

## Great Divergence book review: The decline of unions.

From: Timothy Noah | Posted Tuesday, April 24, 2012, at 6:48 AM ET

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### The Great Divergence

Entry 4: Should we drag the 1 percent down or the 99 percent up?



Toyota workers listen to a speech made by a trade union representative.

Photo by Philippe Huguen/AFP/Getty Images.

Matt,

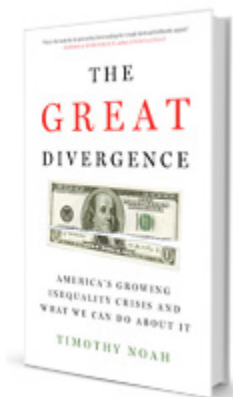
The two inequality trends you describe are best understood as two separate and distinct phenomena.

There's skill-based income inequality, which is what Brooks likes to write about. This is the wage gap that opened in the 1980s between people with college degrees and people without them. Eventually that gap stabilized (it never narrowed) and a separate gap opened up between people with graduate degrees and people without them. I'm calling this gap skill-based, but its causes extend beyond education.

Certainly the leveling off of high-school graduation rates during the 1970s is a major factor here, because it drove up the price of skilled workers relative to demand. That's why Brooks will talk about this form of income inequality: It dovetails with conservatives' longstanding critique of public education in the United States. Some liberals think that describing any role that education gaps play in creating income inequality is some sort of sellout—that in essence you're telling the middle class, "Tough luck, you should have stayed in college." But in fact if you don't graduate from college you're going to have a hard time in this economy. That's just true.

Conservatives don't want to talk about another major cause of the skill-based income gap: the decline of private-sector unions. I don't think it will be possible to raise the median income on a consistent basis without finding some way to revive the labor movement. Maddeningly, it isn't just conservatives who hate talking about unions these days. Liberals do, too. They regard them as corrupt, antiquated institutions. The other day I was talking to a very smart economics writer who said he resisted the idea of reviving labor because its culture was too adversarial. Culture? With private-sector union density down to 7 percent, there is no culture anymore. Reviving labor means starting virtually from the ground up. You can have any culture you like!

Conservatives are also loath to acknowledge another contributor to skill-based income inequality: Republicans! Larry Bartels, a political scientist at Duke, has documented a five-decade pattern in which income inequality has grown under Republican presidents and shrunk under Democratic ones.



The Great Divergence by Timothy Noah.

The second trend in income inequality—what in the book I call the Great Divergence, Part 2—is the huge growth in income share for the top 1 percent. This began in 1979 and went off the charts starting in the 1990s. (One-percent-based inequality has thrived under both Democratic and Republican presidents.) We only really became aware of the 1 percent's role in income inequality about a decade ago, thanks to the work of Piketty and Saez. Here the causes appear to be pretty straightforward: the financialization of the economy (greatly aided by financial deregulation) and a breakdown in accountability for nonfinancial executive compensation. We're talking here about obscenely rich hedge fund managers and stock-option-gobbling CEOs. Conservatives don't like to talk about this form of income inequality (and liberals do) because the solution mostly involves imposing new government regulations on businesses. The banks are already having conniptions about Dodd-Frank, which is really just a first step to the kind of reform that's needed.

I say that the two concurrent types of income inequality are best understood as being separate, but they're not entirely separate. There's some evidence that rising corporate profitability, which helps enrich the 1 percent, has come at the expense of payroll. (One person who makes this case, interestingly, is the chief investment officer at J.P. Morgan Chase, in a July 2011 newsletter that fell into the hands of the labor-friendly Washington Post columnist Harold Meyerson.) That's pretty much what you'd expect to happen as private-sector union representation drops to a level not seen since before the New Deal. Why pay workers a dime more than you have to?

Do I want to drag the 1 percent down? If that means diverting more of the revenue that becomes corporate profit back to payroll then I guess my answer is yes. If it means reining in high-flying banks that court risk and assume they'll receive taxpayer bailouts if they bet the wrong way, then my answer is also yes. Higher taxes on the rich would also help a little (though mostly that's worth doing in order to share the burden of paying for government services more equitably).

But I also want to elevate median incomes. The ways to achieve that are trickier, but part of the answer is to lower or at least stabilize the cost of necessities like health care and university education.

My main message in the book is that conservatives and liberals shouldn't bicker about which of the two trends matter more. They both matter, a lot.

Tim

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