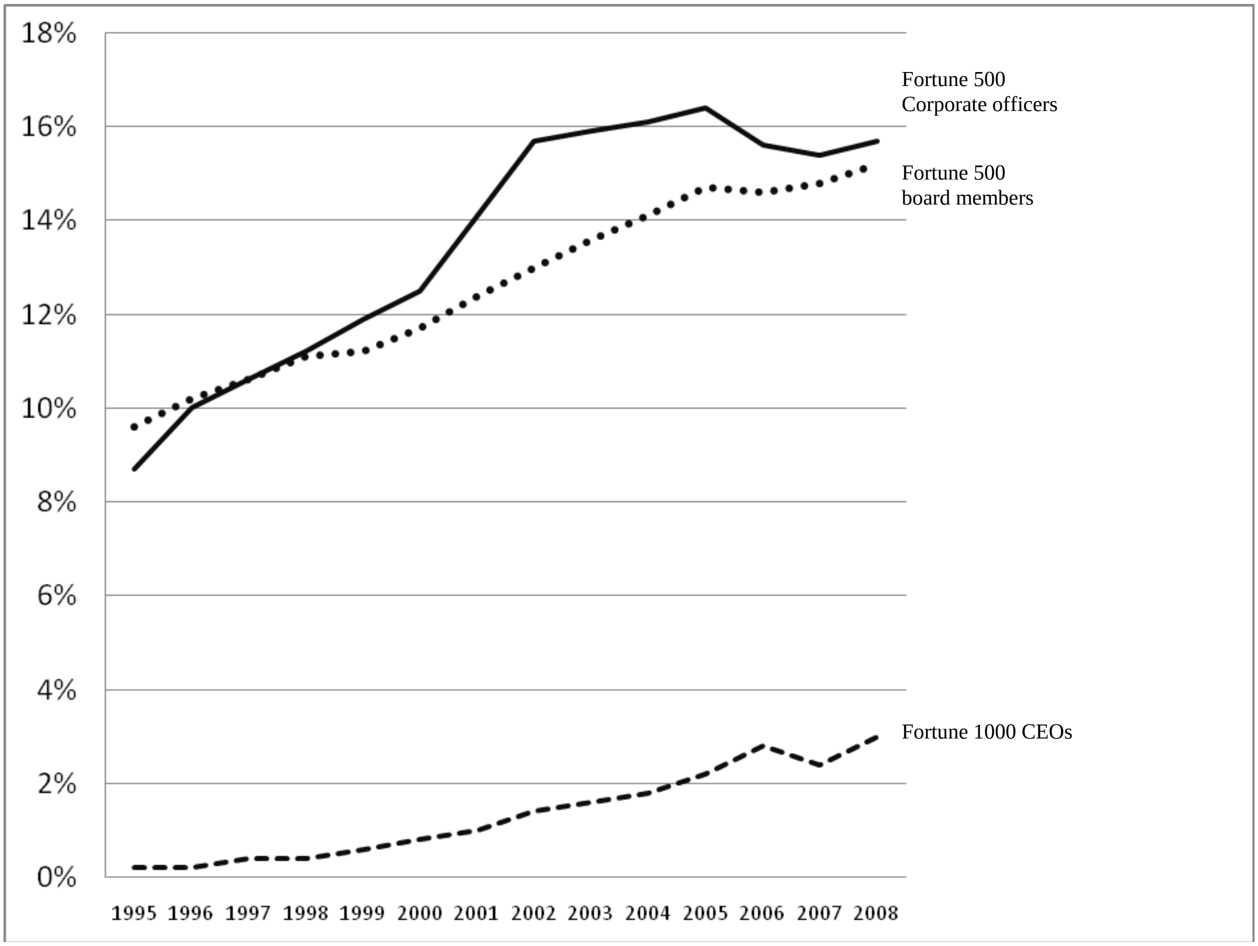
Source: IPUMS Census samples, 1850-2007 (variable: occ1990).

Table 15.1
Examples of highly sex-typed jobs that have changed little, 1970-2007



Source: Tables 3.5 and 3.6 in in Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007. An Economic Policy Institute Book.* Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.

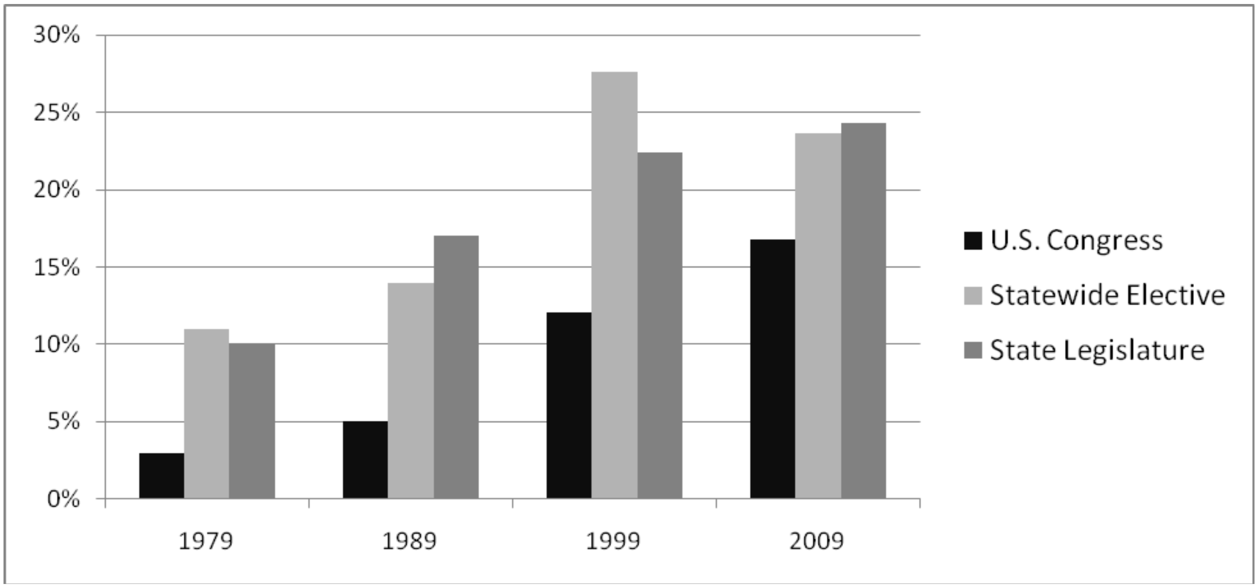
Figure 15.5
Male and Female Median Hourly Earnings (2005 Dollars), 1973-2005

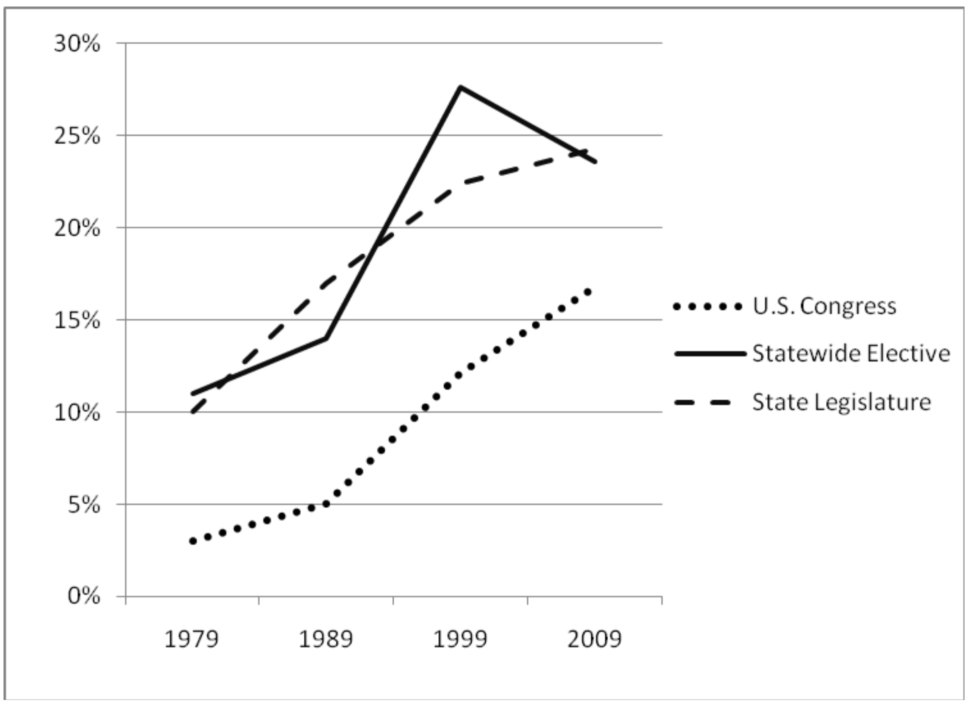


Sources: Corporate Officers and board members: Catalyst, "Women in U.S. Management", February 2009. CEOs: 1995-2007 data are from Catalyst, "Women CEO's in the *Fortune* Lists: 1972-2007." 2008 CEO number is from Catalyst, "Women in Business", March 2009

Note: the data for women on corporate officers was interpolated for 2001 and for 2003-4; the data for board seats was interpolated for 2002 and for 2004.

Figure 15.6 Women in Corporate Management , 1995-2008





Source: "Women in Elected Office 2009", Center for American Women in Politics, Rutgers University.

Figure 15.7 Women elected officials, 1979-2009

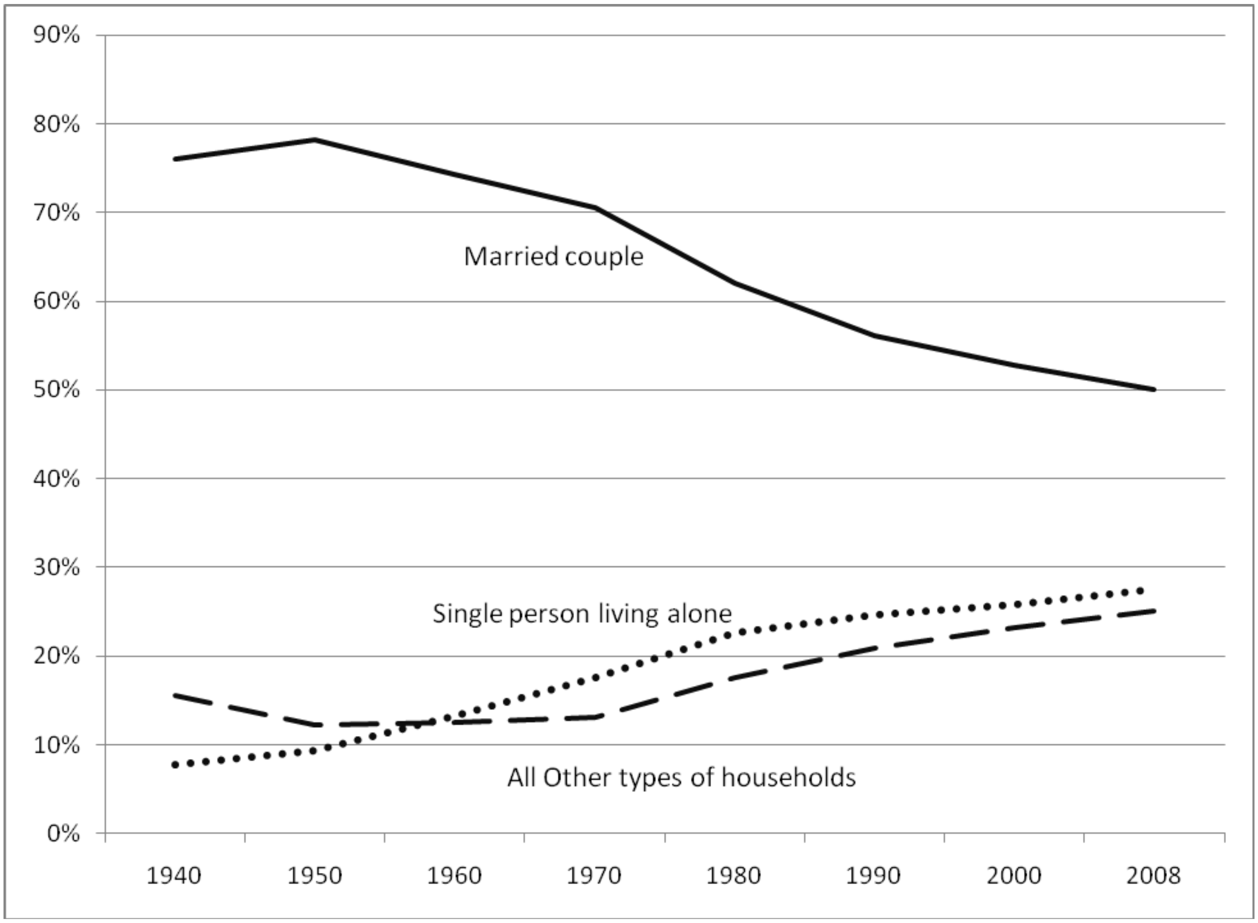
(alternatives formats)

Rank	Country	% of women in legislature*
1	Sweden	47.0%
2	Iceland	42.9%
3	Finland	41.5%
4	Netherlands	41.3%
5	Denmark	38.0%
6	Spain	36.3%
7	Norway	36.1%
8	Belgium	35.3%
9	New Zealand	33.6%
10	Germany	32.2%
11	Switzerland	28.5%
12	Portugal	28.3%
13	Austria	27.9%
14	Australia	26.7%
15	Canada	22.1%
16	Italy	21.3%
17	United Kingdom	19.5%
18	France	18.2%
19	Israel	17.5%
20	USA	16.8%
21	Greece	14.7%
22	Korea	13.7%
23	Ireland	13.3%
24	Japan	9.4%
Selected less developed countries		
	South Africa	43.5%
	Argentina	40.0%
	Costa Rica	36.8%
	Mexico	23.2%
	Poland	20.2%
	Chile	15.0%
	India	10.9%
	Brazil	9.0%

*Data are for lower house in two chamber legislatures

Source: "Women in National Parliaments, situation as of 31 May 2009," Inter-parliamentary Union, http://www.ipu.org

Table 15.2 Women in National Legislatures, International Comparisons



Notes:

“Married couple households” include households with adult children living with parents.

“All Other types of households” include: single parent headed households; cohabiting couples; same-sex couples; unrelated people living together.

Figure 15.8 Distribution of Household types, 1940-2008

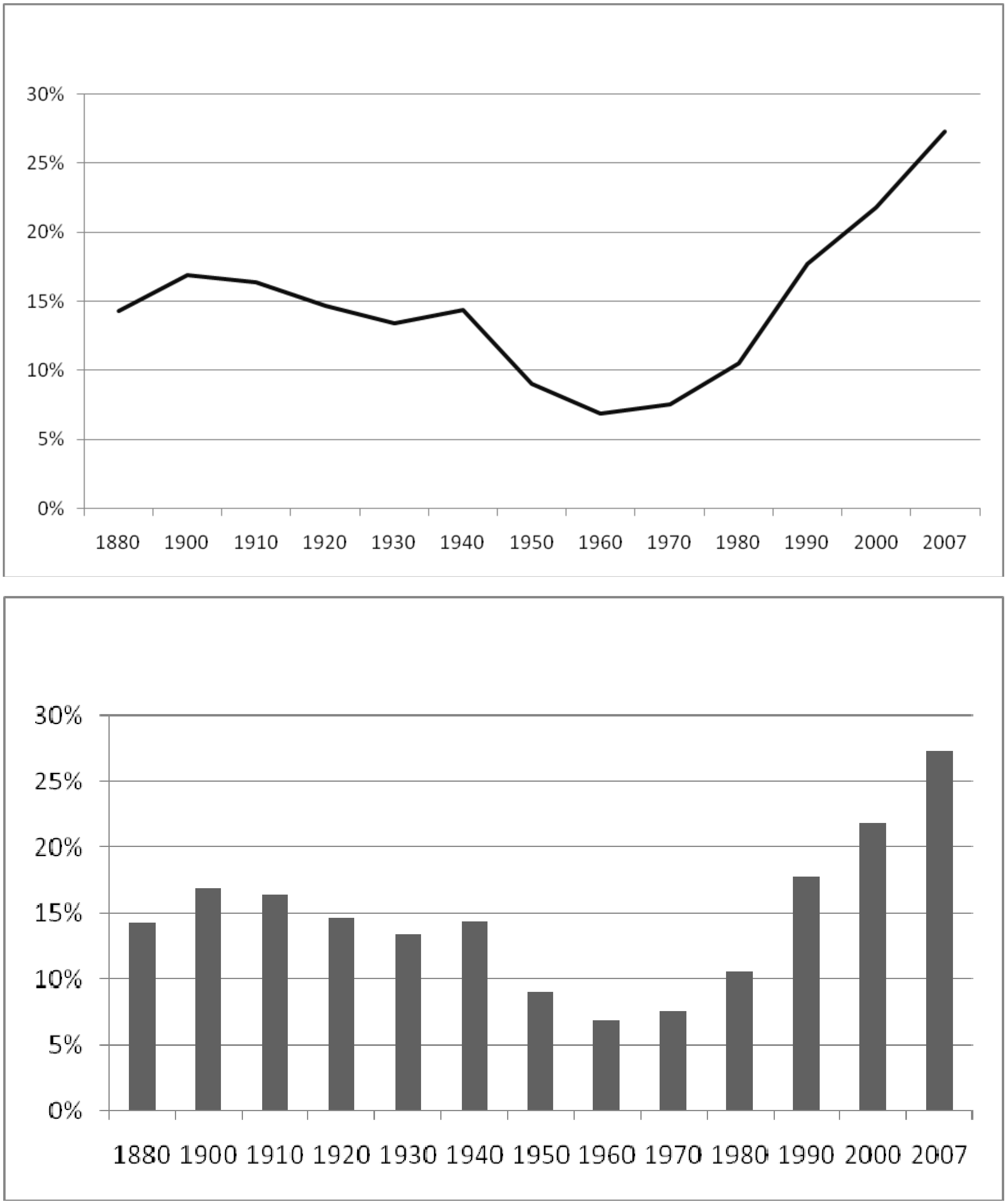
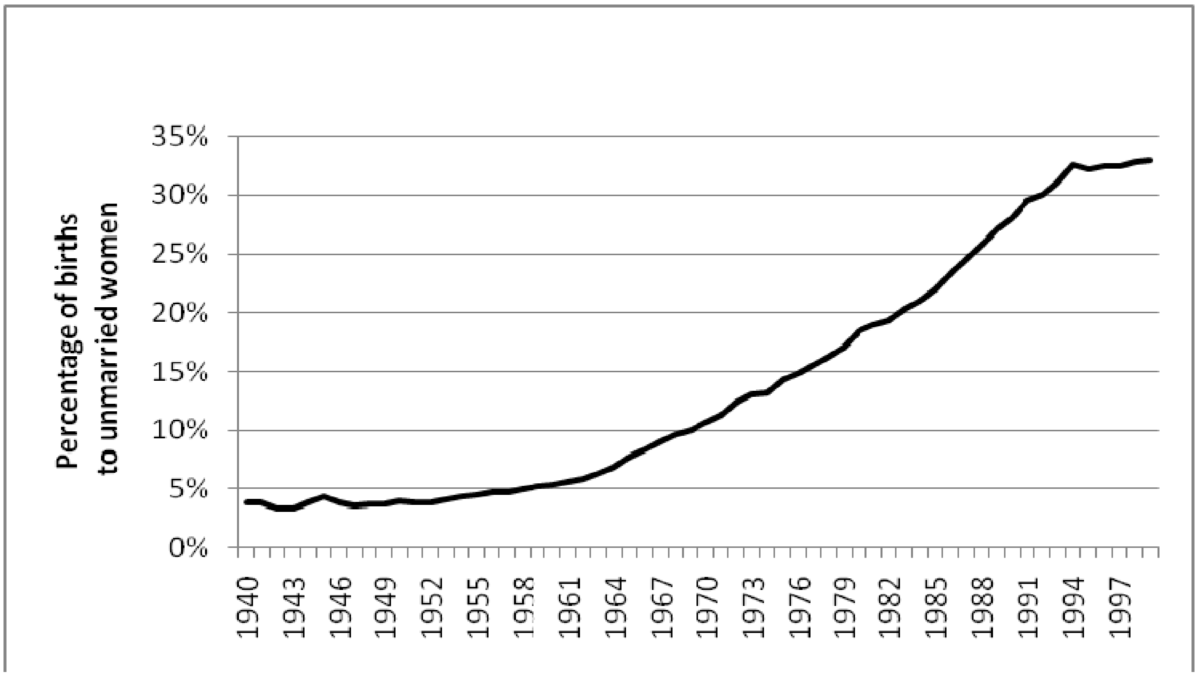


Figure 15.9 Percentage of women 30-34 who have never married, 1940- 2007

[alternative formats]

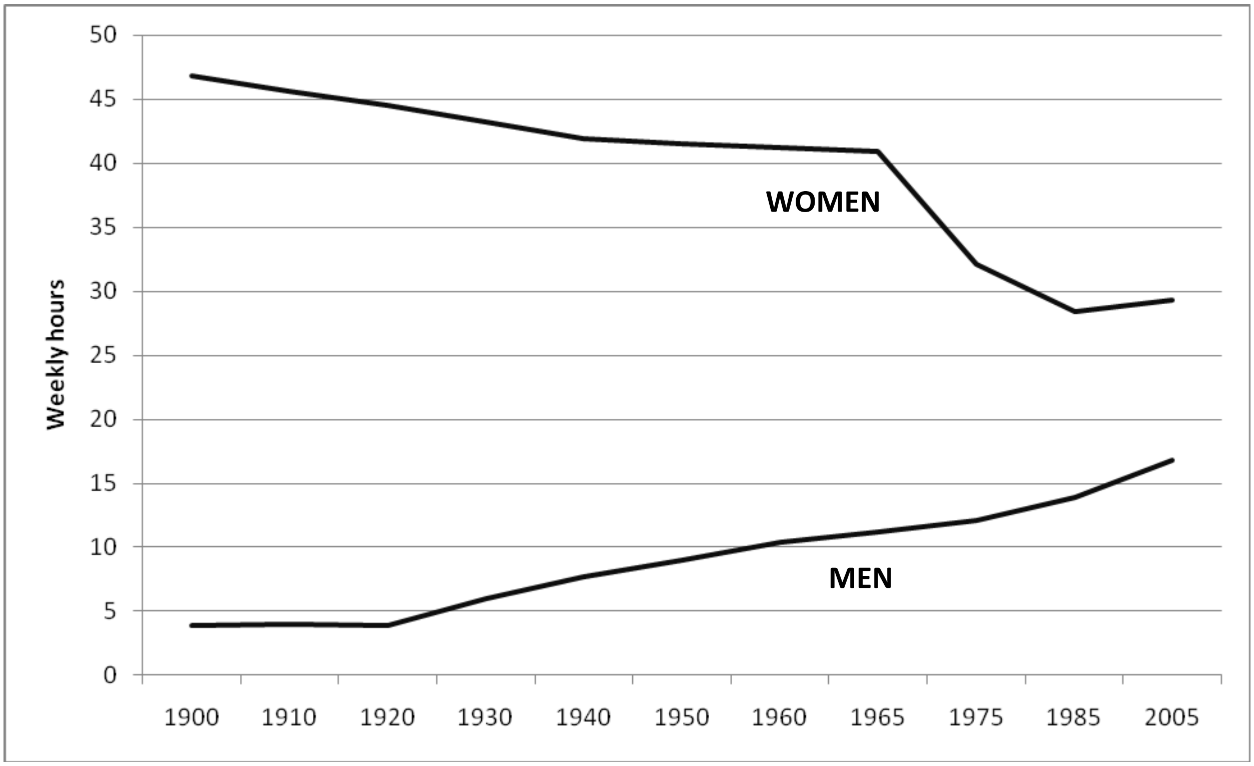
Source: Bramlett MD and Mosher WD. Cohabitation, Marriage, Divorce, and Remarriage in the United States. National Center for Health Statistics. Vital Health Stat 23(22). 2002. p.27.

Figure 15.10 Probability of first marriage disruption within 10 years by marriage cohort and race/ethnicity: marriages begun 1954-1984



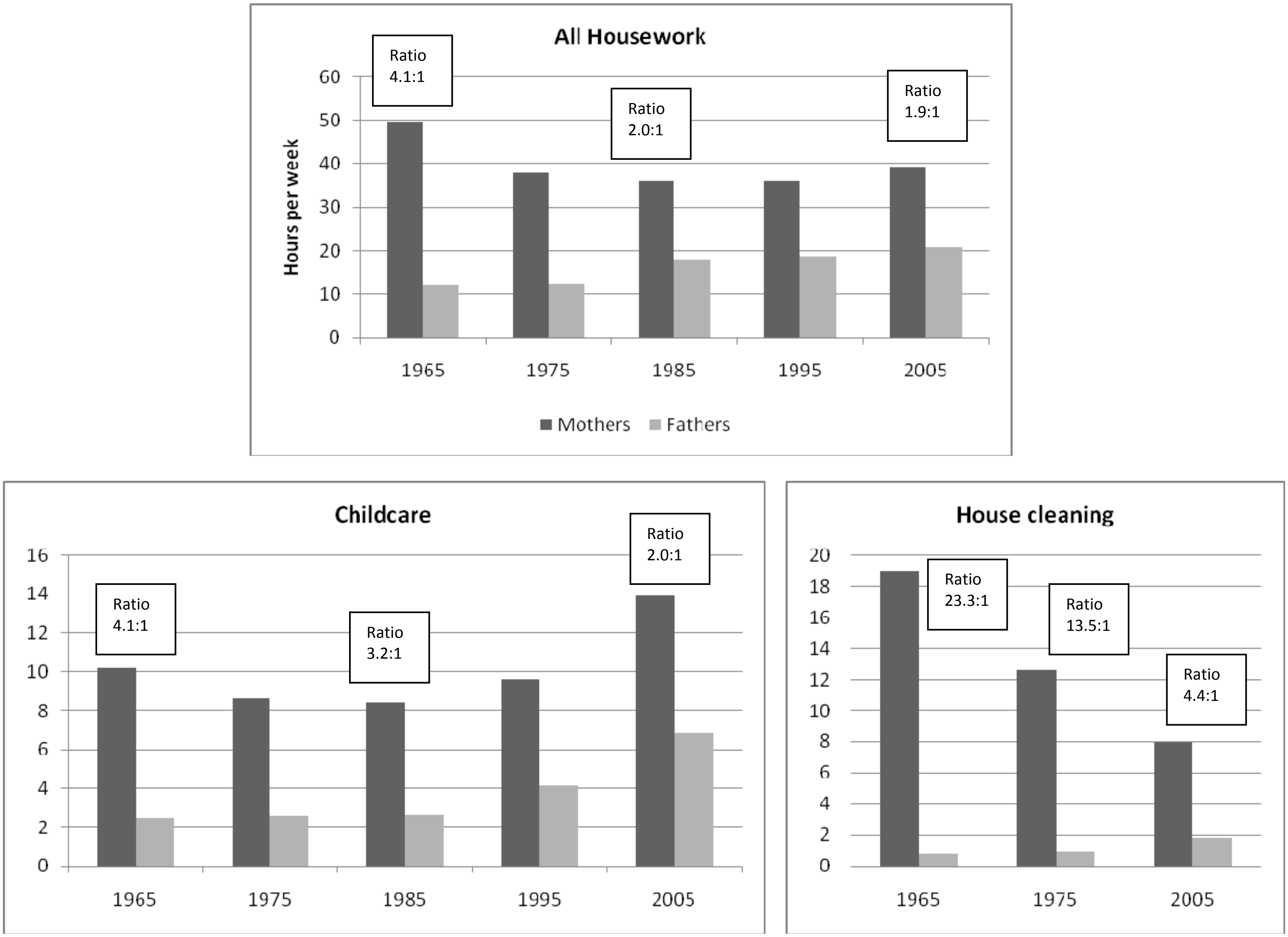
Source: Stephanie J. Ventura and Christine A. Bachrach, "**Nonmarital Childbearing in the United States, 1940–99"**, National Vital Statistics Reports, Volume 48, Number 16, October 18, 2000, p,17.

Figure 15.11 Percentage of births to unmarried mothers, 1940-1999



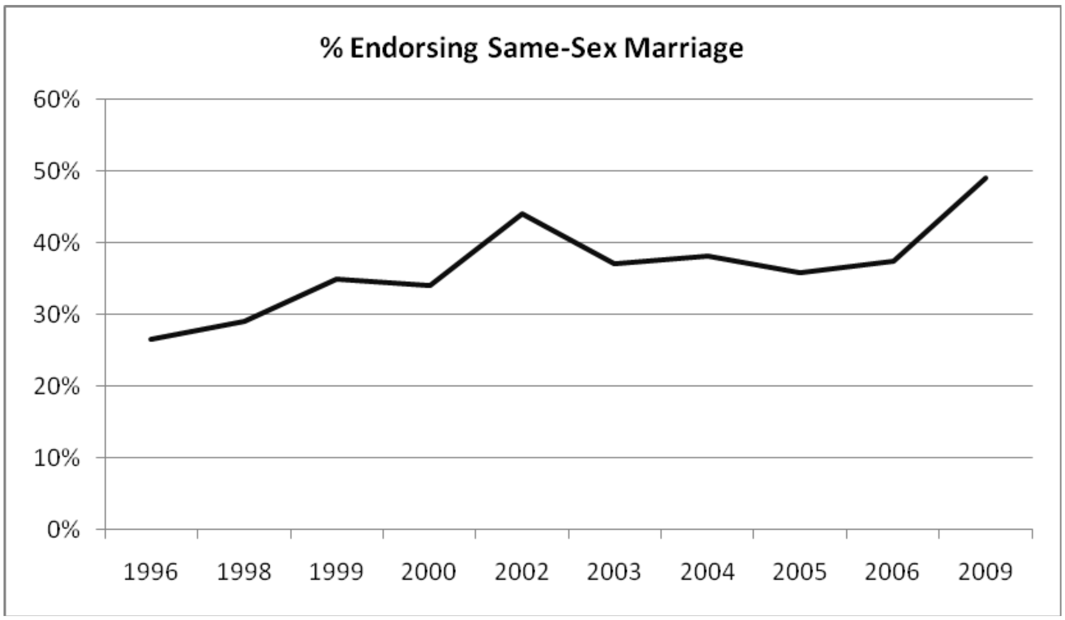
Source: Valerie A. Ramey "Time spent in home production in the 20th century: new estimates from old data", NBER Working Paper 13985, April 2008

Figure 15.12
Time Spent by men and women 18-64 years of age in work activities in the home, 1900-2005



Source: Liana C. Sayer, "Gender, Time and Inequality: Trends in Women's and Men's Paid Work, Unpaid Work and Free Time," *Social Forces*, Volume 84,Number 1, September 2005, pp. 285-303. Data supplemented by analysis provided by Suzanne Bianchi from the American Time Use Study data.

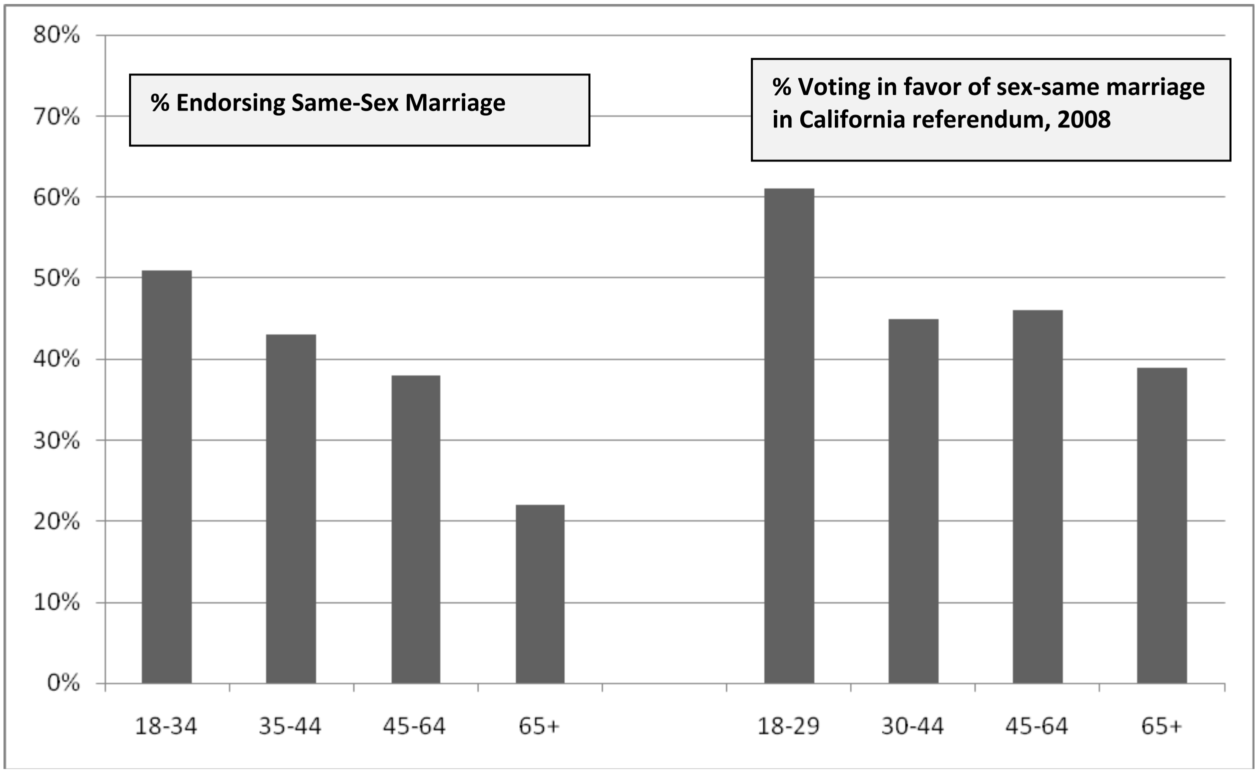
Figure 15.13
Time spent/day on different kinds of household labor for mothers and fathers in homes with children



Sources.
1996: Gallup and Time/CNN; 1998,1999: Gallup; 2000: CNN/USA Today/Gallup; 2002: CNN/USA Today/Gallup and Time/CNN; 2003: ABC/Washington Post, Gallup, and CNN/USA Today/Gallup; 2004: ABC/Washington Post, Gallup, and CNN/USA Today/Gallup; 2005: ABC/Washington Post, and Gallup; 2006: ABC/Washington Post, and Gallup; 2009: : ABC/Washington Post.

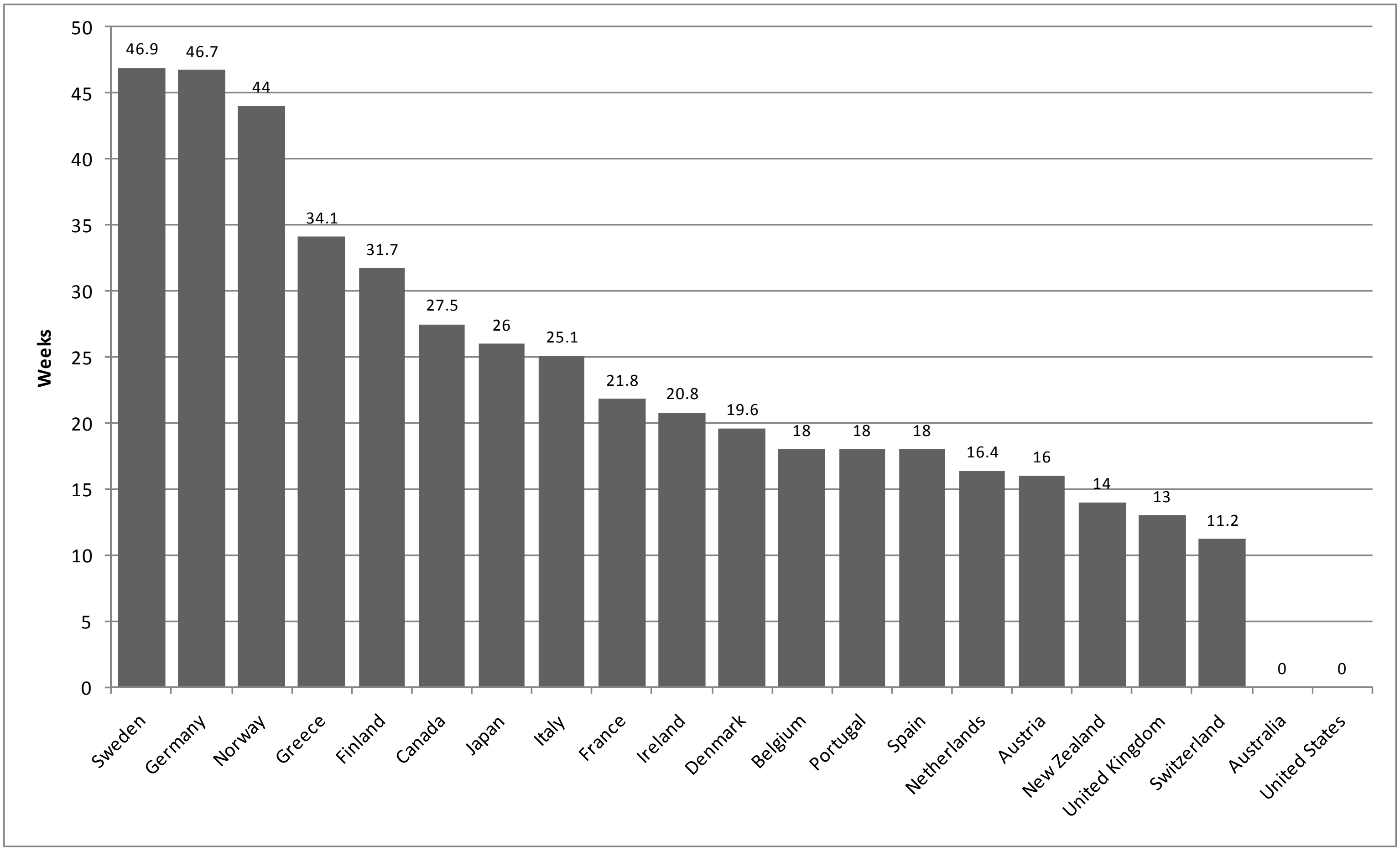
Note: The precise wording varies across polls. Figures are averages of multiple polls in years in which more than one poll was available.

Figure 15.14 Trends in Public support for Same-Sex Marriage



Sources: Opinion poll: Newsweek Poll, December 2008; Exit poll results from National Election Pool are for the NO vote on Proposition 8.

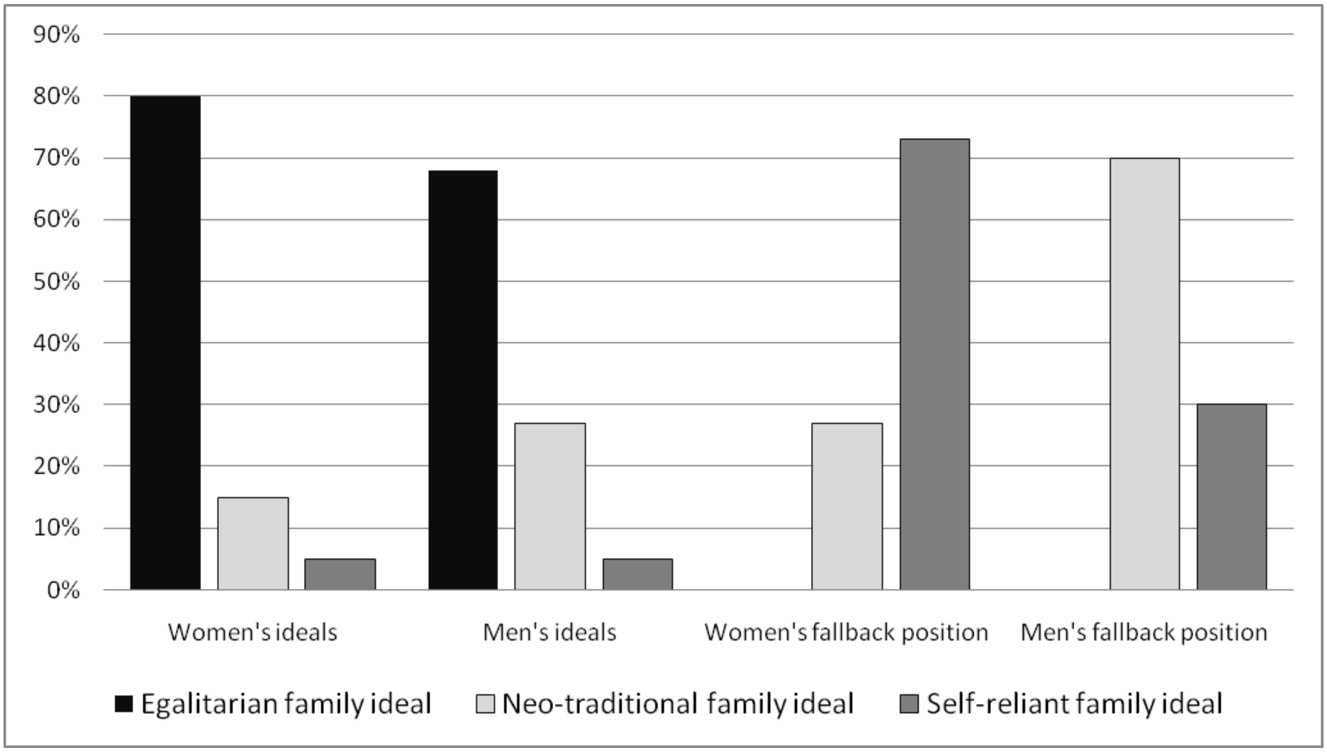
Figure 15.15 Support for Same-Sex Marriage in different age groups, 2008



Note: The graph indicates the number of "Full Time Equivalent" (FTE) weeks of paid parental leave available to a family. If, for example, a family is entitled to 10 weeks of leave at 80% of their salary, this equals 8 FTE weeks. The details of the rules vary enormously across countries: in some countries the weeks can be divided between mothers and fathers as they wish; in other countries there is a specific allocation for mothers and for fathers; in some countries the paid leaves are only available to mothers.

Source: Rebecca Ray, Janet C. Gornick and John Schmitt, "Who Cares? Assessing Generosity and Gender Equality in Parental Leave Policy Designs in 21 Countries" *Center for Economic Policy Research*, 2009

Figure 15.16 Paid Parental Leaves in 21 Countries



Definitions of family ideals:

Egalitarian ideal: a lasting bond with an intimate partner, a search for personal balance between work and family, and a commitment to flexible, egalitarian sharing of earning and caring.

Neo-traditional ideal: a permanent bond with an intimate partner in which one partner specialized in breadwinning and the other in caretaking (even if both held paid jobs).

Self-reliant ideal: self-reliance whether single, cohabiting or married, and a belief that it is important not to rely on a partner for breadwinning or caretaking even if one happens to be in a long-term relation.

Source: Kathleen Gerson, *The Unfinished Revolution: How a New Generation is Reshaping Family, Work, and Gender in America* (Oxford University Press, 2009). (add page reference when available)

Figure 15.17
The Family Ideals and Fallback Positions of Young Men and Women

PART III
DEMOCRACY

Final Draft May, 2009

In the first part of this book we explored how the American economy works. The central theme of that investigation was that while a capitalist market economy may be efficient in many ways and be an effective engine of economic growth, it also generates all sorts of very important inefficiencies and creates many problems which it cannot solve by itself. In one way or another, these problems can only be countered by an "affirmative state" – government actions to correct the pathologies of markets.

In the second part we examined the value of fairness and the problem of inequality, especially economic inequality, but also racial and gender inequality. The central theme was that the extremely high levels of economic inequality and poverty in the United States today pose very serious challenges to principles of fairness. Again, these problems will not be self-correcting simply by the actions of individuals and the market; if fairness is to be achieved, it requires a collective response through a democratic process.

So, this brings us to democracy – to the main way we have for solving collective, common problems. Our task will be to examine how American democracy works, and why in many instances it fails to redress the kinds of problems we have identified in our study of the market and inequality.

We will begin in Chapter 16 by clarifying exactly what we mean by "democracy" and the difficult problem of building democracy in a society in which the economy generates high concentrations of private power. Chapter 17 explore the dilemmas of political representation within American democracy and how the specific rules of the game of electoral competition shape the kind of representation that becomes possible. Elections are at the very core of what makes a democracy democratic, but as we shall see, both because of the role of money in politics and because of the rules of electoral competition, American elections fall far short of democratic ideals. Chapter 18 explores the attack on taxation and the affirmative state in American politics. The American Revolution was triggered by the issue of taxation – "no taxation without representation" – and taxation to this day is one of the central axes of political conflict. Taxes are at the very core of a democratic society, for it is the way we as a society can collectively allocate social resources between public and private purposes. This chapter we explore the nature of taxation and the political assault on taxation and the purposes to which taxes are put.

The quality of democracy, of course, depends not just on the mechanics of representation, but also on the extent to which citizens have access to high quality information about political issues and have the capacity to effectively process that information in making collective choices. This will be the central theme of Chapter 19 on the relationship between democracy and the corporate domination of the media.

Chapters 20 deals with the problem of militarism and empire in American democracy. The military always has a potentially ambiguous role in a democracy. On the one hand, the military is critical for national defense. On the other hand, the military becomes connected to militarism and empire, it distorts national priorities and undermines democracy by fueling a politics of fear.

Finally, our exploration of democracy concludes with two chapters that focus on the issue of mass participation in democratic life. Chapter 21 examines the labor movement as a critical basis for getting citizens involved in democracy, and how the hostile legal and economic environment for unions in the last decades of the 20th century undercut this role. Chapter 22 explores various new kinds of initiatives of citizens to revitalize democracy from below.

Chapter 16
Democracy: How it Works

Final Draft, August 2009

Democracy means “rule by the people”. This is an extraordinary idea, a truly revolutionary ideal in the history of human affairs. Imagine: power should be vested in the people, not a hierarchy, not a king, not an elite, but the people. In most complex societies for most of human history this notion would have been viewed as absurd. Government of the people, by the people and for the people -- the ideal is inspiring, revolutionary, emancipatory. But the reality is often ugly, cynical, manipulative. Instead of political equality and popular empowerment, democracy can become game dominated by the power of elites and dominant classes. Rule by the people becomes largely a symbolic sideshow, while the real exercise of political power occurs behind the scenes.

Most Americans are convinced that they live in a profoundly democratic society. Indeed, many believe that the United States is the most democratic society on earth. There are some truths lurking behind these claims: the United States has fairly competitive elections for many public offices; civil liberties are at least loosely protected; public officials are generally constrained by the rule of law and prevented from exercising their power in an arbitrary manner. Life would be very different under a Fascist police state or a military dictatorship. So, the democraticness of American democracy is not an empty ideal. Nevertheless, we will argue in this chapter that the democratic character of American political institutions is much more contradictory and limited than this popular image.

DEMOCRACY AS A VALUE

Before exploring the problem of the contradictions and constraints facing American democracy, we need to provide a more precise definition of the ideal of democracy itself. What does “democracy” really mean? What is the core principle we really want to accomplish?

Democracy as an ideal, we believe, is embedded in a broader value concerning individual autonomy and power:

> *All people should have broadly equal access to the necessary means to participate meaningfully in decisions over things which affect their lives. This includes both the freedom of individuals to make choices that affect their own lives as separate persons, and their capacity to participate in collective decisions which affect their lives as members of a broader community.*[1]

---

[1] This particular formulation comes from Erik Olin Wright, *Envisioning Real Utopias* (London and New York: Verso, 2010), chapter 2. For a more extended discussion of democracy, including the “principle of democratic legitimacy” by which we think democratic institutions should be judged, see Joshua Cohen and Joel Rogers, On Democracy (New York: Penguin, 1983). We draw on their analysis of the workings of capitalist democracy throughout this chapter.

This conception explicitly connects the problem of individual liberty with the problem of democracy. These are deeply connected because both embody the idea that people should control as much as possible those decisions which affect their lives. "Freedom" is the capacity to make choices over one's own life; "democracy" is the capacity to participate in the effective control over collective choices that affect one's life as a member of a wider society. Of course, the line of demarcation between these two is often ambiguous since many actions of individuals have, as we saw in earlier chapters, "externalities" which affect the lives of others, particularly when those individual choices are viewed cumulatively. The decision to drive an S.U.V. has effects on other people through carbon emissions and the depletion of petroleum resources. The decision to build a large house in a suburb has effects on other people through urban sprawl. The decision to buy expensive private education for one's children affects other people through changing the conditions for competition to enter the best universities. Should these decisions be viewed as purely private decisions and thus in the domain of individual freedom and autonomy, or are these public decisions because of their effects on other people as members of a society? There is no simple answer to this question since these decisions have both public and private dimensions. One of the central tasks in a democracy is, therefore, how to balance these considerations, how to take into account the social externalities the choices people make as separate individuals while at the same time allowing individuals to make meaningful choices over their own lives. One possible balance is to decide to ignore many of the social externalities private choices on the grounds that all-things-considered it is better to tolerate negative effects on others than to interfere with individual choice. This is the balance which creates very strong private property rights and blocks intrusive forms of democratic interference with the acquisition and use of private property. Another possible balance is to impose many restrictions on individual choices through various kinds of regulations – zoning rules for cities, taxes on large cars, limitations on private education – on the grounds that the harms of these externalities are themselves a violation of individual liberty. This is always a difficult issue, but at least in a democracy in principle it is the same people who are deciding about how to work out this balance as are affected by such decisions.

In a democracy, then, the general idea that people should control the decisions which affect their lives is applied to the context of decisions which affect their lives as members of society:

> *In a democracy decisions which affect our common fate and common interests should reflect the collective will and choices of equal citizens rather than of powerful elites*.

This is a demanding ideal, for it says more than simply that we have regular elections and basic political freedoms and rights; it says that political institutions are designed in such a way that decisions which affect our communities and collective destiny are made in ways that are truly subordinated to the will of ordinary citizens. There are two key parts to this definition:

1. *Decisions which affect our common fate and common interests…..*

Democracy concerns a particular subset of all the decisions people make: those decisions which affect our common fate and common interests. This implies that it is possible to make a rough distinction between decisions which only have effects on the individual persons making the choice and decisions which have effects on a broader community. This condition also means that the robustness of a democracy depends upon the extent to which issues of collective concern are in fact included within collective decision-making. A narrow scope for democratic decision-making undermines democracy itself. In these terms, the general trend in the United States towards privatization of state functions and deregulation of market activities that began in the early 1980s, constitutes a reduction in democracy.

2.…..*should reflect the collective will and choices of equal citizens rather than powerful elites.*

The notion of a "collective will" is an especially elusive one. Individuals have minds and motivations, and thus we all have an intuitive sense about what it means to talk about *individual* "will". It is less transparent precisely what is meant by the idea of a "collective will." In an ideal sense what we mean is a broad consensus reached through the open deliberation of people making a collective decision. The will is "collective" insofar as it is the result of a collective process of genuine deliberation and consensus formation. That is the ideal. In practice a full consensus is rarely possible, so the issue is more a question of collective decisions coming out of open debate by those affected by the decision. The idea of "equal citizens" means both that everyone has equal political *rights* to participate in democratic processes, but also that everyone has equal access to the practical means of political participation. The first of these considerations is much easier to realize than the second, although in the United States it took almost two centuries of protracted struggles from the founding of the country to accomplish anything close to equality of formal citizenship rights. The second of these conditions – equal access by citizens to the practical means of political participation – is much harder to achieve and remains a distant ideal in contemporary American society.

There are many ways that this ideal of democracy can be undermined:

- Important issues of collective concern may be excluded from the arenas of democratic decision making.
- Citizens may have very unequal access to the political process either because of official discrimination or because of inequalities in politically-relevant resources and capacities.
- The process by which citizens form their opinions on political issues may be heavily manipulated by elites and other powerful actors so that even if they have meaningful access to political processes, they do not really participate as autonomous citizens.
- The electoral rules of the game may give advantages to some kinds of interests over others.
- The internal organization of the bureaucratic machinery of the state may give special access to certain groups of citizens and elites in shaping the implementation of public policy.
- Politicians and state officials may have sufficient autonomy and power that they use the state in pursuit of their own interests. Public policy in practice, therefore, may reflect the will and collective choices of political officials more than of equal citizens.
- The private exercise of power outside of the political realm may block or undermine public decisions.

Of course, each of these threats to democracy is a matter of degree, and thus we can talk about the extent to which any given political system is democratic, not simply whether it is or is not democratic. Political institutions should be judged by the ways in which they advance or thwart movement towards the democratic ideal.

In the rest of this chapter we explore a number of core problems in the actual functioning of democratic institutions in the contemporary United States. We will begin by stating what should be a noncontroversial claim about the relationship between public and private power in American democracy: private property removes decisions of collective importance from democratic decision-making. This proposition forms the basis for a more elaborate discussion of the two kinds of constraints on democracy in a capitalist economy, which we will refer to as the "demand constraint" and the "resource constraint". These general considerations will form the backdrop for our more detailed discussions of particular aspects of democracy in the chapters that follow.

THE CORE PROPOSITION: PUBLIC AND PRIVATE POWER IN CAPITALIST DEMOCRACY

Underlying our exploration of American democratic institutions is a simple proposition: *Many decisions that are of momentous importance to society as a whole and have deep public ramifications are made as "private" decisions by capitalist firms.* This should not be viewed as a controversial claim. It is an almost trivial observation of how a democratic capitalist society works, but still it is of fundamental importance if we are to understand the limits and potentials for democracy in America.

The proposition states that in a capitalist democracy, the basic decisions over the allocation of investments and the control over how they are used are made by private owners on the basis of their own self-interest. This allocation of power to individuals and firms is called "private property". Of course there are public rules that impose constraints on how people spend their money and what they can do with their private property, but the background premise of all such rules is still that individuals have the right to decide what to do with "their" property as they see fit and the rules should interfere as little as possible with such rights. Many such decisions have a very large impact on other people and broader communities who have no say at all in the decisions. Here are some examples:

- Decisions to close a factory and move production abroad can have a devastating impact on the people in a region, including many people who do not work in the factory. For example, the value of houses of everyone in an area can drop precipitously when a large factory closes. Decisions to close factories are not simply the effect of the operation of impersonal "market forces" out of anyone's control. Frequently a factory is closed not because it is unprofitable, but because the rate of profit would be higher in another location. If the people affected most by the decision – the employees – owned the factory, they would not close it because they would weigh the costs and benefits very differently. In any case, the decision is made on the basis of a private calculation of costs and benefits without regard to the effects on others.
- Decisions to invest in certain lines of production rather than others, for example large, energy efficient automobiles rather than smaller energy efficient vehicles, have big effects on the environment and cities. Even if these decisions are made in response to

"consumer demand" in the sense that the people who want to buy cars want to buy big cars, nevertheless it is still the case that these are private decisions made on the basis of each person's private evaluation of their own interests, and yet they have big public ramifications.

- The choice of technologies, work organization, the skill structure of jobs and other aspects of the production process have large effects on the lives of people who work within firms, and yet these people are rarely part of the decision-making process through which these choices are made. Decisions to introduce labor saving technologies and fire workers have a large impact both on the families of those workers and on the larger community in which they live, but again, these are legally defined as managerial decisions made on behalf of the owners of private property which need not in any way be responsive to the interests of the affected workers.

These are perfectly ordinary, legal business decisions, the kinds of decisions that get made every day. They are considered private matters, but they massively shape the fate of communities, our collective dilemmas and futures, and thus these private decisions violate the fundamental principle of democracy. There may be disagreement about what, all things considered, is a desirable balance between the democracy and the powers linked to private property. Some people argue that even the limited restrictions we currently have on private property are undesirable because a more unfettered capitalism would be a more efficient capitalism; others argue that that the existing balance between public regulation and private power is far too skewed towards the private. But whatever one's views are on the problem of the optimal balance, there is no question that the fact of allocating so much power to private actors in the form of private property rights means that extensive decisions of great concern for the public are outside of public, democratic decision-making.

This proposition provides the foundation for understanding the constraints on the functioning of American democracy. In what follows, we will distinguish two broad types of constraints that impinge on democratic institutions, which we will call the *demand constraint* and the *resource constraint.*[2] In assessing any political process there are two kinds of questions that need to be explored: "What do people want?" and, "What kinds of power do they have to get what they want?" The "demand constraint" refers to *restrictions on the goals of politics*, on what people can realistically demand from the government; the "resource constraint" refers to the *different capacities different actors have* for accomplishing their goals.

The Demand Constraint

How should we explain the kinds of demands that get raised in the political system? Why is it that such a narrow range of issues are actively debated in the political arena? In particular, why are political demands generally so mild, so unthreatening to the system as a whole? Why, most of the time, do people limit their political demands to things which are compatible with the basic economic interests of business corporations?

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[2] This language and analysis from Cohen and Rogers, *On Democracy*.

The basic argument is this: so long as most important economic decisions are made through the exercise of private power – i.e. so long as the economy remains capitalist – *the welfare of everyone depends upon the welfare of capitalist firms.* Because owners of capital control investments, and investments are so important for the overall health of an economy, the satisfaction of the interests of owners is a necessary condition for the satisfaction of all other economic interests in the system. The "rules of the game" of capitalist democracy insure that in general only those demands get raised that are compatible with capitalist interests and a good business climate.

This argument can be elaborated through six steps:

1. If the basic interests of capitalist firms are not stably secured, then capitalist firms will not make adequate profits.
2. If capitalist firms do not make adequate profits, then owners of capital will reduce their investments in capitalist firms.
3. If investments decline, then there will be a decline in production.
4. If there is a decline in production, then there is a decline in jobs and wages.
5. If there is a decline in jobs, income, and production, then there will be a decline in tax revenues available to the state.
6. A decline in taxes means that the capacity of the democratic state to pursue all its goals declines. The state is dependent upon income generated in the capitalist economy for whatever it does. Any political demand that requires state spending, therefore, ultimately must be consistent with the process that generates the revenues for that spending.

Taken together, this connected chain of cause and effect means that political demands within a capitalist democracy are broadly constrained to be consistent with what is good for capitalist firms. Of course there will still be sharp debates about what is in fact good for the profitability of firms. Some people will argue that government programs to reduce pollution will ultimately be good for firms by creating a healthier natural environment; others will argue that the regulations will harm firms because the regulated firms will face higher costs than firms in other countries. But everyone on whatever side of the debate will ultimately have to worry about the real effects of the policy on the vitality of the economic environment for profit making.

One of the consequences of this deep dependence of the state on the private capitalist economy is that the interests of business appear to be in the "general interests" of society rather than merely the "special interests" of a particular class of people. There is a certainly irony here. The political demand for lower taxes on business is defended as being in the interests of everyone; the demand for higher wages for workers is attacked as reflecting the special interests of unions. The saying "what is good for General Motors is good for the country" therefore expresses a certain real truth: so long as America has a capitalist economy, it is critical that its corporations be profitable.[3] This implies that there will be a strong tendency for people to limit

[3] The saying is an accurate statement of the meaning, if not the precise wording, of Senate testimony in 1953 by the then president of General Motors, Charles Wilson, who said: "for years I thought what was good for the country was

their demands to those that are consistent with a "good business climate." Every potential policy confronts the question "how will this affect business?" This imposes significant constraints on the character of demands that have any political traction for improvements of health care, childcare, the environment, energy, transportation, poverty. In each case, one of the pivotal axes of contention will be over the effects of such policy on the vitality of business. A sure way for a demand to be marginalized is for people to believe that it will be bad for business.

Furthermore, because of competition and pressures from investors, the time horizons for most capitalist firms tend to be fairly short-term, and thus the priority given to a healthy business climate and the interests of firms also tends to shorten the time horizons of political demands. Reforms that are actually beneficial to capitalists as a whole in the longer term, but costly in the short term, are thus generally resisted by the 'business community." For example, suppose a reform of health insurance from the current mixed government and employer-based system to a single-payer system was proposed which, on the one hand would save money for most capitalists in the long term by restraining the long term rise in health costs, but which on the other hand would increase costs in the short term because of the universal health insurance coverage of all citizens. Such a reform is very likely to be opposed by business. Similarly, reforms that would have a serious impact on global warming or energy conservation are likely to increase costs on capitalist firms in the short term even though they would have long term benefits for capitalism as a whole. Again, such reforms are likely to be opposed by capitalists. Knowing these things, political actors are less likely to voice demands for such reforms in the first place.

The demand constraint on politics thus narrows political demands in two ways: first, it forces all political actors to be concerned with a "healthy business climate", and second, it shortens the time horizon in which even the business climate is treated. The result is a pervasive preoccupation with short-term economic issues in political conflicts. This does not mean, of course, that people are only interested in money, or never think about the future. People value many things other than money – art, justice, spiritual salvation, nature, to name only a few. But even if people value these things, they nevertheless need material resources to pursue them. Even artists need to eat and have a roof over their heads, so they have an interest in a healthy capitalist economy, and this means a concern in the short-term interests of capitalist firms.

THE RESOURCE CONSTRAINT

The demand constraint imposes limits on *what people are likely to demand*, but it does not dictate unique outcomes. Even given the pressures towards short-term economic interests, political demands can be more or less short-run, more or less favorable to different categories of people, and in particular, more or less favorable to the interests of capitalists. There is also often considerable ambiguity on precisely what will be the effects of any given policy, so quite contrasting policies can all lay claim to being good for the economy. Furthermore, capitalists – like everyone else in a bargaining situation – often politically ask for much more than they actually need to make adequate profits. Bluffs and threats are a key part of political conflicts in a democracy and so exactly what policies get adopted depends upon the outcomes of political

good for General Motors, and vice versa."

struggles between contending groups, not simply on abstract considerations of what kinds of policies will be good or bad for business.

This is where the *resource constraint* comes in: in the political struggles that take place within capitalist democracies, ordinary citizens operate under severe resource constraints in having their interests translated into public policy. The most straightforward examples are instances in which money and wealth directly shape the outcomes of political processes:

- In all capitalist democracies bribes and corruption influence public policy in various ways. All things considered, the United States probably has somewhat less corruption than many other capitalist democracies, but nevertheless, the direct use of bribes to influence both the passage of laws and the details of their implementation is a significant reality at every level of the political system. Corporations and wealthy individuals are in a much better position to influence government action in this way than are workers, the poor, and other categories of ordinary citizens.
- Even if we discount bribery, well-financed lobbying, backed by wealthy corporations and individuals, plays a significant role both in legislation and in the details of the actual implementation of public policy.
- Campaign contributions are another source of resource constraint: As we will see in chapter 17, when elections are privately funded and the constraints on private funding are weak, then the wealthy and organizations representing the wealthy are in a much better position to influence the selection of candidates and the outcomes of elections than are ordinary voters.
- Control over mass media is another critical form of resource constraint. The central political right of freedom of speech is a formal right in the sense that everyone has the same freedom to express their ideas. But different social categories have vastly unequal access to the means to disseminate their ideas. Whose "free speech" is likely to be heard more loudly – an unemployed worker or media magnates like Rupert Murdoch?

In each of these examples, people with limited wealth and money have distinct disadvantages in directly influencing political outcomes. Money Talks. Still, in a democracy Numbers Talk also. Elites and wealthy individuals are a small proportion of the total population. If public policy is drastically biased in favor of the rich and powerful, why don't ordinary citizens just get together and elect politicians who will serve their interests? They greatly outnumber elites, so they would win every time in a game of numbers, and that is what democracy is supposed to be.

The problem is that the resource constraint fundamentally undermines the ability of citizens to act collectively. To understand how this works we have to return to a theme we explored in our discussion of the market: the free rider problem.

The Resource Constraint and the Free Rider Problem

Recall what the central issue is in the free-rider problem: In many situations people can personally benefit from the collective actions of others without directly participating in those collective actions and thus avoiding the costs of participation. A worker who does not participate in a strike will still get a wage raise if the strike succeeds. A person who does not participate in recycling will still get the benefit of an improved environment if everyone else participates. Since in such situations there is a real cost to contributing to the provision of the "public good" that is the result of collective action, and since each individual's own participation makes so little difference to the outcome, many people are tempted to sit on the sidelines and let other people pay these costs. That is called "free riding".

How does the free rider problem impact on democracy and how is it linked to the resource constraint? Here is the central issue: Democracy requires very high levels of robust cooperation among people. This is sometimes called "mobilization": mobilization for political campaigns, mobilization for voting, mobilization for protests. People have to be willing to join together for political purposes, and there are always costs associated with such participation. The free rider problem makes political mobilization difficult. And – here is the crucial point – it is generally easier for wealthy people, people with lots of resources, to solve this problem or at least reduce its negative impact on their interests.

Let us look at the political free-rider problem for ordinary citizens: The empirical efficacy of *individual* participation in many political contexts is very low for most people. In most forms of political mobilization for most people whether or not they themselves participate will have a negligible effect on the likelihood of success of the political action in question. Elections, especially for important offices, are virtually never decided by one vote. One person more or less at a demonstration doesn't change the impact of the demonstration. One letter more or less from an ordinary citizen to a politician is not going to change a vote on legislation. From the simple point of view of one's own time and effort, for most citizens the answer to the question "is my effort in this political cause likely to affect an outcome that I care about?" is almost always no. If most people decide to participate in political mobilization only when their participation will clearly make a difference, then most people will abstain.

In the case of wealthy elites and corporations, the problem looks quite different. There are many ways in which individual corporations and wealthy individuals can participate in political activity in which their individual contribution makes a significant difference to the outcome. When the executives in a large pharmaceutical corporation ask themselves the question: "is the effort – and especially the money – our corporation can contribute to a political cause that is in our interests likely to affect the outcome?" the answer is often yes. The individual contribution of a corporation to a lobbying effort or to a political campaign of a sympathetic candidate can potentially have a significant impact on the outcome. This makes the cost/benefit calculation much simpler: individual effort has more than a negligible impact on the outcome. It also makes coordinated contributions easier, since each contributor sees a tangible benefit from contributing.

Another way of framing this contrast between elites and ordinary citizens is this: For elites political influence depends mainly on their *willingness to pay*. For ordinary citizens the most critical form of participation is time and effort. Their political influence depends mainly on their *willingness to act*.[4] For rich individuals and powerful corporations, financial contributions to political campaigns do not in general significantly reduce their own levels of consumption or investment – they have plenty of discretionary resources to use for this purpose. For ordinary people active participation always implies a decision to use a scarce resource -- time and effort -- in one way and not another. The willingness to act involves much tougher problems of collective action, cooperation and coordination than the willingness to pay. This contrast between the way resources impinge on the process of political participation for powerful and wealthy political actors – both individuals and corporations – and for ordinary citizens is the fundamental issue in the resource constraint in capitalist democracies.

Information and the problem of "rational ignorance"

One of the central ways in which the resource constraint undermines democracy concerns the problem of information. Good quality information is critical for any democratic process. If citizens are to participate in the exercise of political power in an effective and meaningful way, then they need to have good information relevant problems being confronted in the political arena. This is one of the reasons why freedom of speech is considered such an important right and a free press such an important institution within democratic political systems.

The problem is that high quality information is often costly to obtain. It takes time and effort to distinguish reliable from unreliable information, and in many instances it takes considerable training to even know how to go about this task. This is one reason, for example, why there are specialized services to provide certain kinds of information to people. *Consumer Reports*, for example, is a nonprofit organization that tests consumer products and publishes easily accessible evaluations and ratings of different brands. Particularly when a consumer is purchasing an expensive product, this provides an inexpensive way to make decisions based on pretty high quality information.

In the instance of consumer choices in the market there is a fairly significant incentive to get good information since, after all, that information not only will affect the choice of the consumer, but the actual outcome of that choice. In the case of political information, the issue is not so simple. It is true that having good quality information could affect the choice an individual citizen might make in the voting booth, but since that individual's own vote has in practical terms no effect on the outcome of the election (since elections are basically never decided by one vote), *getting good information will not affect the outcome itself.* When most citizens ask themselves the question "is the benefit of having good information worth the costs of acquiring it?" the answer will therefore be "no", at least if the motivation for getting good information is affecting the political outcome. There are, of course, other motivations, and these can be quite important. Many people are curious about the world and want to have good information about what's going on. This is the hallmark of the social category called "intellectuals": they enjoy

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[4] This contrast between willingness to pay and willingness to act comes from Claus Offe and Helmut Weisenthal, "Two Logics of collective Action: theoretical notes on social class and organizational form," in Maurice Zeitlin (ed), *Political Power and Social Theory*, vol. 1, 1980 (JAI Press, 1980), pp.67-116.

knowledge for its own sake and value high quality information not simply because it makes for more rational choices, but because it contributes to their knowledge of the world. For information about social and political issues, however, most people are not serious intellectuals in this sense, and thus they have little incentive to seek out high quality information about politically important issues since such information is costly to obtain. The result is that for most people most of the time, the information they acquire on political issues is limited to the information that is available at zero cost, namely information provided through the mass media, especially television.

Consider, for example, the question of healthcare reform. There are many conflicting views about the nature of the problem and the optimal solutions. In order to really sort this out and come to a well-informed opinion about what would be the optimal policy for the United States requires a lot of effort. Is it worth the trouble? Time is scarce; people have many things they care about for which getting good information will have tangible effects. Is it worth sorting through all of the arguments, searching out the most respected and reliable scholars and experts on the issues and on the basis of this information making up one's own mind? For most people, even those whose lives will be most affected by a change in the healthcare system, whether or not they get good information on this political issue will in no way affect the outcome. It doesn't really matter how important the political decision is to them and how much of a difference a "right" decision will make in their lives. What matters in information acquisition is whether the value of the right decision, given the microscopic probability that a well-informed (or ignorant) you will make any difference in the outcome, is greater than the cost of being well-informed. It almost never is. So, unless they value being well-informed for its own sake, it won't be economically rational for most people to invest their own time in acquiring that information. It is economically rational to be ignorant, or leave your information acquisition to that information that can be acquired for "free."

For elites and powerful corporations, in contrast, it is often worth getting high quality information about political issues, about the alternatives being debated, about the nature of government regulations and policies. It is worthwhile for health insurance corporations to have precise information about the nature of proposed legislation on healthcare and its expected impact on their interests, and to have good information about the likely behavior of different politicians with respect to these issues. Furthermore, given the enormously high stakes of the policy issues and given their ability to influence the outcomes, it is worth spending large sums of money to influence the terms of the debate. In particular, it is worth spending a lot of money providing "free" information to the public about the effects of alternative healthcare reform proposals. This is done most obviously through advertising campaigns, like the notorious campaign against healthcare reform in the early 1990s, but it is also done through providing "talking heads" commentaries on news programs and in other ways influencing the way the issues get framed in public discussions.

In short, it makes sense for powerful groups to spend lots of money to provide free information – or, more precisely in many contexts, *mis*information – to citizens, and for most ordinary people to only consume such free information. Or, to put the matter in starker terms: *It is rational for most people to remain ignorant about political matters.*

Rational ignorance is another example of a collective action problem: Most citizens have an interest in having elections decided on the basis of good quality information since this increases the chances of electing candidates who best serves their interests. If all citizens paid for good quality information on political issues, then this would improve the quality of electoral competition and increase the likelihood of the interests of most citizens being effectively represented. But for any given voter, whether or not they themselves spend the time and money for good information will not affect the outcome of elections. If most citizens behave this way, then elections will be based on poor quality information -- sound bites, political propaganda, advertisements by wealth interest groups, etc.

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All capitalist democracies confront the problem of the demand constraint and the resource constraint on democratic politics. This is inherent in the basic structure of these societies. Nevertheless, the degree to which these constraints reduce democracy varies. In all capitalist democracies, the centrality of private ownership to the functioning of the economy excludes important issues from direct democratic decisonmaking and constrains the kinds of political demands citizens can realistically make. Citizens in all capitalist democracies face resource constraints in organizing politically, and “rational ignorance” is an issue everywhere. Yet, depending upon how the political system is organized, how the rules of the game are structured, how the rights of private property are regulated, and many other things, these constraints on democracy may be very narrow or relatively lax. In the chapters that follow we will examine a range of issues which shape the distinctive character of these constraints in American democracy.

Chapter 17
Elections and Voting

Final Draft, August 2009

Elections are at the very core of democracy. Even if democracy is conceived as involving much more than elections, and even if an ideal democracy includes important forms of direct participation by citizens in many aspects of public decisions, still the most basic constraint on oppressive state authority that we have is the fact that we elect the decision-makers and can get rid of them if we dislike what they do. Any evaluation of democracy in America must include a careful examination of its electoral system and how it works.

In this chapter we will explore two broad themes about voting and elections in American democracy. The first concerns an important theoretical puzzle about democratic elections: why do people bother voting in the first place? Given that a single vote almost never decides large elections, on the face of it voting might seem to be a waste of time: doing something that has no practical effects. Answering this question will help us get a sense of some of the conditions which strengthen or undermine the vitality of electoral politics.

The second theme concerns the problem of how deeply democratic are elections in the United States. In the transition to democracy within authoritarian regimes the code words "free and fair elections" are often invoked in assessing democratic a society really is. There are countries that hold regular elections in which a single candidate receives 99% of the vote, but we don't consider this in the slightest democratic. But what precisely do we mean by "free and fair"? There are obvious ways in which an election might be unfair – stuffing the ballot box, faking the numbers, preventing people from voting by intimidation or simply excluding them from the voter lists. Until the 1960s in the U.S. South most African-Americans were blocked from voting through various devices. The most notorious was the infamous literacy tests in which potential black voters had to show a thorough knowledge of the constitution (for example) before they could be registered, whereas White voters had much less demanding tests. This, by any standard, was unfair.

Fraud, intimidation, and illegal exclusions are obvious ways in which elections can be rendered less democratic. Although these kinds of processes do happen in the United States – for example in the 2000 presidential election when the state of Florida purged its voter lists of felons in such a way that many non-felons, mostly black, were illegitimately denied the right to vote – fraud and repression of voters are not generally the most important issues in the U.S. We will focus instead on three crucial features of our electoral system that undermine the fairness and democraticness of elections: (1) representation rules, (2) the boundaries of electoral districts (3) Campaign finance.

WHY DO PEOPLE BOTHER VOTING?

During election campaigns people are encouraged to vote by claims that "every vote matters," but this is plainly false. *Voting* matters and the *aggregate* of all votes matter, but each single vote as such doesn't "matter", at least in the sense of really influencing the outcome of the election. Since it does take time and effort to vote, and in some times and places a lot of time and effort, why do people do it?

If people really behaved as simple self-interested rational actors making cost-benefit calculations in the way that is described in the prisoner's dilemma, then virtually no one would actually bother voting. The fact that even in low turnout national elections in the United States somewhat more than 50% of the eligible voters do vote means that something else is going on. What is going on is that people make many choices on the basis of what they believe is the morally right thing to do, and their more general sense of their efficacy as a citizen, rather than on the basis of a simple cost-benefit analysis of what is in it for them. People are moral beings, not just self-interested actors, and for many people voting is seen as an obligation, a duty. This sense of moral obligation can take different forms. One possibility is that when people recognize that they care about the outcome of the election – they believe that one candidate or party will be better than another –they then feel it would be wrong to be a free-rider on the efforts of others. Norms against free-riding are quite pervasive in all societies, even in a highly individualistic, market society like the United States. Not doing ones "fair share" or not "pulling one's weight" is broadly viewed as a violation of social norms in situations in which one is benefiting from some process of cooperation. Elections are one example. People may also believe in "civic obligation" and see voting as a strong duty that comes from membership in a community. In this case the issue is not simply that it is unfair to be a free-rider on other people's efforts, but it is a violation of one's identity as a citizen not to vote.

The fact that people vote, then, reflects the presence of important morally-infused motivations. The vitality of popular participation in elections, therefore, depends in significant ways on the way a society nurtures or undermines these kinds of civic identities and moral sentiments.

How does the United States fair in these terms? Table 17.1 indicates the average voter turnout rates in elections for the lower legislative houses from 1965-1995 for the United States and other capitalist democracies that had at least five free elections in this period (The figures for the United States are only for elections in presidential years. In off-year elections the figures for the US are 10-15 percentage points lower). Of the 28 countries in the table, the United States ranks 27th with an average turnout of only 54%, 25 of the countries had average turnouts above 70%, and most had turnouts above 80%. What is more, the longer term trends in the United States do not point to a reversal of this low voter turnout. In off-year congressional races the rate has declined from over 45% in the period 1962-1970 to close to 35% in the elections of 1998-2006. In presidential elections, even with the enthusiasm of Obama supporters in the 2008 election, voter turnout was still below the levels of the 1960s (see Figure 17.1). By comparative standards we have an extremely apathetic electorate, with barely 50% of voters voting even in high profile presidential elections, and only about a third voting in off-year national elections. In state and local elections the turnout figures are even worse, often falling below 10%.

-- Table 17.1 and Figure 17.1 about here --

There are a variety of factors that come into play in explaining this low level of voter participation in the United States. One issue that is often stressed is that in most places in the United States voter registration procedures are much more difficult than in other democratic system. Typically in the United States people have to register to vote in special venues like county court houses weeks before elections, and every time they move to a new address they have to re-register. The seven states in the United States that have same-day voter registration at the polls – Idaho, Iowa, Minnesota, New Hampshire, North Dakota, Wisconsin, and Wyoming – have significantly higher voter turnout than the United States as a whole: in the 2008 election about 68% compared to 56%. This suggests that the voter registration rules in other states contribute to the depressed voter turnout rates. Still, even this rate of 68% falls well below that of nearly all other democracies.

Aside from cumbersome registration rules, the very low level of voter turnout suggests that in the United States the sense of civic obligation around voting is low, for in the absence of civic obligation, the individualistic cost/benefit calculation on voting strongly favors staying home. The question then becomes why civic obligation is generally so weak in the U.S. We would stress a number of contributing factors:

First, there are important elements in American culture which run directly counter to values of collective responsibility and civic obligation: consumerism stresses the importance of private consumption over public goods; individualism stresses the importance of autonomously pursuing one's own life goals rather than being a member of collective; and privatism emphasizes the superiority of private solutions to social problems over public initiatives. While there is also an important strand of civic and even communitarian values within American history, these have been relatively marginalized in the last decades of the 20th century.

Second, since the 1970s, the constant attack on "big government" and the zealous praise of the virtues of the market has undermined many people's identification with the government and belief in politics. If "government is the problem, not the solution", then to many people politics will seem a largely irrelevant, even a discredited, activity. People with strong moral commitments towards the welfare of others are more likely to be drawn to participation in nonpolitical community service activities, often connected to churches, rather than to politics. These kinds of morally-driven service activities have the advantage that there is a tangible positive effect from each individual's participation, unlike voting in which the positive effect comes from the collective aggregation of individual acts.

Third, the very high levels of economic inequality in the United States erode the sense of community, of everyone being in the same boat together, and with that erosion, the sense of mutual obligation that is the core of civic obligation is weakened. This reinforces efforts to seek private solutions to collective problems: gated communities in the face of urban poverty and crime; private schools in the face of deteriorating public education.

Finally, the role of money in politics and the recurrent stream of political scandals at all levels of government have lead to a significant erosion of trust in government and politicians since the 1960s. Corruption breads cynicism and cynicism breeds apathy. But even aside from pure corruption, the importance of corporations and money in politics leads many people to feel that politics is not their affair, that it is rigged in favor of elites and their interests don't count. People feel alienated and disconnected from the political system because it is so unresponsive to their needs.

Taken together these factors mean that a significant proportion of citizens do not feel any strong sense of civic obligation to participate in electoral processes. This doesn't mean, of course, that all nonvoters lack civic motivations altogether , and certainly it doesn't mean that they lack moral commitments. What it means is that for many people voting is not seen as a meaningful way of expressing moral commitments and civic obligations. The result is the low turnout equilibrium and a relatively apathetic democracy.

THE RULES OF THE ELECTORAL GAME

In chapter one in our discussion of what it means to study something sociologically, we emphasized the importance of understanding the way our social activities are *governed by rules*. This is a very general idea applicable to all social contexts, but there is probably no better example of this idea than elections. Elections are one way of accomplishing a critical task that is faced in all complex social organizations: How to select the people who will make decisions that are binding on everyone. There are many ways of doing this. For example, in privately owned corporations, the procedure is that the owners of the corporation (the shareholders) choose the governors of the corporation. Private property rights confer on people the right to make binding decisions on the people who use that property, and when those rights a dispersed among many people in the form of a shares, then these owners collectively decide who will direct the business, usually on the basis of one-share-one-vote. Election by all members of an organization is another way of choosing decision-makers.

While all democratic states share in common the general principle that political leaders are elected, there is enormous variation in the precise ways this general idea is translated into concrete rules that govern the actions and strategies of people in political systems. Democratic elections are such a good illustration of the general sociological idea of rule-governed activity precisely because the variation in these rules is so clear and the consequences of this variation so important. Here we will focus on three clusters of rules of the game that shape the nature of American democracy and affect the extent to which it lives up to the ideals of democracy as "rule by the people": representation rules for legislative elections; rules governing the boundaries of electoral districts; rules governing financing elections.

Representation rules

It is not enough to say that in a democracy people vote for candidates, these votes are counted, and the winner is elected. This is far too vague to actually define the way an election is organized. What defines "winning"? What happens if no one gets a majority?

How many candidates can you vote for? Do you vote for specific candidates or for parties? A full specification of an electoral system requires answering these and many other questions. Answering these questions is critical because different electoral rules generate very different dynamics of political competition with very different long term effects on democratic life. This is a really interesting idea: that when you design an electoral system, the technical rules you create can generate dramatically different long term patterns. Some electoral rules make it almost impossible for new political parties to become successful; others lead to massive fragmentation of the political system into tiny unstable parties. Studying this sort of thing is what political scientists do. Here we will only sketch the most fundamental features of the representation rules in American elections and how this reduces democracy.

Basic structure of US elections: single member districts with plurality voting

This is also called "first past the post single member district elections." Here is how it works: Within an electoral district there are a number of candidates running for a single seat. Whoever gets the most votes wins. End of story. If you have three candidates, one could get 34%, and the other two 32%, and the candidate with 34% wins. This is the way we elect people to congress and the U.S. Senate in almost all states, and it is the way nearly all elections to state legislatures and local political offices.

The major consequence of a single member district plurality voting system is a very strong tendency for two political parties to dominate the political system, or what is called a "two-party duopoly". In this kind of political system it is extremely difficult for third parties to play a sustained, important role. The reason for this is that third party candidates chronically confront the problem of the fear of wasting vote on third party. Suppose that there are three candidates running, from three parties in an election – the Democratic Party, the Republican Party and the Independent Party. You really like the Independent Party candidate, but despise the Republican. The opinion polls indicate that about 40% of the electorate supports the Democratic Party candidate, 35% supports the republican and 25% the Independent. You much prefer the political positions of the Independent to the Democrat, but you really dislike the political positions of the Republican Party. What should you do? You fear that if you (and other people like you) vote for the Independent Party, that this will help the Republican get elected. So, in spite of your preference, you in the end vote for the Democratic Party. Most people who support the Independent share your worries and also vote for the "lesser of two evils", so the Democratic Party candidate is elected. The final tally was 55% Democrat, 40% Republican, 5% Independent. This hardly reflects the true political sentiments of the electorate. The Democrat is elected with a strong "mandate", and the political position of the Independent Party is marginalized.

This kind of scenario is not simply a theoretical possibility. In the 2000 Presidential election, the Green Party ran Ralph Nader as a Third Party candidate opposed to both the Republican Party and the Democratic Party. Many people who actually supported Nader's positions nevertheless voted for Al Gore, fearing the consequences of a Bush victory. In spite of this fear, in one key state, Florida, Nader received 95,000 votes or 2% of the total. Bush won (after the hotly contested irregularities in the vote count), by roughly 500 votes. While it is true that if Nader had not run in Florida some of those

95,000 voters would not have bothered even voting on the grounds that no candidate represented their views, many of them would have voted, and in that case those voters would have voted strongly for Gore over Bush. The Green Party was widely criticized after the election of being a spoiler, and while there are arguments on both sides of this issue, the net effect on the fate of the Green party was to reduce its political standing.[1]

There are many consequences of this monopoly of power by two major political parties. Most obviously, this tends to put on the political margins social interests that are not represented by the two dominant parties. It is very hard for a new political party to be taken seriously, for it to gradually increase its standing in the political system. Typically, new parties grow by beginning small and then gaining credibility by first getting limited representation in local elections, and eventually getting representation at higher levels of the system. If all levels of the political system are organized as first past the post single member districts, then this process is blocked from the start. This is a particularly serious problem if, as we will see below, it is also the case that both dominant political parties rely heavily on financial contributions from elites for elections. This common dependency of both dominant parties on the support of the wealthy means that neither party is likely to adopt policies that are strongly opposed by corporations and the capitalist class. A privately financed two party system, therefore, reinforces the resource constraint faced by popular social forces discussed in chapter 16.

The historical consolidation of the system

While the United States has basically had one version or another of single-member district first-past-the-post elections since its inception, the system functioned very differently in the 19th century in ways that created much greater space for third parties. Specifically, in the 19th century, states allowed what was known then as “fusion” voting. This meant that contending parties could “share” or jointly nominate selected candidates, with votes cast on any nominating party’s ballot line counting in that candidates total against rivals. Say, to take a contemporary instance of what this might look like, there is a Republican Party nominating someone named Bush and a Democratic Party nominating someone named Gore. With Gore’s consent, a minor party, let’s say a Green Party, could also nominate Gore. In a fusion voting system, the votes cast for Gore on either the Democratic or Green ballot line would count in his contest with Bush. Let us say this was done, as illustrated in Table 17.2, with Gore losing to Bush (35-48) on just the Democratic/Republican lines, but still winning overall (52-48) because of the 17 percent of the vote he got on the Green Party ballot line.

-- Table 17.2 --

A couple of things have happened here, besides Gore winning the election. First, Green Party members have been able to vote their values without wasting their votes.

[1] Defenders of the Nader candidacy in the 2000 election argue, with some force, that it is unfair to say that Nader caused the Bush victory, since if Gore had run a more progressive and populist campaign, Nader would not have taken 95,000 votes in Florida. This may be true, although it is always hard to know such things since a more populist campaign by Gore would have also lost him some “swing votes” of people wavering in the center. Nevertheless, even if this were the case it is still true that if Nader had not run, Gore would almost certainly have easily won Florida.

They have helped decide a national election not by being spoilers, but by contributing to an electoral majority, and they have done so without changing their partisan color. Two, Gore now knows that he would not have won this election without the Greens. He owes them something: a seat or two in the cabinet and a stronger environmental vision. Three, the Democratic Party now knows that they need some working agreement with the Greens. In return for Green support at the top of the ticket, they might throw their support to the Green nominee at the bottom of the ticket. And so on. In essence, fusion permits a distinct American answer to the question that is elsewhere answered by proportional representation: how to give real weight to minority electoral sentiment.

Throughout the post-Civil War period, fusion candidacies appeared up and down the ballot, across America, in almost every election. The Graingers, Free Soilers, and other minor parties of that era all depended on the tactic, as did the most famous third party in American history, the People's Party, also known as the Populists. Populism was a mass-based popular mobilization against large corporations and banks during the long deflation of the American currency that followed the Civil War. Populists forged an alliance between small farmers and workers, especially in the Midwest and, at least for a time, parts of the South. The Populist Party gained strength because it could endorse Democratic Party candidates in elections where there was a sympathetic Democratic candidate, and the votes would be counted as "People's Party" votes. This was critical to creating space for the party to gradually increase its popular support and influence. It also meant that in some instances it was the Democratic Party that cross-endorsed the Populist candidate. Through this strategy, the Populists elected people to state legislatures and the U.S. House of Representatives, and even a number of governors and senators.

The high watermark for the Populist Party was the tumultuous election of 1896 with William Jennings Bryan running as both the Democratic Party and Populist Party candidate. While the pivotal issue of the campaign was the attack on the gold standard – which Populists believed was a key source of the power of bankers and large corporations against farmers and workers – many populists also called for nationalization of the railroads, strong regulations of banks and corporations in the interests of the wider public, and promotion of other more "commonwealth" forms of ownership, insurance, and finance. The elite political establishment and the capitalist class were terrified by the Populists, seeing it as potentially a real threat to their power. The American economy had just witnessed a terrible panic n 1893 and there was little confidence in its future stability. While, in the end, it turned out that this upsurge in radicalism dissipated in the years after 1896, at the time the ruling class did not know if this was the peak or merely the opening gambit of accelerating movement.

After the election of 1896 the political establishment was not about to sit by passively and see what would happen next. There was a general realization that the rules of the game needed to be changed to make political movements like the Populists more difficult in the future. One of the key components of the reforms was to make fusion elections illegal in most places in the US precisely because abolishing fusion was a way of preventing third parties from gaining any credibility. Fusion is still legal in a few states in the United States, but throughout the second half of the 20th century was only commonly practiced in New York. There it still had an effect. Republicans like Ronald Reagan, and Democrats like Jack Kennedy, owed their success in NY presidential politics to votes cast on the lines of other parties that nominated them. The socially liberal Republican senator Jacob Javits owed his career to steady cross-endorsement by the Liberal Party. And Rudolph Giuliani won the New York Mayoralty, defeating Democrat David Dinkens, largely because the same Liberal Party endorsed him.

In the 1990s a national attempt was made to resurrect the fusion idea as a way of opening up more political space for third parties. The "New Party" was a social-democratic type political party formed by a group of activists disaffected with the Democratic Party with the core slogan "A Fair Economy, A Real Democracy, a New Party." The organizers realized that third parties had virtually no chance to seriously contest elections unless the rules of the game changed, and since fusion had once be a legitimate party of American politics and would not require a major overhaul of the whole machinery of elections, they decided to challenge the prohibitions of fusion. The grounds were fairly straightforward. Under the First Amendment's right to freedom of association previous law had established two principles of party freedoms, one about autonomy, the other about freedom from abusive monopoly. The autonomy principle held that any political party should be allowed to nominate "the standard bearer of its choice." Assuming the person wanted their nomination, parties could nominate any qualified candidate they desired. The anti-monopoly principle, declared in prior litigation over the right of a minor party, was more complicated. The Supreme Court had long recognized that America's single-member-district-plurality-voting system strongly inclined it toward two-party dominance. It had also often noted the virtues of a two- vs. multi-party system. But it held that the particular two parties in that duopoly, at any given time, had no right to abuse their de facto monopoly on state legislative power to discriminate against minor parties, or establish rules that would have the effect of such discrimination. The prohibition against fusion, the New Party argued, was a fundamental violation of both the autonomy and anti-monopoly rule. But in 1997 the Supreme Court ruled 6-3 in *Timmons v. Twin Cities Area New Party* against the New Party, holding that it was perfectly constitutional for the two major existing parties to pass laws with the intent of limiting competition. This was a remarkable setback for the First Amendment, not just the New Party. Over the previous two hundred years, the Court had been very careful to say no such thing.[2]

Alternative rules

There are many alternative rules of the game for choosing political officials in popular elections, and many variations in the details of any given general set of rules. Two general kinds of alternatives have been particularly important in discussions of how the American system of electing its officials might be made more democratic.

The first alternative is *proportional representation* (PR). In a PR system, electoral districts are represented by multiple elected officials rather than a single official. In the simplest form of PR, each party has a rank-ordered list of candidates and voters vote for the party, not directly for individual candidates. The party wins a proportion of the seats roughly equal to the proportion of votes. For example, if there are 6 representatives from

[2] One of us, Rogers, was the lead attorney for the New Party, and chair of it of at the time.

a district and a party gets 33% of the vote, then the top two people on its list get elected. In such a system, every party that receives votes among some minimum threshold gets representation in the legislature.

There are many variants and details of PR systems. Some systems dispense with geographical districts altogether: the legislature is selected from the entire geographical area of its jurisdiction on a proportional basis. Other systems combine representatives from geographical districts with at-large representatives. One particularly interesting form of PR allows voters to vote for specific candidates on different party lists. Through a complex procedure the ultimate distribution of elected officials reflects the proportional support for the different parties, but the specific elected candidates are chosen by the voters rather than by the parties themselves.

A second alternative to single-member districts with plurality voting is called *Instant run-off voting* (IRV). In an IRV system, elected officials are still tied to a specific geographical district, but they need a majority of votes – not a plurality – in order to win. One way of doing this would be to have two rounds of elections: in the first round you have many candidates, then the top two face each other in a second round of voting. This has the problem that if there are many more than three candidates in the initial, so the top two could themselves only represent a small proportion of the preferences of voters, and also it takes more time, effort, and resources to organize two rounds of voting. An alternative, then, is a single election in which voters rank-order as many of the candidates as they want to from their most to least preferred. Everyone's first choices are then tallied. If no one gets 50%f the votes cast, then the candidate with the fewest 1st rank votes is eliminated and the second choice of those voters are added to the remaining candidate's tallies. This procedure is continued until someone gets 50% of the votes. This simulates a much more expensive and cumbersome system in which there were multiple rounds of elections, one candidate being eliminated after each round.

In both PR and IRV systems, third parties have much more room for maneuver since voters have much less to fear that their vote for a minor party will inadvertently help a party they dislike. In an IRV system, voters who liked Nader in the 2000 U.S. Presidential election could have ranked Nader 1st and Gore 2nd knowing that their vote could not contribute to a Bush victory. Both IRV and PR would therefore considerably increase competition among parties. More people would feel their ideas and interests were given political voice and this would make it more likely that they would feel connected to the political process.

Electoral Districts

Is unlikely in the near future that there will be any major overhaul of the basic electoral rules of representation, and therefore Americans are stuck for the moment with single-member-district-first-past-the-post elections. But even here there are ways that the system can be made more or less unfair. One of the pivotal problems is what is called "gerrymandering" – the strategies for drawing the boundaries of electoral districts in such a way as to give advantages to one party or another.

An example is given in Table 17.3. Suppose you have a state with 6.3 million voters and 3 electoral districts. Suppose 4 million are democrats and 2.3 million are republicans.

And suppose the democrats are geographically more concentrated than are the Republicans. It might be possible to draw boundaries in such a way that the three districts would have equal populations as required by the principle of one-person-one-vote, but the Democrats would be highly concentrated in a single district:

-- Table 17.3 about here --

There are a number of strategies in redistricting to give advantage to one party or another: In *"packing"* lines are drawn to pack as many of your opponents voters into a single district; *"cracking"* splits your opponent's supporters into two or more districts to dilute support; and *"gerrymandering"* = drawing electoral district boundaries in very odd shapes to accomplish electoral goals. These are illustrated in Figure 17.2.

-- Figure 17.2 about here --

There are many examples of this kind of gerrymandering of electoral districts in United States history. One of the most notorious is the redistricting of the Texas Congressional Districts in 2003 after they had already been redrawn in 2001 following the 2000 census. Districts have to be redrawn every ten years to adjust for population changes. The 2001 redistricting map had been agreed to by both Republicans and Democrats. Then in 2002 the Republicans gained control of both houses of the state legislature in Texas and, on the urging of Ken Lay, the majority leader of the U.S. House of Representatives, the legislature decided to redraw the map again. The result were a number of bizarrely shaped districts which stretched for hundreds of miles along narrow strips in order to concentrate democratic voters in a fewer number of districts. One such district is illustrated in Figure 17.3

-- Figure 17.3 about here --

With some special exceptions (like using gerrymandering to eliminate the possibility of racial minorities getting elected), gerrymandering is entirely legal in the United States. Since in most states electoral districts are drawn by state legislatures, this means that once a particular party has strong control of the legislature it is able to draw district boundaries in such a way as to consolidate is power and prevent challenges. This clearly violates any principle of democracy as given all citizens equal access to the political process.

Money and Politics

Money plays a direct role in politics in two principle ways. First, money plays a critical role in lobbying, both legislators and administrative agencies responsible for translating legislation into specific rules and regulations. Legislators have limited staffs to study problems, work out policies, and acquire information. Well-funded lobbyists representing the wealthy interest groups and corporations are in a position to provide vast amounts of information and arguments to legislators. The same is true for administrative agencies, who often rely on trade associations of various sorts of data crucial for the formulation of regulations. While occasionally groups without much money are able to effectively mobilize people for effective lobbying efforts, money gives lobbyists a tremendous advantage. It is one of the important ways that the resource constraint operates in democratic politics.

But money also matters, crucially, for the heart of the democratic process: the election of people to public office. It costs an enormous amount to run for national public office and this necessity transforms the fundamental process of democratic competition. It is almost always the candidate that raises the most money that wins. While candidates still need to get votes, they have to chase dollars before chasing voters. This means that an enormous amount of time and energy of politicians is spent raising funds, and of necessity this means that politicians have to in one way or another try to appeal to the interests of potential donors. Sometimes this crosses the line to outright corruption, where there is a direct quid-pro-quo between donations and political favors. More generally the need to acquire campaign funds simply creates a general disposition to act in ways favorable to the interests of large donors.

The nature of the problem

One might think that if the reliance of politicians on monetary contributions from rich donors undermines democracy, then the solution is pretty straightforward: put serious, systematic constraints on how much money people can give to politicians and provide a good system of public finance of elections.

Unfortunately, in a crucial decision in 1976, *Buckley v. Valeo,* the Supreme Court basically ruled that restrictions on spending amounted to restrictions on free speech: governments are prohibited from regulating individual candidates spending from their own pockets or overall amounts spent on campaigns or limit "independent expenditures", particularly "issue ads" in favor of a candidate paid for by independent bodies. The reasoning was pretty simple: limiting spending is the equivalent of limiting ability to speak, and this constitutes an unconstitutional restriction on the first amendment guarantee of freedom of speech. Certain kinds of limits on direct individual contributions to specific candidates were still allowed, but there are many ways of getting around this and it has not proven to be an effective way of constraining the influence of wealthy donors on the political process. Since 1976 each attempt by Congress to legislate some kind of campaign finance reform has basically failed to solve the problem.

The result of the existing system is that candidates without strong financial networks or personal fortunes cannot run for office. The Senate is filled with millionaires. In 2006, according to the nonpartisan research organization Center for Responsive Politics, 58% of the members of the Senate were millionaires and the median net worth of all U.S. Senators was $1.7 million. A number of Senators are so rich that they can run their campaigns entirely out of their own pockets: Herb Kohl from Wisconsin proudly proclaims that he is "nobody's Senator but yours" because he is so rich that he does not need financial contributions.

Candidates generally get most of their money from wealthy individuals and corporations. In 2008 less than 1% of the adult population contributed $200 or more to political campaigns. The vast majority of these donors come from elites. A study of Congressional elections published in 2003 reports that of the individual donors to Congressional elections, 52% were business executives, 17% attorneys, 13% medical professions, and 11% education and media occupations. That leaves less than 10% of donors from all other occupation groups.[3] As the study notes, "if the donor pool looked like America, one might not care that a small number of donors provide so much of the funding for congressional candidates. But the donor pool clearly looks like an 'upper class choir.' Contributors to House and Senate campaigns are overwhelmingly rich and well-educated, and they are also overwhelmingly middle-aged white men."[4]

There is plenty of evidence that there is a strong correlation between the votes of politicians and their sources of funding: The 213 members of congress who voted to spend almost half a billion more on B-2 stealth bombers received on average nearly $2100 from the contractor; the 210 who voted against only got about $100.[5] This, of course, does not prove an explicit *quid-pro-quo.* These 213 members of Congress could be people who would have voted anyway for these kinds of policies even if there were no contributions from contractors. And, of course, contractors are more likely to contribute money to re-elect politicians who they know will vote for their interests for ideological reasons even in the absence of contribution. More generally, the fact that interest groups give large sums of money to sympathetic politicians does not prove that those politicians *change* their votes in order to get the money: the NRA is going to give money to gun supporters to help them get elected, but this does not prove that these candidates support the NRA *because* they get money from them. Still, as Barney Frank says, "we are the only human beings in the world who are expected to take thousands of dollars from perfect strangers on important matters and not be affected by it."[6]

What can be done?

The dominant approach to campaign finance reform can be called the patchwork option: adopting specific measures to deal with specific aspects of the problem. The McCain-Feingold reform of 2002 was designed to reduce certain particular kinds of abuses, but not really tackle the central issue. Even after the initial proposal was weakened to deal with objections it still had great difficulty getting passed. The reform imposes some constraints on "soft-money" -- money contributed for open-ended purposes to parties -- but it does not fundamentally break the link between private wealth and political influence.

A more promising line of reform is represented by measures like the *Maine Clean Elections Act*, passed as a citizen initiative in 1996 and first applied in 2000. A similar Act was passed in Arizona. Here is how the official website of the state of Maine describes the act:

> The Maine Clean Election Act (MCEA) established a voluntary program of full public financing of political campaigns for candidates running for Governor, State

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[3] Peter Francia et al. (2003) *The Financiers of Congressional Elections: investors, Ideologues and Intimates*. New York: Columbia University Press, Table 2.4.

[4] *Ibid.* p. 27

[5] Ken Silverstein, "US: The Northrop Grumman B-2 Boondoggle" *Multinational Monitor*, September 1st, 1997 (http://www.corpwatch.org/article.php?id=7831)

[6] Quoted by Paul Taylor, "Lobbyists' Success at Raising Funds Proves Costly," *Washington Post*, Aug. 2, 1983, at A2.

> Senator, and State Representative. Maine voters passed the MCEA as a citizen initiative in 1996. Candidates who choose to participate may accept very limited private contributions at the beginning of their campaigns….. To become eligible, candidates must demonstrate community support through collecting a minimum number of $5 checks or money orders payable to the Maine Clean Election Fund.[7] After a candidate begins to receive MCEA funds from the State, he or she cannot accept private contributions, and almost all goods and services received must be paid for with MCEA funds[8]
>
> Maine Clean Election Act (MCEA) candidates may receive matching funds based on their opponents' contributions and expenditures, and independent expenditures made by third-parties. The purpose of matching funds is to ensure that a candidate participating in the MCEA will not be greatly outspent by private campaign funds of a non-participating opponent or by independent expenditures.
>
> To determine whether a MCEA candidate is entitled to matching funds, the Commission will add the opponent's contributions or expenditures (whichever is greater) plus the independent expenditures made in favor of the opponent or against the MCEA candidate. If that sum is more than the amount of the initial distribution received by the MCEA candidate, he or she will receive matching funds.[9]

The program is entirely voluntary, so this does not put any caps on private spending and thus does not violate the Constitutional restrictions mandated by the Supreme Court. In spite of this, it has effectively marginalized private spending from Maine elections, since candidates who accept public funding have a potent argument against candidates who rely on private money. The very name “clean elections” implies that a candidate who refuses the clean money from the public must be using “dirty” money. In the 2008 general election, 81% of the legislative candidates participated in the MCEA.

Statutes for public financing like the MCEA work extremely well in small states with relatively small populations where the stakes in running for political office are relatively modest. It is less certain that this would be a satisfactory model for national elections. Furthermore, since the Maine system funds all candidates equally whether they are candidates of major parties with large followings or fringe extremist parties there are ways in which it violates the egalitarian norms of democracy: each *candidate* gets equal funding, but each *voter* is very unequally represented in the funding mechanism – voters of small, marginally parties have much greater per capita funding of their political organizations than voters of larger parties. If scaled up as a national program it would mean that small, marginal political parties would receive hundreds of millions of dollars of public funding.

Bruce Ackerman, a law professor at Yale Law School, has developed a provocative

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[7] The minimums are: 50 qualifying contributions for House candidates (at least $250), 150 qualifying contributions for Senate candidates (at least $750),3,250 qualifying contributions for Gubernatorial candidates (at least $16,250).

[8] http://www.maine.gov/ethics/mcea/index.htm

[9] http://www.maine.gov/ethics/mcea/matchfunds.htm

proposal for a comprehensive campaign finance reform that avoids these problems while still being consistent with the strictures of *Buckley v. Valeo*.[10] The basic idea is simple: At the beginning of every year every citizen would be given a special kind of debit card which Ackerman dubs a *Patriot Card*, but which we would prefer to call a *Democracy Card*. He proposes putting $50 in each card. With 220 million people above the age of 18 this would cost a total of roughly $10 billion per year. The funds on this card can be used exclusively for electoral campaigns: to contribute to a candidate for a specific electoral campaign or to a political party that participates in elections.[11] However – and this is the pivotal condition that makes this a deeply egalitarian proposal – any candidate or party accepting funds from democracy cards cannot accept funds from *any* other source. But why should candidates and parties opt for this restriction? Why not still court the fat cats and rely on private funding? There are two reasons for this: First, if the funding level of the democracy cards is sufficiently high, it will swamp other sources of funding. There simply will be much more money to be had through the democracy card "political market" than the private funding market, and since the two courses of funding cannot be mixed, most candidates will find it easier to raise funds from voters. Good money will drive out bad money. Second, once the system is in place and becomes part of the moral climate of political life, using private funding is likely to itself become a political issue. Candidates who rely on the democratic mechanism of seeking funding from equally endowed citizens will have a potent weapon to raise against candidates who seek funding from corporations and wealthy individuals. We have already seen this happen in the much more limited Clean Elections funding in Maine and Arizona.

The Democracy Card would set in motion a very different kind of electoral process. In effect, all elections would have essentially two phases: first, a phase in which candidates and parties attempt to recruit democracy dollars from citizens, and second, a phase in which parties and candidates would use those dollars in electoral competition. Of course, under current conditions electoral politics also have these two phases. Electoral campaigns in any democratic system require financial resources, so the question is whether the mechanisms available for providing these funds are consistent with democratic principles of political equality. Under the existing rules of the game, the first phase is a radically inegalitarian process: wealthy people and corporations are the major players in the game of recruiting funding. What the system of democracy cards does is restore a strong notion of political equality to both phases of the electoral process. In addition to one-person-one-vote in the casting of ballots, there is now one-person-one-card in the funding of elections. The mechanism therefore provides public funding for electoral politics based on a simple egalitarian principle – each citizen has exactly the same capacity to contribute financially to political activity – but it is citizens, not the state, which decide on the actual allocation of these funds to different political causes.

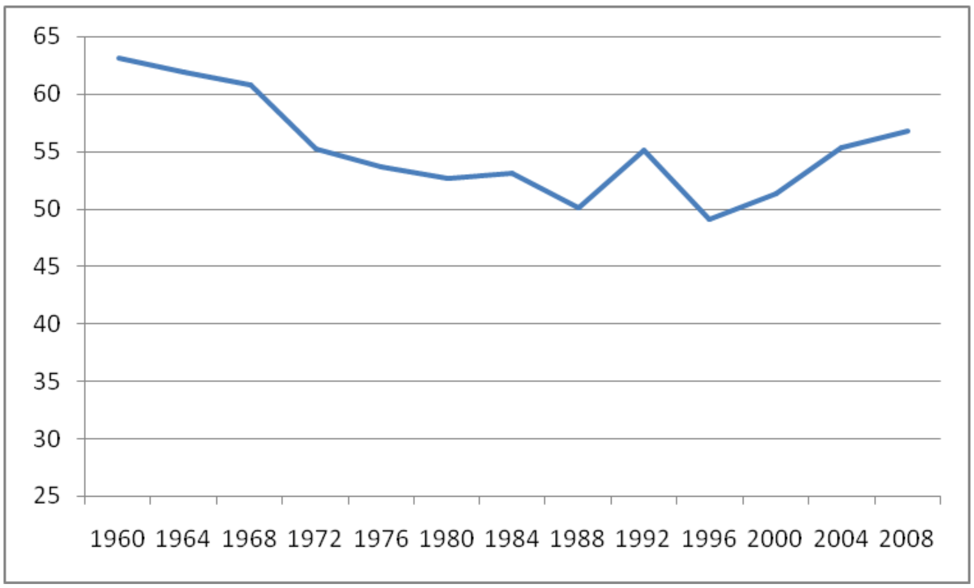
[10] Bruce Ackerman, *Voting with Dollars* (New Havens: Yale University Press, 2004).The exposition of Bruce Ackerman's arguments presented here draws heavily from Erik Olin Wright, *Envisioning Real Utopias* (London and New York: Verso, 2010), chapter 6.

[11] While the democracy card proposal is specifically directed at financing elections, a modified version of the proposal could allow funds to be used for other forms of political action – referenda, lobbying, social movements. The central issue is creating a mechanism in which inequalities generated in the economic sphere are less easily translated into inequalities in financial resources for actors in the political sphere.

A well designed system of public financing of electoral campaigns through system of democracy cards would largely remove private money from the political process, increase the involvement of ordinary citizens in all phases of electoral politics and thus deepen the political equality and efficacy of citizens.

FIGURES & TABLES

Presidential Elections



Off-year Congressional Elections

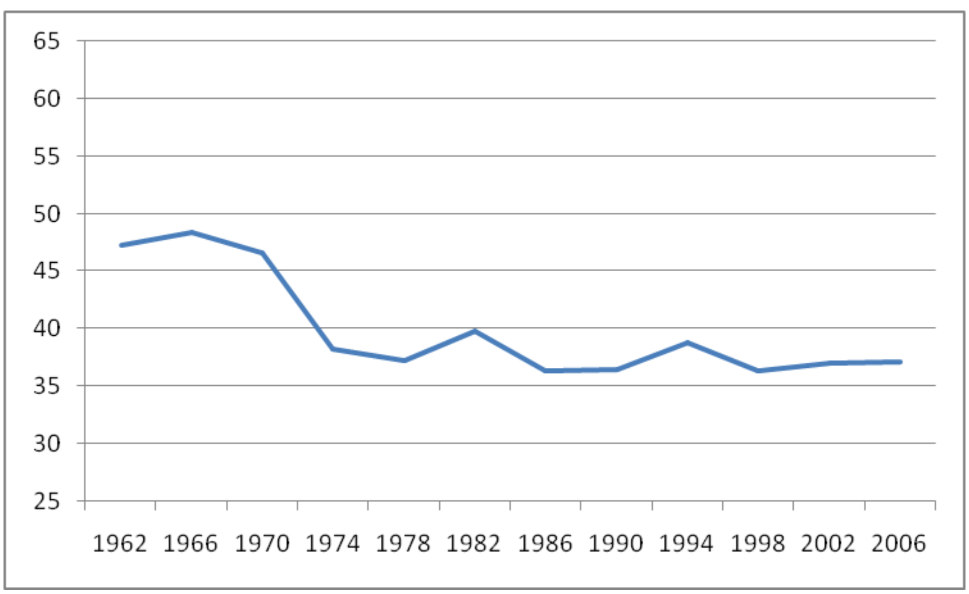


Figure 17.1 Voter Turnout in US National Elections, 1960-2008

Country	Compulsory	№	Turnout
Australia	Y	14	95%
Austria	N	9	92%
Belgium	Y	12	91%
Italy	N	9	90%
Luxembourg	N	7	90%
Iceland	N	10	89%
New Zealand	N	12	88%
Denmark	N	14	87%
Germany	N	9	86%
Sweden	N	14	86%
Greece	Y	10	86%
Venezuela	N*	7	85%
Netherlands	N**	7	83%
Costa Rica	N	8	81%
Norway	N	9	81%
Israel	N	9	80%
Portugal	N	9	79%
Finland	N	10	78%
Canada	N	11	76%
France	N	9	76%
United Kingdom	N	9	76%
South Korea	N	11	75%
Ireland	N	11	74%
Spain	N	6	73%
Japan	N	12	71%
India	N	6	58%
United States	N	9	54%***
Switzerland	N	8	54%
*Compulsory voting until 1998			
**Excludes pre-1968 elections, when voting was compulsory.			
***Only Congressional elections held the same year as presidential ones. Turnout rates for midterm election are approximately 10–15 percentage points lower than the general election immediately preceding it.			
Statistics from Mark N. Franklin's "Electoral Participation", in *Controversies in Voting Behavior* (2001). Includes only "free" elections.			

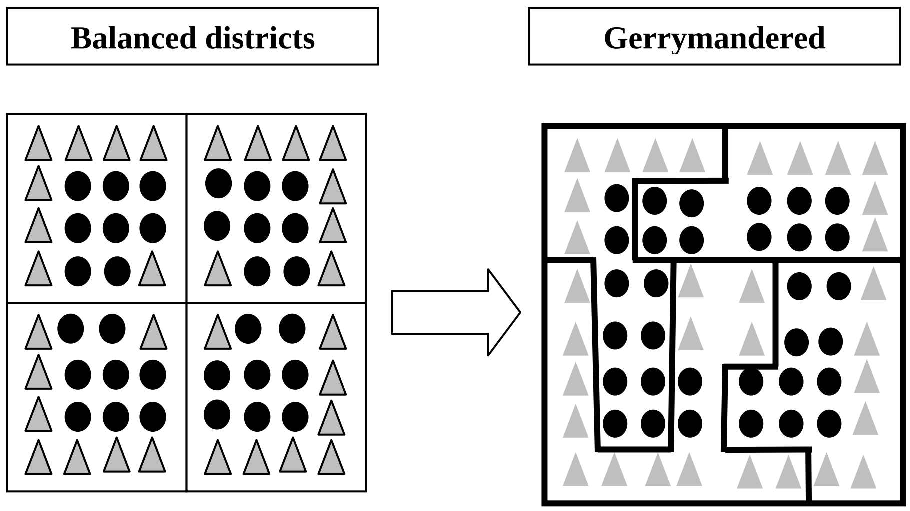
Table 17.1 Average voter-turnout, 1960-1995, in elections for national lower legislative house in countries with at least five elections

Party	Candidate	Share of Vote	Total vote for candidate
Democratic Party	Gore	35	52
Republican Party	Bush	48	48
Green Party	Gore	17	

Table 17.2
Illustration of a hypothetical presidential election with three parties under fusion voting rules

District Number	Democrats	Republicans	Winner in election
1	2 million	100,000	Democrat
2	1 million	1.1 million	Republican
3	1 million	1.1 million	Republican
Total	4 million	2.3 million	1 Democrat, 2 Republicans

Table 17.3
Illustration of effects of Gerrymandering on an election



Redrawing the balanced electoral districts in this example creates a guaranteed 3-to-1 advantage in representation for the circle voters. Here, 14 triangle voters are *packed* into the lower left district and the remaining 18 are *cracked* across the 3 other districts.

Figure 17.2 Illustration of the process of gerrymandering

Figure 17.3
Gerrymandering of the boundary of Texas Congressional District 25 in 2003

Chapter 18

Taxation and the attack on the Affirmative State

Final Draft, July 2009

What makes a society democratic is not simply that political officials are elected in a properly democratic manner, although that is obviously important. A democratic society is also one in which people have the power through their political institutions to make collective decisions over matters of public concern. Democracy is thus a question of the scope of public authority, not simply of the way that authority is exercised. A society is less democratic when the public domain is severely narrowed, and decisions with large collective ramifications are made privately. This implies, as we argued in chapter 16, that we can make a meaningful distinction between matters of public concern and private matters. This is certainly a difficult and hotly contested task, but whatever else "public" might mean, it includes the provision of a wide range of public goods and the regulation of the market in ways that minimize its negative externalities. To do these things, the state needs resources. In a capitalist society in which most of the economy is organized through privately owned enterprises and most income is earned through market activity, the way this is accomplished is through taxation.

This chapter explores the problem of taxation and the uses to which taxes are put by the democratic state. Taxation might seem to be a dry, technical topic, of concern mainly to specialists. This would be a mistake. Taxation is at the very core of how a democratic capitalist society like the United States works. It raises fundamental questions about the prospects for democracy and the conditions for fairness in societies in which so much power is vested in private property and the market.

We will begin by exploring different ways of theoretically understanding the idea of taxation and the problem of what it means for a tax system to be "fair." We will then look at taxation in the United States, examining a number of myths about the tax system. The chapter will conclude with a discussion of anti-tax politics and the assault on the affirmative state.

I. What is Taxation?

There are two sharply different ways of thinking about taxation:

(1) Taxation as the public taking resources *from* the private, and

(2) Taxation as *the division of the economic pie* between private and public shares.

In the first of these the economic pie is produced by private firms and individuals, and then the state comes in and coercively takes part of this pie for public purposes. In the second, the economic pie is the result of complex cooperation among people in both public and private spheres and then a set of rules are established to divide the pie between different purposes.

Taxation as the Public Taking from the Private.

This is the most common view. Here is how it goes. People work and earn an income through various activities. Some get their income in the form of a wage. Some get their income as a return on investments. Some get it by owning a business, employing others and making a profit.

Some people win the lottery and other play poker in Las Vegas. The important thing is that regardless how people earn their livelihood, this income is their personal, private property. If you earn it, it is yours and you have a right to it. The government, then, takes some of your income away from you for public purposes in the form of taxes. The tax level may be the result of democratic decisions, but it is still the case that the government has taken something which belongs to you away from you through taxes. There is thus always something a bit suspect about this. Somehow this taking away from you what is rightfully yours feels like an abridgement of your freedom, your liberty. Maybe this is still on balance acceptable, but only "on balance". The burden of proof is on the state to justify its need for your money. Indeed some people like to call the point in the year where you have earned enough to pay all of your taxes as "freedom day": up to that point you are working "for the government"; after that point you "working for yourself."

The extreme libertarian version of this understanding of taxation proclaims "*taxation is theft*". Grover Norquist, the conservative political analyst who played an influential role in the anti-tax movements of the beginning in the 1980s, explained that the state should not help the needy "because to do that, you would have to steal money from people who earned it and give it to people who didn't. And then you make the state into a thief….Taxation beyond the legitimate requirements of providing for justice is theft...."[1] So long as you yourself did not personally agree to things taxes are being used for – even if they were decided democratically – then the taxes you are paying are being coercively taken from you, and this makes it equivalent to theft. Most people do not agree with this rhetoric but they still accept the core intuition that what you earn is rightfully yours and this suggests that there is always something suspect about taxation.

Taxation as the division between public and private shares of total income.

An alternative way of thinking about taxation is to see taxation as a practical way of dividing up the total pie between private uses of income and public purposes. The "total pie" consists of all the goods and services produced in a society. It is the result of our combined, interdependent, collective effort occurring within a complex matrix of institutions, "public" and "private". It is a genuinely social product. No one is responsible for the fact that they are born into a highly productive, advanced industrialized society capable of producing so much. That is part of our collective heritage from the efforts and ingenuity of past generations. We collectively inherit this and together through a complex process of cooperation we produce "the pie". If you tried to produce your own income in isolation from this social context and social cooperation, your standard of living would plummet. If Bill Gates were born in the highlands of Peru he would not have become a multibillionaire. This is not to say that there is no meaning to the idea that individual effort matters and that individuals bear some responsibility for what they themselves contribute to this total pie. But the deeper reality is that each individual's contribution is so deeply dependent on the complexities of inter-dependence, social cooperation, and interactions that it is an illusion that we can meaningfully identify how much a given person produces and how much comes from those collective interactions.

So, we have a total social product and we have to devise rules for dividing it up for different purposes. In these terms, what we call "capitalism" and "democracy" are particular ways of organizing these rules for social cooperation and allocation. In this distinctive form of society – capitalist democracy – the social rules are such that most of the production of goods

[1] From an interview with Alain de Bottom in the 2004 television adaptation of his book, *Status Anxiety*.

and services is organized through privately owned firms separate from state institutions. Within this kind of society, this division is defended on the grounds of efficiency. Given this division, then, some mechanism needs to be devised to get resources to the state for public purposes. “Taxation” is the main device by which we organize this crucial public choice – how much of total social income to give to people for their private allocations and how much to use for public purposes. *Private consumption is just as much a deduction from public purposes as the public use of resources is a deduction from private consumption.*

If you think about taxation this way, then the resulting division may be desirable or undesirable, efficient or inefficient, conducive to human flourishing or harmful, but there is no meaning to the claim that people somehow really and truly “own” their income independently of the rules that govern these processes. In this way of conceiving taxation, it is still perfectly reasonable to say that taxes are too high – or too low – because the consequences of the division of total income between public and private uses may be undesirable or inefficient. If too much goes to public purposes, for example, people may not have much private incentive to work hard; if too much goes to private purposes, all sorts of important public goods may deteriorate. Too little spending on bridges increases the likelihood they will collapse. Too little spending on cleaning up toxic waste means that health may deteriorate. Too little spending on schools may mean that the labor force will be unprepared for new technologies, and so on. But these are practical considerations. It is not that high taxes are unjust or immoral; they may just be stupid.

It should be clear to everyone that in the United States, the first of these conceptions of taxation dominates most peoples’ views of the matter. This is reflected in much of the political rhetoric around taxes and tax cuts: As anti-tax conservative politicians are fond of saying: “you know better how to spend *your* money than do bureaucrats in Washington.” A tax cut lets you keep more of “your money.” Most people just assume that it makes sense to see taxes as a way for government to take something away form you that belongs to you.

Which of these views is “correct?” This is a difficult question to fully resolve. To answer it carefully would involve subtle philosophical issues about the nature of rights, private property, social justice and other matters, as well as methodological discussions about the way outputs are generated by the interplay of cooperation, individual action, and social instituions. While we endorse the second understanding of taxes, we won’t try to defend this here.

Regardless of one’s final judgment about which of these understandings of taxation is more adequate , there is a different set of questions which we can answer more simply: Who really benefits from a particular view of the problem? In whose interests is it to insist that taxation is a form of legalized theft? Is this understanding more in the interests of the rich and powerful? Average citizens? The poor? Whatever else one might say about these issues, one thing is clear: people who are well positioned to be able to acquire a high income from private transactions in the market have an economic interest in making very strong claims about their rights to that income and treating taxation as a coercive infringement.

II. The logic of Income Taxes

Now, let us suppose that we decide that taxation is legitimate, that in a democratic society it is right and proper for the democratically elected government to decide that a significant part of the total social product will be used for public purposes. Since the economy is itself organized in a capitalist manner – that is, it is a privately run economy – this means that in order to get resources for these purposes in one way or another income has to be taxed. We will first look at the theoretical problem of what it means to say that a a tax system is fair, and then look at the U.S. income tax system.

Alternative understandings of tax fairness

There are many different technical ways of gathering taxes. There are property taxes, corporate profits taxes, sales taxes, income taxes, payroll taxes. There are also fees charged for various government services which can be kind of a quasi-tax. For example, car registration fees are a kind of tax on driving a car, even though you only pay the fee if you have a car, particularly in a society in which nearly everyone needs a car to get around. In the earlier chapter on consumerism we briefly discussed the idea of a progressive consumption tax as a specific way of dampening excess consumption. We won't discuss the pros and cons of these alternative kinds of taxes here. All of these taxes are ultimately taxes on income, whether they are technically a direct income tax or some other kind of tax, since they have the effect of diverting a certain amount of income from private to public uses. The issue we will address is the underlying principles that make this division fair or unfair.

What is the fairest way of doing this? Since we have to allocate resources to public purposes, how should we distribute the burdens of paying for this? There are three main ideas for what would be "fair":

- Everyone pays the same tax. This is called a "poll tax". For example, every person could pay $5,000 a year in taxes regardless of the level of their privately earned income.
- Everyone pays the same proportion of their privately earned income as a tax. This is called the *flat* tax.
- Everyone should have the same *burden* – that is, everyone should experience the taxes they pay as an equal sacrifice from the standard of living that they can generate through the private capitalist market.

Few people think the first of these is fair since poll taxes affect the living conditions of the poor vastly more than the rich. There have been times and places where poll taxes were important. The ability to pay the poll tax was a condition for full citizenship. But in no contemporary capitalist society is a poll tax or a head tax an important form of taxation.

There is much greater debate between the second and third principles. Some political conservatives argue in favor of a flat tax on the grounds that it treats everyone equally: everyone pays the same proportion of their privately acquired income as taxes. Treating everyone the same seems like a fair principle, and, after all, even with a flat tax the rich will still pay most taxes. If there are 100 people who earn $30,000 a year and 10 who earn $300,000 a year, and everyone pays 10% of their income in taxes, those 10 people will still provide half of all revenues to the state. Or, to put it slightly differently: each rich person in this example pays for 5% of the costs of running the state, while each lower income person pays only .5% of those costs.

The third option treats the problem of fairness as a question of the real burden experienced by each person. The underlying idea sees contributions the way we would evaluate many ordinary situations of cooperation among people. Think of a situation in which a group of people of different ages and strengths are unloading a truck. How much should each person carry? The usual way people would answer this is to say that everyone should expend the same effort, experience the same burden from the task. Clearly this means that strong people should carry heavier loads.

What does “equal burden” mean in the case of taxation? Let us compare a person who earns $10,000 a year with a person who earns $100,000 dollars a year. A flat rate tax means that each person pays the same proportion of their earnings as taxes. Suppose the tax rate was 10% a year. The poorer person would then pay $1,000 in taxes and the rich person $10,000. Is this fair?

The third concept of tax fairness would ask whether or not in this case both of these people are making an equal sacrifice for the public good. The way to think about this is to ask the question in a slightly different way. Suppose that the person who earned $10,000 got a pay raise of $1,000, resulting in a new income of $11,000/year. This would mean that he or she would pay $100 more in taxes if the flat rate tax rate were 10%. Now suppose the rich person earned $1,000 more. How much of this $1,000 would cause the equivalent “pain” or sacrifice for the rich person as the $100 taxes deducted from the poor person’s extra income? Surely we don’t think that $100 matters as much for the rich person as for the poor person do we? Perhaps $100 for the poor person has the same bite as $800 for the rich person. This means that in order for their sacrifice in paying the taxes needed to pay for public goods to be the same, the rich person would have to pay 80% taxes on that additional $1,000.

The tax that is paid on the additional $1000 of income in our example is what is meant by the “marginal tax rate”. The word “marginal” here refers to the tax rate on additional income given the level of income one already has. Economists like to talk about the “marginal utility” of income. “Utility” is the economist’s way of talking about the satisfaction one gets from something. The *marginal* utility of income thus refers to how much additional satisfaction a person gets from earning additional income, given the level of income they already have. Once one’s income reaches a certain level, then the marginal utility of additional income begins to decline – that is, one gets less and less additional satisfaction from each additional dollar earned. What this implies in terms of the equal burden principle of tax fairness is that the marginal tax rate has to increase with income so that every person, regardless of income, will experience the same “disutility” (loss of satisfaction) from paying taxes. This is called a “progressive income tax.”

Now, it could be that a marginal 80% tax rate on incomes above certain level would not be politically feasible because of the power of the rich. They would put up such a fuss at this marginal tax rate and use their power to turn that fuss into political pressure, that it simply could not be adopted. Or it might be the case that at the equal burden level of taxation the rich person would stop working for that additional $1,000, and thus the 80% marginal tax might be inefficient. But this does not mean that it is unfair; efficiency and fairness are two different things. For a tax system to be fair in a society in which people receive very different incomes from the private market economy, the real burden represented by those taxes should be shared equally, and this means that tax rates should increase steeply with income.

The U.S. Progressive Income Tax: how it works

It will be helpful to quickly run through the mechanics of how the U.S. Federal income tax system works in order to further clarify the logic of a progressive tax system. Table 18.1 presents the marginal tax rates for U.S. Federal income taxes in 2008. In this table a “tax bracket” refers to the divisions at which tax rates change within a progressive tax system. They define the cut-off values at which income beyond that point is taxed at a higher rate. In 2008 there were 6 tax brackets, the highest being on incomes above $357,701 for a single person. In the example in the table, a person who has a taxable income of $90,000 would pay a total tax of $19,171, or a total tax rate of 21.3%. This is the result of combining the taxes for the income earned in each of the first four tax brackets.

-- Table 18.1 about here --

Complexities in the tax system

Once you have decided to have a progressive income tax of the sort represented in Table 18.1, you immediately face a host of problems that need solving. The first, and most basic, is “what should be included as ‘taxable income’?” Should it be every penny a person earns? Or should we allow a person to deduct certain kinds of costs from this total income before calculating? Some deductions seem completely obvious. One family has five children and has total household gross income of $40,000/year, another is a single person who also earns $40,000/year. Should they both pay the same tax? The equal burden idea suggests that the family with five children should pay less, and this means trying to figure out how much we should deduct from the $40,000 of that family. The deduction from total income that simply reflects the number of people supported by the income is called “personal exemptions”. In addition the US tax code includes what is called a “standard deduction” which is meant to reflect a certain amount of income that should not be taxed at all in every household. In 2008 the personal exemption was $3,500, and the standard deduction was $5,450). This means, in effect that for a single person, the actual tax rate would be 0% if the earned less than $8,950.

Once deductions are allowed, however, a door is open for a new kind of policy since it is now possible to create incentives for people to do things by allowing them to take tax deductions for certain kinds of costs. These deductions, in effect, become a form of disguised government spending. Consider charitable deduction. Suppose you earn $200,000 and you give $10,000 to a charity. If your marginal tax rate was 35%, you would normally have paid $3,500 in taxes on that $10,000 if you had kept that income and spent it on personal consumption. When you give the $10,000 to the charity, the government reduces your taxes by $3,500. What this means is that in reality it only cost you $6,500 to donate $10,000. In practice the government has spent $3,500 in taxes for the charity of your choice! This is exactly the same as if the government had a procedure whereby you received no tax deduction for charitable contributions, but the government would pay a charity a direct subsidy for every dollar you gave the charity based on your income tax bracket: if you sent $6,500 to the charity, the government would send it $3500. This is why such policies are referred to as “tax expenditures”: the government is subsidizing private charities through the use of the tax code.

Another very important example of tax expenditures is housing. One way to encourage people to buy homes, is to allow them to deduct their mortgage interest payments from their income. The more expensive the house, the bigger the mortgage interest payment and thus the bigger the deduction. The tax system, in effect, not only subsidizes private home ownership – which might be a good public policy – but subsidizes rich people more than everyone else. A person with taxable income of $50,000 a year and $10,000 a year in interest payments on a mortgage will get a tax subsidy of $2,500 (because of a marginal tax rate of 25%). A person with an income of $500,000 a year and $50,000 a year in interest payments will receive a subsidy of $17,500 (because of a 35% marginal tax rate). What's more, if you compare these tax subsidies for private housing with direct subsidies for public housing for the poor, as noted in chapter 12 in the U.S. there is vastly more subsidy for private homes of middle and upper income people than public housing for the poor. In the 2004 tax subsidies for homeowners were about 4 times greater than all subsidies combined for housing for the poor. These payments to homeowners must be considered real subsidies; they just take an indirect form.

The sum total of all of these deduction are often called tax "loopholes" – ways in which people can reduce their tax liability and legally avoid paying taxes. Some of these increase the fairness of the system – especially the deductions for having children and health care expenses. Others may be good public policy, such as the charity deductions or the mortgage deductions since it is probably a good thing to encourage private charity and home owning. But many of these loopholes end up being very clever devices for rich people to dramatically reduce their income tax obligations, and sometimes avoid paying taxes altogether. The tax code contains many complex mechanisms for calculating the depreciation of various kinds of assets, profits and losses from investments, various kinds of "costs" of doing business. With clever accountants and tax lawyers, these devices make it possible for many very wealthy people, especially those whose income is derived from investments and businesses, to virtually avoid paying any income taxes as at all. The specific ways in which tax policy and rules are created in the US, through a political system in which money plays a very big part in electing politicians, has encouraged the massive proliferation of all sorts of special provisions in the tax code creating tremendous complexity and special privileges.

Levels of taxation and fairness of its burden

Few issues are more contentious in American politics than taxation. Every time a new public program is proposed (with the exception of military spending), conservatives object on the grounds that it will raise taxes, which will dampen investments and harm our competitiveness with other nations. Defenders of government programs are referred to as "tax and spend liberals". The image that is created is that Americans are heavily taxed, that these taxes cripple American business, and that in any event most of these taxes are spent on wasteful endeavors.

What is the reality of taxation in the United States? The first thing to note is that compared to other developed capitalist countries, aggregate rates of taxation are quite low in the United States. Table 18.2 indicates the total taxation as a percentage of GDP in OECD countries in 2006. In the United States just under 29% of our total GDP was paid in taxes in 1999. Roughly this means that 70% of national income is allocated to private consumption and investment and under 30% to public purposes. In Canada, a country in many ways similar to the United States the figure is 33%, which is a little below the average for all developed countries. In Sweden the figure is almost 50%. Sweden is a prosperous capitalist country with a high standard of living for its citizens. Corporations are privately owned and they attract investments the same way they do in the United States – by offering acceptable rates of return. Yet half of the economic pie goes to the state through taxes to be used for public purposes compared to less than 30% in the United

States. Clearly there is nothing fundamentally incompatible with a much higher rate of taxation than in the United States and a well-functioning capitalist economy.

-- Table 18.2 about here --

What about the fairness of the tax burdens in the United States? We do have a progressive income tax which is at least nominally consistent with the equal-burden principle. On the other hand, there are a number of taxes that clearly fall more heavily on lower income people. Sales taxes are flat rate taxes on purchases, and since the poor consume a much higher proportion of their income than do the rich, this constitutes a higher proportion of their income. Social security taxes are also regressive. In 2009, the social security tax of 6.2% was paid only on the first $106,800 of earnings. This means that a person who earns $30,000 a year would pay a tax of 6.2%, but a person who earned $300,000 would have an effective social security tax rate of only 2.2%. This, like the sales tax, constitutes a much greater burden on low income people than on high income people. This doesn't even come close to an equal burden principle of tax fairness.

The unfairness of the tax system is particularly striking for local and state taxes. Table 18.3and Figure 18.1 shows the U.S. average state and local taxes as a share of family income for non-elderly married couples. For the richest 1% of families, state and local taxes average 7.9% of their family income. For the lowest 20% the figure is 12.5%.

-- Figure 18.1 and Table 18.3 about here --

What about the rates of taxation on labor market earnings and rates of taxation on returns to investments? From the point of view of individuals, income is income regardless of its source: however you get it, you can spend it as you wish. The tax system, however, treats income very differently depending on its source. A family with a net household income of $400,000 a year, pays a marginal tax rate on earnings of 35%. This means that if they earned an additional $100,000 they would pay $35,000 in additional taxes. If they sold some long term investments and made $100,000 dollars profit on the sale they would only be taxed at a rate of 15% on this additional income. This is called the "capital gains tax". Since income from capital gains goes disproportionately to wealthy individuals this again violates the equal burden principle of fair taxation.

Overall, then, we can say the following about taxation in America: First, the United States is not a heavily taxed nation. In dividing up the fruits of the collective productive efforts of Americans, less than a third is allocated to public purposes through the state. Since this is so much less than most other comparable countries, this suggests that from the point of view of the constraints created by living in a capitalist economy, there is considerable room for the expansion of taxation – for shifting the balance between public goods and private consumption – if there was a political will to do so. Second, the distribution of burdens in the American tax system falls far short of the ideal of equal sacrifice. Not only does the United States have the most unequal distribution of income of any developed capitalist country, but the beneficiaries of this unequal distribution do not pay their fair share of the taxes needed to fund the public goods and state regulations that sustain their advantages.

III. THE ATTACK ON THE AFFIRMATIVE STATE

Taxation is the way the state gets its resources in a capitalist society. Democracy depends crucially on what the state does with those resources. The unfairness of a tax system would be of less concern if what the state does with those resources is to counteract the inequalities and deprivations generated within the market and promote collective welfare through the provision of public goods.

The "affirmative state" is the term we use to describe a state that plays an energetic and positive role in the society in solving collective problems and advancing public purposes.[2] This includes a wide range of things: providing education, building infrastructure like roads and sewers, providing health care, public safety, subsidies for the arts and recreation, large support for scientific research and technological development, and so on. The affirmative state also involves regulations of various kinds of activity for the public good: regulation of pollution, health and safety in the workplace, food quality, truthful advertising, and many other things.

In the Twentieth century there were episodes in which the affirmative state has expanded, sometimes dramatically, and episodes in which it came under concentrated attack. The two biggest episodes for the expansion of the affirmative state in the 20th century were the New Deal in the 1930s and the Great Society in the 1960s. In both of these periods of reform, the affirmative state was expanded because of popular democratic mobilization – the union movement was especially important in the 1930s and the civil rights movement in the 1960s. These popular mobilizations lead to dramatic expansions of the government's role in society and, accordingly, a shift in the division of the total pie between private consumption and public purposes.

The quarter century beginning in 1980 witnessed a relentless attack on the affirmative state, an attack that tried to undo the popular gains of the previous half century and create a world in which democratic power played a much more marginal role in social affairs. While the attack was only partially successful, it has seriously undermined state capacity to deal with the challenges of the 21st century.

Arguments against the affirmative state

Well before coming to power with the Reagan election in 1980, conservative foundations and political analysts had been elaborating a series of arguments against the affirmative state. Three were particularly important and became central to the ideological justification of policy initiatives against the affirmative state beginning in the 1980s : taxation is fundamentally illegitimate; government officials have mostly malevolent goals; and governments are incompetent even when officials have good intentions.

The attack on taxation was a particularly important issue both because it had a certain real direct appeal to many voters who wanted to keep more of "their" money, and because delegitimizing taxes was an indirect way of undermining the state's capacity to do anything. Grover Norquist argued that the key purpose of massive tax cuts is primarily to "starve government". As he put it in a frequently cited quip: "I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the

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[2] This is not the conventional term used to describe the array of state policies and programs which we include in the expression "the affirmative state." We feel it is more appropriate than "the welfare state," since this term has come to have a quite narrow meaning around reduction of risk and services for the poor. We also prefer the "affirmative state" to the "interventionist state", which does not imply the kind of positive role for society as a whole that we envision.

bathtub."[3] To accomplish this requires the constant reiteration of the idea that taxation is oppressive, that taxes are too high, that the government is taking your money away from you. This attack on taxation was hugely successful, to the point that few politicians believe it is feasible to say in a straightforward way: "There are desperately important problems our society faces that can only effectively be solved through public action, and this requires resources. The only responsible way to provide these resources is through fair taxation. Taxes are too low in America." Even President Obama, while acknowledging in 2009 the need for new taxes to fund initiatives such as health care reform, felt compelled to say he would only raise taxes on the wealthiest top 5% of Americans and that most people would get a tax cut.

The second prong of the attack on government was to characterize government officials and those politicians that supported a more expansive view of government programs as mainly motivated by power for its own sake. Big Government, the argument went, does not have the interests of the country at heart, or even of the people who vote for politicians who support Big Government. Bureaucrats within an affirmative state are only concerned with accumulating power "in Washington" and imposing their values and priorities on everyone else. At its core, big government is an instrument of oppression.

The final line of attack challenged the competence of government to do anything well. The private market solution to problems and market provision of services is held up as efficient and responsible; government provision as incompetent and wasteful. Because firms within the market are driven by competition, good solutions thrive and bad solutions disappear. Government programs are immune from competition, and thus ineffective and wasteful programs continue out of inertia (buttressed by the self-interest of bureaucrats). Government regulations for the public good are denounced as heavy-handed bureaucracy mired in red tape that causes more harm than good. Even when the original purposes for a government bureaucracy are laudable – improved air quality, good education, better public transportation – government simply cannot deliver the goods. The combination of government malevolence and government incompetence means that even if there are various kinds of problems generated by imperfections of the market, government failures will almost always be worse than market failures.[4]

All of these attacks had public resonance, particularly in the absence of well organized, visible and articulate voices countering the arguments. Of course most people would rather pay lower taxes, so unless they are reminded that there are critical public purposes which depend on taxation and convinced that these public goods will actually be provided, then they are likely to be receptive to anti-tax arguments. In terms of government malevolence and incompetence, there are certainly examples of stupid regulations and bureaucracies that interfere unnecessarily with business. In order to prevent businesses from polluting, for example, there may be excessive paperwork imposed to track the disposal of toxic materials And many politicians and bureaucrats are certainly more concerned with advancing their careers and increasing their power than with the public good. It is always possible to find such examples. The question is whether such government failures should indict the very idea of government regulation and government

[3] Norquist made this statement in a report on National Public Radio, Morning Edition - Friday, May 25, 2001. http://www.npr.org/templates/story/story.php?storyId=1123439

[4] The noble prize economist Milton Friedman, for example, acknowledges that negative externalities are a significant problem within markets and further, that there are tendencies within some kinds of markets for firms to develop monopolistic power. Still, he argues, this may not justify government intervention if such intervention is doomed to fail. If the cure is worse than the disease it is better to just let things alone.

provision of public goods, or whether what is needed is reform and revitalization of democratic governance. Should the problems of the democratic affirmative state be dealt with by a retreat from democracy or a deepening of democracy? The answer by leading political forces in the United States from the last decades of the twentieth century to the beginning of the 21st century was a narrowing of democracy.

Taken together, these attacks crystallized into a doctrine of the appropriate role for the state that came to be known as "neo-liberalism." This is basically the idea that "free" markets, unimpeded by government regulations and government programs do a much better job at solving almost all problems than do states. While states do have a legitimate role in providing for national defense and protecting private property rights -- and thus neoliberals support a strong (and expensive) national defense and police and prisons to combat crime -- other activities of the state should be kept to a bare minimum. While the full force of neoliberalism was never put into place, it defined the basic terrain of political debate over the role of government and public policy from the 1980s.

In the course of the 1980s this conservative economic doctrine became linked to a range of cultural themes that were salient to social conservatives – especially opposition to abortion and homosexual rights, support for an expanded role of religion in public life, and the protection of rights to own and carry guns. This was not really a comfortable alliance, for the neoliberal economic position was rooted in libertarian desires for a largely passive, non-intrusive state, whereas social conservatives wanted the state to prohibit abortions, restrict the rights of homosexuals, control pornography, and promote religion. None of these positions fit with libertarian ideas. Furthermore, many social conservatives were working class people adversely affected by neoliberal economic policy and had material interests in line with a more expansive affirmative state. Nevertheless, the political alliance was forged in the 1980s and proved to be powerful and fairly cohesive for over two decades.

Strategies against the affirmative State, 1980-2008

Beginning with the election on Ronald Reagan, and continuing through the George W. Bush Administration, neoliberal ideas defined much of the terrain of political debate in the United States. Even during the Clinton period in the 1990s these principles were operative, if perhaps in a somewhat softened way. It was Clinton, after all, who proclaimed that "the era of Big Government is over" and who supported the deregulation of the banking and financial services sector in ways which helped create the conditions for the financial collapse of 2008. Of course, in practice actual policies were often half-baked compromises between neo-liberal principles and various kinds of political pressures, and there are certainly many instances where otherwise very conservative politicians nevertheless supported expensive government subsidies for various things when it suited their political interests. The strong support for agricultural subsidies by right-wing politicians in agricultural states and the support for subsidies for the oil industry by politicians from oil-producing states are just two notorious examples. Nevertheless, in spite of considerable hypocrisy and inconsistency, the anti-state principles of neoliberalism did shape much of the political agenda for a quarter of a century

Five clusters of policies attempted to put into practice the core ideas of the neoliberal agenda:

1. *Cutbacks in publicly funded programs*. The simplest way of undermining the affirmative state is simply to reduce funding for its core programs. Less tax money spent on higher education means higher tuitions, so large public universities begin to look more like private institutions, seeking private endowments and grants. Universities like the University of Michigan, The University of California at Berkeley, UCLA, the University of Wisconsin, and many others, receive less than 25% of their funding through direct state support. Less money spent on public education makes it more likely that parents who can afford it will seek private alternatives. Less money spent on drug treatment programs and mental health services means that the waiting lists grow long and people either go without treatment or seek alternatives through private services and charity. And in all of these cases, the deterioration of the services adds credibility to the accusation that the state cannot to things well.

2. *Deregulation*. One of the central mantras of the attack on the affirmative state is the need to reduce government regulation of the market. Regulations are attacked as increasing the cost of doing business, reducing competitiveness and, ultimately, hurting everyone. While it rarely happens that regulations are entirely eliminated, particularly since some regulations are so clearly in the interests of corporations themselves, many sectors of the economy have become much less monitored and constrained by democratically imposed rules. Before the 1990s, banks were quite restricted in the kind of financial services they could offer. The deregulation of banking resulted in the vast expansion of opaque and risky investments. The deregulation of airlines ultimately lead to a dramatic consolidation of airline companies, the complete domination of certain markets by single providers, and significant reductions in services to many smaller cities. As we will see in chapter 19. the deregulation of broadcasting and mass media lead to the elimination of local ownership of thousands of radio stations and the consolidation of huge media corporations controlling TV, newspapers, and radio, with a single corporation often dominating multiple sources of news in a given market.

3. *Lax enforcement***.** Rules and regulations of the state are not self-enforcing. They require government agencies to specify the details of the rules to be followed, gather information, monitor compliance, decide when an infraction matters, and so on. Without any change in the underlying legislation, a form of regulation can be gutted either by appointing administrators who change critical details of regulatory and enforcement policies, or by reducing the funding and staffs to such an extent that the agency becomes incapable of effectively enforcing regulations. Both have occurred since the early 1980s. The critical agency for monitoring and enforcing laws about labor unions in the United States is the National Labor Relations Board (NLRB). This is the body that certifies elections to form unions and responds to claims of abuses of employers. Since the Reagan administration the leadership of the NLRB has generally been very hostile to unions, and the funding has been cut to the point that the delays in hearing grievances about abuses mean that employers almost never have to worry about enforcement. Since the early 1980s, there has been a dramatic reduction in the number of inspectors for food safety. Some people argue that this has increased the risks of food-born contaminations. The Occupational Health and Safety Administration cut its inspection staffs for workplace health and safety. It has been estimated that there are now so few inspector that it would take fifty years for every workplace in America to be visited once. Fewer tax auditors in the Internal Revenue Service means less consistent enforcement of tax codes.

4. *Privatization*. The most straightforward strategy for undermining the affirmative state has been to shift certain tasks from the public to the private sphere. There was a time in the United

States in which water treatment plants, electrical utilities, garbage collection, and many other utilities were frequently owned directly by municipalities. The justification for this was that since these were natural monopolies, real competition was not possible and thus direct public ownership would be more efficient than private ownership. In the last decades of the twentieth century these utilities have been mostly sold to private corporations. Many ordinary government administrative tasks – accounting, clerical work, computer services, processing applications for a wide range of services (passports and visas, welfare, social security) – have been outsourced to private firms. This outsourcing has reached the point that the capacity of the government to directly do this kind of ordinary administrative work has declined significantly. While this has been done in the name of increasing efficiency, often the motivation is avoiding union constraints, since the public sector is much more heavily unionized than the private sector firms that takeover state functions. In some parts of the United States, major highways have been partially privatized through long-term contracts to gather tolls and maintain the roadway. Private for-profit prisons have become an integral part of the prison system. Private corporations provide a wide range of services for the U.S. military, including prisons, interrogations, security, convoys, as well as purely support activities like food, canteens, and housing. In Iraq by 2008 there were more employees of private military corporations working with the US military than there were American soldiers.

5. *Public-private partnerships in the delivery of social services*. One final, somewhat ambiguous strategy for weakening the affirmative state goes under the rubric "public-private partnerships". [5] Sometimes instead of simply divesting itself of certain responsibilities, private sector organizations are invited to be "partners" with government in the provision of services of various kinds. After the welfare reforms in 1996, in many states the actual administration of welfare services to the poor were run by private sector organizations. Some of these are non-profit organizations, but others are ordinary for-profit firms that take over these state services. In the 1990s, Lockheed-Martin, one of the major corporations producing military armaments, took over a significant portion of the welfare services for the poor in Texas and a number of other states. Charter schools and various kinds of school voucher programs allow for public schools to be run by private organizations, including sometimes by for-profit, market-driven education-service firms. In all these instances the private sector partners are nominally supervised by public agencies, but frequently such supervision is so lax that the service in question becomes much more like a private sector activity. The ambiguity in this strategy of weakening the affirmative state is that sometimes these partnerships open the door for genuine, democratic participation by communities that would otherwise be excluded and alienated from politics. When this happens, there is the potential for revitalizing democracy rather than undercutting it. We will examine this possibility in chapter 23.

Taken together, these policies constituted a retreat of democracy and an enlargement of privatized ways of organizing social life. The retreat never went so far as to fully dismantle the affirmative state, but it did significantly weaken the regulatory capacity of the state and its ability to raise resources for public purposes.

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[5] For a good discussion of the relationship between public-private partnerships and the erosion of democracy, see Dorothy Holland, et. al., *Local Democracy Under Siege: Activism, Public Interests, and Private Politics* (NYU Press, 2007)

When the balance of political forces began to shift in the mid-2000s, culminating in the defeat of the Republican Party in national elections in 2006 and 2008, supporters of a revitalized affirmative state thus faced very serious obstacles to expanding the scope of public goods and collective problem-solving. The issue is not, at its core, that the severity of the economic crisis of this period meant that the society could not "afford" expansive programs. The level of taxation in the United States is sufficiently low compared to other countries that there is no reason to believe that a higher tax equilibrium was impossible for strictly economic reasons. The problem is mainly political and institutional, not economic. The political coalition for decisively shifting priorities from private consumption and investment to collective needs and public goods was still relatively weak and fragmented, and no broad consensus for a longer term strategy of high taxation for public purposes had been forged. Institutionally, the hollowing out of the state of the previous quarter century meant that the administrative capacity of the state had seriously weakened to be able to effectively gather information and run new programs. Whether or not the political will and energy exist to rebuild state capacity and construct a more publicly-weighted balance between the public and private division of the economic pie is uncertain.

FIGURES AND TABLES

Bracket 1. 10% on income from $0 to $8,025
Bracket 2. 15% on income from $8,026 to $32,550
Bracket 3. 25% on income from $32,551 to $78,850
Bracket 4. 28% on income from $78,851 to $164,550
Bracket 5. 33% on income from $164,551 to $357,700
Bracket 6. 35% on income $357,701 and above

Example: A person who has $90,000 in taxable income will pay total income taxes of $16,171, or a total rate of 21.3%, as a result of paying taxes within the first four tax brackets as follows:

Income Bracket	Income earned in this bracket	Tax rate within brackets	Tax due
1	$ 8,025	10%	$ 802
2	$24,524	15%	$ 3,679
3	$46,299	25%	$11,575
4	$11,149	28%	$ 3122
Totals	$90,000	21.3%	$19,171

Table 18.1
An illustration of the U.S. income tax brackets, 2008 tax rates

Denmark	49.1	Portugal	35.7
Sweden	49.1	Germany	35.6
Belgium	44.5	Poland	33.5
France	44.2	Canada	33.3
Norway	43.9	Ireland	31.9
Finland	43.5	Greece	31.3
Italy	42.1	Australia	30.6
Austria	41.7	Slovak Republic	29.8
Iceland	41.5	Switzerland	29.6
Netherlands	39.3	**United States**	**28.0**
United Kingdom	37.1	Japan	27.9
Hungary	37.1	Korea	26.8
Czech Republic	36.9	Turkey	24.5
New Zealand	36.7	Mexico	20.6
Spain	36.6	OECD Europe	38.0
Luxembourg	35.9	OECD Total	35.9

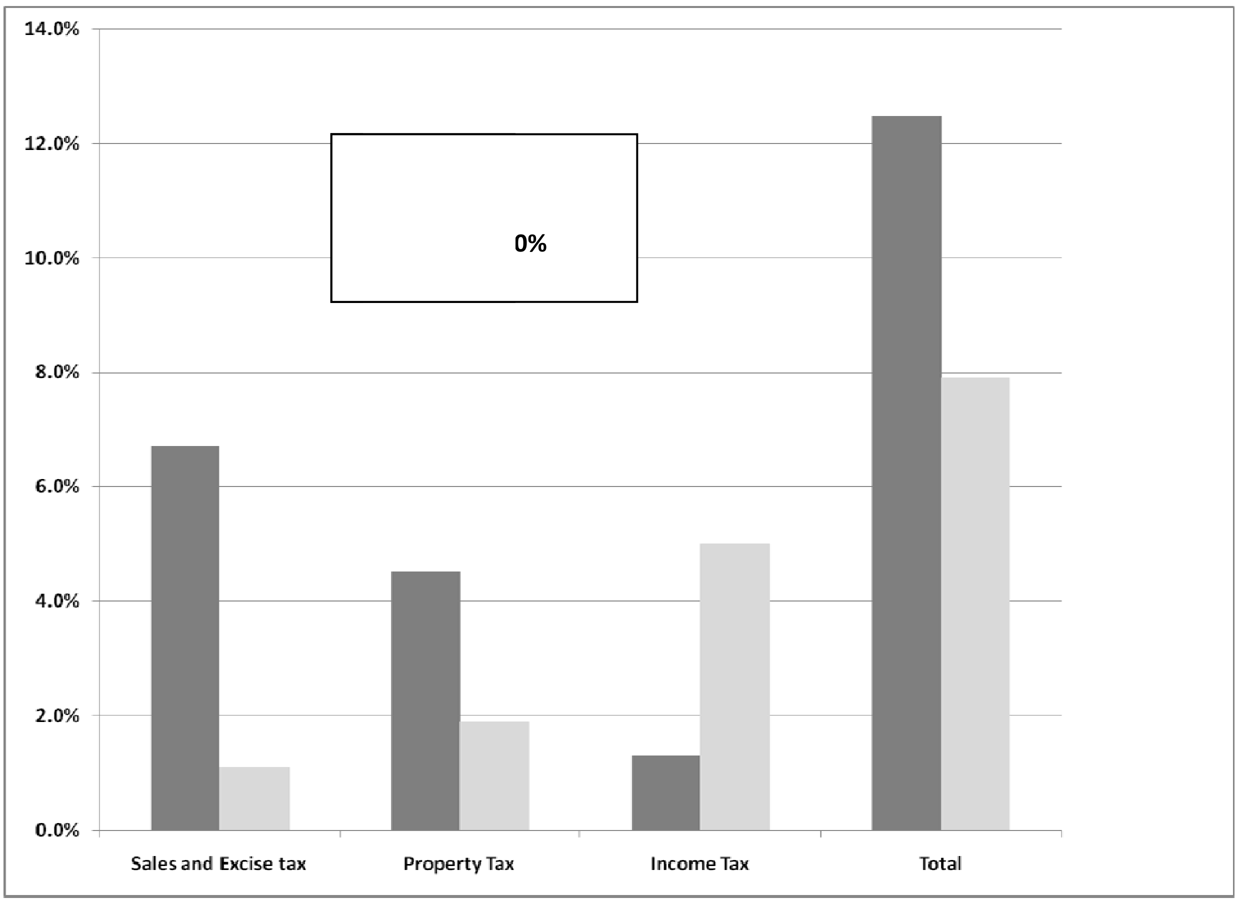
Source: OECD: *Revenue Statistics 1965-2007, 2008 Edition*

Table 18.2 Total tax revenue as percentage of GDP, 2006

	Income Group	
	lowest 20%	Top 1%
Sales & Excise Taxes	6.7%	1.1%
Property Taxes	4.5%	1.9%
Income Taxes	1.3%	5.0%
Total	12.5%	7.9%

Source: Field Guide to the American Economy, p.95

Table 18.3 U.S. average State & Local taxes as share of family income (for non-elderly married couples)


14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
0%
Sales and Excise tax
Property Tax
Income Tax
Total

or

Chapter 19

Corporate Control of the Media

Final Draft August 2009

So far in our discussion of democracy we have focused directly on the institutions of the state itself: how elections are organized, how taxes are gathered, what kinds of policies are pursued and opposed, and how the functions of the state can be expanded or narrowed. But democracy is not just about what happens in the state. It also concerns a wide range of issues centering in what is often called "civil society", the areas of social life outside of the state where people meet to discuss issues, form their political views, join together for collective action. A central issue in the health of democracy concerns the vibrancy of civil society, and a key issue for this is the problem of information.

Few people would disagree that information is pivotal for a democratic, free society. When dictators seize power one of the first things they do is seize the TV stations and close down opposition newspapers. As is often said, a free press is essential for a free society. More broadly, the way the media and communication -- newspapers, magazines, television, radio, the arts, etc. – is owned, produced and controlled has pervasive consequences for the character of public debate, the attitudes people form towards social issues and social conflicts, and ultimately the possibilities for various kinds of social change to occur in a democracy. The problem of how the mass media is controlled, therefore, is a fundamental problem for a democratic society.

At the heart of the problem of the media and democracy is the problem of the control over the production and dissemination of news. However, other aspects of the media and communication, including movies, novels, music, theater and television entertainment, are also critical for public debate and democracy. The arts are one of the key ways that issues of public concern get articulated and made salient to democratic processes. Right after closing opposing newspapers, dictators control the arts. While in this chapter we will focus on issues surrounding the democratic press, the analysis is also relevant to broader question of the production and dissemination of ideas and art in a democratic society.

MARKETS AND THE MEDIA[1]

While everyone acknowledges that a "free" press is essential for a "free" society, there is considerable ambiguity about precisely what the word "free" means. The standard view is that the "free" in free press means a press that is *free from government control*, and this, in turn, means a *free market* press. A free market press serves the interest of a free society, the reasoning goes, because market competition will guarantee an open arena for the exchange and

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[1] This discussion draws heavily from Robert McChesney, *Corporate media and the threat to democracy* (7 Stories Press, 1997); *Rich Media, Poor Democracy: communication politics in dubious times* (The New Press, 1999) and *The Problem of the Media: U.S. Communications Politics in the Twenty-first Century* (Monthly Review Press, 2004)

dissemination of ideas. The metaphor of the market permeates such discussions: the free marketplace of ideas is a standard way of talking about open debate and unimpeded dissemination of opposing views. And, just as in the ordinary market of capitalist competition in material products, the free market press and the free marketplace of ideas is seen by many people as the best ways of insuring that the best ideas survive the competition. This serves the public interest by maximizing the chance that lies and misinformation are exposed and that citizens can hear all sides of arguments and thus develop their own well-informed opinions on matters of public importance. In this view of things, the greatest threat to a free press is government authority, government control and censorship.

There are four basic problems with these standard arguments for the free market as the guarantor of a free press serving the public interest.

The first problem centers on the simple and obvious fact that the owners of mass media companies have the power to control the content of what the media produces. "In commercial media," Robert McChesney writes, "owners hire, fire, set budgets and determine the overarching aims of the enterprise. Journalists, editors and media professionals who rise to the top of the hierarchy tend to internalize the values, both commercial and political, of media owners."[2] The political views of the owners of a firm that produces lawn mowers are unlikely to have much effect on the nature of the lawnmowers produced, but the political views of the owners of newspapers and television networks are likely to matter a lot for the character of the information these firms produce and disseminate. The owners of media companies may, of course, abdicate that control or delegate such control to the people they hire. In principle they could give complete autonomy to editors and reporters to determine the character of the news. But since owners and corporate executives generally have political views on the salient issues in the press, and since they have the right to influence the operation of the firms they own, they typically exercise broad control over the character of news reporting: what issues get dealt with and which are ignored; which "experts" are quoted and which are not; what sorts of explanations are taken seriously and which are dismissed. The firms that produce major newspapers and news broadcasts are large and powerful corporations, and their owners are very wealthy. It should come as no surprise to anyone that if the mass media is mainly owned by very rich people and run by very large corporations, that this will significantly affect the perspectives embodied in news reporting. While news organizations are perfectly prepared to report particular scandals and abuses by corporations and wealthy individuals, the conservative pro-business ideological slant resulting from the capitalist character of news organizations insures that overall such news organizations are unlikely to report news that is broadly hostile to corporate capitalism and the American elite.[3]

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[2] Robert W. McChesney, *The problem of the Media*, p. 100.

[3] Conservative talk-show radio and political analysts have relentlessly argued that the national media has a strong "liberal bias". While it is true that journalists tend to be relatively liberal, especially on social issues, according to McChesney (*The problem of the Media* ,p. 102) surveys show "that media owners and editorial executives vote overwhelmingly Republican." Journalists may be more liberal than their editors, but this does not get translated into a consistent liberal bias in actual news reporting, and certainly not an anti-business bias. The popular impression that

The second problem, which makes the first problem more serious, is that the free market argument assumes that the market for media products, especially news, is highly competitive. If it were the case that there were few barriers to entry to media markets and that people from all social classes could easily come together to create viable news organizations, then the pro-business bias of the mass market press would probably be weaker. This might have been the situation in the 19th century, when dozens of newspapers competed with each other in major cities. It is certainly not the case today. Most cities in the United States have only one important newspaper, and most major newspapers are part of large newspaper chains owned by large corporations rather than by local people. The ownership of television news is even more concentrated, with a very few corporations controlling all of the major networks and cable news channels. Chart 19.1 lists the six largest media corporations in America. The biggest, G.E., had 2008 revenues of $183 billion and media-related holdings which included television networks NBC and Telemundo, Universal Pictures, Focus Features, 26 television stations in the United States, and cable networks MSNBC, Bravo and the Sci Fi Channel. This is a corporation at the heart of the capitalist economy, as are the other large corporations that dominate the media.

What about the Internet? The Internet is filled with news blogs and news sites, and some of these have a fairly wide following. Occasionally some of these sites play an important role in breaking a news story. It is possible that in the future news gathering and reporting on the Internet could provide a meaningful counterweight to corporate dominated news organizations, but this has not happened yet. The problem is that it is extremely expensive to engage in serious news gathering, investigating and reporting. Internet news organizations that are unaffiliated with large capitalist corporations do not have access to the revenues needed for this.

The third problem with the identification of the free press with the free market is that newspapers and television stations owned by capitalist corporations make money almost entirely because of advertising. The central profit-making goal of owners, therefore, is to attract advertisers. Actually selling newspapers or attracting viewers matters mainly to the extent that this is translated into attracting advertisers. This dependence on advertising has a number of systematic consequences for the production of news. The marketing objective of the media is to be viewed by people *who are as attractive to advertisers as possible* and in general this means that media owners want their newspapers and television news programs to be consumed by affluent people who buy lots of stuff. The news is thus geared to what is of interest to the affluent, not the average person. As Robert McChesney, the leading academic critic of corporate domination of the media, puts it, the media market is "predicated upon one dollar, one vote. Affluent people therefore have considerably more 'votes' in determining the course of the media system, while the poorest people are effectively disenfranchised".[4] News that is relevant to the "public interest" or "common good" is generally marginalized unless it is also of interest to affluent readers and viewers. Also, because the media depends on advertising, news that might

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the press has an anti-business, left-wing bias should therefore not be understood as a credible position based on careful empirical research of actual news stories and reporting, but rather as a strategy of intimidation of the press by right-wing commentators, especially talk-show radio-hosts, rather than as a

[4] Robert W. McChesney, *The problem of the Media*, p.200.

be offensive to important advertisers is unlikely to be broadcast. Quite apart from any political biases the owners of the media might themselves have, their direct economic interests insure that they will be concerned not to offend or alienate affluent consumers or advertisers.

The final problem in a free press rooted in corporate capitalism centers on the role of cost-cutting in profit-maximizing strategies of corporations. All organizations with budget constraints, not just capitalist corporations, have to worry about costs, but the problem of cost-reduction becomes especially pressing in profit-maximizing corporations. When newspapers were a family-owned business, the owners could balance their desires for profits with their commitments to the newspaper and its public role. They had to cover their costs of production, but they did not have to maximize their profits. When a newspaper becomes part of a massive corporation owned by stock-owning investors with no particular commitment to any single kind of product, the "bottom line" becomes a much more pressing concern.

Cost-cutting pressures have a significant impact on the quality of news, even aside from the problem of specific ideological biases. One way of reducing costs is for news organizations to rely mainly on material from syndicated sources and celebrity journalists rather than in-house journalists. The media critic Robert McChesney explains the problem this way:

> To do effective journalism is expensive and corporate managers realize that the surest way to fatten profits is to fire editors and reporters and fill the news hole with inexpensive syndicated material and fluff. The result has been a sharp polarization among journalists with salaries and benefits climbing for celebrity and privileged journalists at the elite news media while conditions have deteriorated for the balance of the working press.[5]

Another way of reducing costs is for journalists to rely heavily on public relations documents, press releases, and news conferences as the primary source of news information. Reporting on artificially contrived news events become a substitute for investigating real events for the news. What, after all, is a "press release"? It is information carefully crafted by elites to present a particular view of what is happening. When newspapers rely primarily on such sources for the news, in effect news is being generated by elites in their interest rather than by reporters directly examining events. Robert McChesney estimates that public relations and press releases now account for somewhere between 40% and 70% of all "news" reports.

The drastic cost cutting pressures underwrites a downward spiral within the newspaper business: The absorption of newspapers into the portfolio of large corporations increased the drive to maximize profits by cutting costs; a central strategy of cutting costs was to drastically reduce staff by laying off reporters and news analysts; this reduced the quality of newspapers, making them less interesting and useful; this reduced subscribers, which made the newspapers less attractive to advertisers; the reduction in advertising revenue increased the pressure of newspapers to cut costs; and so on. As John Nicols and Robert McChesney put it, "Mired in debt and facing massive losses, the managers of corporate newspaper firms seek to right the sinking ship by cutting costs, leading remaining newspaper readers to ask why they are bothering to pay

[5] *Corporate media and the threat to democracy*, open pamphlet series, 7 Stories Press, 1997

for publications that are pale shadows of themselves. It is the daily newspaper death dance-cum-funeral march."[6] By 2009 nearly every major newspaper in the country was in a state of financial crisis, many faced immanent bankruptcy, and a number of important regional papers had ceased publication.

Taken together, these four processes undermine the autonomy and effectiveness of the news media as the "fourth estate" of the political system serving the public interest by helping to create an informed citizenry. Reporters and editors, even when they personally believe in the professional ethics of neutrality and objectivity, are severely constrained by the interests and orientations of the owners and business executives of media corporations and the commercial advertisers that are their main source of profits. A truly free press must be free from the domination of any sources of concentrated power, including the power of corporations, not just the power of the state.

DEREGULATION: THE CASE OF RADIO

All of the issues we have been examining become worse as ownership of media outlets become concentrated in larger corporations. One of the most striking examples concerns the patterns of ownership over radio stations. When radio first began in the United States it was not at all clear that it would be dominated by commercial broadcasters. The airwaves broadcast spectrum had to be publicly regulated in one way or another, for otherwise the radio signals of firms would constantly interfere with each other, but there were many possibilities about how this should be done. Selling or auctioning off the spectrum to private corporations was one possibility. Leasing the broadcast spectrum from the public is another. Significant portions of the spectrum could be reserved for public use. In the early 1930s when these issues were actively debated there were influential proponents of the idea that the spectrum should be mainly allocated to non-commercial broadcasters, and it was far from obvious that the optimal solution was to turn specific parts of the spectrum into private property. Even in a capitalist country like the United States, after all, we do not turn all public resources that have potential commercial value into private property. All navigable rivers, for example, are permanently retained as public property. Imagine what it would be like if particular portions of the Mississippi River were sold off to private owners who could then decide who could or could not use the river and at what cost?

In the U.S. these issues for the broadcast spectrum were initially resolved in the 1934 Communications Act which basically privatized most of the airways, but did so in a way that also affirmed the on-going public character of the resource. Broadcasters were given renewable licensees for fixed terms that gave them exclusive use of specific parts of the radio spectrum, but they were also described as "trustees" who had to serve the "public interest" rather than simple, outright owners with full private property rights. Critically, the provisions of the original 1934 Communications Act severely restricted the number of radio stations a single firm could own in

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[6] John Nichols & Robert W. McChesney, "The Death and Life of Great American Newspapers", *The Nation,* April 6, 2009

a given broadcasting market, as well as the total number of stations a firm could own across markets. The idea behind these restrictions was quite simple: concentrations of ownership would threaten the public functions of the airways, reduce local responsiveness and diversity.

These ownership rules remained largely intact until the Telecommunications Act of 1996. That Act lifted nearly all restrictions on ownership. Historically radio has been one of the most competitive segments of American media. In the early 1990s, no firm owned more than a dozen or so of the over 10,000 radio stations in the country, and no more than two in a single market. Following the Telecommunications Act, there was a truly massive elimination of locally owned and controlled radio stations. Within a decade after the restrictions were lifted, one radio station company – Clear channel – owned some 1200 stations nationwide and accounted for over 25% of all radio broadcasting revenues nationally. As shown in Figure 19.2, together with Viacom by 2001, the two top parent companies of stations controlled 42% of listeners and 45% of industry revenues nationwide. Jenney Toomey, a media critic and musician wrote in *The Nation* in 2003 that "Even more bleak is the picture at the local level, where oligopolies control almost every market. Virtually every local market is dominated by four firms controlling 70 percent of market share or greater. In smaller markets, consolidation is more extreme. The largest four firms in most small markets control 90 percent of market share or more. These companies are sometimes regional or national station groups and not locally owned."[7] As a consequence, radio programmers in corporate headquarters make the decision about what music to play across the country. Local news disappears from most radio stations. We are rapidly approaching a situation in which there will be a virtual disappearance of the locally owned, community-oriented radio stations.

It is important here to understand that this concentration of ownership is not the result of substantial technological or economic efficiencies in having hundreds of stations owned by a single corporation. It is cheaper to produce automobiles in a few large corporations than for every town to have its own automobile manufacturer. This is called an "economy of scale". This is simply not the case for radio. It is not that expensive to have and run a local radio station. The problem is getting access to an adequate revenue stream through advertising. With deregulation, big chains with more powerful stations can monopolize the advertising and squeeze out smaller local stations. An owner of 500 stations is not markedly more efficient than an owner of 1 in actually running a radio station. What is more efficient is ability to attract advertising and this makes it very hard for the owner of a single station to compete. This is one of the reasons why the rules for owning stations was heavily regulated: if we want a locally rooted system of radio broadcasting, then it is necessary to block large corporations for owning unlimited numbers of stations. If they do, they suck up all of the advertising dollars and drive local stations out of business.

[7] "Empire of the Air," by Jenny Toomey, *The Nation*, January 13, 2003

REVITALIZING A DEMOCRATIC FREE PRESS

At the end of the first decade of the 21st century the future existence of a vibrant free press needed for a robust democracy cannot be taken for granted. Newspapers are in crisis. Dozens of papers have folded. The remaining newspapers have drastically cut their staffs. Here is how John Nichols and Robert McChesney describe the crisis in early 2009:

> In a nutshell, media corporations, after running journalism into the ground, have determined that news gathering and reporting are not profit-making propositions. So they're jumping ship. The country's great regional dailies—the *Chicago Tribune*, the *Los Angeles Times*, the *Minneapolis Star Tribune*, the *Philadelphia Inquirer*--are in bankruptcy. Denver's *Rocky Mountain News* recently closed down, ending daily newspaper competition in that city. The owners of the *San Francisco Chronicle*, reportedly losing $1 million a week, are threatening to shutter the paper, leaving a major city without a major daily newspaper. Big dailies in Seattle (the *Times*), Chicago (the *Sun-Times*) and Newark (the *Star-Ledger*) are reportedly near the point of folding, and smaller dailies like the *Baltimore Examiner* have already closed. … Whole newspaper chains--such as Lee Enterprises, the owner of large and medium-size publications that for decades have defined debates in Montana, Iowa and Wisconsin--are struggling as the value of stock shares falls below the price of a single daily paper.[8]

Many of the most prominent national and regional papers used to have foreign news bureaus as well as bureaus in Washington. Many of these, too, have been closed. Radio news reporting, aside from National Public Radio and some independent, community-based stations, has almost disappeared. Television news has shrunk considerably, and in any case is controlled by some of the largest corporations in America. This configuration of power and organization of the press greatly weakens its role in fostering informed and engaged citizens in a democratic society.

So, what can be done? The starting point for seeking a solution is to recognize that a vibrant press engaged in serious journalism in the public interests is a *public good*. A public good, as explained in our exploration of capitalist markets, is a good whose production has positive effects on society beyond the effects on the specific people who directly consume the good. Because of the way it strengthens democracy, a vibrant and healthy free press – free from both government control and domination by powerful corporations – benefits most people, even people who aren't interested in the news, do not read newspapers, and remain politically passive. The capitalist market usually does a bad job in producing public goods because the profit-maximizing strategies of firms cannot give adequate weight to these positive, universal benefits. As a result, public goods require direct public support to be produced. This is as true for the press as for other public goods.

Treating the free press as a public good has roots going back to the very founding of the

[8] John Nichols & Robert W. McChesney, "The Death and Life of Great American Newspapers", *The Nation,* April 6, 2009

American Republic. The U.S. Constitution explicitly gives Congress the power to establish Post Offices, and one of the very earliest acts of Congress was the Post Office Act of 1792. One of the central purposes of the postal service was precisely to provide public support for mass communication and subsidy for the press. "The Crucial Debate in the 1792 Congress, "Robert McChesney writes,

> Was how much to charge newspapers to be sent through the mails All parties agreed that Congress should permit newspapers to be mailed at a price well below actual cost – to be subsidized – to encourage their production and distribution. Postal subsidies of newspapers would become perhaps the largest single expenditure of the federal government. In Congress, the range of debate was between those who wished to charge newspapers a nominal fee for postage and those who wanted to permit newspapers the use of the mails absolutely free of charge….James Madison led the fight in Congress for completely free mailing privileges, calling even a token fee a 'tax' on newspapers that was "an insidious forerunner of something worse."[9]

In the context of the times, this was really a massive subsidy and contributed significantly to the proliferation of newspapers and periodicals and their wide dissemination. According to the political scientist Timothy Cook, "Public policy from the outset of the American Republic focused explicitly on getting the news to a wide readership and chose to support news outlets by taking on costs of delivery and, through printers' exchanges, of production." The result was that by 1832 over 90% of post office traffic consisted of newspapers.[10]

So, Government support explicitly designed to sustain a democratically energetic press in the public interest is not something new in American history. In the 21st century, however, the specific policies adopted in the late 18th century will hardly be adequate to the task (although, it should be said, that subsidized postage for periodicals is still important for small presses). What we need are new policies of regulation and subsidy that deal with the realities of the threat of concentrated corporate power to a genuinely free press. Here are four proposals which we feel would do much to reversing the erosion of democratic media in the public interest.

1. Reinstate ownership rules that curtail the domination of the market for media by a few corporations.

This is, perhaps, the simplest thing to do. The regulations that restricted ownership of numerous radio stations and domination of specific regional mass media markets were only weakened in the last decades of the 20th century as the neoliberal ideology of the unfettered free market became politically ascendant. Restoring restrictions on the degree to which concentrations of corporate power can be translated into control over media markets would be a first step in rebuilding a genuine free press.

Conservatives object to such restrictions on the grounds that these restrictions themselves

[9] Robert McChesney, *The Problem of the Media*, p.33

[10] *Ibid*. 33

constitute a violation of free speech. For many strong defenders of private property rights, the idea of free speech as a right of individuals equally applies to large corporations. Corporations are regarded as "legal persons" for a wide range of narrowly economic purposes, and many conservatives believe that this naturally entails that all rights we accord to individuals also apply to corporations. A regulation of the right of a corporation to "speak," is the same as an abridgement of the right of an individual to speak, and since owning the media is the necessary condition for being able to speak, restrictions on such ownership amount to a violation of fundamental rights of free speech.

These arguments rest on a fundamentally flawed understanding of the value of "freedom". Corporations are not citizens. We do not allow them to vote in elections, nor can they be elected to public office. They are instruments of human action, and if their use in particular ways undermines the freedom of individuals and the prospects for democracy, then it is legitimate to for these powers to be regulated.

2. Strengthen the public sector of the mass media.

Nearly every country, including the United States, has some kind of public, noncommercial sector of broadcast media. In the United States this includes the Public Broadcasting Service television network and National Public Radio, along with a range of locally-run nonprofit community radio stations. While PBS and NPR do receive some tax support, most of their funding comes from voluntary contributions by listeners and program underwriting by corporations and nonprofit foundations. Only about 15% of total funding comes from tax support, and even this level has been under attack by conservatives. In many other countries the direct government support for the public sector of broadcasting is much greater. The British Broadcasting Corporation, for example, is supported almost entirely by a direct license fee for the use of televisions. The cost is quite considerable – £142.50 in 2009 (around $200) – until the age of 75, after which it is free. This license fee provides for well over $3 billion in funding for the public sector of broadcasting a year.

There is no reason, in principle, why a license fee for television use could not be levied in the United States in order to fund the public sector of broadcasting. We already have taxes on telephone use, home ownership, hotel use, airport use, and many other amenities. Automobile owners have to pay an annual license fee to be allowed to drive their cars. Usually the rationale for such consumption-specific taxation is that it helps to support the public goods associated with the consumption. While it would be politically very difficult to pass a television use tax, it could do much to enhance the democratic potential of the broadcast media. In the absence of tax-supported funding, public broadcasting suffers from a classic free-rider problem: each potential contributor can enjoy public broadcasting even if they don't pay for it, so why make the sacrifice? If everyone thinks this way, no one contributes, and thus there is no funding. This is why taxes are needed for an expansive and effective public broadcast system. So long as public broadcasting relies on private contributions, it will occupy a relatively small niche in broadcast communication and will be under continual pressure to sacrifice some of its autonomy for corporate contributions.

3. Encourage a much wider range of forms of ownership of media

Most media in the United States are privately owned and organized as capitalist firms. There are many other possible forms of ownership. Newspapers, radio stations, cable channels, televisions could be owned by public bodies like Universities, non-profit corporations, community-based associations, employee-owned cooperatives. Each of these has advantages and disadvantages, so a healthy media environment should have a good distribution of all of them. Newspapers that were owned and run by practicing journalists would be a particularly attractive component of such an ecology of organizational forms, since this would be a way for journalists to practice their craft in a much more autonomous way than when they work for newspapers controlled by capitalist firms.

The central problem all of these non-commercial forms face is access to the necessary financial resources to actually operate a press. If we are to create a pluralistic, democratic mass media that serves the public interest, we thus need to figure out a way to financially subsidize these endeavors.

4. Public Subsidizes without public control

In the United States there exists a convenient set of mechanisms for large and systematic public subsidizes without the imposition of government control: the tax system. This is how we subsidize private charity: the tax deduction for charitable contributions that citizens get on their income tax returns is, in reality, a form of spending by the government directed at charities. The Government provides the subsidy, but the individual tax payer determines where the subsidy goes. All the state does is monitor that the rules are obeyed – that the charities are legitimate and have tax exempt status and that the tax payer actually made the contribution. This is public subsidy without public control.

The rationale for the tax deduction for charitable contributions is that charities constitute a public good. Having vibrant charitable organizations is one aspect of having a vibrant civil society in which citizens voluntarily form associations to solve various problems and advance various kinds of collective purposes. A robust civil society is a public good: it makes for a more humane world with stronger communities and greater public connectedness. For a civil society to have these qualities, however, it is essential that the initiative for association and activity comes primarily from citizens, freely associating with each other. This is where the great advantage of using tax subsidies for these public purposes lies: the tax deduction mechanism allows citizens to form the charitable organizations on the basis of their priorities and energies, but still provides a way for tax resources to be funneled to those associations so that they can operate more effectively for the public good.

The problem with tax deductions as a mechanism for this purpose is that they have the side effect of making nonprofit organizations more dependent upon wealthy donors than on average citizens. In a tax deduction, the richer you are the greater the tax subsidy that is provided by the state for the organizations to which you donate. If you have a high income with a marginal tax rate is 35% and you contribute $1000 to a charity, the state subsidies this donation $350. If you have a low income with a 10% marginal tax rate, and donate the same amount the subsidy is only

$100. This might not matter so much for many kinds of charities, but it would pose problems for a tax subsidy system for an autonomous, free press.

There is an alternative device that still involves public subsidy without public control. It is called a “tax credit.” John Nichols and Robert McChesney describe a tax credit subsidy for newspapers this way:

> Let's give all Americans an annual tax credit for the first $200 they spend on daily newspapers. The newspapers would have to publish at least five times per week and maintain a substantial "news hole," say at least twenty-four broad pages each day, with less than 50 percent advertising. In effect, this means the government will pay for every citizen who so desires to get a free daily newspaper subscription, but the taxpayer gets to pick the newspaper – this is an indirect subsidy, because the government does not control who gets the money.[11]

In this kind of tax credit system, all citizens are on an equal footing in directing subsidies towards newspapers: everyone has $200 to spend on this (in the Nichols-McChesney proposal). In this way it is very much like the *Democracy Card* proposal for public financing of elections discussed in chapter 17. A tax credit system of subsidies for a free press would also mean that newspapers would no longer have to rely heavily on commercial advertising for their core revenues. This would reduce the need to attract the kinds of readers that advertisers want. Again, this means that newspapers regard potential subscribers more like equal citizens.

Many specific details would have to be worked out for such a system of subsidies to newspapers to work effectively in the public interest. Should different kinds of news organizations be treated equally in the subsidy scheme, or should public subsidies only be available to newspapers that are run by nonprofit organizations? How narrowly or broadly should the idea of “news” and “reporting” be in defining eligible publications? Should the subsidy be the same when it is directed towards local newspapers as it is for national papers? Should subscribers have to pay something out of their own pockets, or should be tax credit be designed to cover the entire subscription cost? What rules should govern the pay of the staff that receives these subsidies? These and other issues are important, but the basic principle is simple: just as in the case of other public goods that are essential for democracy such as public education, unless there is a mechanism to provide meaningful collective subsidies to the press, the public good will be inadequately provided.

[11] John Nichols & Robert W. McChesney, “The Death and Life of Great American Newspapers”, *The Nation*, April 6, 2009

FIGURES

General Electric | TV | Film | Publishing | Online holdings | Other

2008 revenues: $183 billion
General Electric media-related holdings include television networks NBC and Telemundo, Universal Pictures, Focus Features, 26 television stations in the United States, and cable networks MSNBC, Bravo and the Sci Fi Channel. GE also owns 80% of NBC Universal.

Walt Disney | TV | Radio | Publishing | Film | Online Holdings | Other

2008 revenues: $37.8 billion
The Walt Disney Company owns the ABC Television Network, cable networks including ESPN, the Disney Channel, SOAPnet, A&E and Lifetime, 277 radio stations, music and book publishing companies, production companies Touchstone, Miramax and Walt Disney Pictures, Pixar Animation Studios, the cellular service Disney Mobile, and theme parks around the world.

News Corp. | TV | Publishing | Film | Online Holdings | Other

2008 revenues: $33 billion
News Corporation's media holdings include: the Fox Broadcasting Company, television and cable networks such as Fox, Fox Business Channel, National Geographic and FX, and print publications including the *Wall Street Journal*, the *New York Post*, *TVGuide*, the magazines *Barron's*, *SmartMoney* and *The Weekly Standard*, book publisher HarperCollins, film production companies 20th Century Fox, Fox Searchlight Pictures and Blue Sky Studios, numerous Web sites including MarketWatch.com, and non-media holdings including the National Rugby League.

TimeWarner | TV | Internet | Film | Publishing | Other

2008 revenues: $29.8 billion
Time Warner is the largest media conglomerate in the world, with holdings including: CNN, the CW (a joint venture with CBS), HBO, Cinemax, Cartoon Network, TBS, TNT, America Online, MapQuest, Moviefone, Warner Bros. Pictures, Castle Rock and New Line Cinema, and more than 150 magazines including *Time*, *Sports Illustrated*, *Fortune*, *Marie Claire* and *People*.

VIACOM | TV | Radio | Publishing | Film | Online Holdings | Other

2008 revenues: $14.6 billion
Viacom holdings include: MTV, Nickelodeon/Nick-at-Nite, VH1, BET, Comedy Central, Paramount Pictures, Paramount Home Entertainment, Atom Entertainment, and music game developer Harmonix. Viacom 18 is a joint venture with the Indian media company Global Broadcast news.

Freepress.net is a project of Free Press and the Free Press Action Fund

CBS | TV | Radio | Publishing | Online holdings | Other

2008 revenues: $14 billion
CBS Corporation owns the CBS Television Network, CBS Television Distribution Group, the CW (a joint venture with Time Warner), Showtime, book publisher Simon & Schuster, 29 television stations, and CBS Radio, Inc, which has 140 stations. CBS is now the leading supplier of video to Google's new Video Marketplace.

Source: http://www.freepress.net/ownership/chart/main

Figure 19.1. Principle Holdings of the Six Largest Media Corporations

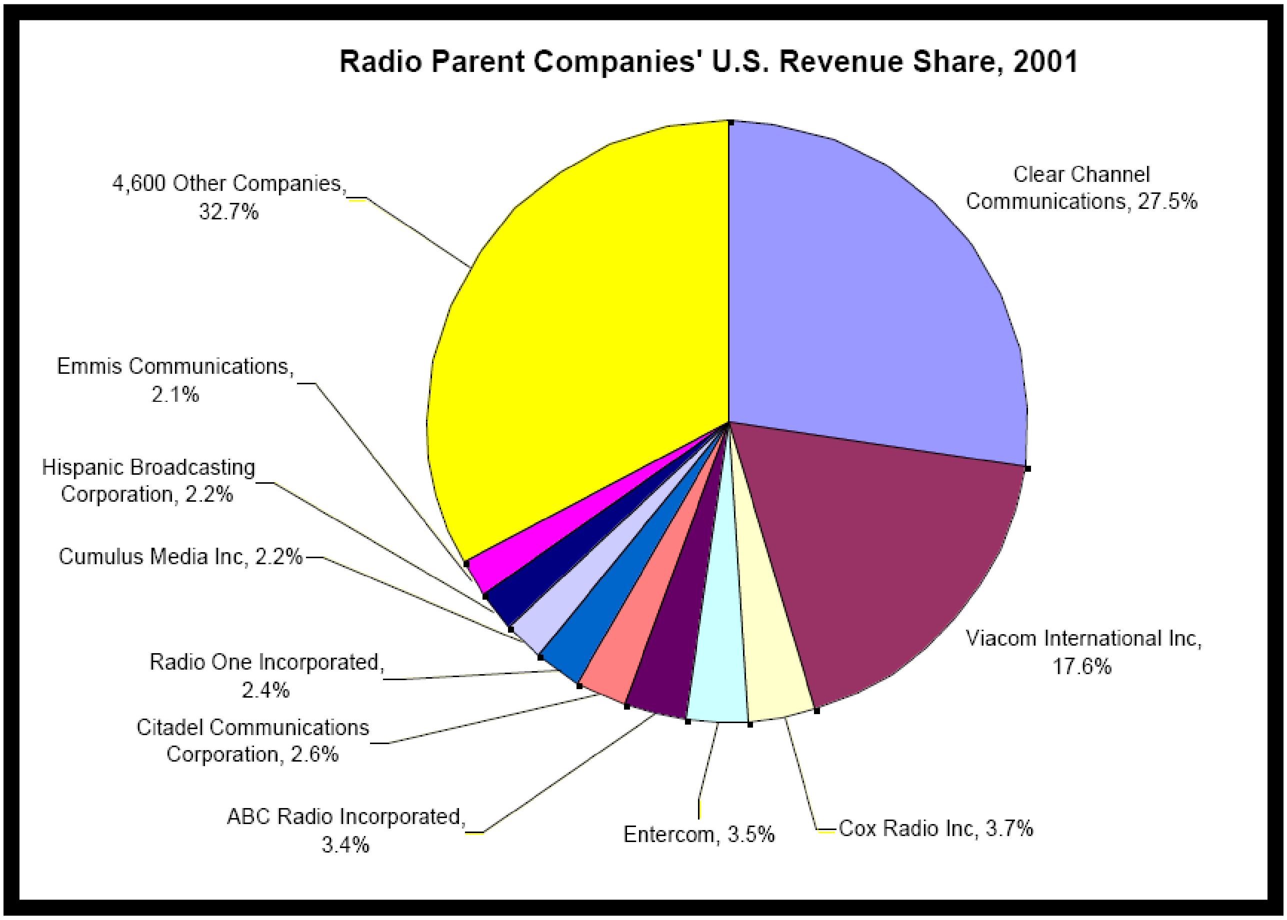

Figure 19.2
Concentration of revenues of Radio Station owners, 2001

Chapter 20
Militarism and Empire

Final Draft August 2009

Most Americans think of the military power of the United States in roughly the following way:

> The world is a dangerous place. There are war-making aggressive, hostile forces in the world, countries which oppress their own people and threaten others, as well political movements that are prepared to use violence to get their way. We must oppose these threats to our national security. But we are not aggressors. We have a Department of Defense, not a Department of War. We use our military power to defend freedom, to defend democracy, to protect America, but not to dominate other countries and people. If sometimes serious problems arise from our use of military power, as in the Vietnam War or in the Iraq war, mostly these reflect bad judgment, poor information or inadequate understanding of the context rather than bad motives or malevolent goals. Even though we are not perfect, we are a moral force in the world and use our military power for moral purposes.

That is the dominant view of the American military. Three stark facts about the reality of American military power stand in tension with this idealized view.

1. *The United States spends orders of magnitude more on the military than any other country.* As indicated in Figures 20.1 and 20.2, in 2008 military spending in the United States accounted for *nearly half of the world's total military spending*.[1] This is more than the next 46 highest spending countries in the world combined. It is 5.8 times larger than the spending on the military in China, 10.2 times larger than in Russia and almost 100 times larger than in Iran. If you add to the American figures the spending by the strongest allies of the United States – the NATO countries, Japan, South Korea and Australia – the total comes to 72% of the world's total. The United States is not simply the world's only superpower; our military dwarfs that of all potential adversaries combined.

-- Figures 20.1 and 20.2 about here –

2. *The use of military power is a pervasive aspect of U.S. foreign policy.* The United States uses military power as a central instrument of national policy throughout the world more than any other country. The threat of force and the actual use of force are frequent strategies in pursuit of what are perceived as United States interests. To facilitate this, at the beginning of the 21st century the United States had over 730 military bases and installations in over 50 countries (see Figure 20.3). It once was said that the sun never set on the British Empire. In the 21st century it never sets on the U.S. military. The U.S. has directly used its troops to overthrow the governments of other countries or to attempt to

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[1] These figures come from a report on military spending on the website Global Issues, http://www.globalissues.org/article/75/world-military-spending. The original data analysis comes mainly from the Center for Arms Control and nonproliferation, Washington, D.C., http://www.armscontrolcenter.org/.

do so more frequently than any other country since the end of WWII**.** The Iraq War is only the most recent example. It also has frequently subsidized proxy military forces for these purposes when, for political reasons, it was difficult to use its own.

A partial list of the interventions since the end of WWII is given in Figure 20.4. Some of these interventions involve the overthrow of democratic regimes (e.g. Iran 1953; Guatemala, 1954; Dominican Republic, 1965; Chile 1973). Others involve fighting insurgencies against authoritarian regimes which we supported (e.g. the Philippines, 1948; Vietnam, 1960-75), or supporting insurgencies against regimes we opposed (Cuba, 1961; Angola, 1976-92; Nicaragua, 1981-90; Afghanistan, 1981-88). In only two cases – the Korean War in 1951-53 and the first Gulf War, 1990 – was the United States responding to military aggression by a foreign state which had any plausible bearing on American national security. The United States uses its military to impose its will around the world, not simply to defend itself from military attack.

-- Figures 20.3 and 20.4 –

3. *In the U.S., the domestic economy and internal politics are deeply affected by the military.* The military budget constitutes a huge part of government spending, and of necessity, this reduces the flexibility for domestic programs. Figure 20.5 indicates that if we include in military spending the current cost of past wars (mainly interest payment on debt attributable to past military spending, military pensions and veterans administration spending), then for Fiscal year 2009 total military spending was just under 45% of the annual Federal budget.[2] Since this has been true, with some ups and downs, since around 1940, the result has been a deep penetration of military spending in the American. Particularly in the context of a state that has been reluctant to directly create jobs through public investment in the civilian economy, military spending has become one of the principle ways that the Federal Government intervenes in the economy through contracts for military products. In addition, military spending is one of the main ways that the government provides funding for research and development, which often has large spillovers for the civilian economy. The manufacture of weapons is also one of the sectors in which the U.S. has a large positive trade balance, thus adding to its importance for the overall health of the economy. Whenever there are proposals to end particular weapons systems or close military bases, members of Congress from the affected region object on the grounds that this will harm the economy. Often they do not even bother to debate the issues on grounds of military policy of efficiency. Political coalitions form around military spending for economic reasons, and this further distorts the role of the military in foreign policy.

-- Figure 20.5 about here --

[2] These figures are before the addition of the huge stimulus package and bank-bailout spending beginning in the fall of 2008 and continuing into 2009. It is not a straightforward mater to estimate the amount of total military spending, since some military spending is hidden in non-military agencies, and the attribution of costs of past wars is difficult. As a result, there are different overall estimates depending upon the precise methodology used. The War Resiosters League, for example, estimates total military spending as 54% of the 2009 Fiscal Year Budget rather than the 44% estimated by the *Friends Committee on National Legislation* reported in Figure 20.5.

These three facts suggest that the United States in the 21st Century is not simply a society with a strong military; it has become a militaristic society. *Militarism* can be defined as a political and ideological orientation towards international affairs in which three conditions are present:

(1) The use and threat of military power is a central strategy of international policy.

(2) The military plays a pervasive role in the economic and political life of a country.

(3) Military strength is the highest priority of government policy.

Militarism is not just the "policy" of a particular administration; it is institutionalized into our economic, political, and social structure. Over the past half century American militarism has been built up by administrations lead by both the Republican and Democratic parties. It is supported, although perhaps with differing fervor, by both parties, and the leadership of both parties advocates an American role in the world that depends on militarism. All American politicians in leadership roles argue that we must have a strong military that is flexible in ways that enable it to be deployed on short notice around the world. No viable presidential candidate can stand up and say: "the American military should be used exclusively for the defense of the United States against attack. We should dismantle bases abroad, and bring our troops home. Our military budget should be tailored entirely for defensive purposes.[3] If military action abroad is needed for humanitarian reasons, then this must be done by international authority, not by unilateral action of individual states." Such a position is completely outside of legitimate political discourse in the United States.

A Sketch of the Historical Trajectory of American Militarism[4]

It was not always the case that militarism was a prominent feature of American political culture. At the founding of the United States there was widespread objection to the idea of a standing army and great skepticism about the use of military power for national objectives. George Washington and James Madison expressed these worries in the early years of the Republic:

> Washington: "Overgrown military establishments are under any form of government inauspicious to liberty, and are to be regarded as particularly hostile to Republican liberty."
>
> Madison**:** "Of all enemies to public liberty, war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, debt and taxes

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[3] In the 2008 presidential three marginal candidates took this position: Ralph Nader and Denise Kucinich on the left, and Ron Paul, a Republican on the libertarian right. Ron Paul's position was especially surprising to many people. He advocated cutting the military budget by 2/3, closing all bases abroad, and ending the practice of global military interventions. This is in keeping with a consistent libertarian positions that argues for a minimalist state that only provides for security.

[4] This discussion draws heavily from Chalmers Johnson, *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic* (New York: Metropolitan Books, 2004)

> are the known instrument for bringing the many under the domination of the few."[5]

Nearly 200 years later Dwight Eisenhower expressed the same worry in his famous farewell address:

> "This conjunction of an immense military establishment and a large arms industry is new in the American experience…In the councils of government, we must guard against the acquisition of unwarranted influence…of the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted."

Even more poignantly, he rejected militarism as a tolerable way of life:

> "Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed. The world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hope of its children…This is not a way of life at all, in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron." [6]

Anti-militarism is thus also a current throughout American history. But right from the start anti-militarism was challenged because of because of the importance of military power for the conquest of lands in North America itself. This became crystallized early in the 19th century as Manifest Destiny -- the belief that the United States then on the Eastern part of North America had a natural right to expand westward to the Pacific Ocean. Military power was pivotal to this conquest: initially through displacing indigenous people, and in the middle of the 19th century by invading and taking over territory from Mexico – Texas and California. Most historians today acknowledge that the Mexican War of 1848 was a war of conquest initiated by the United States.

The key turning point for the emergence of a more coherently militarist state occurred at the end of the 19th century. The Spanish-American War launched the modern period of U.S. imperial wars and conquests, including the military suppression of resistance by conquered people. The Philippine resistance to American occupation in 1901-1903 is the starkest example, in which 200,000 Filipinos were killed. The U.S. justified this suppression on the grounds of racial superiority and the need to liberate the Philippines from Spanish control. Ironically, this ideology contributed to the Japanese sense of entitlement to conquest as the right of Great Nations.

Before the Spanish America War, the US military was a somewhat chaotic, relatively underdeveloped organization, not really organized in a way that could be readily deployed for national purposes. This changed in the years running up to WWI during which time a modern military bureaucracy was created, modeled in some ways after what was seen as the most successful military organization around – that of Prussia.

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[5] Cited in Chalmers Johnson, *ibid.* p.

[6] Speech delivered before the American Society of Newspaper Editors, Washington, D.C. April 16, 1953

Woodrow Wilson articulated what was to become the core ideology of the use of American military power, which Chalmers Johnson calls the ideology of "crusades". The earliest example was Wilson's military expeditions to Mexico during the Mexican revolution to teach it democracy. These interventions were justified on grounds of benevolence and liberation. WWI was proclaimed "the war to end all wars," the war "to make the world safe for democracy." These were very lofty, humanitarian goals, and were sincerely meant, even if they always mixed with other motives.

After WWI there was a general military demobilization, and tendencies towards militarism were largely curtailed. During the first part of the Great Depression, the military was substantially neglected as the American state built the institutions of the New Deal affirmative state. It was only during the late 1930s as the threat of war with Germany and Japan grew, that a serious effort at building U.S. military capacity was begun.

WWII was a monumental military mobilization for the United States, by far the most intense foreign military conflict in American history and the most popular. Still, even after WWII there was a good chance of demilitarization and briefly after the war it looked like the military would be significantly reduced in scale and importance. The Cold War changed all that. The rivalry with the Soviet Union, fueled by virulent anti-Communism, created the context for definitively consolidating militarism as a core feature of American politics and society.

From the early 1950s to the present, the military has played an absolutely central role in both government spending and the US economy. Throughout the period military spending was at least $300 billion/year in 2008 dollars, and in four periods it shot up to over $400 billion: during the Korean War, the Vietnam War, the Reagan military build-up and the Afghan/Iraq War. Defense contracts are the single most important way that the government intervenes in the economy, providing jobs, research, technical change, and economic stimulation. The livelihood of millions of Americans depends upon military spending. And, ultimately, this means on war: in the absence of war it is almost impossible to maintain over a long period of time huge military spending, so the deep dependency of the economy on militarism itself promotes militarism.

-- Figure 20.6 --

This kind of massive military spending has significant corrupting effects on politics and economics. There can be no real competition in the contracting process, since so few companies can really place bids, and thus military contracts are chronically plagued with inflated prices with huge amounts of fraud. The Inspector General of the Pentagon reported in May 2001, even before the rapid expansion f military spending following 9/11, that something like a trillion dollars of spending on the Pentagon's books could not be traced. The massive scandals during the Iraq War by Halliburton and other military contractors are just the most recent instance of a long line of such pillaging of the public purse. Because military contracts are surrounded by secrecy under the shield of "national security" and "classified information", it is almost impossible to have adequate monitoring of military spending.

Militarism became an organic part of American society in the decades of the Cold War. In the aftermath of the Cold War one might have thought that there could have been a reversal of this trajectory, and there were some signs of this happening. There was much talk in the 1990s of the “Peace Dividend” and how this might open up policies for a wide range of important public investments: environmental protection, energy transformation, high speed rail, rebuilding infrastructure. But since the September 11, 2001, attacks on the World Trade Center there has been an energetic reinvigoration of militarism in the name of fighting the war on terrorism. This reinvigoration was backed by an extreme version of the doctrine of the supremacy of American military might and the right of the United States to unilaterally decide when and where to intervene in the world on the basis of its own views of its national interest.

MOTIVATIONS FOR MILITARISM IN THE 21ST CENTURY: THE PROBLEM OF “EMPIRE”

The historical trajectory describes the development of our enormous military machine, its importance to the American economy and its use as a tool of foreign policy. But still this leaves unanswered: what are the real motives behind American militarism? Why does the United States so aggressively use its military power around the world?

There is no single, simple answer. We do not think it is possible to point to one overriding factor or motive and say: this explains American militarism. Most pervasive, durable features of a social system are supported through complex combinations of interests and motivations rather than some single overriding cause. These complex interconnected motivations and interests help explain the broad political coalition behind militarism. When we say that militarism is an “institution” what we mean, in part, is that it becomes self-perpetuating because the interests that support militarism are in significant ways generated and reinforced by militarism itself.

Analyzing the motivations and interests behind militarism is also complicated by the problem of ideology -- the beliefs people hold about the world and how it works. For example, consider the problem of national security, one of the motives behind militarism. One view during the Cold War was that the USSR and other communist countries really would militarily attack the US if they could. Communism was viewed by some people as an aggressive, militaristic force in the world that directly threatened capitalist democracies like the U.S., and thus the only way to protect the United States was to have a very aggressive military capacity. The best defense is an offense, as the sports metaphor goes. Other people argued that we really had no reason to fear such attack, that a policy of engagement, international cooperation, and strengthening of international institutions would be the best way to advance national security. These differences reflect in part different views about how the world works, about what sorts of strategies will produce what sorts of outcomes. These are very difficult matters to sort out.

The problem of sorting out the underlying reasons and motivations for militarism is a particularly pressing issue for the opponents to military aggression. Before the outset of the Iraq War, protesters in the run-up to the War held signs saying “No Blood for Oil”. This implied a theory that one of the driving motivations for the war was the desire to control oil reserves in the Middle East. If that was indeed a central motive, then seeking ways of reducing American dependence on foreign oil by developing a new energy system would be part of anti-militarism initiatives. But if oil as such was more of a side issue, and militarism is more based on a broader motive for American global pre-eminence, then energy independence might not do much to undermine the structural foundations of militarism.

We believe that six different clusters of motivations play a role in sustaining American militarism. In different times and contexts one or another of these may become preeminent and others become less important, but the long-term robustness of American militarism comes from the ways in which they interact.

1. Specific economic interests.

This is the simplest motivation for the use of American military power abroad: it serves specific economic interests of powerful sectors of American capitalism. There are certainly instances in which this is the case. In the 1920s the United States sent the Marines on several occasions to small Central American countries to protect the interests of the United Fruit Company. In the 1950s the US overthrew the elected government in Guatemala which was interested in land reform, and the government of Iran that wanted to nationalize the oil industry. In the 21st century the strongest candidate for a narrow economic motivation for militarism is the desire to control crucial global resources, especially oil. The large oil companies are powerful corporations that have great access to the heights of political power and in some situations considerable influence on public policy. The US is highly dependent upon foreign oil, and some people believe that the only way to guarantee those supplies is for the US to directly dominate the sources. This issue is likely to become ever-more pressing in the next three or four decades, as oil supplies begin to be depleted and the demand for oil from rapidly industrializing countries like China increase. There are alternatives, of course: massive effort to develop alternative energy supplies and conservation, but both of those would require more direct economic intervention by the state, and in any case will take a long time to achieve. In the meantime it is essential to protect our sources of oil, and the use of military force is one strategy for doing so.

2. Maintenance of and expansion of global capitalism in ways that are beneficial for American-based corporations.

Large, American-based corporations make investments all over the world. To do so, they need a global economic environment in which they have relatively open access to world markets and their investments are protected from confiscation by governments. One of the motivations for a large and effective military is that force can play a role in securing these conditions. In earlier periods of capitalist development, this was one of the central motivations for colonialism: colonial empires, forged through military conquest, provided access to markets and products for capitalists based in the home countries of colonial powers.

Colonialism more or less came to an end in the decades following the Second World War, but the need for a secure global environment for capital accumulation remained, and military power continued to play a role in creating and protecting that environment. In particular, American military power played an active role in opposing certain kinds of nationalist movements and revolutionary socialist movements in poor countries that posed a potential threat to global capitalism in general and American corporate interests in particular. The fact of the Chinese Revolution in 1949 and the earlier Russian Revolution raised the specter of more and more parts of the developing world seceding from world capitalism. One of the tasks of the American military, therefore, was to make this less likely by raising the costs of anti-capitalist struggles and make it less likely that when revolutions did occur that they would be shining examples of alternatives. This is the kind of reasoning that is often used to explain things like the War in Vietnam. The United States did not really have significant direct economic interests in Vietnam. Our concern was more that if an anticapitalist revolution succeeded there and if it was successful in improving the lives of the people, then in the long-term this would reduce the scope for global capitalism, and that in turn would harm American economic interests.

These first two motivations for militarism are often referred to as "empire" or "imperialism": the use of military force to back the global economic interests and expansion of American capitalism.

3. National security

National security is certainly one of the motivations behind militarism. In the Cold War many people believed that Communism in general and the Soviet Union in particular (and maybe China as well), did pose a real military threat to the US. Even if the threat was not imminent – few careful analysts really feared a direct attack by the USSR – there was a fear that over a long period of time this military threat could grow and that we needed to counter it with a fairly aggressive policy of military containment, which meant above all militarily intervening to prevent "the spread of communism." During the Vietnam War, defenders of the war argued that it was better to fight the communists in Southeast Asia than on the beaches of California. Even if most people felt that this was overheated rhetoric, nevertheless it reflected a belief that communist insurgencies in poor countries, backed by the Soviet Union and China to varying degrees, posed some kind of long term threat to American security. To counter this threat ts was sometimes necessary to support dictators and even overthrow democracies, but this was defended on the grounds of protecting the U.S. from future communist aggression.

After the end of the Cold War this threat disappeared, and with it an important prop to militarism. New threats, however, were soon found and crystallized in the War on Terror directed against Islamic fundamentalists. The attack on the World Trade Center became the anchor for the view that the United States was seriously threatened by a global network of malevolent, ruthless fanatics. Nightmare scenarios of biological weapons being released in large American cities or small nuclear bombs carried in suitcases being exploded were taken seriously in the mass media and used to justify a renewed emphasis on the importance of military power for national security.

4. Distinctive interests of the military-industrial complex itself.

Militarism is, in significant ways, a self-perpetuating system. Once it is in place, then large numbers of people with considerable economic power develop a strong stake in militarism itself. Cuts in military programs hurt powerful corporations. But they also hurt workers and communities, and this is very important: our national economy has become deeply dependent upon public spending in this particular area. The result is the military contractors form a coalition with regional politicians and workers whose jobs are threatened by reductions in military spending and fight for military budgets. To justify such budgets you need threats**.** Since the world is filled with so much uncertainty, it is usually easy to find threats if it is one's interests to do so.

It might possible, of course, to replace all cuts in military spending with equivalent increases in job-creating civilian spending, so in principle it could be possible to accommodate many of the economic interests currently supported by militarism. The Federal Government could, for example, build a national high-speed rail system, which would help with energy independence, for a fraction of the cost of what it spends on the military. It is easy to show that such spending would improve the quality of life and even improve American productivity far more than military spending. Corporations currently receiving military contracts could receive high-speed rail contracts, and many of the workers in the defense sector could get jobs in the newly expanded civilian infrastructure sector. This is what could happen *in* principle. In practice there are two large problems with demilitarization. First, there will be inevitably mismatches between the firms and individuals who lose out from a significant reduction in military spending and those who will gain from alternatives. Since it is generally clearer in advance who will lose than who will gain, political mobilization against demilitarization is likely to be stronger than mobilization for the alternative. Second, massive infrastructure projects like a national high-speed rail system pose a serious problem for political conservatives since such projects affirm the legitimacy of the state's role in shaping the economic environment. The beauty of military spending is that it is the one form of large scale economic intervention by the state into the economy which can be defended by people opposed to government in general. There is a clear line of demarcation between military spending and the wide range of other public goods we might care about: health care, transportation, energy, the environment. The result is that the alliance between economic interests that are bound-up with the military-industrial complex and the conservative political forces that support militarism in general oppose civiliasn projects that would have an equivalent economic impact.

5. Ideological Crusades.

Chalmers Johnson, a leading political scientist who studies international relations, argues that crusading has been part of the American global project for over a hundred years. The precise character of the crusade changes from time to time – spreading democracy, defending freedom, fighting communism -- but its core is the belief that the United States has a divine mission to spread its values and way of life around the world, not just because this is in its narrow national interests but also because it is the right thing to do – or even stronger, because America is doing God's work by extending American institutions globally. The Bush administration staked out this position starkly in a national security strategy document, saying that there is "a single sustainable model for national success….that is right and true for every person in every society…The United States must defend liberty and justice because these principles are right and true for all people everywhere."[7] Of course, in the real world the ideas of "liberty and justice" are sharply contested, and what the U.S. means by these ideas is very different from what

[7] Chalmers Johnson, p287.

many others mean by them. Nevertheless, they serve as a moral justification for our actions.

It is easy to dismiss these kinds of moralistic claims as mere rationalizations, symbolic covers for actions whose driving motivations lie elsewhere. Particularly given the historical record of the United States supporting dictators and overthrowing democracies when these are seen as serving important national interests, high-minded claims about fostering American ideals around the world do seem like cynical manipulations. Nevertheless, these ideals would not serve as a cover for other motives if they did not resonate strongly for many people. Even if they are not the primary motivations of elites in supporting militarism, the self-righteousness of moral crusades may increase the self-confidence of elites in pursuing militaristic goals and may help rally broader support and increase the certainty with .

6. Fueling a politics of Fear

Militarism is one of the central foundations for what can be called the *politics of fear*. Political action is not only rooted in ideas; it is also connected to emotions. Love, fear, hate, anger, hope – all of these can provide potential emotional underpinnings for politics. A politics of fear revolves around defending oneself from enemies, protecting oneself from danger and threats. It has a kind of primal potency; other things which one might care about tend to be displaced when fear rules. For this reason, throughout history political leaders have used the presence of a foreign threat as a way of building support and repressing dissent. This strategy is particularly effective when fear is successfully joined with anger and hate. Militarism fosters these emotions: it cultivates foreign threats; it identifies enemies who become objects of hate; and it fuels anger from the harms endured in conflicts. Dissenters who object to the priorities fostered by militarism are then deemed unpatriotic, perhaps even traitors. One of the motivations for militarism is fostering this kind of political culture.

Consequences of Militarism and Empire

Militarism is both a fact of life and a way of life in the United States at the beginning of the 21st century. While the Obama administration was elected partially because of his early opposition to the Iraq War, he has continually reassured the American public that he fully supports a strong military and has demonstrated his willingness to use military force to advance foreign policy objectives. There is no indication that he will depart in any fundamental way from this institutional configuration.

What can we expect for the future? Chalmers Johnson argues that if the kind of intensive militarism that has become part of the fabric of American society continues, four consequences are likely to follow:

1. Perpetual war

Militarism generates war; it is not simply a response to war. The triumph of American militarism is likely to place the United States in a situation of nearly continuous warfare. With a massive and flexible military force in hand, the U.S. is much more likely to use the military option in the context of a conflict than if we had a purely defensive military posture. An aggressive, interventionist posture around the world provokes reactions in response to our interventions. This is sometimes called “blowback”: terrorism is in part a response to militarism. This terrorism then provides justifications for further intervention and militarism.

2. Reduction in democracy at home.

Militarism and imperialism erode democracy in many ways. Militarism brings with it an increasing concentration of power in the presidency, creating what has come to be called the “Imperial Presidency.” The Imperial President can act with minimal accountability to Congress or the Courts in the name of national security, elevating the powers of the president as the “commander-in-chief” of the armed forces to the status of a general principle of autonomous power over anything connected to foreign affairs. This concentration of power in the presidency has characterized both Democratic and Republic presidents in the era of militarism, but was greatly intensified during the Bush Administration where a wide range of constitutional safeguards were violated on the grounds of autonomous Presidential power.

Militarism also pre-empts other forms of state spending, and this curtails the scope of democratic deliberation about the public good. As we argued in chapter 16, a society is democratic to the extent that decisions which are matters of collective importance are subjected to collective deliberation and democratic choice. Militarism threatens this principle both because decisions over the use of the military are likely to be made in relatively undemocratic ways by elites operating behind closed doors, and because militarism squeezes out other priorities.

More broadly, militarism undermines democratic political culture. Military priorities are bolstered by intensified fear, and people are more willing to give up civil liberties and democratic rights when they are afraid. In debates over domestic priorities people can see their opponents as legitimate. Some people want a public health care system, others want to maintain a private system; both are legitimate views within a political spectrum of debate. In a militarized context of debates over war and security, opponents to militarism are treated as unpatriotic by putting the security of the nation at risk. The polarized good and evil view of the world that is linked to militarism and the politics of fear corrodes the civility and mutual respect needed for democratic deliberation.

3. Degradation of information:

Militarism brings with it deception and misinformation. Deception becomes official policy. Of course, politics always involves misinformation; politicians distort information to their own political advantage all the time. The problem is much worse in the case of militarism because information is surrounded by strong mechanisms of official secrecy. Political leaders can distort the facts to fit their purposes and claim that what they are saying is based on classified information unavailable to the general public. The use of secrecy classifications makes it much harder to such lies to be revealed. The War on Iraq was a stunning example of this: lies and deception were a routine policy both in the run-up to the war and in the subsequent conduct of the war.

4. Bankruptcy

Historically, Empires typically crumble because the overhead costs of running an empire become unsustainable. The central component of such costs is the military. The attempt by the United States to be the World's only global super power is extraordinarily costly, both directly and indirectly: directly through the costs of maintaining a large military presence around the world and accounting for nearly half of the global military spending; indirectly by neglecting investments in infrastructure and civilian technologies that would enhance productivity and strengthen the economy. The result has been both a massive government debt held largely by foreign governments and a massive trade deficit. These trends were greatly exacerbated by the financial crisis that began in 2008. It is only the global power of the US that prevents this debt load from crashing down as it did in Russia in 1997 or Argentina in 2002. This situation cannot go on forever.

Figures

Military spending in 2008 ($ Billions, and percent of total)

Country	Dollars (billions)	% of total	Rank
United States	711	48.28%	1
China	121.9	8.28%	2
Russia	70	4.75%	3
United Kingdom	55.4	3.76%	4
France	54	3.67%	5
Japan	41.1	2.79%	6
Germany	37.8	2.57%	7
Italy	30.6	2.08%	8
Saudi Arabia	29.5	2.00%	9
South Korea	24.6	1.67%	10
India	22.4	1.52%	11
Australia	17.2	1.17%	12
Brazil	16.2	1.10%	13
Canada	15	1.02%	14
Spain	14.4	0.98%	15
Turkey	11.6	0.79%	16
Israel	11	0.75%	17
Netherlands	9.9	0.67%	18
United Arab Emirates	9.5	0.65%	19
Taiwan	7.7	0.52%	20
Greece	7.3	0.50%	21
Iran	7.2	0.49%	22
Myanmar	6.9	0.47%	23
Singapore	6.3	0.43%	24
Poland	6.2	0.42%	25
Sweden	5.8	0.39%	26
Colombia	5.4	0.37%	27

Notes:
The figure for the United States is the budget request for Fiscal Year 2009 and includes $170 billion for ongoing military operations in Iraq and Afghanistan, as well as funding for the Department of Energy's nuclear weapons activities.
All other figures are projections based on 2006, the last year for which accurate data is available.
All countries that spent over one billion per year are listed.
Due to rounding, some percentages may be slightly off.

Source: U.S. Military Spending vs. the World, *Center for Arms Control and Non-Proliferation*, February 22, 2008

Figure 20.1
Military spending in countries that spent at least $5 billion a year on the military, 2008

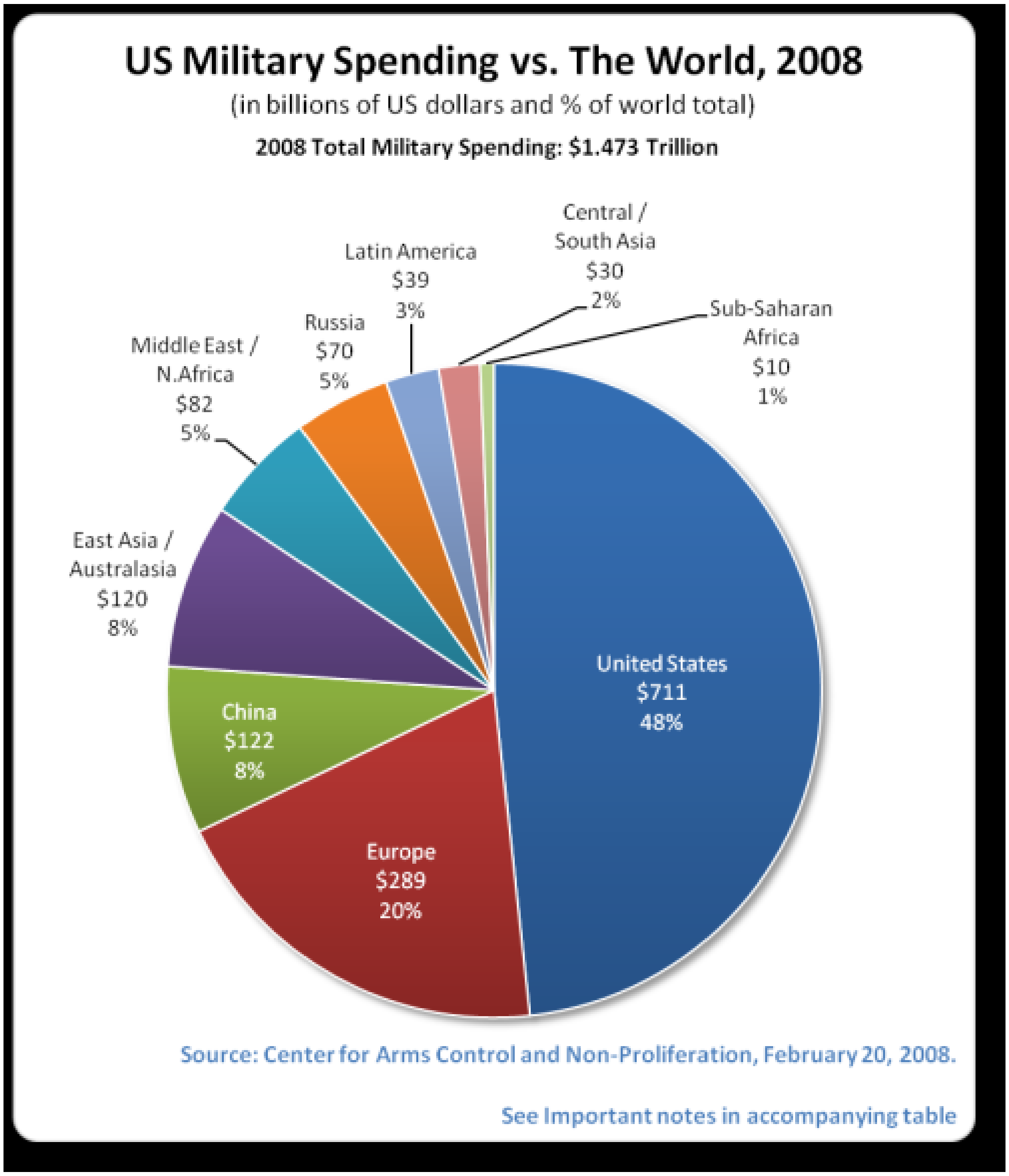


Figure 20.2
U.S. Military spending vs the World, 2008

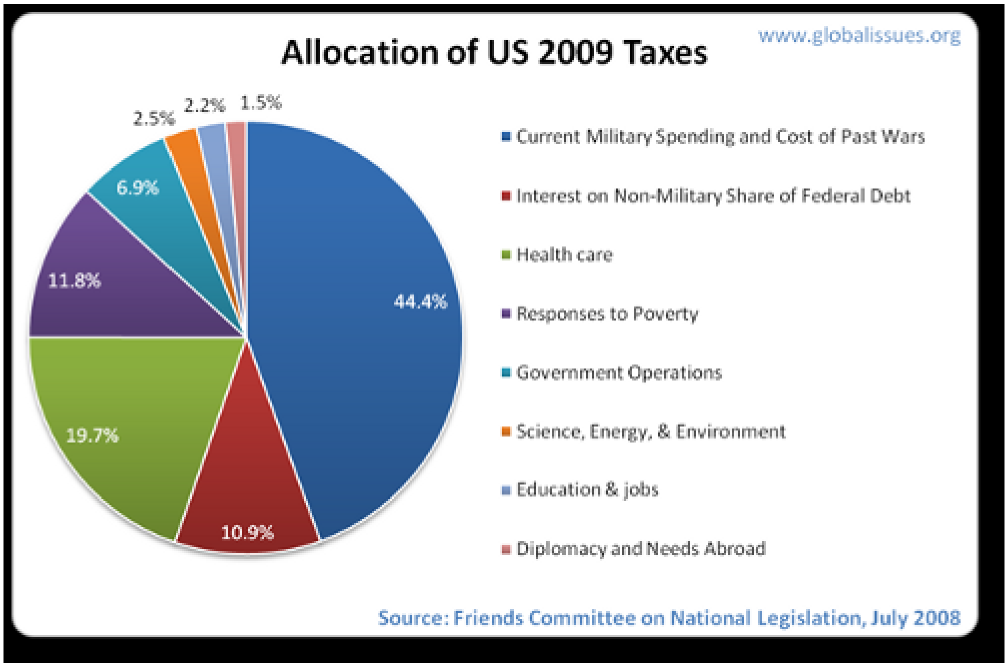
Source: *Global Policy Forum*, http://www.globalpolicy.org/empire/intervention/index.htm

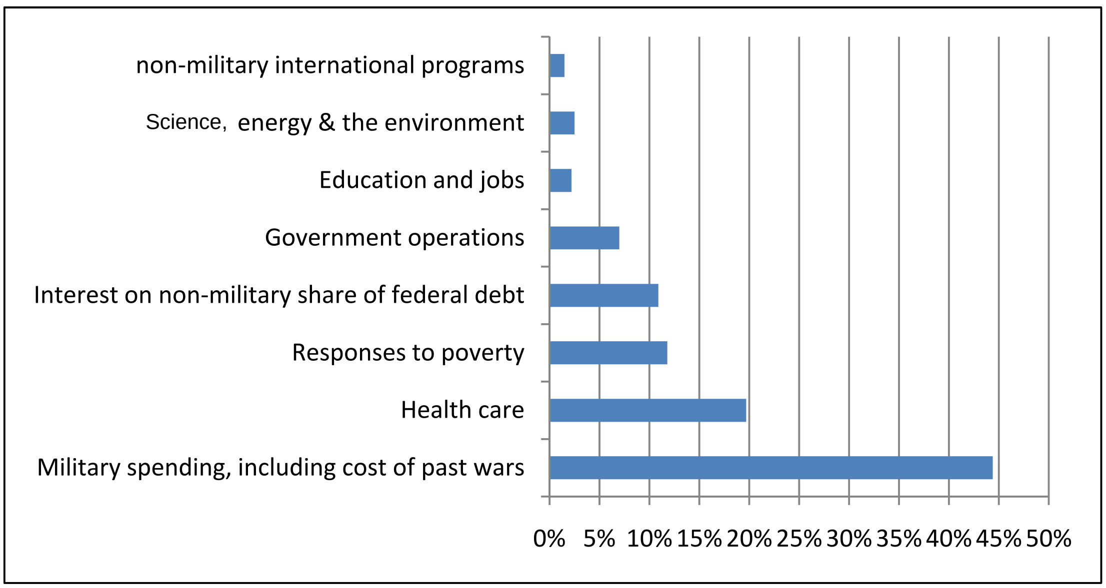
Figure 20.3
U.S. Military bases and installations around the world

GREECE	**1947-49**	**U.S. directs extreme-right in civil war.**
PHILIPPINES	**1948-54**	**CIA directs war against Huk Rebellion.**
KOREA	**1951-53**	**Korean War**
IRAN	**1953**	**CIA overthrows democracy, installs Shah.**
GUATEMALA	**1954**	**CIA directs overthrow of democratic government**
LEBANON	**1958**	**Marine occupation against rebels.**
VIETNAM	**1960-75**	**Vietanam War**
LAOS	**1962**	**Military buildup during guerrilla war.**
CUBA	**1961**	**CIA-directed exile invasion fails.**
INDONESIA	**1965**	**Million killed in CIA-assisted army coup.**
DOMINICAN REP.	**1965-66**	**Marines land during election campaign.**
GUATEMALA	**1966-67**	**Green Berets intervene against rebels.**
CAMBODIA	**1969-75**	**Bombing**
LAOS	**1971-73**	**U.S. directs South Vietnamese invasion**
CHILE	**1973**	**CIA-backed coup ousts elected marxist president.**
ANGOLA	**1976-92**	**CIA assists South African-backed rebels.**
EL SALVADOR	**1981-92**	**Advisors, overflights aid anti-rebel war,**
AFGHANISTAN	**1979-89**	**CIA support for mujahedeen fight against Afghan regime and Soviet army**
NICARAGUA	**1981-90**	**CIA directs exile (Contra) invasions**
LEBANON	**1982-84**	**Marines expel PLO and back Phalangists,**
GRENADA	**1983-84**	**Invasion four years after revolution ousts regime.**
IRAN	**1984**	**Two Iranian jets shot down over Persian Gulf.**
LIBYA	**1986**	**Air strikes to topple nationalist gov't.**
IRAN	**1987-88**	**US intervenes to protect Iraqi tankers in Iran war.**
PANAMA	**1989**	**Nationalist government ousted by 27,000 soldiers**
KUWAIT	**1991**	**first Gulf War**
SOMALIA	**1992-94**	**U.S.-led United Nations occupation during civil war**
BOSNIA	**1993-?**	**No-fly zone in civil war; downed jets, bombed Serbs.**
HAITI	**1994**	**Troops restore Aristide to office 3 years after coup.**
YUGOSLAVIA	**1999**	**Heavy NATO air strikes after Serbia declines to with draw from Kosovo**
AFGHANISTAN	**2001-?**	**Afganistan War**
COLOMBIA	**2003-?**	**US special forces sent to rebel zone**
IRAQ	**2003-?**	**Iraq War**
HAITI	**2004-05**	**Marines land after rebels oust elected Pres. Aristide**
PAKISTAN	**2005-?**	**CIA missile and air strikes on suspected Taliban sites**

Source: list compiled by Zoltan Grossman, http://academic.evergreen.edu/g/grossmaz/interventions.html

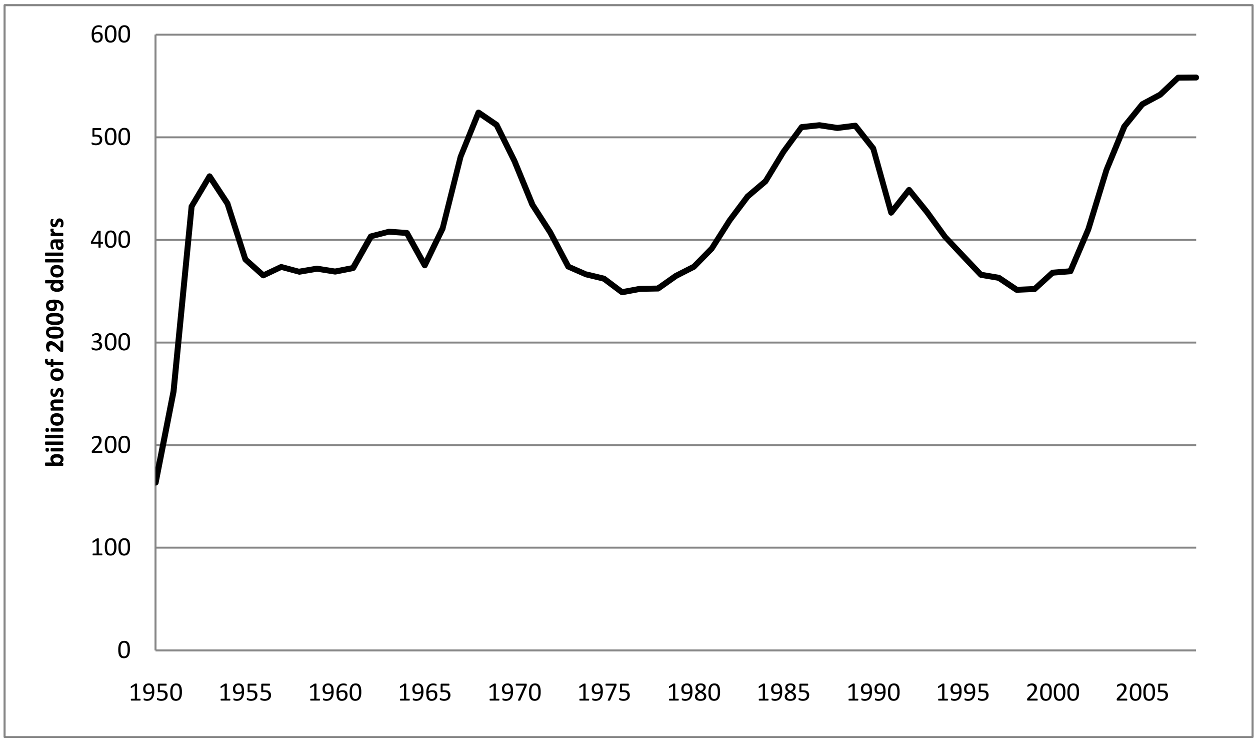
Figure 20.4
Partial list of U.S. Military Interventions, 1947-2009





Source: *Friends Committee on National Legislation*, July, 2008, reported by Global Issues Forum, http://www.globalissues.org/article/75/world-military-spending

Figure 20.5
Military Spending as a proportion of total federal government spending, 2009 fiscal year



Source: U.S. Department of Defense (2008) *National Defense Budget Estimates for FY 2009*, Table 6.12.

Figure 20.6
Department of Defense Budget 1950-2008

Chapter 21
Labor Unions

Final Draft, August 2009

When people think about “Democracy” in the United States mostly they think about elections and about civil liberties enforced by the rule of law. We say a country is democratic when it has free and fair elections and when the basic liberties that make such elections possible exist – freedom of speech, freedom of association, and so on.

In this chapter and the next we will examine another face of democracy: the way democracy is rooted in the collective action of citizens outside of the formal institutions of democratic government. We will begin by exploring a central problem for a healthy democracy: how to create citizens who feel a sufficient sense of civic obligation and collective purpose to want to engage actively in political life. We will then examine labor unions as a specific form of collective association that builds solidarities conducive to democratic participation.

THE PROBLEM

All democratic societies face a fundamental problem: So long as citizens live their lives as separate, discrete individuals, going their separate ways, acting exclusively as self-contained, self-interested individual persons, then the idea of democracy as “rule by the people” will be at best only a thin reality. People may vote in elections – although even for that, many people will ask themselves “why bother since my vote isn’t going to make a difference?” – but beyond voting they will do little to create a “will of the people”, let alone help to actually translate that “will” into real power. This is a problem in any society, but it is especially intense in a country like the United States with very high levels of geographical mobility, with highly competitive labor markets, with anonymous suburbs, and with a culture that emphasizes individualism. All of these forces contribute to what some sociologists call an “atomized society”: a society made up of separate, isolated individuals rather than organic, integrated communities. As we have seen in our discussions of the free rider problem, so long as people experience their lives in this way, they are very unlikely to join together to cooperate in collective efforts. To overcome this problem requires building up a sense of meaningful solidarity among people: a sense that people have obligations to each other and that they are therefore willing to make sacrifices for collective goals. A vibrant democracy requires this kind of connectedness among citizens.

The question then becomes how to create this sense of solidarity and mutual obligation? How can this stronger sense of solidarity be generated in the face of a competitive, individualistic, market society? One crucial dimension of a solution lies in strengthening various ways in which participating in collective associations can be deeply integrated into everyday life. What is needed is some kind of “organic relation” between our lives as separate individuals and our lives as members of some kind of community of common interest.

Sociological discussions of this cluster of issues often talk about the importance of "civil society". You can think of the problem this way: what we call a "society" can be broken down into a number of different overlapping spheres of social processes.[1] Think of these as different social settings in which people interact and cooperate for various purposes. Three such spheres are especially important:

- *The economy* is the sphere in which we produce and buy things.
- *The state* is the sphere in which we govern our collective affairs.
- *Civil society* is the sphere is which we get together voluntarily in organizations to pursue common purposes.

These spheres are interconnected and affect each other. Here we are particularly concerned about the link between the state and civil society. A vibrant democracy depends in important ways upon a vibrant civil society in which it is easy, rather than difficult, for people to form collective associations to pursue collective purposes. Churches are, for many people, an important form of such voluntary association, and it should be no surprise that at various times in history churches become important sources of collective association for political participation, whether this be Quaker churches involved in the abolitionist movement in the 19th century or peace movements in the 21st century, or Black churches involved in the civil rights movement of the 1950s and 1960s, or Evangelical Christian Churches actively involved in conservative political movements around certain kinds of moral questions in the present. At some times in American history veterans associations have been a crucial form of collective organization in civil society that has energized democracy. Unions are another important form of this kind of bottom-up voluntary organization. And this is why unions matter for democracy and not simply for economic conditions of their members.

In this chapter we will begin by discussing briefly what unions are and how to think about them. This will be followed by a synoptic history of unions in America and the current state of affairs. In the next chapter we will examine other sorts of community and grass-roots organizations which can contribute to democracy from below.

WHAT ARE LABOR UNIONS?

Many people think of labor unions as a kind of special interest group -- manual workers looking out for their own narrow economic interests. Unions are portrayed as powerful organizations, often corrupt, that at best benefit their members at the expense of nonmembers and the society at large, and at worst really only serve the interests of union bosses. Most people interpret the dramatic decline of unions as indicating that American workers no longer want unions. Americans are individualistic, they believe in individual competition and think that the best way to get ahead is to do so on your own. If unions are no longer all that important, this is because workers have abandoned unions.

[1] Sociologists like to use words like "spheres" or "domains" to describe different aspects of society. Such spatial metaphors are always a bit misleading, since these different aspects of social life intersect and overlap in all sorts of ways.

Many professional economists share this basic view. The free market works best, they argue, when there is no interference with purely voluntary exchanges. Unions get in the way of individual workers voluntarily making bargains with individual employers. Unions create rigidities in the market, rigidities in wage rates, rigidities in free choice, rigidities in hiring decisions by employers, and all of this reduces efficiency and economic performance. In the end, the story goes, everyone is worse off because unions muck up the smooth functioning of the system.

We will offer an alternative view of labor unions that stresses two main points: the first concerns the effect of unions on the distribution of economic power in a capitalist system; the second concerns the nature of political power and its relation to collective association in a democracy.

Economic power

Workers are, as individuals, are at an inherent disadvantage in bargaining with employers because they have fewer options. Power, in a market, depends upon how many options each party has, how badly harmed each party is they fail to make a deal. In most circumstances, an employer has many potential employees that can be hired for most jobs. Usually it hurts an employee more to be fired than it hurts an employer for an individual employee to quit, and this means that employers have more power than workers.

There are a variety of ways of rectifying this imbalance of power in the labor market. One way is for the government to impose regulations on labor contracts which in one way or another reduce the ability of employers to dictate the terms of an agreement. All developed capitalist countries have such rules. Examples include minimum wage rules, health and safety rules, rules governing overtime and working hours. The assumption behind all such rules is that left to their own devices employers would offer jobs at below the minimum wage, with unsafe working conditions, and with excessive working hours, and because of their vulnerability, there would be workers willing to accept such jobs. The rules are therefore designed to block employers from using their power advantage in labor markets to employ workers under the excluded conditions.

Unions are the second main way for rectifying the imbalance of power by creating some semblance of equality in bargaining over the employment contract. Where Unions are strong, employers must come to a collective agreement with workers (through the union) otherwise the employer will not have access to a labor force. This means that workers have a capacity to punish employers for failing to agree to a satisfactory contract by collectively refusing to work. This is called a strike. While an individual worker refusing to work generally does little harm to an employer, a collective refusal matters. The threat of that collective refusal, then, constitutes a new background condition for labor market bargaining. The results are contractual terms that are more favorable to workers.

This narrow economic benefit of unions for workers is called the wage-premium for unionized workers. Table 21.1 indicates the magnitude of this premium for some selected low-wage jobs. In each of these cases, unionized workers received over a third higher wages than their nonunionized counterparts.

-- Table 21.1 about here --

Political power

Most discussions of unions focus only on the issue of economic power and the impact of unions on the labor market. While this is undoubtedly the main motivation for most people in joining a union, it is by no means the only important role that unions play in society. In particular, unions have the potential to help forge more democratically engaged citizens. Isolated, atomized, individual citizens are likely to be a passive, apathetic political force. The problem of rational ignorance makes people easy to manipulate and discourages participation, and in the absence of strong solidarities, a sense of civic obligation is unlikely to flourish. The labor movement is one of the important ways that individuals can feel connected to each other in ways that makes political activity seem relevant.

Labor unions foster democratic participation in two ways. First, unions contribute to what can be called *organic solidarities*. Unions are organizations that are embedded in one important setting in many people's lives – their workplaces. In countries with a vibrant labor movement, unions in the workplace organize all sorts of activities and help ordinary workers get involved in many collective decisions within work. In many European countries there are workplace councils in which workers, through their unions, are involved in health and safety regulations, monitoring working conditions, grievance procedures, and many other things. When conflicts occur with management, individual workers are more likely to experience these as collective struggles rather than simply individual complaints. Through these activities, the interdependencies that exist within work can become solidarities, and these solidarities can facilitate greater involvement in broader democratic politics.

A strong union movement does more than give people the kind of life experiences than affects their identities and builds a sense of connectedness and solidarity. It also solves crucial organizational problems. Unions provide information to their members helping to mitigate the problem of rational ignorance around political issues, and they lower significantly the individual costs of active participation. Unions typically become, as organizations, directly involved in political parties. In electoral campaigns this helps parties solve a crucial problem – mobilizing people for electoral campaigning, both as voters and as volunteer campaign workers. A strong union movement can help provide the volunteer legwork for practical electoral activities and in this way counteract the influence of money in campaigns. This is an important reason why, where unions are strong, voter participation rates are higher and public policies tend to serve the wider interests of ordinary citizens rather than just elites.

Unions are certainly not the only kind of voluntary association that can play this role of building solidarities and facilitating democratic political participation. They do, however, have two big advantages over many other potential associations. First, they are closely tied to workplaces in which workers already have some solidarity through their interdependencies within work. Workplaces are themselves a cooperative community of interacting persons, and this provides a social basis for building deeper solidarities through conscious organization. Second, unions have the potential to be a mass movement – called “the labor movement” – since in contemporary capitalism the vast majority of adults work for a living as employees, and most of these employees have no managerial authority within work. The labor movement has the potential to build broad and inclusive solidarities.

A SKETCH OF THE HISTORY AND FATE OF THE U.S. LABOR MOVEMENT

If unions are such wonderful associations in terms of creating a more equal balance of power in labor markets and facilitating a more engaged citizenry in democratic politics, then why, one might ask, are they so weak in the United States? Figure 21.2 charts the trajectory of union membership from the 1930s to the 2000s. Union membership rates in 2008 are only a little over 10% of the labor force. Since unions are legal, why are there so few union members if they are such a good thing?

-- Figure 21.1 about here --

To understand this we need to briefly sketch the history of the union movement in the United States and explain the conditions which make it relatively easy or difficult to actually form unions.

Throughout the 19th century, the state and the courts were extremely antagonistic to unions. Unions were seen as a form of restraint of trade which violated the core principles of laissez-faire capitalism. Basically this reflected a conflict between two values: *freedom of association* – which would give people the right to form unions – and *freedom of voluntary exchange on markets* – which would object to any form of organized coercion in market contracting and thus would oppose unions. Until the reforms of the 1930s, the courts sided consistently with the second of these principles. A union going on strike was regarded as an organized conspiracy to coerce the legitimate owners of businesses to agree to contracts. The result was that strikes were often repressed violently by the police and the national guard, sometimes at great loss of life.

This kind of legal environment made it very difficult to form unions. The basic problem is the extreme vulnerability of organizers to repression and of union members to dismissal until a union becomes very powerful, but it is very difficult to become powerful if a union cannot grow incrementally. For a union to be strong it needs a high proportion of workers in a firm to be members; there is strength in numbers. But of necessity, all unions begin as weak organizations. When a union is weak, individuals are extremely vulnerable to reprisal from employers for joining a union. This makes it very hard for a union to grow slowly and incrementally *unless there are legal protections enforced by the state.*

A central problem in any labor movement is therefore creating a favorable legal framework for union organizing. Four legal protections are especially important:

- employees need protection against being fired or disciplined for joining a union
- employees need protections against being fired while on strike
- there need to be fair rules for union recognition

- there need to be effective prohibitions against employers engaging in unfair tactics against a union.

And, of course, all of these rules need to be effectively enforced and violations rapidly dealt with. Prior to the New Deal, none of these protections existed. Employers had nearly a free hand to do whatever they liked to block union drives.

All of this changed in the 1930s with the passage of New Deal labor law reforms. The key legislation was the National Labor Relations Act, commonly referred to as the Wagner Act, passed in 1935. The central elements of the act included the establishment of clear rights of workers to form unions, protections for organizing activities and machinery for preventing employers from engaging in unfair practices and bad faith bargaining. The act established The National Labor Relations Board (NLRB) which had the responsibility for enforcing these protections and investigating abuses.

The act signaled a major change in the attitude of the Federal Government about the legitimacy of collective organization by workers. Senator Wagner, the sponsor of the legislation, expressed this change in understanding this way:

> There can no more be democratic self-government in industry without workers participating therein than there could be democratic government in politics without workers having the right to vote…The right to bargain collectively is at the bottom of social justice for the worker, as well as the sensible conduct of business affairs. The denial or observance of this right means the difference between despotism and democracy. [2]

Under the terms of the Wagner Act, the first step in forming a union is for organizers to get employees to sign cards saying that they want a union. When a majority of employees have signed these organizing cards, then either the employer can agree to the union or can insist that a vote is taken to "certify" the union as a collective bargaining unit. After a union has been certified, employers have to meet with union representatives and engage in what is called "good faith bargaining." This bargaining ideally culminates in a contract – an agreement between the union and the employers. The contract is then voted on by union members. If no contract is bargained, then the union can go on strike to put pressure on the employer. During the strike an employer can hire replacements – which unions called "scabs" – to work instead of the striking workers. Often employers hire immigrants for this, and even recruit workers from poorer regions. Employers are not allowed to fire workers while on strike, but they also are not prevented from replacing them with permanent replacements. One of the conditions of settlement of successful strikes is always getting rid of the replacement workers.

With these rules in place and more or less effectively enforced, many successful organizing drives were launched from the mid-1930s to the early 1950s. The result was a rapid and dramatic expansion of unions.

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[2] John W. Budd, *Employment with a human face: balancing efficiency, equity, and voice* (Ithica: Cornell University Press, 2004), p. 103

This favorable legal framework for union organizing only lasted 12 years. In 1947, in the aftermath of the massive strike wave in the year after the end of WWII involving over five million workers and in the context of the growing anti-Communist hysteria of the emerging Cold War, the Wagner Act was drastically amended by legislation known as the Taft-Hartley Act. In the original Wagner Act only potential abuses by employers were included in the list of "unfair labor practices." The new act added a long list of prohibited actions by unions including wildcat strikes, solidarity or political strikes, and secondary boycotts among other things.[3] The law also allowed states to pass what are called "right-to-work" laws. These are allows which prohibit unions from forcing all workers to join the union in a company that is unionized. This, in effect, allows individual workers to be free riders on the union dues paid by union members: the nonunion members get the benefits of a union without having to pay any of the costs. All of the states in the Deep South rapidly passed such right-to-work laws, along with most other traditionally Republican states in the Midwest and Mountain regions.

These changes in the legal framework of unions significantly undermined efforts expanding union membership in existing unions and forming new unions. Equally important, there was a gradual erosion of the willingness of the NLRB to intervene energetically on the side of workers in labor disputes, particularly beginning in the 1980s with the ascendency of free market neoliberalism as the dominant political ideology. The response of unions to these changes was mostly defensive – adopting strategies to protect the union members in established unions rather than engage in aggressive drives to create new unions and expand membership. In many instances, in fact, it seemed to many observers that union strategies were mainly concerned with protecting the interests of union leaders rather than the rank and file, although such accusations were often simply expressions of anti-union sentiment.

Unionization in the private sector reached its peak in the 1953, and has declined ever since. This was, at first, largely the decision of unions themselves. Coming out of World War II, unions had a defined core of strength in a limited number of sectors: regulated industries (transportation, communication, and utilities), mining, commercial construction, and manufacturing. In ways they would later come to sorely regret, their membership was also heavily clustered in limited parts of the country: New England, the upper Midwest Great Lakes, and the west coast, from Seattle to Los Angeles. They did not put much effort of organizing outside this core, except in the public sector in which a small explosion in new organizing occurred in the 1960s, both among civil servants working directly in government and among public sector teachers. What unions failed to do was attempt to expand membership into the rapidly growing private service sector or the growing South and other largely "union free" areas. Still, even as the rest of the economy grew around them, and thus the share of the economy in which unions were prominent dropped, unions managed to maintain high densities within this core well into the late 1960s.

[3] A secondary boycott is an organized attempt to get people to stop doing business with a firm that does business with a firm whose workers are on strike. An example would be a truck driver union refusing to deliver goods produced by a firm that is on strike to a store that is not on strike.

By the early 1970s, however, the uneasy truce between unions and employers, always confined to this core, was already coming unstuck. New competitive pressures from abroad highlighted union costs to employers. New technologies in mining, longshore, and meatpacking were eroding union power. And a drumbeat of academic studies, often sponsored by business, were pointing out the excessive costs of regulation. Business was also changing its organization, becoming qualitatively more sophisticated and coordinated in attacking union power. The formation of the Business Roundtable and a revived U.S. Chamber of Commerce, among other developments, presaged what was to become a very tough decade for unions. Those parts of the union core that were active in international trade especially felt the bite of new competitors. Major deregulatory initiatives succeeded in trucking and airline transportation and communications. And then, in the 1980s with the election of Ronald Reagan the government launched a major attack directly on unions, beginning with Reagan's decision to fire all unionized air traffic controllers in 1981 during a strike early in his administration. The result was a precipitous decline of unions even with its traditional core.

Since the early 1990s there has been renewed effort at revitalizing the labor movement. There have been some successes in organizing previously unorganized sectors, most notably among some categories of service workers. There have also been initiatives to reinvigorate internal democracy within unions, although in general with uneven success. None of these efforts, however, have been sufficiently robust to reverse the overall decline in union membership.

These efforts at reviving unions have occurred in a context in which labor law remains hostile to union organizing and meaningful penalties faced by employers for violating even these weak laws are non-existent. So, working just up to the limits of the law, and often beyond, employer intimidation of workers is unfortunately typical. Over the years employers have developed a sophisticated arsenal of strategies to combat unionization. A partial list of employer strategies would include the following:

- Employers organize mandatory captive audience meetings that all workers must attend. They also often require repeated one-on-one meetings of supervisors with workers in which anti-union propaganda is presented.
- When a union drive occurs, employers regularly hire professional anti-union consultants to fight the union. These consultants train managers and supervisors in the best ways of discrediting unions.
- Employers make widespread threats to move businesses abroad if a union is certified. If there are immigrant workers in the firm, it is also common to intimidate workers by threatening to notify the Immigration and Naturalization Service.
- Illegal firing and discrimination against workers who sign union cards is a common occurrence. It is very hard and expensive for workers in a firm in which the employer engages in illegal forms of intimidation to take employers to court and have the laws properly enforced. The process is cumbersome and time consuming, the fines are not serious, and the long delays in getting a decision effectively give power to employers to use illegal tactics. Many professional anti-

union consultants, in fact, encourage employers to act illegally This is why the issue of the efficient enforcement of labor laws and not simply the existence of laws on the books is so important. Non-enforcement is a deliberate strategy of the government through understaffing and directives to not aggressively pursue cases.

- Even after union victories, the consultants encourage continual, aggressive anti-union activity, delays, etc. to block contracts. Again, the passivity of the NLRB in enforcing the good faith bargaining provisions of labor law is crucial here. Less than half of unions who win certification manage to negotiate a contract.

The only people clearly served by this system are employers dead set against giving workers any real voice and power in the firm. Certainly the society is ill-served by a deliberately adversarial system of labor relations. And certainly this doesn't come close to meeting the desire of workers for greater voice and say in the workplace. Richard Freeman and Joel Rogers conducted a systematic national survey of the workforce exploring a wide range of themes around attitudes towards work and workplace representation. They found that about a third of nonunion workers said that they would vote for a union if given the opportunity, and virtually all existing union members said that they would vote to retain their union in an election for union representation. Taking these two numbers together suggests that *in the absence of intimidation and other anti-union tactics*, the rate of unionization in the private sector in the United States would be around 44%.[4]

POLITICAL CONSEQUENCES OF THE DECLINE OF UNIONS

Many commentators have examined the economic consequences of the decline of unions. For example, the decline of unions is often cited as one of the important trends that contributed to rising income inequality since the 1970s. Strong unions tend to create broad sectoral norms on wage rates that reduce variation. Less attention has been given to the political effects of the decline of union and the implications for American democracy.

Two things seem especially important: first, the impact of the decline of unions on the character of political participation of people in the working class, and second, the impact on the priorities and policies of the Democratic Party.

The decline of unions removes the most important associational basis for a coherent working class electorate. Unions constitute a systematic associational counterweight to the competitive pressures of the market and the privatized lives within the working class. They provide the micro-context for linking the experiences workers have within their workplace to a form of collective organization, and this is a crucial step in the process of becoming connected to political processes on a class basis. The issue here is not only that unions counteract the tendency for people to act in individualistic ways that fuel political apathy, but that unions help foster political identities in class terms. A strong union movement is essential both for increasing the political engagement of workers and for that engagement to have a distinctively working class character.

[4] Richard B. Freeman and Joel Rogers, *What Workers Want*. (Ithica: Cornell University Press, 1999). Revised edition, 2006.

It is entirely possible, after all, for workers to become politically engaged in ways quite disconnected to their class situations. Workers can be embedded in associational contexts in which their political identities are formed on the basis religion or ethnicity or gun ownership or many other issues. Associations are critical to political participation, but class-based associations are only one of many. The decline of unions, then, has seriously eroded the basis for working class politics.

In such a situation two sorts of things are likely to happen. Many workers simply become disengaged from politics altogether. Politics seem remote and unconnected to their lives, and they feel no strong sense of civic obligation to participate in the rituals of democracy. That is one possibility. Another is that their political identities become formed through other kinds of associations. This is one of the explanations of the rise of working class Republican voters mobilized around conservative social and moral values in the last decades of the twentieth century. With the decline of unions the main remaining associations in which workers participated were churches, and since working class churches tend to be socially conservative, this became the basis for shift in political identity and loyalty among a segment of the working class. If unions had remained strong, then there would at least have been competing associational groundings for political engagement within the working class.

The decline in unions not only affects the way working class political identities are formed; it also reduces pressures on the Democratic Party to support working class interests. Both the Democratic Party and the Republican Party have to seek support from rich individuals and major corporations because of the financial exigencies of electoral campaigns. Unions since the 1930s constituted a counterweight to the role of money in shaping the political agenda of the Democratic Party. As we argued in the discussion of the "resource constraint" in chapter 16, there are two main ways that groups of people can systematically influence politics in a democracy -- one is based on *willingness to pay* and the other on the *willingness to act*. Corporations and wealthy individuals can affect politics through the first of these. Unions are one of the main ways for facilitating the second. The decline of unions means that their influence on Democratic Party agendas relative to the influence of large corporations has also declined.

This shift in the balance of organized forces in the Democratic Party helped push the Party away from a political agenda anchored in the model of an affirmative state centrally concerned with inequality, poverty and urban development, to a party that shared with the Republicans an aversion to taxation and a commitment to much more relaxed regulation of the market. By the 1990s a Democratic President could announce the end of the era of Big Government. Reversing these trends by revitalizing the labor movement is one of the necessary conditions for renewing American democracy. For that to happen in a sustainable way basic changes in the legal environment for union activity is essential.

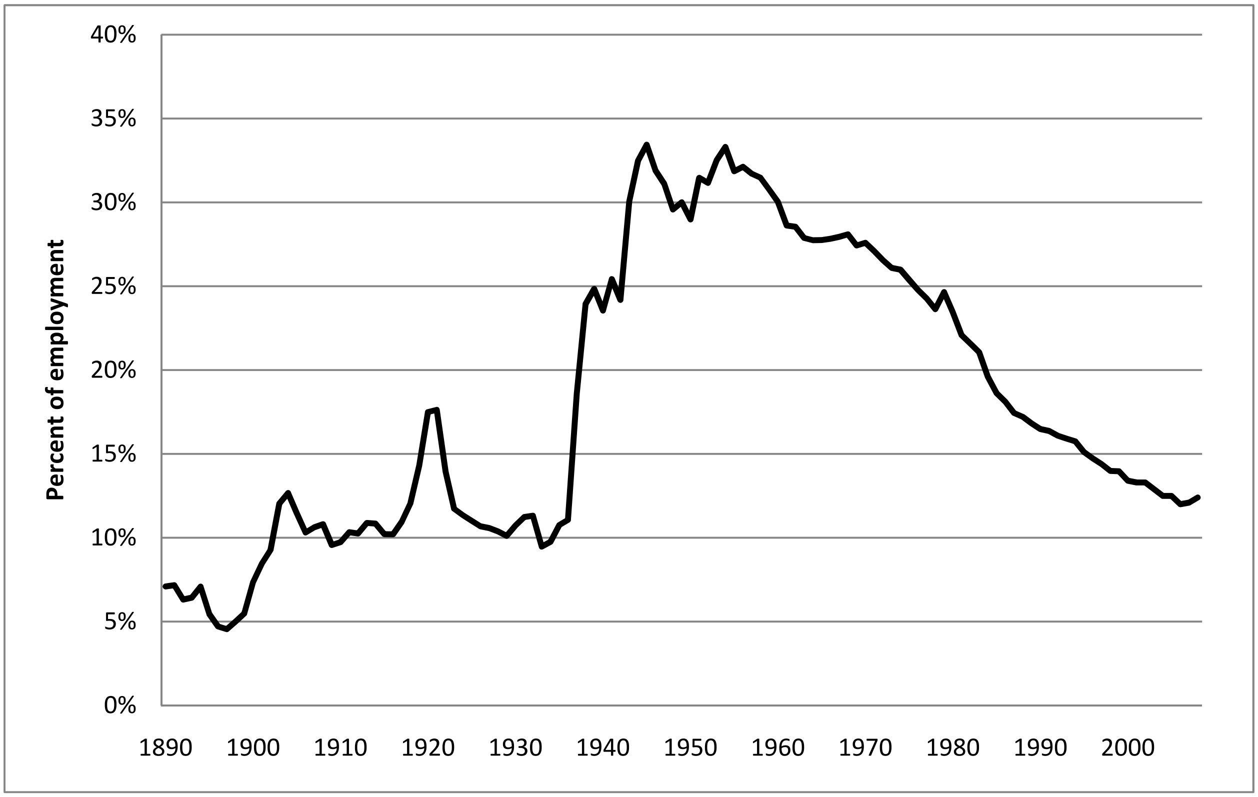
Figures & Tables for Chapter 21

Low-wage occupation	Average wage		Yearly earnings		% difference	Annual earnings difference
	Union	Nonunion	Union	Nonunion		
Cashier	$10.04	$7.35	$20,883	$15,288	37%	$5,595
Janitors	$12.12	$8.69	$25,210	$18,075	39%	$7,134
Farm workers	$10.51	$7.71	$21,861	$16,037	36%	$5824

Poverty level for family of four (2000):
hourly earnings: $8.40 (assuming full-time work)
annual income: $17,472

Source:

Table 21.1 The unionization wage-premium for selected low wage occupations, 2000



*Source:*1890-1999, *Historical Statistics of the Union States*, Figure Ba-U; 2000-2008, BLS, Series LUU0204899600.

Figure 21.1 Unionization rates 1890-2008

Chapter 22
Democracy from Below
Final Draft, August 2009

Most people understand democracy as a system of free and fair elections along with various kinds of civil rights that make such elections meaningful – freedom of association, freedom of speech, freedom of the press. This kind of democracy is called *representative* democracy because the process by which citizens are involved in actually making the collective decisions carried out by the state is by choosing representatives to make those decisions.

Representative democracy is, of course, a critical way of translating the ideal of democracy into practical institutions in a complex society. But it is does not fully capture the ideal itself and it does not exhaust the empirical ways in which democracy takes place in American society. Throughout American history there has been a second conception of democracy which has influenced both the ideals and their practical realization: *direct* or *participatory* democracy in which citizens are directly involved in different ways shaping public policy and its implementation.

FORMS OF DIRECT CITIZEN PARTICIPATION IN DEMOCRACY

Direct citizen participation in democracy takes many different forms. Here is just a partial list of examples:

1. *Juries*. In a jury, the task of deciding court cases is handed over to ordinary citizens. Such decisions are a direct exercise of a critical the power of the state – the power to decide on the guilt or innocence of people accused by the state of crimes and sometimes decide on their punishments as well, and the power to resolve disputes among parties in civil cases. In many countries such decisions are made by professionals employed by the state, trained in the law and judicial rules, but in the United States defendants and litigants have the option of choosing to have these decisions made by ordinary, fellow citizens. This does not mean that juries invariably make reasonable decisions. Jurors can be heavily biased in various ways and can be manipulated by judges and attorneys. Nevertheless, where the jury system is strong and jurors feel a strong sense of civic obligation to act in a fair manner, they embody the ideal of equality before the law that is central to democracy.

2. *Referenda.* Most laws in American democracy are passed in various kinds of legislatures – city councils, county boards, state legislatures, the U.S. Congress – by elected representatives. But in some states citizens have the right, if they can get a sufficient number of signatures on a petition, to get a proposed law put on a ballot in which citizens vote directly the proposed legislation. In some states like California, Oregon and Washington, hundreds of laws have been passed in this matter. Referenda have been championed by people who believe that professional politicians are likely to be beholden to special interests and elites and that ordinary citizens are in a better position to vote for the public interest. Critics argue that referenda are subject to the same kinds of

distortions of money in politics that plague ordinary elections, particularly since referenda are often on the ballot in special elections with very low turnout. The problems of rational ignorance that plague voting for candidates can be even more serious in voting for complex legislative measures, since the cheap information voters receive through political ads will tend to be simplistic. Referenda are a form of direct democracy, but one which is potentially easily manipulated by many of the forces that also distort representative democracy.

3. *Open public hearings.* Particularly in local political contexts, public hearings can be a vibrant way for the public to directly affect public policy. When a city council or a school board holds a public hearing on a controversial matter and hundreds of citizens line up to speak about the issues, it can be more difficult for the elected officials to make their decisions through back-room deals. Of course, public hearings can be packed by well organized small groups that give the impression of much broader support for some side of an issue than actually exists. They can also sometimes be just a symbolic side-show, window-dressing to create the appearance of responsiveness. But they can also contribute to genuine public input that affects decisions of politicians who are prepared to listen and take them seriously.

4. *Public issue campaigns.* In a public issue campaign, citizens mobilize petitions, letter writing, telephone calls and other means of communication to express their views on some specific issue to public officials. The general idea is that a well-organized campaign of this sort creates a sense of the strength and passion of public opinion around some issue. Since elected officials want to be re-elected, they are particularly sensitive to instances of strongly held views since groups with passionate views are more likely to mobilize for or against them in electoral campaigns. This sensitivity to the potential of mobilized constituents also opens public issue campaigns to manipulation by well-financed groups, especially under contemporary communications technologies where it is easy to organize millions of emails.

5. *Social protests*. Throughout American history people have engaged in public rallies and demonstrations, and sometimes in civil disobedience in various forms, in an effort to shape public policy. Public protests potentially do a variety of things: they can bring to the attention of a passive public a moral issue which has not gotten sufficient attention, and thus contribute to changing public opinion; they can raise the specter of disruption and disorder, and thus force elites to take some kind of action; they reaffirm to the protestors their sense of solidarity and purpose, and provide a context for recruiting new participants; they can demonstrate the seriousness of commitment of a particular constituency and thus, like public issue campaigns more generally, make elected officials concerned about reelection.

Some of the most fundamental political issues in American history have been heavily shaped by mass movements that engaged in a wide range of peaceful and disruptive protests. The Abolition Movement against slavery in the 19th century contributed to the rising sense of political crisis that culminated in the Civil War and the eventual end of slavery. The Suffragette Movement for the vote for women was a key force that ultimately resulted in getting men to be willing for women to vote. The Civil Rights movement used illegal sit-ins in segregated facilities and mass marches to dramatize to the world the moral failings of racial oppression in the United States. This put tremendous pressure on the Federal Government to intervene in the Southern States and eventually to pass the Civil Rights legislation of the 1960s.

Protests and demonstrations do not only have political effects on the most visible stage of national politics. Many kinds of struggles over local political issues also involve public protests, sometimes with clear effects on policies. City councils are sometimes quite responsive to public demonstrations and picketing over zoning decisions and development projects. Universities introduced Black Studies programs in response to demands and demonstrations by African-American students. Protests in the late 1990s on campuses over the use of sweatshop labor in producing apparel with university logos lead some universities to adopt labor codes of conduct in the contracts for such products. Countless other examples could be given.

Social protests can serve to advance the principles of equality and democracy, but they are also tools for highly motivated exclusionary groups to exert pressure on public officials. At times in American history the KKK used social protests to enforce and extend laws of racial domination. Social protests are often tools by NIMBY movements (not in my backyard) which result in placing undesirable public facilities like toxic waste dumps close to vulnerable, disadvantaged populations who are less able to mount an effective protest. While probably, on balance, public protests by social movements have enhanced democracy in America, the record is not unequivocal.

6. *Empowered participatory governance*. This is the least familiar form in which direct democracy exists in the United States and it has yet to be given a widely used label.[1] In empowered participatory governance, certain kinds of government activity which would otherwise be controlled by government bureaucracies or elected officials are delegated to decentralized bodies in which citizens directly participate in making the decisions. The oldest form of this kind of empowered participatory governance in the United States is the New England Town meeting. In the traditional New England town meeting, important local policy matters are decided not by an elected town council but by citizens in a meeting who directly vote on things like local taxes, town spending and town ordinances. Mostly as communities grew larger and more heterogeneous, and as issues of local government became more complex, this kind of direct democracy has disappeared. In the last decades of the twentieth century, however, new and innovative forms of empowered participatory governance have emerged. As we will see below, this potentially creates opportunities for a much more deeply engaged process of democratic citizenship in solving pressing and difficult problems.

All of these constitute forms of democracy from below in which citizens attempt to directly influence the shape of public policies. Mostly they have the character of either having very limited scope of action – as in juries – or of primarily being a way of applying periodic external pressure on the real centers of power. Only the last, empowered participatory governance, constitutes a way of bringing citizens inside of the decision-making process of government in a regular and on-going way.

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[1] The term "empowered participatory governance" to describe these kinds of institutional arrangements was coined by Archon Fung and Erik Olin Wright in *Deepening Democracy: institutional innovations in empowered participatory governance* (London and New York: Verso, 2003).

The rest of this chapter will explore these new forms of democracy from below. We will begin by explaining how this kind of direct democracy can fit into a modern, complex, political system. The key to this is understanding the relationship between "passing a law" and "implementing a public policy." This will be followed by a discussion of a striking example of this new institutional form: the development of urban participatory democracy in one section of the city of Boston.

THE PROBLEM OF TURNING LEGISLATION INTO FUNCTIONING POLICIES

The normal, simple way that most people think of democratic government is that laws get passed by elected legislatures and then they are carried out by administrative organizations that implement the laws that have been passed. There is, however, an immediate problem which this simple idea faces: what is called "implementation" of a law often involves creating a very wide range of concrete rules and programs. This is an issue even in cases where legislatures pass laws that seem very straightforward and uncomplicated. Consider, for example, what happens when a law is passed which says the speed limit is 65 mph on highways. Here the administrative task of implementing the law is fairly straightforward: putting up speed limit signs and instructing police officers to enforce the limit. But even in this case there are still issues in implementation that are not specified in the law itself: how strict or lax will the enforcement be? Will motorists be stopped if they are driving at 67 mph, 70 mph, 73 mph, or what? How many police will patrol the highways and what technologies will they use to measure driving speed? These decisions made after the law is passed in the legislature will determine how rigorously and effectively the rule is actually enforced. Anyone who has traveled through many states knows that there are some places where the speed limit is quite rigorously enforced, and others in which you can consistently exceed the speed limit by 15 mph without worrying even though the laws on the books are the same.

Many pieces of legislation pose enormously greater problems than speed limits, and the distinction between passing the legislation and implementing the actual policy begins to break down. Think of legislation that provides funding for urban redevelopment, or public transportation, or education, or legislation that protect endangered species or regulate pollution. In these instances legislation creates a program with general guidelines and principles, but this is still very far from actual, functioning policies in the world.

The traditional way of solving this problem of implementation is to empower an administrative agency to create the detailed rules and programs and put them concretely into practice. The term that is used for this sort of approach is "bureaucracy". The style of implementation that corresponds to bureaucracy is what is often referred to as "command-and-control." The procedure is this: At the top of the bureaucracy are political appointees who are responsible to the elected executive of the government – the president in the case of the federal government, governors in the state, mayors in cities. The political heads of the bureaucracy oversee the process of rule setting and implementation. Often they set up special advisory panels of experts to help with this rule-setting task. In some instances these panels include representatives of powerful interest groups, but sometimes they are just experts of one sort or another. Below this political directorate of the bureaucracy are professional, career civil servants who do most of the practical work. For example, in the case of the endangered species act these include scientists of various sorts responsible for studying the problem and identifying endangered species, field agents who monitor sites, and of course lots of people we commonly call "bureaucrats" who manage the paperwork involved in all of this.

This kind of system is called "command-and-control" because the rules are imposed from above by centralized command, and then the bureaucratic staff controls the practical implementation of these commands. Of course there are lots of variations, but this is the basic idea. This kind of structure is used in most policy areas: pollution control, health and safety regulation, welfare policy, public housing, parks and recreation, community development, and so on.

Suppose that legislation is passed to give cities funds for urban development projects to deal with the problem of deterioration and blight in parts of a city. The money can be used for a very wide range of purposes: improving urban infrastructure like sewers, lighting and streets; demolishing dilapidated buildings and providing subsidies of different sorts to build apartments or office buildings; renovating parks, libraries and other public amenities; improved public transportation; etc. The question then becomes how the city decides precisely what sorts of things to do. Typically there is a planning office in the city, and often for big projects a special commission will be set up by the planning department to develop the basic contours of a long term plan. This commission will consist of experts from the planning department, possibly other city officials, sometimes civic leaders of different sorts, sometimes outside experts. Initial plans will be prepared and public hearings organized. Proposals for particular projects will be reviewed by the commission. Eventually a general plan is devised from this process, and then specific projects begun. The funds are allocated and the projects are monitored (more or less effectively) by city officials.

Democracy enters this bureaucratic process in three ways: First, the bureaucracy is accountable to the elected executive, and thus there is an electoral constraint on the policies implemented by the bureaucrats. Second, in at least some of the rule-setting and planning processes, public input is solicited, and sometimes this has a democratic character. And third, the bureaucracy is itself subject to rules and courts, so if you feel that a bureaucracy has implemented a rule that violates the principles of some law, you can sue the bureaucracy in court. All of these are important; it is surely worse to live in a world in which government bureaucracy cannot be challenged in courts, in which there is no open public input into implementation decisions, and in which the leadership of the bureaucracy is not accountable to elected officials. Still, the democratic constraints often seem quite weak. Many people see government bureaucracy as unresponsive and undemocratic. What is worse, because of the capacity of powerful interests and well-funded lobbyists to influence centralized bureaucracies, it often happens that the process of policy implementation gets captured by special interests, and this further erodes their democratic character.

AN ALTERNATIVE: EMPOWERED PARTICIPATORY GOVERNANCE

Empowered participatory governance is an alternative way of creating concrete implementations of legislation for some kinds of public policies. The basic idea is this: There are many public policies, including national policies, in which the actual implementation of the policy can be significantly decentralized to quite local units and in which ordinary citizens can become actively involved in working out the practical details of implementation. The idea here is not simply to remove certain policies from centralized bureaucracies, but to create new participatory mechanisms for citizens to become directly involved in policy formation and policy implementation. This will be especially feasible in instances in which citizens have formed civic action groups of various sorts engaged in trying to solve in practical ways various kinds of problems faced by their communities. The trick is to figure out institutional arrangements in which such civic associations can become actively linked to government administration in ways that genuinely empower them to shape the process of rule implementation and program development.

The United States has a very long tradition of civic activism and voluntary association. The 19th century French social commentator, Alex De Tocqueville, saw this penchant for Americans to join voluntary associations as one of the defining characteristics of American society, one of the things that contributed to the vibrancy of our democracy. Such associations contributed to a dense, collectively organized civil society in the 19th century and into the 20th.

Many sociologists believe – we think incorrectly – that there has been a sharp decline in such participation in voluntary associations over the last 50 years and that this has lead to a serious weakening of civil society in the US.[2] What has for sure happened is a decline in certain traditional forms of association – especially organizations like fraternal clubs and traditional civic associations – but there has also been a rise in a new kind of association, grass roots associations organized around particular social, environmental, and political issues. Often these associations function mainly as pressure groups, protesting policies and putting pressure on public officials. This is certainly the traditional way that civic associations play a role in democracy. But in halting and uneven ways they have also taken on a more energetic role in the actual process of governance.

The best way to understand what this is all about is to look at a particular example in some detail. We will then discuss the broader implications of this kind of participation for a revitalization of democracy.

THE DUDLEY STREET NEIGHBORHOOD INITIATIVE[3]

The Dudley Street neighborhood is an area with about 23,000 residents located two miles from downtown Boston. Demographically it is a racially and ethnically diverse community made up primarily of African Americans, Hispanics and Cape Verdeans.

[2] For discussions of the possible decline in civic associations in the United States, see Robert W. Putnam, *Bowling Alone* (New York: Simon and Schuster, 2000) and Theda Skocpol, *Diminished Democracy: from membership to Management* (Norman, Oklahoma: University of Oklahoma Press, 2004)

[3] This account draws heavily from a superb account of the Dudley Street Neighborhood Initiative by Peter Medoff and Holly Sklar, *Streets of Hope: the fall and rise of an urban neighborhood* (Boston: South End Press, 1994) and from a documentary film, *Holding Ground*. For additional information on this experience, see the Dudley Street Neighborhood Initiative website, www.dsni.org.

Only about 4% are white.[4] Economically, it is one of the poorest neighborhoods in the city of Boston with unemployment and poverty rates roughly twice as high as for the city of Boston as a whole.

In the early 1980s the Dudley Street neighborhood was also one of the physically most devastated parts of the city. As a result of highly discriminatory urban housing policies in the 1960s and 1970s, chronic neglect by the city, and a persistent problem of arson, by 1985 21% of the parcels of land (1,300 parcels) in the area were vacant. The Boston Arson Prevention Commission argued in 1985 that much of this arson was probably the result of development interests wanting to displace people from the area. The Commission wrote, "Many of the buildings which have burned in this area [in 1985] were among the approximately 75 abandoned buildings which area residents would like to see developed by and for local, low-income residents. Other fires have occurred in buildings currently occupied by low-income tenants that appear destined for Condo Conversion…It is obvious that this increase in serious fires in the Sav-Mor area [part of the Dudley Street neighborhood] is directly related to the increased speculation due to the [Boston Redevelopment Authority] Dudley Square Revitalization plan."[5] The vacant lots created by abandonment and arson became a dumping ground for all kinds of trash and garbage. Private contractors for city garbage collection routinely – but illegally – used some of the lots as trash transfer stations. Residents of Boston also dumped refuse in the area. Streets were littered with abandoned cars.

This was the context in which the Dudley Street Neighborhood Initiative was founded in 1985. A private foundation, The Riley Foundation, had been involved in making grants for various kinds of projects in poor sections of Boston for some time. In 1984 it helped create the Dudley Advisory Group to formulate a broad strategy for development for the area. This group had roughly 30 regular members from various community organizations and agencies connected to the area. The group met regularly to formulate proposals and create a clear agenda which would facilitate funding from the Riley Foundation and other sources. It formally renamed itself the Dudley Street Neighborhood Initiative (DSNI) in January 1985.

In February 1985 the DSNI organized a large public meeting to present its ideas to the community. The organizers of the meeting fully expected to be greeted with enthusiasm by local residents. After all, they were proposing a broad agenda for neighborhood improvement and for the infusion of significant funds for a variety of constructive community development projects. Instead, they were greeted with considerable skepticism and even hostility. Some of the neighborhood people at the meeting expressed deep resentment at being told what was best for their community by do-gooder outsiders. As one of the participants in the meeting declared, "Who the hell are you people and what do you want?....Who is Riley? Why should we trust you?"[6] Many people were especially incensed by the composition of the proposed 23-member

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[4] Data are for the year 2000, reported in the "Dudley Neighborhood Profile", June 2003, prepared for the Urban Village Working Group, DSNI, available at www.dsni.org.

[5] Quoted in Medoff and Sklar, p. 68, from the City of Boston Arson Prevention Commission, *Report to the BRA on the Status of Arson in Dudley Square.*

[6] Quoted in Medoff and Sklar, *op.cit. p.53*

governing board of the DSNI, which was dominated by outsiders and had only 4 positions reserved for community members.

Many residents were extremely cynical towards these kinds of lofty plans for neighborhood revitalization. They had heard such things before, but nothing much changed. In the specific case of the Dudley Street neighborhood in 1985 this general cynicism had been intensified by the recent release of the city of Boston's own development plans for the area. As described by Peter Medoff and Holly Sklar, the Boston Redevelopment Authority's "Dudley Square Plan" was a classic urban development project that would lead to gentrification of housing and a large-scale displacement of existing low-income residents:

> The BRA proposed a "New Town" strategy with a $750 million complex of office towers, hotels, housing, historic parks and light manufacturing in the northern Dudley areas. The plan called for building high-, moderate- and low-income housing – with "home ownership opportunities for families with incomes as low as $20,000." That wasn't very low. Boston's median family income was only $22,2000 in 1984….Many saw the "New Town" strategy as the old "urban removal" … The Bra admitted that its strategy "could lead to displacement of existing residents, the gentrification of existing single-family neighborhoods, and jobs for 'new' residents at the expense of current residents."[7]

Given that the DSNI was dominated by educated white outsiders, it was perfectly reasonable for residents of the Dudley Street area to think that in some way the DSNI the part of this larger scheme.

In a situation like this one might have predicted that the organizers of the meeting and the financial backers of the project would have abandoned their efforts, feeling that they were not wanted by the community. Instead, they acknowledged that they had screwed up by not involving ordinary members of the community from the start. So, instead of retreating, they proposed that the whole process be restarted on a new footing, with a new governing board in which a majority of the seats would be held by people directly elected by the community:

> …there would be a 31-member board, with a resident majority – a minimum of 12 community members and 4 additional spots designated for residents. The multiracial, multiethnic character of DSNI was reaffirmed. Equal minimum representation was provided for the neighborhoods four major cultures – Black, Cape Verdean, Latino and White – rather than representation based simply numerically on Dudley's population. Equal minimum representation was chosen to strengthen collective action and underscore the common stake of all people in rebuilding Dudley. The Riley Foundation, the dollars beyond DSNI at this point, never sought a seat on the board and, in keeping with the spirit of community control, it never occurred to the DSNI members to propose that they do.[8]

The result of this restructuring was the emergence of a community organization that was genuinely controlled by the members of the community and whose projects grew out of intense discussion within the community over their most pressing priorities.

At this point the DSNI was already an interesting example of an inclusive community association working in a democratic manner for improving the conditions of

[7] Medoff and Sklar, *op. cit., p. 51-52*

[8] Medoff and Sklar, *op.cit.* p.57

life for people in a poor area of a large city. But it was not yet, really, an instance of deepening democratic through empowered participatory governance, for it still had no systematic relationship to city government. This was to change over the next several years.

Ray Flynn was elected Mayor of Boston in 1984 after a bitter election campaign against a popular Black politician, Mel King. In the aftermath of the election, Flynn was eager to find allies in the black community that could ease some of the racial tensions generated by the election. The DSNI suited this purpose well. While it is probably also the case that Flynn did see the DSNI as a constructive effort to do something positive in one of the most blighted parts of the city, the level of city support was also clearly motivated by political considerations. The activists involved in the DSNI were not naïve about this, and there were concerns about being “used” by the city, but nevertheless they saw this as an opportunity to increase the real power of the association and its capacity to accomplish meaningful change.

The pivotal steps that consolidated a new kind of relationship with city government occurred in 1987 and 1988. Two things were especially important. The first was the adoption of a comprehensive strategy of participatory community planning to generate both a long-term vision for the revitalization of the community and an inventory of concrete plans for specific development projects. Participatory planning meant creating a community planning committee and the holding a long series of community-wide meetings in which both visions and projects were discussed. The result of this process was the *Dudley Street Neighborhood Comprehensive Revitalization Plan* which was subsequently adopted by the city as the official framework for future development of the community.

The second decisive development was a solution to the problem of how to control the 1300 parcels of vacant land in the Dudley Street area. The disposition of this vacant land for constructive community purposes was critical for the revitalization plan. The city of Boston owned a significant number of these parcels, and many of the private parcels were delinquent in paying taxes to the city and in various stages of the process of foreclosure, but much of the land remained in private hands. The question was: who would control the actual disposition of this land and what would be the process through which it could be used for community development? The solution was dramatic, controversial and unprecedented. It had two components: granting the DSNI the power of eminent domain by the city over the acquisition and disposition of the land, and creating a community land trust for the long-term ownership of the land.

Initially the residents of the community were very suspicious of the idea of the DSNI having the power of eminent domain, for in the past eminent domain had been used by planning authorities to displace people from their homes in order to demolish existing structures for purposes of “development”. Often this resulted in low-income housing being replaced by office buildings and luxury apartments. The Dudley Street Neighborhood Initiative was committed to development without displacement, and after all of this was explained in a series of community meetings, the community enthusiastically embraced the idea a community-controlled power of eminent domain.

The idea of community land trusts was completely unfamiliar to most people. Most people assume that ownership of buildings and ownership of land go together. What a community land trust does is break apart these two aspects of real estate. This enables the community to remove from the pressures of the market the land, and therefore exert significant control over the price at which the buildings on that land are sold. This provides a way of building affordable subsidized housing and then ensuring that it remains affordable as it is bought and sold over time. The DSNI set up a new nonprofit association, Dudley Neighborhood Incorporated, as a community land trust authorized by the Boston Redevelopment Authority to acquire lots via the power of eminent domain.

By the end of 1988 these elements were in place. In the years that followed, the DSNI embodied the ideal of empowered participatory governance by involving members of the Dudley Street community in the actual exercise of power over a very wide range of decisions concerning the use of resources and land. As summarized on the DSNI website, by 2008 over half of the 1,300 vacant lots had been rehabilitated for homes, gardens, parks, an orchard, playgrounds, schools, community centers and a Town Commons. Over 400 new homes for low-income people had been built and over 500 housing units rehabilitated.[9] The demographic profile and economic conditions of the residents themselves had not changed much. Average incomes are still very low and the community is still composed largely of minorities. But it is no longer a blighted disintegrated crime-ridden community.

Of course, the scale of these projects would not have been possible without the infusion of a great deal of outside funding, both from the government and from private foundations of various sorts. However, the level of funding alone would not have generated such consistent positive changes on the ground. This depended on the robust forms of participation and community empowerment through which these funds were used. Gus Newport, the executive director of the DSNI from 1988-1992, describes the process this way: "The chief lesson from Dudley Street is that communities need to have complete control over the planning process. That doesn't mean that you can't use professionals. But you must remember that the people living there are the experts. Community people are usually taken for granted. But here they look over everything and analyze it. They ask a lot of questions. Even people with little education. There are people with little education who have great ideas."[10]

WIDER PROSPECTS FOR DEMOCRACY FROM BELOW

The last quarter of the 20th Century was a period of general retreat in the United States from the democratic ideal of an affirmative state actively engaged in solving collective problems. One part of this retreat was the promotion of a wide variety of schemes to make various aspects of the state function more like markets. Sometimes this meant simply turning over to the private sector various state responsibilities, but other times it

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[9] http://www.dsni.org/timeline.shtml

[10] Quoted by Jay Walljasper "The Dudley Street Example" *Citizen at Large,* June 2000 (www.consciouschoice.com/2000/cc1306/citizen1306.html)

involved the creation of public-private partnerships for carrying out public functions. Such partnerships had been in existence the 1960s as a way of involving various kinds of community groups and other associations of civil society in implementing public policy. While in the neoliberal era such partnerships often reduced democratic accountability, there are occasions when it contributed to the expansion of opportunities for real democratic empowerment.

The Dudley Street Neighborhood Initiative is one prominent of example where this occurred, but it is not the only example. To list just a few other examples:

- The *Minneapolis Neighborhood Revitalization Program*. This program allocated in the early 1990s $400 million in public funds for Minneapolis neighborhood groups to spend over a twenty year period in a variety of improvement projects.[11] While there was considerable variation across the city in the level of energetic participation, in at least some neighborhoods there was very active citizen involvement in formulating plans and implementing projects.
- *Communities Organized for Public Service* (COPS), an affiliated program of the Industrial Areas Foundation in San Antonio.[12] COPS, founded in 1974, is one of the oldest projects of community-based participatory planning in the United States. Organizationally, it is a coalition of grassroots associations rooted in the Mexican-American community in San Antonio. COPS organizes an elaborate series of meetings of residents in homes, churches and schools to discuss the kinds of projects they would like. Initially this is an open-ended discussion, which of course means that residents want many more projects done than are possible. But this is still important for it makes people aware of the range of projects that are needed. Once this list is formulated, there is then an extended process of trimming, prioritizing, bargaining, discussions of which projects to put off for the future, etc. Those discussion take place is a variety of venues in which active citizen participation plays a vital role. The process culminates in a plan agreed upon by community leaders and city council representatives.
- *Community Policing in Chicago*.[13] This is a very different example. The general idea of "community policing" is for police departments to operate in such a way that they cultivate closer, less antagonistic ties to people in the community. In Chicago in the 1990s there was an attempt to enhance the quality of this engagement by creating regular community "beat meetings" in which residents could interrogate the police and help set concrete policing priorities for their neighborhood. Each month the police would then have to report back to this participatory forum about what they had done in response to these priorities.

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[11] Elena Fagotto and Archon Fung, "Empowered Participation in Urban Governance: the Minneapolis Neighborhood Revitalization Program", *International Journal of Urban and Regional Research*, volume 30:3, September 2006, pp. 638-55.

[12] For a discussion of COPS, see Mark Warren. *Dry Bones Rattling: Community Building to Revitalize American Democracy*. Princeton: Princeton University Press, 2001

[13] Archon Fund. *Empowered Participation: reinventing Urban democracy* (Princeton University Press, 2006).

Many other examples could be given. And, of course, many more examples could be given of attempts at creating forms of direct community democratic empowerment which fail. While it is impossible to have a real census of such initiatives so that we could measure the rate of success, it is almost certain that the vast majority of attempts at building democratic empowerment from below fail. This is hardly surprising since most such initiatives occur against a hostile, unsupportive background. But even when there is some real support from the centers of power, building this kind of community democratic capacity may be difficult. Peter Medoff and Holly Sklar, in reflecting on the lessons from the tremendous success of the Dudley Street process, write:

> Communities that are unorganized, have forged little or no consensus as to what they want to see done and have not yet identified resources to bring to the table cannot be expected to participate as equal partners with government and private sector leaders…The result of this premature partnership is almost always failure.
>
> To forge effective partnership the community must be organized well enough to be an equal partner at the table, not a junior partner. It must participate out of strength, so that it can pursue its own agenda and not be suffocated or cooperated by the agenda of others…..
>
> Though Boston city officials claim to have developed partnerships with other neighborhoods based on the DSNI precedent, the results have been mixed at best because no other neighborhood has yet won the community control necessity to make that kind of partnership work.[14]

For these innovative forms of empowered participatory democracy from below to flourish, therefore, it is essential for there to be autonomous representative community organizations in civil society capable of sustaining the arduous process of participatory planning. If such associations do not exist and if progressive city officials are serious about democracy from below, then, in Medoff and Sklar's words, they need to give "the community time and resources to organize itself and to create a representative community organization…."[15] Since city officials will rarely be interested in fostering this kind of autonomous popular power, the expansion of the possibility of democracy from below will almost always depend upon the vision, commitment and skills of activists to build such capacity through community struggles and confrontations with local centers of power.

[14] Medoff and Sklar, *Streets of Hope*, pp. 276-77

[15] Medoff and Sklar, *Streets of Hope*, pp. 277

Chapter 23

Possible Futures

Final Draft, August 2009

History is filled with surprises. We like to think we live in a predictable world, a world with enough stability and regularity that we know pretty well what things will be like in the near future so that we can make sensible plans. Some things we can predict with great confidence. We predict with a very high level of confidence, for example, that in the year 2032 there will be a presidential election in the United States. We are confident about this because we believe it is extremely unlikely that the four-year election cycle "rules of the game" for choosing presidents, which has been in place for over 200 years, is likely to change. Other kinds of predictions are less certain. Students in universities today mostly believe that investing the time and resources in a college education will get them a pretty good job when they are done, certainly a better job than they would have been able to get if they didn't go to college. On this basis these students make decisions now in anticipation of a future in which the "rules of the game" will be operating in more or less the same manner as they are today. This is what many college freshmen believed in 1926 at the height of the economic boom of the 1920s. By the time they graduated in 1930, the stock market had crashed, unemployment rates were over 25% and it was extremely difficult to find jobs. In four years we went from the biggest boom to the worst economic crisis in American history. Could this happen again?

History is filled with surprises for the fate of societies, not just individuals. Consider the following. Let us go back in history a century or so to 1905 and then examine important things that happened in the world in 15 year intervals from then to the present. At the beginning of each of these intervals, ask yourself the following question: would anyone at the beginning of the period, looking forward only 15 years, have remotely anticipated the shocking, extraordinary, often world-shattering things that happened in the short future they faced?:

1905-1920: World War I and the Russian Revolution; first commercial radio broadcasting

1920-1935: From the roaring 20s economic boom with an unshakable, large Republican majority to the Stock Market crash, the Great Depression, and the New Deal

1935-1950: World War II and the atomic bomb to the cold war; first commercial television broadcasts.

1950-1965: The civil rights movement; the end of segregation in the South; the beginnings of the student movement and hippies of the 1960s; the assassination of Kennedy.

1965-1980: The first defeat of the US in a war; the mass anti-War movement; the impeachment of Nixon; the sharp move of national politics to the right in the U.S. and the U.K.; personal computers

1980-1995: The collapse of the Soviet Union and the end of communism and the cold war; the creation of email and the Internet.

1995-2010: 9/11 and the war on terror; the electoral triumph of the most extreme, ideologically right-wing political coalition in modern U.S. history controlling both the congress and the executive branch; the election of the first Black president with strong Democratic Party majorities in both houses of congress.

2010-2025: ?????

So, if history is any guide at all, this means that we should expect the unexpected. In all likelihood in the 15 years from 2010 to 2025 there will be monumental, unanticipated disjunctures and transformations. This can be a source of both fear and hope: fear, because sometimes these disjunctures have constituted catastrophes of human suffering and despair; hope, because they sometimes open up new possibilities for human freedom and flourishing.

There are thus many possible futures contained in the present. Do any of these have the potential to dramatically solve some of the problems we have touched on this book? Can we envision a future in which the destructive effects of markets are tamed, poverty and inequality are reduced, urban spaces are revitalized, democracy is deepened? We think that the answer is yes, but whether or not we as a society will actually be able to realize this kind of future depends on the historical surprises we will encounter, and also – crucially – upon how we respond to those surprises. And this is where the ideas of this book could be of some relevance.

If we could guide our national response to the opportunities for institutional change that the surprises of the future open up, what would we recommend? At the core of our perspective on what should be done is the question of democracy. More specifically, the idea that democracy needs to be both *extended* and *deepened*.

EXTENDING DEMOCRACY

Democratic practices need to be extended from the sphere of conventional politics to the economy and other arenas of social life. In a true and robust democracy, the scope of democracy extends to all issues that affect our common life as members of society. This does not mean that in a democracy the state intrudes into all aspects of personal life. Individual freedom and autonomy are also deep values in a democracy; people should have control over decisions which affect their own lives as separate persons. The problem, as we discussed in chapter 15, is that there is no hard and fast, unambiguous boundary between decisions which only affect the person making the decision and decisions which have broader ramifications for the lives of others. This means that the politically recognized boundary between the "public" and the "private" – between the realm of issues subject to democratic control and the realm of decisions left to individual persons – will always be a contested one, since there will always be disagreements about how to deal with the balance and trade-offs between individual autonomy and collective responsibility. There can be no once-and-for-all, absolute answer to the question, "what decisions should be made through a democratic collective process and which should be left up to individuals as private matters?" This decision itself needs to be made through democratic means.

So, we cannot draw a bright line between the public and the private. What we can say with confidence is that the rules-of-the-game of American institutions create a far too restrictive scope for democratic deliberation with respect to the capitalist economy. The "private" in "private property" is given too much weight with too many barriers to democratic control. The result is a form of hyper-capitalism that generates huge inequalities, perpetuates poverty, under-produces all sorts of public goods, and generally devaluates the common good of the many relative to the private advantage of the few. These problems can only be solved by a significant extension of democracy.

Among many other things, this extension of democratic power in the United States should involve the following:

Refining the boundary between democratic regulation and private rights in the market

Even at the peak of neoliberalism with the triumphant calls for deregulation of markets and unfettering the entrepreneurial spirit, markets in American capitalism never really became fully "free". The rights of owners to use and dispose of their property just as they pleased were always curtailed by publically-enforced rules. Nevertheless, there was a retreat of democratic affirmative state from regulation of the capitalist economy beginning in the early 1980s. The results have been disastrous: the financial collapse of 2008; the massive rise in inequality; the erosion of the manufacturing capacity of the United States; the growth of low wage, low skill jobs and the overall polarization of the job structure. These consequences can only be reversed by a reconstruction of the affirmative state on a new footing, and this means extending the reach of democratic regulation much more deeply into private property and the market.

Massive public investment in public transportation infrastructure

The automobile-based urban transportation system in the United States creates tremendous negative externalities that can only be countered through public regulation and investment. Automobile drivers need to pay the true costs of driving cars, which includes estimated costs on future generations, and public transportation systems need to dramatically expanded to make them an attactive alternative to private cars. This necessarily means very large tax subsidies for the price of public transportation rides. Such subsidies should not be regarded as a way of creating *artificially* cheap public transportation that unfairly competes with cars, but rather as a way of embodying the true value to society of public transportation in the price of a ticket.[1] While individual choices of modes of transportation for any given trip would remain a private matter, the transportation environment within which those private choices are made needs to be deliberately constructed through democratic processes.

Public control over energy development

Energy choices need to be part of public deliberation and democratic decisions, not simply the result of private choices by individuals and corporations. This is essential if we are to combat global warming, but also if we are to contend with the long-term depletion of currently available energy resources. Democratic control over energy choices implies a diverse set of policies. First, significant resources need to be allocated to the research and development of clean energy sources. Since the pay-offs from much of this research is long term, this must be heavily lead by public funding. Second, the price of different energy sources needs to reflect the long-term negative-externalities of their use, and this means, especially, a dramatic increase in the tax on gasoline. Third, there needs to be large-scale retrofitting of buildings to make them energy

[1] Economists generally regard prices as artificially high or low if they deviate from what they regard as a competitive equilibrium in a perfect market. This implies that there is perfect information, that there are no positive or negative externalities, and no producer or consumer has any power to affect the prices in the market (no monopoly or monopsony power). These conditions do not remotely exist in transportation markets. The "natural" price of a good or service can be thought of as a price that reflects the full costs of production, and this must include both positive and negative externalities of production and consumption of the good or service in question. Only in a situation in which there are no significant externalities can the spontaneous market price be thought of as the "natural" price in this sense.

efficient. This also needs to be driven by public choice with appropriate subsidies and incentives rather than simply by the market.

Creating a genuine public health care system

The capitalist market has proven an inadequate mechanism for producing high quality health care universally accessible. Rather than having a basically private system of health care delivery, with public provision filling gaps and dealing with the most serious weaknesses in the system, we need a public system which comprehensively provides health care for all and in which private provision only exists in ways allowed by democratic public choice. This need not at all imply a national health care system run and administered by a centralized bureaucracy. A public, democratically coordinated health care system is consistent with a highly decentralized system in which the actual provision of services is organized in a wide variety of ways: community based clinics; cooperatives run by health care professionals; nonprofit foundations; solo-practitioners; municipalities; etc. The key issue is that the funding is provided through collective resources – taxation – and the rules are set through democratic processes rather than markets.

Extending Labor market and workplace regulation

In all capitalist democracies the democratic state intervenes systematically in the seemingly "private" agreements made between employers and employees in the form of the labor contract. In effect this means that many of the choices that get made in those agreements are seen as matters of public concern: the health and safety conditions in the work place; the number of hours worked per day or per week; the minimum wage levels; the kinds of punishments the employer can impose on employees; the permissible criteria the employer can use in promotions, or indeed even in hiring (i.e. discrimination in various forms is illegal); and many other things. So, even in the hyper-capitalism of the United States, the boundary between public and private within labor markets and workplaces is already relatively permeable and gives a significant scope for public intervention.

This scope needs to be widened if democratic principles are to be fully realized. Minimum wages need to be adjusted to be living wages. Impediments to unionization need to be removed so that workers can more easily form collective organizations to pursue their interests. Health and safety regulations need to be strengthened and, even more importantly, aggressively enforced.

A much more controversial issue concerns the rights of workers to participate in the governance of corporations. In the United States workers have no such rights: management has the right to entirely exclude nonmanagerial employees from any role whatsoever in corporate decision making. This, defenders of the authoritarian corporation argue, follows from the fact that the corporation is privately owned, and the owners have the right to tell everyone they employ what to do. Managers are simply delegated by the owners to carry out these tasks. This argument directly violates the central value of democracy, which says that people have a fundamental right to participate in decisions which affect their lives. Since many decisions within corporations have profound ramifications for the lives of the employees of the firms in which they work, democratic rights of participation in the governance of firms should be extended to employees. There is no legitimate reason why firms should be run as dictatorships any more than states. People can invest financial resources in corporations and thereby earn a rate of return on their investment, and still on democratic principles all "*stake*holders" in the firm – all people whose lives are directly affected by those decisions in a significant way – and not just *stock*holders should have meaningful representation on the board of directors of the firm.[2]

Changing the balance of Public and Private sector employment

In the United States there is a general presumption that employment should be organized by the market rather than directly by the state. Only essential tasks which cannot be done efficiently in the market are candidates for public sector employment. There is an alternative way of thinking about this issue: Consider all the needs that have to be met through economic activity and ask, "which of these are most efficiently done by the market and which are better done by public employment?" No priority should be given to the market over public employment; the focus should be on what needs doing and then see how best to organize it. There are many important tasks that need to be done which simply will not be provided sufficiently through the market: good quality, affordable childcare services; eldercare services, especially directed at enabling the frail elderly to stay in their homes and communities; preschool education; adult education and life-long skill upgrading; healthcare services. These have to be provided substantially through public sector employment or various forms of publicly funded employment if they are to be provided well.

Taxation and redistribution policies that counter the inegalitarian effects of markets

Finally, for democracy to be effectively extended in any of the ways we have discussed, democracy needs to be extended into the realm of income distribution. So long as people see income generated in the market as somehow intrinsically private income, this acts as a significant constraint on the capacity of democratic decision-making to allocate resources to public purposes. As we argued in chapter 18 on Taxation, the total economic pie in a complex economy is generated through an extended process of social cooperation. This pie then needs to be divided up – distributed – to different purposes. "Taxation" is the principle way, in a market economy, that we divide the pie between public and private uses. Increasing taxation fundamentally means increasing the scope for democratic deliberation over how best to use our resources.

John Kenneth Galbraith, one of the most publicly influential economists of the second half of the twentieth century, commented in his book *The Affluent Society*, that the United States was characterized by private affluence and public squalor, dirty streets and clean houses. This is a chronic problem in a society within which the private choices of individuals and corporations in the market are privileged over collective choices of citizens and communities in the public sphere. Building a vigorous affirmative state by extending democracy into domains currently dominated by the market is an essential part of the solution.

DEEPENING DEMOCRACY

Unless democracy is also *deepened*, then extending the role of the state in an affirmative direction simply means extending the role of centralized bureaucracy. This is the specter that political Conservatives always invoke against efforts at extending the scope of the democratic

[2] For an extended defense of why a commitment to democracy entails the right of workers for strong representation on the board of directors of corporations, see Robert Dahl, *A Preface to Economic Democracy* (Berkeley: the University of California Press, 1986), especially chapter 4, "The Right to Democracy within Firms."

affirmative state. Do you want the government controlling your life? Do you want bureaucrats in Washington deciding on your health care? One of the appeals of the extension of the "free" market is precisely its promise of preventing heavy-handed, centralized bureaucracies from dominating our lives.

As we have argued throughout this book, the free market, at best, provides only a limited basis for people to control their own lives and destinies. The problem is that many aspects of our lives are deeply shaped by the choices and actions of other people, especially people in control of large corporations operating in capitalist markets. "Democracy" is the name we give to a society in which people really do have the power to control their own lives and destinies, but this means putting the market in its place rather than letting the market itself insulate vast realms of important decisions from collective deliberation.

Still, it remains the case that expanding the scope and jurisdiction of the state is no guarantee at all for enhancing democracy. What we want is not intensified bureaucratization of social life, but intensified democratization. Deepening democracy basically means strengthening the ways in which ordinary citizens effectively participate in democratic politics and subordinate the machinery of the state to their collective purposes. This entails a number of difficult social transformations.

Striving for political equality

This is of fundamental importance: to realize the goals of democracy requires achieving the greatest possible equality in the ability of people to participate in public deliberations and collective choices. This of course means removing formal legal obstacles to participation, but just as important, meaningful political equality requires a considerable equalization of resources. Vast material inequality in conditions of life is itself a source of inequalities in real freedom and access to political power. Both the levels of extreme poverty in the United States and the levels of extraordinary wealth are inconsistent with genuine political equality. Here the issue is not the question of whether such economic inequality is unfair or unjust, but whether it subverts the necessary conditions for meaningful political equality. It does.

In this book we have discussed a range of remedies for the inequalities in American society: public jobs programs and life-long education and skill formation programs can reduce inequalities in access to good jobs; more progressive tax policies combined with income subsidy programs, including potentially universal basic income, can reduce income inequality; comparable work remedies for gender inequalities in earnings resulting from sex-typing of jobs. In these and other ways, democracy requires countering the spontaneous inequalities generated by capitalist markets.

Reducing the role of private money in politics

Given that large inequalities in private incomes will remain a characteristic of American capitalism for the foreseeable future, it becomes especially important to somehow block the translation of private economic power into political power. One central aspect of this problem is limiting the role of private money in politics. Of course, elections are expensive, especially in large jurisdictions, and any viable public system of financing elections will be costly. To really drive private money out of elections will require something like Bruce Ackerman's proposal for *Democracy Cards* discussed in chapter 17, which would certainly cost billions of tax dollars a year. Given the stakes, this is cheap. Without such reforms private wealth will continue to disproportionately influence the elections for public office.

Institutional reforms of the rules of the game

The existing electoral rules of the game in the United States guarantee a political duopoly of the two major parties. Minority political voices are marginalized, and both major parties firmly support the interests of corporate capitalism. There is a wide range of alternative electoral rules that would open up the political arena: various schemes of proportional representation; two-round run-offs; instant run-offs.

Democratic innovation

Ultimately a robust, deep democracy must be based on the active, on-going participation of ordinary citizens in the real governance. It is important, of course, that elections be vigorously and fairly contested. But democracy needs more than just fair elections; it needs a wide range of ways for citizens to actively participate in the governance of the society in which they live. This necessarily requires serious forms of decentralization, for it is above all in local contexts where people live and work that most people have the possibility of being directly involved in democratic processes. Decentralization is not, however, the same as privatization in which the state sheds its responsibilities in favor of the market. Decentralization means locating sites of participatory problem-solving where the problems lie and then empowering citizens to become directly involved in the decision-making process. Without such participation and real citizen empowerment, decentralization can simply be a cover for reducing the capacity of the state to act in the collective interest.

Realizing American Ideals

We began this book by laying out what we felt were a core set of American ideals around the values of freedom, efficiency, fairness, and democracy. These values are only imperfectly realized in American institutions as they exist at the beginning of the 21st century. Freedom is embodied in the ability of people to make choices in the market, but because of the huge inequalities generated by the market, such freedom is very unequally distributed. American capitalism does promote certain forms of efficiency, but because of the chronic and inherent problems of negative externalities and concentrations of power, capitalist markets produce all sorts of inefficient outcomes as well that generate great harms to our collective wellbeing. Progress on fairness has been substantial through the elimination of many blatant forms of sexism and racism in the last half of the twentieth century, yet opportunities remain grossly unequally distributed. No one can regard the severe poverty experienced by many American children as in any way just or fair. And finally, democracy and the political freedoms associated with democracy remain central features of the American political system, and yet the large disparities of power of citizens violate the basic democratic principle of political equality, and the restrictions on the scope of state activity undermines the extent to which the society is democratically governed. These are the realities of how American society really works.

These realities, however, are not destinies. They are the result of past struggles over how American institutions should be organized, struggles in which some visions prevailed and others were defeated. The result of those struggles has been the complex institutional configuration we call "American Society," configurations which from time to time will be subjected to new struggles and transformations. In those periods people will be called upon to make choices concerning these values-- in the ballot box, in support for various kinds of social movements, in conflicts within workplaces and other institutions. Extending and deepening democracy is one possible direction transformations could take. This would not automatically solve the pressing social and economic problems of American society, but it would create a framework within which creative solutions become much more achievable because the constraints on what can be done are widened. And this just might make a possible a surprising future: an American Society that was fairer and more democratic, with an economy that advanced the common good and in which the promise of real freedom was extended to all.