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Executive Summary

The 1980s gave birth to the second longest peacetime economic recovery in the United States since World War II. Yet, in the minds of many Americans, the 1980s were the antithesis of economic renewal. Like the 1920s, the decade of the 1980s was one of decadence. Like the 1930s, it was a period of pervasive economic retreat, of widespread retrogression for the country and the vast majority of its citizens--or so we have been told repeatedly.

Many policy commentators have claimed that in the 1980s the competitive position of American firms and their workers was beaten back both at home and abroad. The decade gave birth to a new form of "robber barons"--Wall Street financiers, dubbed "paper entrepreneurs"--whose new-found wealth detracted from national production and impoverished the poor and, more important to the rhetoric of politicians, practically all of the middle class.

At the end of the 1980s many of the same policy commentators could be heard breathing a sigh of relief in the fond hope that the 1990s would be radically different. Their hopes appeared to be greatly buoyed by the fact that Ronald Reagan, whom they blamed for almost everything that went wrong in the 1980s, would no longer be in command. With anyone else in the White House, the country might become a "kinder, gentler America," as well as a more productive and aggressive competitor.

But pessimism about the future persisted. After surveying the wanton destruction of property values and the other social and economic problems in late 1991, one national columnist and ardent opponent of the Reagan and Bush administrations observed, "The supply-side turkey has finally come home to roost."[1] A *Washington Post* columnist added in early 1992, "American citizens have been battered by almost daily evidence that good jobs are disappearing in manufacturing industries--jobs that are likely to be lost forever as companies that once were the pace-setters in their fields hunker down for an indefinite period."[2]

The vision many people harbor of the 1980s was carefully crafted by a continuous flow of pronouncements to the effect that the sorry state of the U.S. economy would, regrettably, only get worse--unless America's domestic policy course were redirected, if not reversed. Such an overhaul, its advocates maintained, would require greater government spending on social programs and more aid and protection for American industries and their workers as they sought to cope with changing world circumstances. The policy cry became "tit for tat"; the industrial policies of "Japan, Inc.," and "Germany, Inc.," were countered by a similarly aggressive agenda of reforms in this country under the banner of "USA, Inc."

In spite of the foreboding prophecies, the recommended policy agenda was, for the most part, spurned by Democrats

and Republicans alike. Nevertheless, the policy chant continues in the 1990s with ever more threatening assessments of the country's economic state and its probable dismal future. Before the recommended reform agenda, articulated under the rubric of a "new industrial policy," is seriously considered--again--as a remedy for the presumed "American disease," the rhetoric of economic destruction, decadence, and decline must be evaluated.

Such an evaluation reveals that the realities of the American economy during the 1980s stand in sharp contrast with the rhetoric. Although the decade failed to match most Americans' fondest dreams of and hopes for economic gains, it was still the most prosperous decade in recorded American history. It was hardly a time of wanton destruction, decadence, and decline.

On the contrary, sober consideration of the details of what actually happened shows that the decade was "none of the above." More accurately, the decade of the 1980s was one of renewed industrial competitiveness and modest growth that brought equally modest economic gains for most Americans. Many rich and many poor people made substantial eco nomic gains and faced significant economic hardships, as has generally been the case through the millenniums. U.S. production did not decline relative to that of the rest of the world; it held its own. Rather than becoming self-indulgent and obsessed with the social theology of "meism," Americans increased their charitable giving at an unprecedented rate. In short, the country did not fare too badly during the 1980s.

The "Deindustrialization of America"

Policy debates during the late 1970s were often filled with mournful discussions of "economic malaise," or stagnation, or even more descriptively, "stagflation," meaning high inflation with slow or no economic growth.[3] Indeed, during the late 1970s inflation was high by historical standards, reaching, almost year by year, higher and higher peaks. Economic growth slowed as productivity growth fell, in several years, to close to zero. The slowdown was attributable, in part, to the Organization of Oil Producing States' embargoes and to U.S. energy policies that held down energy prices and thereby restrained the growth of energy supplies. The Dow Jones Industrial Average stood at 860 at the start of 1980, less than 80 points (or 10 percent) above the start of 1970--a substantial drop when adjusted for inflation.

Public commentaries on the fate of the U.S. economy began to take on a more foreboding tone after the turn of the decade, especially after the advent of the 1981-82 recession, which was itself caused, to a considerable extent, by the harsh anti-inflation policies the Federal Reserve had adopted in late 1979. Professor George Lodge of the Harvard Business School warned that the country was beset with a peculiarly "American disease" (a phrase obviously intended to equate America's problems with those of Great Britain and its "British disease") and opened his 1984 book on the subject with a dreadful assessment.

The cold winter of 1982 brought home to America the realization that our economy, once the wonder of the world, was failing. The power and efficiency of the industrial system, which since World War II had been taken for granted, was eroding. The United States was aware, for the first time, of losing ground in the competitive race with other developed nations.[4]

The symptoms of the American disease were to be found everywhere, in slow economic growth, rising interest rates, plunging profits, lagging business investment, and stagnating wealth. "In fact," Lodge added, "every indicator, social as well as economic, revealed sickness," meaning that the sickness was not solely a product of the recession and probably would not be cured by normal recovery forces.[5]

Boston College economist Barry Bluestone agreed, insisting with every stroke of his pen that the pace of job destruction, especially in the industrial sector, was both alarming and accelerating. He recounted that 31 million jobs had been destroyed between 1978 and 1982, noting that "fully one-third of all private sector jobs in 1978 had disappeared by 1982."[6] By 1984 Bluestone and Bennett Harrison had developed their empirical case for job losses sufficiently to declare flatly that America was rapidly "deindustrializing," meaning the country was losing its manufacturing base, the supposed heart of the economy.[7] The primary causes: the decline of unions, the growing competitiveness of world markets and the invasion of domestic markets by imports, and the failure of the U.S. government to adopt explicit "industrial policies" that would have the effect of guiding the industrial redevelopment of the country. Harvard professor Robert Reich, as well as other academics in northeastern universities, seconded the call for a national industrial policy with a more solemn pronouncement: the country was "unraveling," slowly but surely.[8]

That theme struck such a responsive chord that thousands flocked to buy his book, The Next American Frontier, perhaps because the Dow Jones average had fallen from just over 1000 in April 1981 to 804 in June 1982.

Now that the 1980s are behind us, we can ascertain what really happened. We know that proposals for a national industrial policy went down in flaming defeat in the 1984 election with Walter Mondale, who had made such policies the hallmark of his campaign. Moreover, the economy did not continue on the economic skids, as had been forcefully predicted. Instead, economic growth rebounded. Total employment went up by 19 million between 1980 and 1990, in spite of all the talk about the destruction of jobs.

Industrial production continued upward. Figure 1 shows the continuing rise in inflation-adjusted, or real, gross national product between 1970 and 1990. Indeed, between 1980 and 1990 real GNP expanded by 30 percent. Real per capita GNP expanded by 18 percent, and Figure 1 reveals that economic growth began to accelerate at about the same time many of the initial dreadful predictions were reaching print in the very early 1980s.

Figure 1
Real Gross National Product and Real Gross National Product per Capita, 1970-90.
Sources: Council of Economic Advisers, Economic Report of the President: 1991 (Washington: U.S. Government Printing Office, February 1991); and authors calculations.
(Graph Omitted)

Did the country deindustrialize? Hardly. The Federal Reserve's production indexes for all industries and for manufacturing alone are plotted in Figure 2. The figure shows that the overall industrial production index rose in line with GNP, by 29 percent, between January 1980 and September 1990 (just before the start of the current recession). Contrary to all the predictions of the demise of U.S. manufacturing, the manufacturing index rose both absolutely and relatively, by 37 percent, during the same period.

Figure 2
Total Industrial Index and Manufacturing Industrial Production Index, 1970-90 (1987=100)
Source: CITIBASE: Citibank economic database (machine-readable magnetic tape file), 1946-present (New York: Citibank, N.A. 1991). (Graph Omitted)

Figure 3
U.S. Manufacturing Output as a Percentage of Gross National Prod- uct, 1947-90
Sources: Council of Economic Advisers, Economic Report of the President: 1991 (Washington: U.S. Government Printing Office, February 1991): and author's calculations.
(Graph Omitted)

Furthermore, real, inflation-adjusted manufacturing output rose by 38 percent between 1980 and 1989 (the latest year for which data are available). That means that in 1989 manufacturing output represented a higher percentage of GNP (22.6 percent) than it did in 1980 (21 percent). For that matter, as is evident in Figure 3, manufacturing output as a share of GNP was higher, albeit modestly so, in 1989 than in any other year (except 1973 and 1988) since 1947. Finally, the increase in manufacturing over the last two decades has not been confined to nonconsequential consumer goods. Between 1967 and 1989 capital goods production (excluding defense and automobiles) rose from 28 percent to 38 percent of manufacturing production. During the same period exports of capital goods rose from 20 percent of total capital goods production to 45 percent, tripling as a share of the country's gross output.[9]

The belief that the country was deindustrializing was aggravated by the view that we were becoming a "service economy," which was truly worrisome not only because, the country was often reminded, "manufacturing matters" but also because the survival, not just the health, of the service economy is tied inextricably to the manufacturing sector. "Lose manufacturing and you lose--not develop--those high- wage services."[10] Others warned that we "could not really afford to become a nation of people engaged in selling Egg McMuffins and insurance to one another."[11] "Surely the American people," a national newspaper editorialized, "are not willing to become merely a service economy. The American economy is as much built around the sinews and muscle of the factory line as the white-collar office."[12] Nevertheless, service employment continued to displace manufacturing employment, coming very close to the long-term trend charted long before the 1980s, at the same time incomes rose.[13]

True, domestic-based manufacturing employment fell from 20.3 million in 1980 to 19.1 million in 1990, or by 6 percent. However, that loss reflects the surge in manufacturing productivity that occurred in many industries during the 1980s in response to both foreign and domestic competitive pressures. If manufacturing employment had risen in line with production, it is a safe bet that manufacturing output would have represented a smaller share of GNP in 1990 than it actually did, because manufacturing in the United States would not then have been cost-effective. With the improvement in the cost-effectiveness of manufacturing, U.S. exports of manufactured goods grew by a remarkable 90 percent between 1986 and 1992, compared with 25 percent for the rest of the members of the Organization for Economic Cooperation and Development. That relative change enabled the United States to raise its share of the world's manufacturing exports from 14 percent in 1987 to 18 percent in 1991, thereby regaining its 1980 share of world manufacturing trade.

Just as important, the manufacturing base of the U.S. domestic economy is no longer represented by the 50 states; it is scattered worldwide. While U.S. manufacturing employment fell as a share of total employment from 20 percent in 1980 to 16 percent in 1990, U.S. manufacturing employment worldwide held steady at 30 percent of the world total through at least 1986 (the latest year for which data are available).[14] That suggests that the decline in manufacturing employment in the United States was part of a world phenomenon, sparked by world competition that U.S. producers had to meet--and most did meet.

Fears of deindustrialization have been encouraged by commentaries on the country's low saving and investment rates during the 1980s. Such commentaries might lead one to think that the stock market was totally disconnected from the real world. Few commentators have recognized that the compound annual rate of growth of real private net worth (including tangible and financial wealth) was 2.69 percent during the 1960s and 3.02 percent during the 1970s. During the 1980-89 period the compound annual rate of growth was 3.43 percent, 14 percent higher than during the 1970s and 28 percent higher than during the 1960s.[15] The growth in wealth was not concentrated among the "rich," as has been assumed. According to one study, the wealth of the quintile of households with the highest incomes grew 49 percent between 1983 and 1989. During the same period, the growth in the wealth of the quintile with the lowest incomes was 55 percent.[16]

The Relative "Decline of America"

With their deindustrialization fears dashed by the continuing expansion and without ever acknowledging the errors in their previous claims, the Chicken Littles of the country began in the mid-1980s to subtly alter their foreboding prophecies. The country was, they professed, in long-term economic decline, not so much absolutely (it clearly was not) but relatively--that is, in comparison with the rest of the world.[17] The collapse of communism and the current efforts of the former Soviet republics and the former Eastern bloc countries to duplicate the market system of the United States speak volumes about the misguided predictions of the proponents of the decline thesis who, nevertheless, argue that U.S. political successes obscured the economic tumble of the country in the world economy.

Daniel Sharp, president of the American Assembly, wrote without qualification, "America can't compete."[18] The chief evidence offered was the huge balance-of-trade deficits and the failure of the falling dollar to materially reduce those deficits. Joel Kurtzman warned that the United States needed to alter its economic course, principally through national planning, to "end the steep decline of our nation so that we can once again assume our position at the helm of the world's economy."[19] He argued that if the country had remained on the path of economic dominance established in the 1950s, "the world of today would be considerably different, with poverty perhaps eradicated from the planet and the American engine of global growth pulling the world to ever higher levels of wealth."[20] "The saddest outcome of all," wrote Harvard economist Benjamin Friedman, "would be for America's decline to go on, but to go on so gradually that by the time the members of the next generation are old enough to begin asking who was responsible for their diminished circumstances, they will not even know what they have lost."[21]

Others warned with equal conviction that the global economy was in "deep trouble," mainly because of U.S. excesses: excessive budget deficits, excessive trade deficits, excessive inattentiveness to domestic social ills, and excessive reliance on military strength. "American policy in recent years," we were told, had been "more and more addicted to wishful thinking. Economically, . . . the era of comfortable self-indulgence appears near its close. Today the United States is on a collision course with history. The American fiscal dilemma must be resolved, and the perpetual instability of the dollar that is the consequence must cease."[22]

Through his widely read book, Yale historian Paul Kennedy probably did more than anyone else to substantiate growing despair over the country's fate. In spite of modern signs to the contrary, Kennedy argued that America was following a well-worn, historically validated road to economic decline, if not ruin.[23] According to Kennedy, history is replete with countries that rose to the status of world powers, measured by economic and military might, only to overextend themselves and fall relatively, if not absolutely, to their world neighbors. Kennedy wrote that relative economic standing among nations is important only because it largely determines relative political and military might in the world.[24]

According to Kennedy, the relative decline of the United States was apparent in its declining share of world gross national product (especially the manufactured goods component), in its lost industrial jobs, in its growing trade balance, and in the shrinking share of world trade dominated by U.S. producers.[25] Indeed, as Kennedy reported, U.S. production relative to that of the rest of the world was in decline, given the limited number of years for which data were cited.[26] For example, in 1945 the United States accounted for approximately half of the world's aggregate production. By 1960 the expected economic recovery of wartorn countries had lowered the U.S. share to 44 percent, and by 1970 the U.S. share was down to 38 percent. By the early 1980s, when Kennedy must have started writing his book, it had fallen even further, to 32 percent, which caused Kennedy to claim that "it was still falling."[27] Of course, it is hardly surprising that the U.S. share of world GNP fell after 1945; at that time the rest of the industrialized world--Japan, Germany, Britain, France, and Italy--had suffered far more from bombing and the other ravages of war than had the United States. Only if Europe and Japan had not recovered from World War II could the United States have maintained its relative position in the world. Even so, Kennedy spoke too soon.

Future decline was practically assured, according to Kennedy, unless the United States dramatically reformed its ways. At the same time, Kennedy doubted the capacity of the United States to buck historical trends. In fact, he was so sure of his gloomy prognosis for the country that he maintained that the main "task facing American statesmen over the next decades, therefore, is to recognize that broad trends are under way, and that there is a need to 'manage' affairs so that the relative erosion of the United States' position takes place slowly and smoothly, and is not accelerated by polices which bring merely short-term advantage but longer-term disadvantage."[28]

It is particularly unfortunate that Kennedy and others looked at so few data points and stopped looking at the data in the early 1980s. A more comprehensive review of the available data draws into question the thesis of relative decline.

Real GNP for the United States and the world (excluding the United States), as computed and reported by the Central Intelligence Agency (a principal data source of the studies cited by Kennedy), does indeed show an expansion of world and U.S. real GNP. Between 1960 and 1990 world GNP grew by 203 percent, whereas U.S. GNP grew by 150 percent. A long- term relative decline of sorts is evident in those comparisons.

Figure 4
U.S. Gross National Product as a Percentage of That of the Rest of the World, Selected Years, 1960-90
Sources: Central Intelligence Agency, Handbook of Economic Stat- istics (Washington: U.S. Department of Commerce, National Tech- nical Information Service, 1987, 1988, 1990, and 1991 editions); and author's calculaitons.
(Graph Omitted)

However, when U.S. GNP is computed as a percentage of the GNP of the rest of the world (world GNP minus U.S. GNP) year by year, assessments of long-term economic decline become far more tenuous, if not totally premature. As is evident in Figure 4, U.S. GNP as a percentage of the GNP of the rest of the world fell from 1960 through the mid-1970s. But, somewhere around 1975, U.S. GNP relative to that of the rest of the world began to level off; the U.S. share held close to 34 percent in 1975 and 1980 and fell off to under 32 percent in 1982. What may be startling about the data in Figure 4 is that in the middle and late 1980s U.S. national production relative to that of the rest of the world began to rise somewhat, reaching a peak of over 34 percent in 1988 (and remaining just under 34 percent in 1990).

Critics may worry that the argument has been distorted by comparing the performance of the United States with that of the rest of the world, which includes a lot of under-developed countries that grew slowly or retrogressed during the 1980s. It is true, however, that U.S. national production declined relative to that of Japan during the 1980s. In 1990 the U.S. GNP was 2.6 times Japan's GNP, down from 3 times Japan's GNP in 1980. On the other hand, U.S. GNP grew from 5.1 times Germany's GNP in 1980 to 5.4 times Germany's GNP in 1990. During the 1980s U.S. GNP grew relatively but modestly, from 97 percent of that of the rest of the developed world (excluding Japan and Germany) in 1980 to 101 percent in 1989 (the latest year for which data are available).

Real-world investors continued to ignore, for the most part, the prophets of doom and continued to look at what was really happening to the economy. Granted, the Dow Jones index fell by more than 700 (or 28 percent) in late 1987, a precipitous drop that, no doubt, fortified the confidence of the doomsayers in their dismal predictions. Nevertheless, the market recovered all of the lost ground by late 1988; the Dow Jones average reached 2148 in December--two and a half times its level at the start of the decade.

The "Great U-Turn" in Worker Wages

All of the cheery economic news notwithstanding, Bluestone and Harrison returned to print in 1988 with a slightly augmented beat on their dismal analytical drum.[29] They published a new treatise called The Great U-Turn in which they more carefully explained how the American economy had, beginning in the early 1970s, begun to make a U-turn on the road of economic progress.[30] Their book opens with a foreboding claim, "The standard of living of American workers--and a growing number of their families--is in serious trouble. For every affluent `yuppie' in an expensive big- city condominium, . . . there are many more people whose wages have fallen and whose families are finding it more and more difficult to make ends meet."[31] The evidence, Bluestone and Harrison argued, demands that the country "turn back toward greater planning and away from the treacherous path of laissez-faire."[32]

A key (but not the only) statistic used to support their conclusion is the reversal in the real (inflation- adjusted) average wage of production and nonsupervisory workers.[33] Everyone knows that the average worker's wage, in current dollars, has continued to rise. However, Bluestone and Harrison rightfully argued that the change in the number of dollars earned per hour can be misleading, mainly because a dollar of wages cannot buy as much as it once could. After adjusting for changes in prices, higher wages might even buy less, in which case one could argue that workers have suffered a U-turn in their standard of living.

Bluestone and Harrison plotted average real wages of workers and included in their book a graph similar to Figure 5. Obviously, the real (inflation-adjusted to 1990 prices) average worker wage did rise by 28 percent from 1959 ($9.07) to 1973 ($11.60), after which it fell irregularly by 14 percent, or to $10.02, over the following 17 years. There is something of an inverted U in the data.

Figure 5

The "Great U-Turn" In Real Wages of Production Workers, 1959- 90, Adjusted by the CPI

Sources: Council of Economic Advisers, Economic Report of the President: 1991 (Washington: U.S. Government Printing Office, February 1991); and author's calculations.

(Graph Omitted)

To properly evaluate Bluestone and Harrison's thesis, the data must be adjusted for inflation in some consistent manner. The consumer price index (CPI) that Bluestone and Harrison use is inconsistent, since the method used for computing it was abruptly changed in 1983, primarily because the method used to compute the index until 1983 overstated the rate of inflation. It did so because the estimated change in the cost of housing was based on the change in the purchase price of housing, not the more realistic change in the imputed rental cost of housing, which has been used since 1983. Hence, use of the standard CPI in adjusting wages for the effects of inflation understates the growth in real wages (or overstates their fall).[34]

Bluestone and Harrison's analysis is defective because it relies on the standard CPI, with its inconsistent methods of controlling for changes in the cost of housing. Fortunately, statisticians at the Bureau of Labor Statistics have developed the so-called experimental, although not widely known, consumer price index (dubbed the CPI-X or, more properly, the CPI-X-U1), which uses the new method of computing the cost of housing for all years. The BLS has recomputed the CPI-X back to 1967, and the Council of Economic Advisers has extended it back to 1959.

If workers' average real wages are computed using the experimental price index, the U in Bluestone and Harrison's U-turn is not so "great." Still, there remains some decline in worker real wages, from $11.02 per hour in 1978 to $10.02 in 1990, or about 9 percent.

Does that mean that workers are, on average, worse off, albeit slightly? That type of data would certainly suggest that the obvious answer is an unqualified yes. However, there are good reasons for doubt. The most important reason is that per capita disposable income in the United States grew in real dollar terms by 21 percent between 1978 and 1990. It would have been odd had real wages declined at the same time real disposable income per capita was growing. Bluestone and Harrison would probably say that the apparent discrepancy between the growth in disposable income and the decline in worker wages reflects the redistribution of the country's income base from workers to property owners.

The income paradox can, however, be partially explained by another form of income redistribution; the form in which earnings are received has shifted from wages to other benefits (employer contributions to social insurance, health and life insurance, and retirement funds; vacation days; and many other fringe benefits). Nonwage compensation as a percentage of wages and salaries rose dramatically in the 1960s and 1970s, from just under 9 percent in 1960 to nearly 21 percent in 1990. The fact of the matter is that workers were, understandably, gradually taking a larger share of their earnings in nonwage forms. Many fringe benefits are nontaxable forms of income.

Moreover, by persistently raising Social Security and other payroll taxes imposed on employers, Congress has forced workers to accept lower wages. In 1990 dollars, average employer real-dollar contributions to social insurance more than tripled between 1960 and 1990, from 4.6 percent of hourly wages and salaries in 1960, to 7.8 percent in 1973, and then to 10.4 percent in 1988. Employers would just as soon have paid that money to their workers as wages.

Figure 6 shows Bluestone and Harrison's U-turn in real worker wages, computed using the CPI, that was shown in Figure 5, but with a difference: the real wage for each year is computed relative to the 1959 level. That index, represented by the bottom line, rises from 1.00 in 1959 to 1.28 in 1973 and then falls off to 1.10 in 1990. When fringe benefits are roughly added to real hourly wages and the resulting total real compensation per hour is recomputed using the CPI-X, total real hourly compensation, shown by the middle line, rises from 1.00 in 1959 to 1.45 in 1978 and then falls to 1.33, or by 8 percent, in 1990, describing a U that looks more like an upside-down L.

Figure 6
Different Measures of Worker's Hourly Wage, 1959-90
Sources: Council of Economic Advisers, Economic Report of the President: 1991 (Washington: U.S. Government Printing Office, February 1991); unpublished data from the Council of Economic Advisers; and author's own calculations.
(Graph Omitted)

The "average hourly wage" remains defective as a measure of the income of American workers, mainly because the wages of 20 or so percent of Americans who are not classified as "production and nonsupervisory workers" are not included. In addition, the increase in the participation of women and minorities in the labor force and the growing use of part-time workers during the 1970s and 1980s were factors that pulled the average wage down, in spite of the fact that the greater employment of women and minorities meant income gains for many of their families. That is the case simply because women, minorities, and part-time workers tend to earn less than the average. In 1973 women represented 38 percent of the civilian labor force. By 1990 they represented 45 percent. In 1973 nonwhite workers represented 11 percent of the civilian labor force, whereas they represented 14 percent in 1990.

Moreover, during the 1980s hourly wages gradually gave way to other forms of compensation, namely salaries and year-end and production bonuses.[35] In 1973 total hourly wages represented 57 percent of total wages and salaries, and in 1989 they represented 49 percent.

If total worker compensation (including all wage and nonwage benefits) in all forms for all workers is computed on an average hourly basis and adjusted for inflation by using the CPI-X, the widely advertised "great U-turn" evaporates totally (see the top line of Figure 6). Probably to the dismay (and regret) of many "dismal scientists," that figure reveals that average worker welfare has continued to march upward. Real total compensation per hour was $9.61 in 1959, $14.58 in 1973, $15.53 in 1978, and (after peaking at $16.60 in 1987) $16.25 in 1990. (That growth is represented in Figure 6 by a rise in the index from 1.00 in 1959, to 1.52 in 1973, to 1.62 in 1978, and to 1.69 in 1990.) However, the higher measure of income does not account for the fact that "quality" improvements in the goods and services Americans buy often result in higher prices. If the consumer price index does not properly adjust for quality changes, which it cannot always do, the computed real wage will understate any rise in people's true living standard. In the 1980s many American industries greatly elevated "quality" as a goal, partially because of the growing importance of international trade. The fact that quality has become "Job 1" for many firms probably means that computed real wages understate the improvement in America's living standard.

Nevertheless, it is evident that the more optimistic reformulation of average American compensation, reflected in the top line of Figure 6, indicates that growth slowed significantly after 1973. From 1959 to 1973 real compensation grew at a compound annual rate of slightly more than 3 percent. From 1973 to 1990 real compensation rose at a rate that was less than two-thirds of 1 percent. The core of the real economic problem of the 1970s and 1980s was not a U- turn but a slowdown in the growth of worker wages. No one has been able to fully explain that slowdown, although most analysts attribute it, in the most general terms, to a slowdown in the growth of worker productivity. The slowdown in the growth of worker productivity has been attributed to low private savings and investment rates, declines in the performance of American students in public schools, the oil crises of the 1970s, growth in government regulations (especially environmental regulations), the decline of unions with the growing competitiveness of the domestic and international economies, and growth in social problems (for example, crime) since the early 1970s

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To deny a "great U-turn" and to acknowledge that there was a slowdown in the growth of real worker wages is not to dismiss the problems confronting the American economy. It is, however, a way of putting the country's problems in proper perspective in order to avoid unnecessary policy solutions. Dramatic policies organized to reverse a "great U-turn" may not be appropriate for bolstering an income level that is already on the rise. Furthermore, even if Bluestone and Harrison and others were correct in their assessment of a U-turn, it is incorrect to deduce that all, or even a sizable segment of, Americans were falling behind in real hourly compensation. That is true because averages are just that, averages, and even though the "average" is falling, the real hourly compensation of many American workers (including many low-income workers) may well be rising.

The "Decade of Greed"

Greed has been a problem since at least biblical times. Nevertheless, policy critics have maintained that greed was unabashedly fostered during the 1980s by the Reagan administration, which was intent on lowering tax rates to encourage ostentatious consumption by its principal supporters.[36] Worrying that the 1990s would be the decade in which the bills of the 1980s would come due, Time magazine reporter Otto Friedrich declared, "The past decade brought growth, avarice and an anything goes attitude"; he later glibly summarized the 1980s with five words, "get rich, borrow, spend, enjoy," and suggested that the dealings of Ivan Boesky, "the diaper king of arbitrage," epitomized the wanton ways of a whole decade.[37]

In The Hunger for More, Laurence Shames added that "the 1980s raised the clamor for more to new heights of shrillness, insistence, and general obnoxiousness, but this, it can be argued, was in the nature of the final binge, the storm before the calm."[38]

Supposedly, during the 1980s Americans went on a consumption binge, casting aside their historic concern for the welfare of others. The fact that the stock market was pressing 3000 by the late 1980s assured the commentators that greed was rampant, especially among the market's "paper entrepreneurs" whose dealings obscured the weakness of the underlying real economy--or so we were told.

Instead of helping others, American workers, managers, and owners became more concerned than ever with themselves-- with what they could take in pay from their work and what they could buy to promote what liberal political pundit Kevin Phillips dubbed "conspicuous opulence." American university students supposedly began mimicking their parents and their parents' friends by harboring a "single ambition-- doing something that would make money."[39] The evidence often offered in support of the contention that the 1980s were a decade of greed includes casual references to the jump in sales of luxury automobiles, the increase in the number of people earning M.B.A.s (most of whom, presumably, set their sights on making money on Wall Street), the growth in the number of self-help books, and the number of Wall Street brokers who went to prison.

At best, the myopic focus on spectacular examples of errant behavior during the 1980s does not offer a complete picture of the whole of America, whose population numbered a quarter of a billion people by the end of the decade. At worst, it paints a warped picture of the ways Americans lived during a decade of renewed growth.

Claims of pervasive greed in the 1980s can be most easily assessed with reference to Americans' charitable contributions.[40] Such an assessment reveals that Americans have always given a modest fraction of their incomes to charitable causes. However, as the solid line in Figure 7 shows, total charitable giving (measured in 1990 dollars) in the United States continued to reach record highs throughout the 1980s.

Americans were unusually generous in the 1980s no matter how the record is measured. Total charitable contributions--by living individuals, bequests, corporations, and foundations--more than doubled from 1955 to 1980, increasing from $34.5 billion to $77.5 billion (in 1990 dollars), or at a compounded annual growth rate of 3.3 percent. Between 1980 and 1989 total giving in real dollars expanded by 56 percent to $121 billion, or by a compound annual growth rate of 5.1 percent. Thus, the yearly rate of growth of total giving in the 1980s was nearly 55 percent higher than in the previous 25 years.

The pace of growth of private charitable contributions by individuals was 68 percent faster in the 1980s (5.2 percent a year) than in the 1970s and earlier years (3.1 percent a year between 1955 and 1980). And it should be noted that in the 1980s individuals increased their giving by substantially more than they increased their purchases of consumer goods in general and of a wide range of goods and services that might be considered extravagances.

Figure 7
Total Giving, Actual and Predicted, 1956-89
Sources: Giving USA: 1990 (New York: AAFRC Trust for Philanthropy, 1990); and author's calculations.
(Graph Omitted)

For example, the percentage increase in giving between 1980 and 1989 was 46 percent greater than the percentage rise in purchases of jewelry and watches, 58 percent greater than the percentage rise in expenditures on beauty parlors and health clubs, and 25 percent greater than the percentage rise in outstanding consumer credit. Private giving also accelerated during the 1980s while tax payments, which are frequently intended to serve charitable objectives, continued upward both in real dollars and as a percentage of national income.

Charitable contributions by corporations also rose substantially faster in the 1980s (4.1 percent a year) than in earlier decades (2.7 percent a year between 1955 and 1980). The upsurge in corporate giving occurred in the 1980s in spite of the fact that corporate before- and after-tax profits as a percentage of national income continued to decline. Indeed, corporate giving as a percentage of before-tax profits spurted upward in the 1980s and remained above the highs achieved in earlier decades. Bequests and gifts from foundations also reached record levels in the 1980s.

The same upward trend in charitable giving in the 1980s is visible when the data are adjusted for population growth. Real per capita giving by individuals rose from $182 a person in 1955 to $284 in 1980 and then, after the recession of 1980-81 ended, spurted to $409 in 1989. The annual rate of growth in the 1980s was more than twice the rate in earlier decades.

Charitable giving as a percentage of national income underwent a U-turn in the late 1970s and early 1980s, switching from a declining share of national income in the 1970s to an increasing share in the 1980s. Private donations rose from a historic low of 2.1 percent of national income in 1979 to 2.7 percent in 1989.

Critics might complain that the growth in private generosity in the 1980s either was a product of the growth in income or represented a continuation of the long-term upward trend in giving. Econometric analysis of the giving data refutes that view, however. In fact, the lower dashed line in Figure 7 plots the total giving that would have been expected in the 1980s had the pattern of giving established in the 1955-80 period held true.

Annual total giving in constant dollars was, on average, more than $14 billion, or 16 percent, higher during the 1980s than would have been predicted from the philanthropic pattern of the late 1950s, the 1960s, and the 1970s. Real individual giving averaged 18 percent above the predicted annual levels; real corporate giving was even higher, running an average 28 percent above predicted levels each year. Overall, during the so-called decade of greed, Americans increased their charitable contributions by the equivalent of one and one-half years of giving over what would have been predicted from past patterns.

Clearly, there were some well-publicized instances of conspicuous opulence during the 1980s, but greed has been around for a very long time. Claims that the 1980s were a decade of greed, painted frequently with a broad rhetorical brush, are far too sweeping, bordering on the reckless. Compared with earlier decades, the 1980s were a decade of renewed beneficence.

The "Fortunate Fifth"

In their defense of "America's misunderstood welfare state," Yale professors Theodore Marmor and Jerry Mashaw and New York attorney Philip Harvey announced that the country's "economic story is easily told."[41] They tell the story with what have come to be standard charts that show median family income first rising more or less steadily from 1947 to the early 1970s, then flattening out, and thereafter turning downward. Marmor, Mashaw, and Harvey also make confident claims about the "increasing gap between the wealthiest and the poorer segments of society" that, along with a host of other problems, "[continues] to undermine the public's sense of well-being."[42] In the more descriptive words of Greg Duncan, Timothy Smeeding, and Willard Rodgers in a study for the Levy Institute on Income Inequality, "The rising tide of economic growth in the 1980s appears to have lifted the yachts, but neither the tugboats nor the row- boats."[43]

Robert Reich gives the details on the growing inequality.

Controlling for family size, geography, and other changes, the best estimate . . . is that between 1977 and 1990 the average income of the poorest fifth of Americans declined by about 5 percent, while the richest fifth became about 9 percent wealthier. During these years, the average incomes of American families declined by about 7 percent, while the average income of the richest fifth of American families increased about 15 percent. That left the poorest fifth of Americans with 3.7 percent of the nation's total income, down from 5.5 percent twenty years before--the lowest portion they have received since 1954.[44]

Reich reckons that, unfortunately, "routine production workers," who constitute about a fourth of all workers, and "routine personal service" providers, who constitute approximately 30 percent of the work force, have skills that can be relatively easily duplicated by lower paid workers abroad. Hence, their real wages have suffered with the advent of the global economy.[45] Many government workers and defense contractors, who, Reich figures, constitute another quarter of the labor force, may not face global competition, but their hopes for wage increases have been dashed by tightening government budgets.

Only the "most fortunate fifth" of workers, principally "symbolic analysts" who manipulate data and words, has been sheltered from foreign competition and been in sufficiently high demand to exact higher real wages, or so Reich maintains.[46] That fortunate fifth of workers--all of whom presumably have "princely incomes"--has been able to produce 40 percent of the country's output and to receive comparable incomes. Those workers, Reich concludes, are the ones who must shoulder the burden of helping less fortunate workers with, he recommends, greater government-provided education and health care and greater expenditures on the nation's infrastructure.

The perceived growth in income disparity has not, however, been the exclusive concern of the political left. More moderate, if not conservative, commentators have accepted the left's basic premises and facts on the nation's income distribution. New York Times business columnist Leonard Silk has declared that "there is a widespread awareness that living standards for most people have been stagnating and that life is harder for the young than it was for their parents."[47] Wall Street Journal reporter Alan Murray mused: "From 1978 to 1990, those fortunate American households in the top 5 percent of the income scale saw their average incomes increase 16 percent, after adjusting for inflation. But the people in the middle of the income scale watched their incomes fall slightly," a problem he attributes partially to "huge" tax cuts for the wealthy and Social Security tax increases on the middle and lower income classes.[48]

On economic equality, Washington Post and Newsweek economics columnist Robert Samuelson has stated flatly: "There's less of it. We are more a society of haves and have nots."[49] A Business Week reporter has echoed the sentiments of those journalists, stressing that the "underlying shifts in income over the past 15 years have been seismic" and that the growing income disparity threatens long-term economic growth. "What's more, there don't seem to have been any economic benefits from the rich having gotten richer, as some economists argued in the early 1980s, when the Reagan administration first slashed taxes," a presumed major cause of the growing inequality.[50] Similarly, a Los Angeles Times labor columnist placed the blame for current economic problems on the failing "Reagan-Bush `trickle-down,' supply side economic policies" that have helped the rich get richer. "Already generally known is that the real income of middle-income workers continues to drop and that of the poor is plummeting, while the income of those at the top of the economic pile soars."[51]

Myriad versions of those claims have often been fortified with citations of official data on real median family income and on shares of income going to each of the five quintiles of households. As the bottom line in Figure 8 reveals, real median family income, adjusted for inflation using the standard CPI and set relative to the 1970 level, did trend downward from 1970 to the late 1980s.

Figure 8
Real Median Income with Adjustments for Supplements and Family Size, 1970-86
Sources: Congressional Budget Office, Trends in Family Income: 1970-1986 (Washington: U.S. Government Printing Office, February 1988); and author's calculations.
(Graph Omitted)

Fortunately, the reality of the changing income distribution is far more complicated than the modern prophets of gloom would have us believe. Although rarely conceded, real median family income did begin to rebound after 1982. Moreover, that measure of the real median is defective in three key ways: [1] the method of computing the CPI was changed in 1983, the effect of which was to obscure the growth in real income (or to accentuate the decline); [2] the average family size fell by 17 percent between 1970 and 1986; and [3] fringe benefits and other wage supplements, which are not counted as family income, expanded from 12 percent of total wages and salaries in 1970 to 20 percent in 1986 (the latest year for which adjusted data are available).

Researchers at the Congressional Budget Office have determined that when real median income is recomputed with the CPI-X and adjusted for the economies associated with smaller families, real median family income trends upward, rising by 20 percent between 1970 and 1986. (See the middle set of lines in Figure 8.) When real median income is further adjusted to account, in a rough way, for the growth in nonwage income, the rise during that period may be over 28 percent.

Although such revised data seriously undercut the critics' empirical props, they have a ready-made comeback: the median rose only because the rising economic tide "lifted the yachts, but neither the tugboats nor the row- boats."

Critics do have some of the facts on changing income distribution right. The share of total income going to the quintile of households with the lowest incomes did fall from 4.1 percent in 1970 to 3.9 percent in 1990 (after reaching 4.2 percent in 1980), and the share of income received by the middle three quintiles fell from 52.7 percent in 1970 to 49.5 percent in 1990. At the same time, the quintile of households with the highest incomes rose relatively rapidly during the 1970s and 1980s; their share of income rose from 43.3 percent in 1970 to 46.6 percent in 1990.

The data do offer the surface appearance of a "most fortunate fifth." But appearances are deceiving. Census Bureau data reveal that the real mean incomes (adjusted only for inflation by the CPI-X) of every quintile of households trended upward during the 1970s and 1980s.[52] Those data alone indicate that it is grossly misleading to suggest that changes in income distribution were "seismic," or that the poor as a group got poorer, or that only the "most fortunate fifth" gained over the past two decades or even the last decade.

Critics of changing income distribution delight in comparing current real household incomes of the quintiles with the peak achieved in 1973, before the first oil-supply shock that helped throttle income growth for the rest of the decade. They stress that the real income of the lowest two quintiles fell between 1973 and the late 1980s, but they rarely note the flaw in the price index or the need to make other adjustments for decreasing household size and increasing nonwage benefits. In addition, the relatively strong growth in real household income in the middle and late 1980s is never mentioned, mainly because such an acknowledgement would undercut the simplistic claim that the downward trend was all Ronald Reagan's fault.

Even if no other adjustments are made, using the CPI-X as the deflator reveals that the average incomes of the lowest two quintiles of households actually rose between 1973 and 1989 (just before the current recession) by 4.7 percent and 4 percent, respectively. However, between 1983 and 1989 the average income of the lowest quintile rose 11.1 percent, while the average income of the second quintile rose by 10.1 percent. The average income of the middle and fourth quintiles expanded by 10.7 percent and 11.6 percent, respectively, during the 1983-89 period.

Granted, the average real income of the top quintile rose by much more, 18.8 percent, but it is naive to assume that the top quintile is an exclusive club. It is in fact composed of changing collections of households with changing collections of household members operating under continually changing conditions. Students who were in school in the early 1980s, for example, had jumped several quintiles by the end of the decade simply by taking their first jobs or by marrying people with incomes. The very limited research done on the subject suggests that a sizable share--surely a third and possibly half--of the households in the top quintile at the end of the 1980s had been in a lower quintile in earlier years.[53]

Moreover, the nature of the quintiles of households ensures that the top quintile often grows more rapidly than the lower ones. People in the top quintile who increase their productivity and hours of work, marry (or stay married), or decide to have a nonworking spouse or family member go to work (nearly 90 percent of the households in the top quintiles have two or more income earners, a far higher percentage than found in the lower quintiles) automatically raise their quintile's mean household income. Those people cannot move to a higher category. People in any of the lower quintiles who do the same can easily move up one or more quintiles, increasing their own welfare but, in the process, reducing the mean income of their former quintile.

Overall, the critics have been right in stressing that the rich have gotten richer, but they are way off base in suggesting that the rich were rich during all of the 1980s, or that they became richer at the expense of the rest of the population, or that their riches were all ill-gotten or undeserved. It is far more accurate to say that in the 1980s many rich and not-so-rich Americans got richer faster than other Americans. Some Americans in all quintiles fell behind. Each end of the income distribution scale was contributing to the economic improvement of the other.

Was the federal tax burden redistributed during the decade? The answer is both yes and no, depending on the data series cited and which taxes are included. Federal income tax rates were lowered across the board, but many exemptions were eliminated. At the same time, Social Security taxes, which tend to be particularly onerous to lower income groups, were persistently raised; higher and higher rates were paid by both employees and employers on gradually higher incomes. On balance, when all federal taxes collected directly from individuals are considered, the tax burden on families with the lowest incomes went from 8.1 percent of their incomes in 1980, to 10.3 percent in 1985, to 9.3 percent in 1988, to 8.6 percent in 1992.[54] The second lowest fifth stayed within the narrow range of 15.6 to 15.9 percent in those years. Similarly, the middle fifth stayed within the narrow range of 19.1 to 19.8 percent, with no apparent up or down trend over the 1980-92 period. The second highest fifth declined slightly from 22.9 percent in 1980, to 22.4 percent in 1988, to 22.2 percent in 1992. The average for the highest fifth fell from 27.5 percent in 1980 to 24.1 percent in 1985, but it then trended upward to 26 percent in 1988 and to 26.8 percent in 1992.[55]

Throughout the decade real federal tax collections trended upward in absolute terms. They represented 19.4 percent of gross national product in 1980 and 19.6 percent in 1990 (after falling to 18.1 percent in 1984). Each of the lowest four quintiles of families tended to cover a slightly shrinking share of the growing tax burden. The share of all federal taxes paid by the lowest quintile of families went from 1.6 percent in 1980 to 1.3 percent in 1992. The share of the second quintile dropped from 6.9 to 6.0 percent between 1980 and 1992. The middle quintile's share dropped from 13.2 to 12.1 percent. The fourth quintile's share dropped from 22.1 to 20.0 percent. On the other hand, the share paid by the highest quintile of families rose from 56.1 percent in 1980 to 60.5 percent in 1992, mainly because of that quintile's relative income growth.[56]

Clearly, over the past two decades the country has experienced a host of economic problems, one of the most important of which is decreasing real wages for some groups. Although the available data do not permit an exact determination of how many Americans lost economic ground during the last two decades, it is clear that critics have grossly exaggerated the economic hardship visited on the vast majority of Americans. Furthermore, the critics do not seem to realize that many of the observed changes in real wages have been instructive. They have caused people to learn from their experience and to take corrective action--without directives from Washington.

Conclusion

Hoover Institution economist Thomas Sowell is reported to have once quipped that "reality is tricky." Indeed, it is. Regrettably, a host of critics of the 1980s have played tricks on their audiences by pretending that reality is simple. Most of those critics have had some of the facts correct. Otherwise, they would never have been taken seriously. The mistake they have made all too often is not getting all of the facts and pretending that their limited arsenal of facts tells the whole story of the 1980s. They have managed, however, to distort the impression many Americans have of the recent times through which they have lived. Correcting distorted impressions is crucial; the course of public policy hinges on it.

A far more reasoned view is that the economy continued to expand during the 1980s and reached a peak in 1990. The recession, of course, has since caused production and income growth to falter. More ominously, it has given new life to the Chicken Littles, who continue to be taken seriously by many of our Washington leaders and who continue to predict that in the 1990s the country will follow its long-charted path of decline. At the same time, the stock market marches upward, albeit irregularly. In April 1992 the Dow Jones Industrial Average was reaching new peaks just under 3,400, nearly four times the daily average of January 1980--an expansion factor not achieved since World War II. As is shown in Figure 9, the stock market tended to pay little heed to the claims of gloom and doom. Perhaps part of the rise in the market was fueled by speculation. Perhaps. But a careful reading of what went on during the 1980s indicates that there was more substance to the charted stock market gains than many critics may like to believe.

The 1980s were not the best of times; they could have been better. But neither were they the worst of times, as we have too often been wrongfully told. They were a decade when the Chicken Littles of policy circles invariably followed their grossly distorted warnings of economic calamity with preconceived prescriptions for relief that seemed to direct, rather than to be derived from, their analyses: greater federal involvement in the economic affairs of Americans, more federal regulations and management of internal and external trade, and expanded federal planning.

Figure 9
Dow Jones Industrial Average, Monthly, 1980-91, Juxtaposed with Dismal Predictions
Source: CITIBASE: Citibank economic database (machine-readable magnetic tape file), 1946-present (New York: Citibank, N.A. 1991).
(Graph Omitted)

Fortunately, the reality of the 1980s failed to match the dismal predictions, and with the whole of Eastern Europe and the republics of the former Soviet Union seeking to escape from the clutches of government control, the Chicken Littles' social agenda remains a vision in search of empirical justification.

Notes

[1] Robert Kuttner, "Supply-Side Turkey Comes Home to Roost," Los Angeles Times, October 14, 1991, p. B9.

[2] Hobart Rowen, "Abdication of the Democrats," Washington Post National Weekly, March 2-8, 1992, p. 5.

[3] For an extended commentary on deindustrialization, see Richard B. McKenzie, Competing Visions: The Political Con flict over America's Economic Future (Washington: Cato In stitute, 1985); and Richard B. McKenzie, The American Job Machine (New York: Universe Books, 1988).

[4] George C. Lodge, The American Disease (New York: Knopf, 1984), p. 3.

[5] Ibid., p. 5.

[6] Barry Bluestone, "Industrial Dislocation and the Impli cations for Public Policy," Paper prepared for the third annual policy forum on employability development, "Displaced Workers: Implications for Educational and Training Institu tions," sponsored by the National Center for Research in Vocational Education, Ohio State University, held in Wash ington, September 12-13, 1983, p. 3.

[7] Barry Bluestone and Bennett Harrison, The Deindustriali zation of America (New York: Basic Books, 1984).

[8] Robert B. Reich, The Next American Frontier (New York: Times Books, 1983), p. 3.

[9] Andrew M. Warner, "Does World Investment Determine Amer ican Exports?" Working paper, Federal Reserve Board of Gov ernors, Washington, January 1992, pp. 18, 19.

[10] Stephen S. Cohen and John Zysman, Manufacturing Matters: The Myth of the Post-Industrial Economy (New York: Basic Books, 1987), p. 3.

[11] John F. McGillicuddy, "The Corporate Pulpit," Corporate Board: The Journal of Corporate Governance, July/August 1987, p. 1.

[12] "Getting America Moving Again," Editorial, Christian Science Monitor, January 20, 1987.

[13] See Mack Ott, "The Growing Share of Services in the U.S. Economy--Degeneration or Evolution?" Federal Reserve Bank of St. Louis Review, June/July 1987, p. 15.

[14] Kenichi Ohmae, "No Manufacturing Exodus, No Great Come back," Wall Street Journal, April 25, 1988, p. 26.

[15] The rate of growth is computed for the 1980-89 period because of a precipitous $700 billion decline in real pri vate net worth between 1989 and 1990 that may prove tempo rary and a reflection of the recession. Similarly, the rate of growth for the 1960s may be somewhat distorted by the falloff in net worth after 1968. The compound rate of growth was 4.03 percent in the 1960-68 period and 3.06 per cent in the 1960-72 period.

The compound rates of growth in net worth per capita were, of course, lower for all decades, but the rate of growth for the 1980-89 period was higher than for the previ ous two decades: 2.42 percent for 1980-89, 1.95 percent for the 1970s, and 1.4 percent for the 1960s. The data on pri vate net worth are from the Federal Reserve's Balance Sheet, as reported in the Council of Economic Advisers, Economic Report of the President: 1992 (Washington: U.S. Government Printing Office, February 1992), p. 423.

[16] Greg J. Duncan, Timothy M. Smeeding, and Willard Rodgers, "Whither the Middle Class? A Dynamic View," Paper presented a the Levy Institute conference on Income Inequal ity, Bard College, June 18-20, 1991.

[17] For more details on this issue, see Richard B. McKenzie, The Decline of America: Myth or Fact? (St. Louis: Center for the Study of American Business, November 1988).

[18] Daniel A. Sharp, "America Is Running Out of Time," New York Times, February 7, 1988; reprinted in The World Trade Imbalance: When Profit Motives Collide (Washington: U.S. Department of State, Executive Council on Foreign Diplomats, 1988), p. 25.

[19] Joel Kurtzman, The Decline and Crash of the American Economy (New York: W. W. Norton, 1988), p. 21

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[20] Ibid., p. 25.

[21] Benjamin M. Friedman, Day of Reckoning: The Consequences of American Economic Policy (New York: Vintage Books, 1988), p. 300.

[22] David. P. Calleo, Harold van B. Cleveland, and Leonard Silk, "The Dollar and the Defense of the West," Foreign Affairs 66, no. 4 (Spring 1988): 860-61.

[23] Paul Kennedy, The Rise and Fall of Great Powers: Econom ic Change and Military Conflict from 1500 to 2000 (New York: Random House, 1987).

[24] Kennedy admits that he is not arguing that economics is the sole cause of the rise and decline of great powers: "There simply is too much evidence pointing to other things: geography, military organization, national morale, the alli ance system, and many other factors can all affect the rela tive power of members of the states system. . . . What does seem incontestable, however, is that in a long-run-drawn-out Great Power (and usually coalition) war, victory has repeat edly gone to the side with the more flourishing productive base--or, as the Spanish captains used to say, to him who has the last escudo." Ibid., p. xxiv.

[25] Ibid., pp. 413-37.

[26] Ibid., p. 432. As his primary source for data on world production shares, Kennedy cites P. Bairoch, "International Industrialization Levels from 1750 to 1980," Journal of European Economic History 11 (1980): 304. Kennedy also points out that Central Intelligence Agency figures show that the U.S. share of world output dropped from 25.9 per cent in 1960 to 21.5 percent in 1980. Central Intelligence Agency, Handbook of Economic Statistics (Washington: U.S. Department of Commerce, National Technical Information Service, 1984), p. 4. However, he acknowledges that CIA fig ures may be influenced by exchange rate considerations. Kennedy, p. 608 n. 248.

[27] Ibid.

[28] Ibid., p. 534.

[29] See Richard B. McKenzie, The "Great U-Turn": Another Economic Myth or New Economic Reality? (Washington: U.S. Congress, Joint Economic Committee, November 1987); or Rich ard B. McKenzie, The Mythical "Great U-Turn" in Worker Wages (St. Louis: Center for the Study of American Business, Wash ington University, February 1990).

[30] Bennett Harrison and Barry Bluestone, The Great U-Turn: Corporate Restructuring and the Polarizing of America (New York: Basic Books, 1988).

[31] Ibid., p. 3.

[32] Ibid., p. 20. See also Isaac Shapiro and Robert Green stein, Selective Prosperity: Increasing Income Disparities since 1977 (Washington: Center on Budget and Policy Priori ties, July 1991).

[33] See Bluestone and Harrison, The Great U-Turn, Figure 1.1, p. 6. The authors actually cite "real average weekly earnings," which has a more pronounced "U" than real average worker wages, primarily because of the downward trend in the number of hours worked per week. However, it needs to be stressed that the downward trend has been in evidence for most of this century, if not much longer.

Bluestone and Harrison also chart "median family in come," which rose in the 1950s and 1960s and then leveled off, with ups and downs, in the 1970s. Many of the criti cisms of Bluestone and Harrison's use of average worker pay apply with equal force to median family income. Indeed, use of median family income can be more misleading. A portion of the reduction in the growth of family income can be at tributed to the reduction in family size, which in turn is related to the aging of the population and the increase in the divorce rate.

Bluestone and Harrison cite government data on the turnaround in the gradual reduction in the "poverty rate," or the percentage of Americans below the "poverty threshold" income level, and their own data on the "polarization" of Americans, or the growing disparity in the incomes of high- and low-wage earners (resulting in what they describe as a "missing middle" to the nation's income distribution). The issue of growing poverty was critiqued by Edgar K. Browning in his presidential address to the Southern Economics Asso ciation, "Inequality and Poverty," Southern Economic Journal (April 1989): 819-30. The issue of the "missing middle" has been addressed by a variety of economists, in and out of government, including Neal H. Rosenthal, "The Declining Middle Class: Myth or Reality?" Monthly Labor Review, March 1985, pp. 3-10; and Patrick J. McMahon and John H. Tschet ter, "The Declining Middle Class: A Further Analysis," Monthly Labor Review, September 1986, pp. 22-27. Points made by McMahon and Tschetter about the movement of average real wages apply with greater force to Bluestone and Harri son's conclusions drawn from the presumed turnaround in real median family income.

[34] Before 1983 the consumer price index incorrectly as sessed the change in the cost of living because changes in the asset prices of houses, per se, were included. If the price of new homes went up by 10 percent, then the CPI would include that information (after properly weighing housing for its importance in people's budgets). However, most people who own their own homes do not experience increases in their "cost of living" in line with increases in the market prices of houses. As a consequence, many economists reasoned that the CPI overstated the rise in the cost of living, and that defect was getting worse as inflation ac celerated in the 1960s and 1970s. Use of the CPI, especial ly in times of relatively rapid inflation, such as the 1970s, in adjusting wages for inflation understates the rise (or overstates the decline) in real worker wages. Officials at the Bureau of Labor Statistics concluded that a "better" way to figure changes in the cost of living from changes in housing costs was to measure changes in the monthly rental payments for housing (not in the prices of the houses them selves). CPI reports published since 1983 use the new meth od. However, the widely used CPIs from before 1983 remain wedded to the old "defective" method of assessing housing costs.

[35] For discussions of how the "average wage" (and many other statistics) is measured by the BLS, see U.S. Depart ment of Labor, Bureau of Labor Statistics, BLS Handbook of Methods (Washington: U.S. Government Printing Office, Bulle tin no. 2285, April 1988).

[36] For more details, see Richard B. McKenzie, Was the De cade of the 1980s a "Decade of Greed"? (St. Louis: Center for the Study of American Business, Washington University, July 1991); or Richard B. Mckenzie, "Were the 1980s a `De cade of Greed'?" Public Interest, January 1992, pp. 91-96.

[37] Otto Friedrich, "Freed from Greed?" Time, January 1, 1990, pp. 76-77.

[38] Laurence Shames, The Hunger for More: Searching for Values in an Age of Greed (New York: Vantage Books, 1991), p. 27.

[39] Kevin Phillips, The Politics of the Rich and Poor: Wealth and the American Electorate in the Reagan Aftermath (New York: Random House, 1990), p. 43; emphasis in the orig inal.

[40] This analysis uses data from Giving USA: 1990 (New York: American Association of Fund Raising Council Trust for Phi lanthropy, 1990). Other data sources for charitable contri butions (namely, the Independent Sector and the U.S. Bureau of Labor Statistics) provide similar, but slightly differ ent, pictures of giving during the 1980s. For a graphic summary of several sources, see "The Demographics of Giv ing," American Enterprise, September/October 1991, pp. 101-4.

[41] Theodore R. Marmor, Jerry L. Mashaw, and Philip L. Har vey, America's Misunderstood Welfare State: Persistent Myths, Enduring Realities (New York: Basic Books, 1991), p. 8. For more details, see Richard B. McKenzie, The "For tunate Fifth" Fallacy (St. Louis: Washington University, Center for the Study of American Business, March 1992).

[42] Marmor, Mashaw, and Harvey, p. 8.

[43] Duncan, Smeeding, and Rodgers, p. 7.

[44] Robert B. Reich, The Work of Nations: Preparing Our selves for 21st-Century Capitalism (New York: Vantage Books, 1992), p. 197, cites U.S. Bureau of the Census work on the Current Population Survey and Bureau of Labor Statistics work on the Consumer Expenditure Survey. More specifically, he cites Congressional Budget Office, The Changing Distribu tion of Federal Taxes, 1977-1990 (Washington: U.S. Govern ment Printing Office, February 1987); and U.S. House of Representatives, Ways and Means Committee, Tax Progressivity and Income Distribution (Washington: U.S. Government Printing Office, March 26, 1990).

[45] Robert B. Reich, "U.S. Income Inequality Keeps on Ris ing: As the World Turns," New Republic, May 1, 1989, pp. 23-28.

[46] Ibid., p. 28.

[47] Leonard Silk, "Economic Scene: Why Fiscal Policy Has to Have Soul," New York Times, December 6, 1991, p. C2.

[48] Alan Murray, "Tax Cuts the Answer? What's the Question?" Wall Street Journal, October 28, 1991, p. A1.

[49] Robert J. Samuelson, "The Fragmenting of America," Washington Post National Weekly, August 12-18, 1991, p. 29.

[50] Karen Pennar, "The Rich Are Richer--And America May Be the Poorer," Business Week, November 18, 1991, 85-86.

[51] Harry Bernstein, "Surge in Part-Time Workers Ominous," Los Angeles Times, December 10, 1991, p. D3.

[52] For details, see McKenzie, The "Fortunate Fifth" Fallacy.

[53] For data on income mobility, see Bruce Bartlett, "A Class Struggle That Won't Stay Put," Wall Street Journal, November 20, 1991, p. A16. Very similar, but not identical, statistical shifts are reported in U.S. Congress, Joint Economic Committee, "Income Mobility and the U.S. Economy: Open Society or Caste System?" Prepared for Rep. Richard K. Armey, December 30, 1991. The JEC staff used Bureau of the Census data as reported in U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P- 70, no. 18: Transition in Income and Poverty: 1985-1986 (Washington: U.S. Government Printing Office, 1990); and U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-70, no. 24: Transition in In come and Poverty: 1987-1988 (Washington: U.S. Government Printing Office, 1990). See also Greg J. Duncan, Years of Poverty, Years of Plenty (Ann Arbor: University of Michigan, Institute for Social Research, Survey Research Center, 1984), p. 13.

[54] Council of Economic Advisers, Economic Report of the President: 1992, p. 141. The estimates are based on Con gressional Budget Office calculations, which are given only for the years mentioned here.

[55] Ibid.

[56] Ibid.