

Democracy and Inequality in America: A Response to Eric Cantor

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Yesterday, Eric Cantor, the Majority Leader of the U.S House of Representatives, was scheduled to give a talk at the University of Pennsylvania on the same topic I was asked to address today—economic inequality. He cancelled the speech claiming, according to media reports, that the University of Pennsylvania opened the address to the public at the last minute. However, the University newspaper obtained a copy of Mr. Cantor’s prepared text and uploaded it to the web (go to

http://thedp.com/index.php/article/2011/10/eric_cantor_wharton_remarks_as_prepared_for_delivery). I read the speech and found some real differences in the way Mr. Cantor sees the world and my own understanding of inequality and what to do about it. So in my comments to you I will borrow some of the structure and even the words of Mr. Cantor’s speech—because, to his credit, he does ask some of the right questions. I will use Mr. Cantor’s speech as a foil to contrast two views of inequality—let’s call them the Wall Street view (Mr. Cantor’s) and the Main Street view. I will also attempt to explain to Mr. Cantor and others the limits of his view.

This is a very controversial time in our nation’s history. A lot of us are asking what the future holds for our country, and in a much bigger way, wondering what kind of country we want to be. When I think about the kind of country I want, when I think about the kind of country I want to leave my kids, I think about my grandfather’s story, and my father’s, and how my family got to be in America in the first place.

My grandfather on my mother’s side was born in the north of England in 1896, not far from where James Watt invented the steam engine that helped catalyze the industrial revolution. He went to work in 1910 as an office boy at an international manufacturing of industrial chains, Hans Renold Ltd., and then crossed the English Channel to serve as a Morse code transmitter in the trenches of World War I.

My grandfather went back to the Renold company after the war and ultimately rose up to be the 7th highest-ranking manager. When he did, he became a rabid anti-tax conservative, figuring he had his and who cares about anyone else. Actually not: in fact, with the British surtax imposed to help finance the battle against Hitler, my grandfather paid a top tax rate of 19 shillings and sixpence out of a pound—that’s 97.5%. And he was glad to pay it—he understood that sometimes the common purpose of the nation is more important than the highest earners adopting the “it’s my money” philosophy.

My own father, whose mother was Catholic and father Jewish, left Vienna at the end of the 1930s to escape persecution by the Nazis—coming to England. His father was a businessman who had connections in England that made it possible to get out of Austria. (My father’s father also had to get out of St. Petersburg in 1917 because he was a businessman when the Russian Revolution hit—but that’s another story.)

In Britain, my father was put back one year when he entered a boarding school speaking little English. But a couple of years later a teacher identified his academic promise. My father did the

last two years of British school—the A levels—in a single year and went to Manchester University. He and my mother met at Physics graduate school. He became a Professor; she raised a family and then taught Physics in high school.

We moved to the United States in 1970 to take advantage of economic opportunity in America. My father got an offer to teach physics at Yale University in New Haven, Connecticut.

Similar to Mr. Cantor, I grew up with a solid family around me and a community and family that encouraged me to learn and work hard. We enjoyed a great deal of economic stability. I was, in a phrase, born on second base. But I know I didn't hit a double.

My parents also instilled in me a sense of discomfort with extremes in income and wealth. Whether that view stemmed from the role of inequality in seeding the rise of Hitler (or the Russian Revolution), I do not know. What I do know is that when my father picked me up at the newly-built House of a high school friend—what today might be called a McMansion, featuring an enormous sunken living room—the first word he spoke after we got in the car was “disgusting.” He could not fathom why one family needed such a palatial home.

In the text version of the speech he was to give at the University of Pennsylvania, Eric Cantor, the Majority Leader of the U.S. House of Representatives, accurately characterized America as historically being the land of opportunity.

We need to be sure that the opportunity Mr. Cantor's grandmother realized—and my parents, sisters, and I enjoyed—is here for all of us. As Cantor said,

“It really is about that fair shot – no matter who you are or where you're from, all of us should have access to the opportunity to earn your own success. The basis upon which America was founded and the basis upon which America thrives is providing people with the equality of opportunity...”

The problem, Mr. Cantor, is that opportunity in America is not what it once was. Nationally and in Pennsylvania, the share of income going to the top 1% of the population is now around the level of the late 1920s—higher than at any other point in our history.¹ Since 2000, in Pennsylvania, the richest 1% of earners has taken home 57 cents out of every dollar increase in income. For each \$1 dollar increase for an individual in the Pennsylvania 99%, someone in Pennsylvania's top 1% has taken home \$133.

As Wall Street and the 1% prosper, Main Street struggles.²

¹ For additional information on inequality in the United States, see the slides assembled by Henry Blodget of *Business Insider*; online at <http://www.businessinsider.com/what-wall-street-protectors-are-so-angry-about-2011-10?op=1>.

² For details and sources, see Mark Price and Stephen Herzenberg, *The State of Working Pennsylvania 2011* (Harrisburg: Keystone Research Center, 2011), online at <http://keystoneresearch.org/publications/research/state-working-pa-2011>.

- In Pennsylvania in the last year, one in every seven workers was unemployed at some point and one in every four workers was without a job or worked fewer hours than they wanted
- From 2002 to 2010, wages stagnated for all but the highest-paid 5%
- Even the college-educated in PA saw hourly wages drop 3.1% from 2002 to 2010
 - The number of students defaulting on student loans has climbed 26% since 2007
- Meanwhile, CEO pay (nationally) rose by 23% in 2010
- Profits in 2010 reached 26% of national income, the highest share since World War II

Data on mobility across generations also demonstrate that the United States is now falling behind many other advanced countries.³ For example:

- Children from low-income families have only a 1% chance of reaching the top 5% of the income distribution, versus children of the rich who have a 22% chance.
- By international standards, the United States has an unusually low level of intergenerational mobility: our parents' income is a very good predictor of our incomes as adults. Intergenerational mobility in the United States is lower than in France, Germany, Sweden, Canada, Finland, Norway and Denmark.
- Education, once thought of as the key vehicle of upward mobility, no longer is. A slightly larger share of children of affluent families who perform poorly on aptitude tests (30%) graduate from college than do high-aptitude poor students (29%). Only 7% of moderate aptitude poor children graduate from college, versus 47% of affluent children with exactly the same aptitude.⁴

Mr. Cantor said in his written speech:

“In a recent poll, 82% of Americans think that their children will be worse off than they are. What happened to the hope of surpassing the success of your parents? What happened to the unyielding American exceptionalism and the sense that in America impossible dreams are possible?”

What happened, Mr. Cantor, is that people's diminished hopes reflect diminished opportunity. But here's the good news: it would be perfectly possible to restore opportunity in America. The secret to restoring opportunity is a reasonably accurate understanding of where it comes from. Here Mr. Cantor has only part of the story—the part about self-reliance.

He says:

“There is a ladder of success in America. However, it is a ladder built not by Washington, but by hard work, responsibility and the initiative of the people of our country.

³ The first two bullets on mobility in America come from Hertz, *Understanding Mobility in America* (Washington, DC: Center for American Progress, 2006); online at www.americanprogress.org/kf/hertz_mobility_analysis.pdf.

⁴ Fox, M.A., B.A. Connolly, and T.D. Snyder. *Youth Indicators 2005: Trends in the Well-Being of American Youth* (Washington, D.C.: U.S. Department of Education., National Center for Education Statistics, 2005), Table 21; online at <http://nces.ed.gov/pubs2005/2005050.pdf>.

It is this foundation—hard work, faith, family, and opportunity—that provides each of us with the prospects of unlimited potential in America. Each generation is able to get a little further ahead, climbing up the ladder of success in our society. How quickly you move up—or sometimes down—should be completely up to you.”

Completely up to you? Brings to mind the Sam Cooke lyric: “don’t know much about history.”

When opportunity was greatest—in the quarter century after World War III—the vitality of the American Dream reflected a strong work ethic AND some simple rules of the economic game that ensured that everyone who worked hard could support their family.

Over the past 30 years, as manufacturing has declined and globalization accelerated, Wall Street has also been writing more and more of the rules in our political system and in our economy, leading us to what some people call the “other” Golden Rule: he who writes the rules, gets the gold.

Mr. Cantor distinguishes between equality of opportunity, which he supports, and “equality of outcomes,” which he rejects. He seems to miss that when inequality of outcomes becomes so great, it undermines equality of opportunity. We need to find a balance between a literal equality of outcomes and the extreme inequality we have now—a balance that doesn’t undermine incentives to work hard but that also restores opportunity. That won’t be very difficult for two simple reasons: we can reduce inequality a lot and still have ample economic incentive for hard work and entrepreneurialism; and, second, most people don’t work hard or create new products just for the money.

If we get back to a politics in which the economic rules are written for Main Street—and based on what serves the common good—we could achieve a “dynamic and moral economy” that is successful economically and compatible with our nation’s values:⁵

- Restoring the American Dream of widespread mobility, so that all Americans have the opportunity to succeed;
- Providing a fair reward for hard work so that all working families benefit from an expanding economic pie;
- Reestablishing education as the engine of social mobility not social stratification, and as the foundation of human development, civic participation, and a vibrant economy;
- Revitalizing our democracy based on one-person one-vote not one-dollar, one-vote;
- Strengthening our communities and our families; and
- Ensuring that we preserve the planet and pass on to future generations a natural endowment healthier than we inherited.

A moral economy would be:

⁵ For more on the concept of a “moral economy,” see Price and Herzenberg, *The State of Working Pennsylvania 2011* and the references therein.

- Stronger economically
- Better for the environment and workers—using sensible environmental and labor regulations to encourage companies to compete through efficiency and good products not low wages and polluting, and
- Pro-business—helping innovative companies and enlightened business leader gain credit for their contribution to higher living standards and avoid being tarred with anger rooted in reactions to less enlightened businesses.

A moral economy would also recognize that there is no particular legitimacy to income distribution that gives the top 1% 57 cents of every dollar increase in total income. Beyond moral legitimacy, the current level of inequality in the United States is economically counterproductive. Even an article in an International Monetary Fund journal recognized last month that high levels of inequality reduce economic growth long term.⁶ In resetting the economic rules to rebalance the wage and income distribution, we can be confident the result will be higher long-run economic performance as well as revitalization of the American Dream.

Mr. Cantor acknowledges in this speech that:

“...many in America are coping with broken families, dealing with hunger and homelessness, confronted daily by violent crime, or burdened by rampant drug use.”

He goes on:

“Recently I was asked, “What does your party say to that 9-year-old, inner city kid scared to death, growing up in a life of poverty? What can you do for that little girl?”

Here’s Mr. Cantor’s answer:

“Well, we know there are no easy answers. But I believe that child needs a hand up to help her climb the ladder of success in our country. She needs the advantages of a solid family around her and a community that encourages her to learn and work hard. She needs some semblance of stability. She also needs some guarantees. She needs to know that the rules are the same for everybody. That although she may have to work harder than many of us, she needs to know that she has a fair shot at making it in this country.”

But, wait, Mr. Cantor. That nine-year old girl is not getting a “hand up,” she’s getting a “kick down.” Too often, she doesn’t have a solid family and a community that encourages her to learn, because of the level of inequality and unemployment and because school funding depends too much on the wealth of the local community—or lack of wealth. She doesn’t have a semblance of stability. She doesn’t know the rules are the same for everybody: as we’ve seen, half of children in affluent families who work hard and do average in school finish college; only one in 14 of

⁶ “Do societies inevitably face an invidious choice between efficient production and equitable wealth and income distribution? Are social justice and social product at war with one another? In a word, no.” See Andrew G. Berg and Jonathan D. Ostry, “Equality and Efficiency,” *Finance & Development*, September 2011, Vol. 48, No. 3, online at <http://www.imf.org/external/pubs/ft/fandd/2011/09/berg.htm>.

low-income children who do the same finish college. She doesn't have a fair shot at making it in this country.

Mr. Cantor says:

“Let's remember that happiness in America is defined as a pursuit, and that definition comes from our Declaration of Independence that was written right here in Philadelphia. Pursuing both happiness and independence derive from the ingenuity and grit of the American people, not the American government.”

Funny: I was taught that part of the greatness of America—part of the Declaration of Independence—was precisely the American form of government. Democracy: government responsive to the people instead of to the King or to aristocratic or plutocratic elites.

I was also taught that on Nov 18, 1863, in the midst of a great Civil War, just 38 miles from where we stand, Abraham Lincoln called on Americans to dedicate themselves to the “great task remaining here before us...That this nation under God shall have a new birth of freedom—and that government of the people, by the people, for the people shall not perish from the earth.”

Thank you for bringing new attention to inequality in America and for trying to get across to Mr. Cantor the Pollyannaish character of his view that all that is needed is self-reliance. Thank you for giving “government of the people, by the people, for the people” some much needed life support. Let's keep working together for the real reforms needed to create an America that works for all us—for the 100%.