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Society is not a zero-sum game

By Robert Reich
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As President Obama said in his inaugural address last week, America "cannot succeed when a shrinking few do very well and a growing many barely make it." Yet that continues to be the direction we're heading in.

A newly-released analysis by the Economic Policy Institute shows that the super-rich have done well in the economic recovery while almost everyone else has done badly. The top 1 percent of earners' real wages grew 8.2 percent from 2009 to 2011, yet the real annual wages of Americans in the bottom 90 percent have continued to decline in the recovery, eroding by 1.2 percent between 2009 and 2011. In other words, we're back to the widening inequality we had before the debt bubble burst in 2008 and the economy crashed.

But the President is exactly right. Not even the very wealthy can continue to succeed without a broader-based prosperity. That's because 70 percent of economic activity in America is consumer spending. If the bottom 90 percent of Americans are becoming poorer, they're less able to spend. Without their spending, the economy can't get out of first gear.

Almost a quarter of all jobs in America now pay wages below the poverty line for a family of four. The Bureau of Labor Statistics estimates 7 out of 10 growth occupations over the next decade will be low-wage — like serving customers at big-box retailers and fast-food chains. At this rate, who's going to buy all the goods and services America is capable of producing? We can't return to the kind of debt-financed consumption that caused the bubble in the first place. It's not a zero-sum game. Wealthy Americans would do better with smaller shares of a rapidly-growing economy than with the large shares they now possess of an economy that's barely moving.

If they were rational, the wealthy would support public investments in education and job-training, a world-class infrastructure (transportation, water and sewage, energy, internet), and basic research – all of which would make the American workforce more productive. If they were rational they'd even support labor unions – which have proven the best means of giving working people a fair share in the nation's prosperity.

But labor unions are almost extinct. The decline of labor unions in America tracks exactly the decline in the bottom 90 percent's share of total earnings, and shrinkage of the middle class. In the 1950s, when the U.S. economy was growing faster than 3 percent a year, more than a third of all working people belonged to a union. That gave them enough bargaining clout to get wages that allowed them to buy what the economy was capable of producing. Since the late 1970s, unions have eroded – as has the purchasing power of most Americans, and not coincidentally, the average annual growth of the economy.

Last week the Bureau of Labor Statistics reported that as of 2012 only 6.6 percent of workers in the private sector were unionized. (That's down from 6.9 percent in 2011.) That's the lowest rate of unionization in almost a century. What's to blame? Partly globalization and technological change. Globalization sent many unionized manufacturing plants abroad. Manufacturing is starting to return to America but it's returning without many jobs. The old assembly line has been replaced by robotics and numerically-controlled machine tools. Technologies have also replaced many formerly unionized workers in telecommunications (remember telephone operators?) and clerical jobs.

Unions are almost extinct in America because we've chosen to make them extinct. Unlike other rich nations, our labor laws allow employers to replace striking workers. We've also made it exceedingly difficult for workers to organize, and we barely penalized companies that violate labor laws. (A worker who's illegally fired for trying to organize a union may, if lucky, get the job back along with back pay – after years of legal haggling.)

Don't blame globalization and technological change for why employees at Walmart , America's largest employer, still don't have a union. They're not in global competition and their jobs aren't directly threatened by technology. The average pay of a Walmart worker is $8.81 an hour. A third of Walmart's employees work less than 28 hours per week and don't qualify for benefits.

Walmart is a microcosm of the American economy. It has brazenly fought off unions. But it could easily afford to pay its workers more. It earned $16 billion last year. Much of that sum went to Walmart's shareholders, including the family of its founder, Sam Walton. The wealth of the Walton family now exceeds the wealth of the bottom 40 percent of American families combined!