Jobs and Paychecks

A century ago, in Robber Baron Manhattan, a wealthy banker's daughter invited a *New York Herald* reporter by for a sneak preview of her latest new wardrobe. Out for viewing came one magnificent gown after another. Magnificent dresses in silk, chiffon, satin, and lace, "hand-embroidered, beaded, ribboned, and encrusted with diamonds."[1] The crowning touch: a coat cut from white unborn baby lamb, lined with ermine.

The price tag for the new wardrobe? About $2 million, a stupendous sum in 1906.

"Money spent in this way is not lost," the banker's daughter hastened to assure the reporter, "for if the dressmakers and milliners and shoemakers had no demand for their work the wheels of progress would necessarily be hampered."[2]

This banker's daughter would feel right at home, ideologically, if not fashionably, in twenty-first century America. In our corporate boardrooms, in our legislative chambers, even, sometimes, in our union halls, we have convinced ourselves, beyond a shadow of a doubt, that wealthy people spin our nation's economic wheels. Without rich people, and plenty of them, the economy would sputter to a stop.

Don't count me as an "enemy of the wealthy," Pennsylvania's most powerful Teamster leader told the *Philadelphia Inquirer* in 1998, "poor people don't build companies that hire people."[3]

Having rich people among us, we have come to believe, helps poor people — and everybody else, too. Rich people spend more than the rest of us, our leaders inform us, and the spending they do creates jobs and prosperity. Rich people also save more than the rest of us, and the savings they make stimulate investment. That investment creates still more prosperity. Want that prosperity to continue? Just boost the capacity of rich people to spend and save — by reducing tax rates on the wealthy. Want to jeopardize whatever prosperity we have already achieved? Ask the rich to pay more in taxes.[4]

"They say, 'Tax the rich,'" one wealthy Californian, actor Mickey Rooney, complained midway through the 1990s. "Don't they understand that the rich are the only people who can afford to give them jobs?"[5]

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Ludwig von Mises, an Austrian economist who taught in the United States after World War II, made much the same point a half century earlier, in somewhat more ponderous prose. Societies that accept and applaud growing gaps between the wealthy and everyone else, he contended, actually improve the lives average people live.

"Inequality of wealth and incomes is the cause of the masses' well-being, not the cause of anybody's distress," von Mises argued in 1955. "Where there is a 'lower degree of inequality,' there is necessarily a lower standard of living of the masses."[6]

Did Mickey Rooney, back in the 1950s, ever read von Mises on the masses? Not likely. Few people paid much attention to Professor von Mises when he lectured at New York University. The Austrian was considered, at the time, somewhat old-fashioned, a throwback to less enlightened days. But times change. Our most politically powerful economists today revere Ludwig von Mises. His observations about inequality now drive our economic policies.[7] Rich people, our policy makers assume as self-evident fact, "grow" the economy. The richer they become, the bigger the economic pie. The bigger the pie, the more for everyone, even if the wealthy walk off with the biggest pieces.

In the closing years of the twentieth century, America's rich did become richer, phenomenally so, and America's economic pie did grow, just as the policy makers had predicted. But what about those "masses"? Did America's growing economy usher in the new epoch of mass well-being the cheerleaders for concentrated wealth had promised? Many observers, at century's end, were firmly convinced it had. Wealth, they reported, wasn't just "trickling down" from on high. Wealth was gushing into average American households. Inequality, they rejoiced, had "worked."

"AS THE AMERICAN CENTURY DRAWS TO A CLOSE, times have rarely been better," *Business Week* rhapsodized in 1999. "Eight years into an expansion that just won't quit, the robust U.S. economy is the envy of the world."[8]

This expansion would become, one year later, the longest uninterrupted period of economic growth in America's history. This record-breaking blast of prosperity, commentators proclaimed, had essentially wiped out unemployment.

"This boom has been so long and so good that it has reached down to virtually every person in society," Cornell University economist Richard Burkhauser concluded. "Almost all the able-bodied people who are looking for jobs can find them."[9]

Boosters of America's economic status quo could barely contain their glee. Were rich people getting richer in this boom that would not end? Yes, "inequality is increasing," economists Ken Deavers and Max Lyons acknowledged, but what of it? Living standards, the two crowed, "are rising across the entire income distribution."[10]

Was the middle class disappearing, as the worry-worts kept charging? Absolutely, gloated *Investor's Business Daily.*

"The middle class is shrinking," the journal smugly noted, "because it's getting richer."[11]

America, other celebrants exulted, had become a nation of investors.[12] Over half of America's middle class families, 53 percent, held stocks in 1998, up from less than a third, 31 percent, at the end of the 1980s.[13] Shares of stock now accounted for 54 percent of all household financial assets.[14] The new ownership of corporate America, smiled Chrysler Chairman Robert Eaton, "is rapidly becoming most of America."[15]

These new "owners" were speaking a vocabulary that most Americans would have found unintelligible before the 1980s. Mutual funds, IRAs, 401(k)s, Keoughs — one new option after another for amassing wealth. And amassing wealth seemed to be just what average Americans were doing. Between 1984 and 1997, the dollar value of the stocks held by mutual funds multiplied thirty times over.[16] By 2001, over 37 million Americans were regularly stashing away dollars in 401(k)s.[17] And middle class families were buying more homes, too. By September 1999, almost two-thirds of America's 103 million households owned their own homes. America had never seen such high home ownership rates.[18]

Could a more robust prosperity even be imagined?

"These are the best of economic times," noted Marc Zandi, the chief economist at one respected economic consulting firm, "by any measure."[19]

Who could doubt that? Certainly not the President for most of the 1990s, William Jefferson Clinton. "America's middle class," the President told the nation in 1997, "is rising fast."[20] America, President Clinton added in his 1999 State of the Union, "is working again" — "with nearly 18 million new jobs, wages rising at more than twice the rate of inflation, the highest home ownership in history, the smallest welfare rolls in 30 years, and the lowest peacetime unemployment since 1957."[21]

Two years later, just days before leaving office, President Clinton would cast a final proud look back.

"Unemployment is at a 30-year low," the President told a student group, "we have 22.5 million new jobs, the longest economic expansion in history, the lowest minority unemployment ever recorded, the lowest female unemployment in 40 years."[22]

All this should have been cause for a raucous national celebration. But Americans, strangely enough, weren't celebrating. Amid American history's "longest economic expansion," inside the workplaces and neighborhoods where average Americans labored and lived, journalists could find few people cheering.

"This is America's Golden Age," a puzzled *New York Times* noted early in the new Bush Administration. "So if things are so great, why don't we seem pleased?"[23]

"Circumstances just keep getting better," the *Times* added, "and Americans just keep complaining."

What was going on here? Grousing, the *Times* concluded, must be hardwired into human nature — or, at the least, the central nervous system of the American character.

"The American character may be so fundamentally entwined with striving," the *Times* hypothesized, "that we will grouse no matter how much better circumstances get."

Had Americans fallen victim to some debilitating post-success syndrome? Is that why they weren't cheering America's record prosperity? Or was there some other, some simpler explanation behind why average Americans weren't celebrating? Could it be that inequality had *not* improved average American lives? Could it be that average Americans had little, if anything, to celebrate?

LITTLE TO CELEBRATE? What about all those statistics? The rising family incomes. The millions of new jobs. The record homeownership rates. The overflowing mutual funds. Economists had never seen such numbers. Average Americans, they believed, ought to be down on their knees, thanking their lucky stars. But average Americans, *even before* the economic downturn that began in 2001, were thanking no one. How could that be? How could average Americans and economists see the world so differently?

That difference might have been a matter of perspective. Economists read statistics. Average Americans have to live them. That can be hard.

Consider, for instance, those statistics on rising family incomes. The key numbers here, the annual figures for household income, do show increases over time.[24] In 1980, the nation's most typical households earned $17,710. This national "median household income" did indeed double, and then some, to $42,151 over the next twenty years.

An impressive leap? Not quite. These dollar figures don't take inflation into account. If we adjust for inflation, the picture changes. Household income still increases over the course of the 1980s and 1990s, but only by $7,000. How significant an increase, over twenty years, is $7,000? Not very. To move from $35,238, the inflation-adjusted 1980 household income, to the $42,151 median income of 2000, household revenues inched up, on average, a meager $346 a year — a less than 1 percent annual income increase.

Still, an increase is an increase. So can we conclude, along with corporate America's cheerleaders, that average Americans were, at century's end, making more money than they made back in 1980? We could, but we would be wrong.

Average Americans were actually making *less*, on an hourly basis, at the end of the 1990s than they made in 1980. In fact, Americans were earning less for their labor at the end of the 1990s, after nearly twenty years of "prosperity," than they earned in the early 1970s.

In 1973, American "production and nonsupervisory employees" — about 80 percent of the nation's workforce — averaged $13.91 an hour, in dollars inflation-adjusted to 1999 levels. This hourly rate, over the next twenty years, shriveled all the way down to $12.50 in 1995, before bouncing back up a bit, to $13.24, in 1999.[25]

Business commentators, at the time, enthusiastically hailed this late 1990s uptick in wages. The same prosperity that was enriching the rich, they exclaimed, was also enriching average Americans. A premature conclusion. In 1999, after factoring in inflation, most average Americans were still making over $56 less a week, almost $3,000 less a year, than what they earned in 1973.[26]

The widely lauded late 1990s uptick in wages would not, in any case, last particularly long. Wages for average Americans would be stagnating once again by century's end. In 1999, only employees making more than $65,000 a year, less than a tenth of the total workforce, actually saw their paychecks register a real increase.[27] In 2000, the median wages of America's 90 million nonsupervisory workers, "ground to a virtual halt, climbing by less than a tenth of a percent."[28] In 2001, production and non-supervisory workers in America's private sector would still be earning less, in average weekly earnings adjusted for inflation, than they earned in 1973.[29]

All these wage numbers do raise an obvious question: If hourly wages have been sinking and stagnating, how could typical American household incomes be rising, even by a paltry 1 percent a year? What can explain this apparent discrepancy? Only sheer hard work. American household incomes rose slightly between 1980 and 2000, despite lower real wages, because average Americans devoted more of their hours to working.

Once upon a time, an average American family could live a middle class life off the paycheck of a single breadwinner. By the 1990s, that once upon a time had disappeared. At century's end, according to Census Bureau data, only 28 percent of middle-income families were getting by with just one wage-earner — and most of these single-earner families had no choice in the matter. They sported only one parent.[30]

In the 1990s alone, average couples upped their hours on the job the equivalent of seven extra workweeks a year — and all these added hours, one business journal noted, didn't count into the mix "commuting or the time spent dealing with e-mail or talking on cell phones."[31] Americans, by the end of the 1990s, were spending "more time on the job than workers anywhere else in the industrialized world."[32] One 1999 report from a United Nations agency concluded that Americans were working two weeks a year more than the Japanese, once considered the world's leading workaholics, and an incredible eleven more weeks, or over four hundred more hours a year, than average Germans.[33]

No wonder average Americans weren't cheering their good fortune. They were too exhausted to exult.

THE CHEERLEADERS FOR INEQUALITY are certainly a persistent bunch. Real hourly wages may still trail their early 1970s levels. Breadwinners may be working many more hours. But none of this, the ideologues assure us, means that average Americans aren't better off. After all, they point out, *total* compensation is up.

Total compensation, the argument goes, tells us much more about the actual well-being of average Americans than hourly wages — or even household income totals. Hourly wage and household income figures don't include fringe benefits. *Total compensation* numbers do. American workers, Jerry Jasinowski, the president of the National Association of Manufacturers, noted proudly midway through the 1990s, "nowadays receive a much greater share of their compensation in the form of various benefits." If you take these benefits into account, Jasinowski contended, workers were actually better off in the 1990s than they were in the early 1970s, when hourly wages were higher.[34]

W. Michael Cox, the chief economist at the Federal Reserve Bank of Dallas, could not have agreed more. He spent a good part of the late 1990s — in his book, *Myths of Rich and Poor*, and on the interview circuit — arguing that increases in nonwage benefits helped prove that average Americans were doing quite a bit better than simple wage and income data might suggest.[35]

Were cheerleaders like Cox on to something? Have more generous nonwage benefit packages offset, for average Americans, years of falling and stagnant real wages? The numbers, at first glance, appear to make a persuasive case for the Cox best-of-times contention. Employers, by century's end, *were* spending more money on employee benefits than they did back in the early 1970s, when wages were peaking. But these increasing employer outlays for fringe benefits were not actually improving the benefits employees received.[36] Companies did not spend more on benefits because they were adding new benefits or enhancing old ones. Companies spent more on benefits primarily because the most costly fringe benefit in American workplaces — health care — was costing them more to provide. Throughout the 1980s and early 1990s, companies that offered health care benefits found themselves forced to expend more and more dollars just to maintain their existing health insurance benefit programs.

Many businesses, as the 1990s progressed, simply stopped making this maintenance effort. They began shifting the cost of providing health care insurance onto the backs of their employees. After 1992, employer outlays for health insurance actually dropped.

The numbers tell the story. Throughout the 1980s and early 1990s, with health care costs rising rapidly, employer expenditures for health care benefits steadily increased, from $1.07 an hour in 1979, in inflation-adjusted dollars, to $1.35 in 1989, then to $1.52 in 1992. That 1992 figure would mark the high-water. By 1998, employers had cut back on their health care expenses significantly, despite continuing increases in the cost of health care. In 1998, employers shelled out, on average, only $1.30 an hour to provide health care benefits for their employees.[37] With fewer employer dollars going into health care benefits, fewer employees could count on health care coverage. By 2003, the Robert Wood Johnson Foundation would later report, nearly a third of Americans under sixty-five were going regularly without health insurance for months on end.[38]

With retirement benefits, the second biggest "fringe" historically available to American workers, the erosion process started even earlier. In 1979, employers expended $1.13 an hour on retirement benefits, after adjusting for inflation. They spent, ten years later, only 95 cents an hour on retirement security and even less, just 84 cents an hour, in 1998.[39]

Employers realized this fairly massive savings by fundamentally restructuring their retirement systems. Up until the 1980s, most major companies had tied their pension benefits to years of service and average final pay.[40] In these "defined benefit" plans, employees knew exactly where they stood. A typical plan, for instance, might guarantee employees who hit age sixty a pension that equaled 2 percent of their final pay for each year they had spent on the job. A sixty-year-old with thirty years could, under such a plan, retire with an annual pension that equaled 60 percent of that employee's final pay.

To finance such "defined benefits," employers and employees typically each made contributions into a single, company-wide pension fund. The dollars in the fund would be invested. If the investments did well, the company would have more than enough to meet its ongoing pension obligations. If the investments did poorly, the company still had to mail retirees their checks. In traditional defined-benefit plans, in other words, employers carried responsibility for their workers' retirement security.

In the 1980s and 1990s, a growing number of corporations decided to sidestep this responsibility. They created new-style retirement programs. No longer would management guarantee workers a specific pension benefit. Companies, instead, would guarantee only a specific annual contribution into an individual investment account for each worker. In these new "defined contribution" plans, workers would bear full responsibility for investing the dollars in their individual accounts. Those workers who invested their account dollars wisely, the theory went, would eventually be rewarded with an overflowing pot of retirement gold. But if that pot was not overflowing, employees would have to make do with whatever dollars the pot was holding.

Some employees welcomed these new "defined-contribution" plans. But many others, particularly veteran workers, felt far better off under their employer's traditional defined-benefit plan. This plan already guaranteed them, after all, a specific, significant pension once they hit retirement age. Why put that guaranteed retirement security at risk?

To be fair to all employees, those corporations that wanted to go the defined-contribution route ought to have let older workers, if they so chose, remain with the company's original defined-benefit plan. But that would have increased, considerably, the corporate outlays necessary to meet pension obligations. Companies would have had to maintain, far into the future, both defined-benefit and defined-contribution programs. Companies eager to go with defined-contributions, as a result, faced a dilemma. They could spend more on pension benefits — by giving veteran workers the right to choose the retirement plan that best fit their needs — or they could "give long-term workers a raw deal."[41]

Many corporations chose the raw deal. In 1978, defined-benefit plans covered 30 million workers. That number had slipped to 23 million by 1998. Over those same years, the number of workers in defined-*contribution* plans zoomed from under 20 to over 50 million.[42] These numbers thrilled business commentators. They saw, in the soaring numbers of new, individual defined-contribution retirement accounts, a brave new world of mass investing. Workers were taking control of their own retirement futures! In this brave new world, mere workers could become millionaires, simply by setting aside a few dollars a month in their 401(k)s.

The 401(k) would become, in the closing decades of the twentieth century, America's most celebrated fringe benefit. This simple variation on the defined-contribution model had begun, humbly enough, as a minor provision in a 1978 tax bill.[43] Workers, Congress concluded that year, might save more if they were allowed to defer taxes on their savings. The newly created 401(k) made these deferrals easy, by allowing workers to park a chunk of their paychecks in a special personal account that would grow, tax-free, until retirement time. Congress never expected the 401(k) to replace the traditional, company-guaranteed pension. The 401(k) would merely, Congress figured, supplement traditional retirement plans. But corporate America had different ideas. The new 401(k)s, companies quickly realized, gave them a means to provide retirement benefits at less than half the cost of traditional pensions.[44] Instead of maintaining costly defined-benefit plans, companies could contribute relative pittances to employee 401(k) accounts and be done with their retirement security obligations.[45]

The 401(k) retirement rush would soon be on. By 1998, over a quarter of America's 100 million private-sector workers, 27 percent, had a 401(k) at work but no pension. Only 15 percent of America's workers had what Congress originally intended, both a traditional pension and a 401(k).[46]

Those 401(k) millionaires, in the meantime, would be few and far between. The average individual 401(k) account, the National Defined Contribution Council reported in 2000, held a $49,160 balance.[47] The Employee Benefit Research Institute added, in a report released the next year, that 44 percent of individual 401(k)s held less than $10,000 and another 14 percent not more than $20,000.[48]

Some older workers, to be sure, did accumulate somewhat larger 401(k) nesteggs. Workers in their forties, the Employee Benefit Research Institute noted, averaged about $62,000 in their 401(k)s at the start of the new century. But this $62,000 hardly guaranteed an uninterrupted string of happy, secure golden years, as an analysis conducted by T. Rowe Price, a Maryland-based financial services company, rather vividly demonstrated. Suppose, this analysis noted, that a forty-five-year-old with $62,000 in a 401(k) had the wherewithal to put an additional $5,000 into this account every year until age sixty-five. Suppose that the investments in the 401(k), over these years, returned 9 percent. At age sixty-five, based on these rosy assumptions, the worker would have a 401(k) worth about $600,000. Even if this worker then limited retirement spending to $36,000 a year, T. Rowe Price concluded, the worker would still have a three out of ten chance of running out of money after twenty years of retirement.[49]

In short, the only way average forty-five-year-olds with 401(k)s could ensure their retirement security would be by planning to die early.

Most Americans, of course, don't want to have to die early to enjoy their golden years. But they may have to reconsider. So suggests research on retirement savings that New York University economist Edward Wolff released in 2002.

Wolff examined *all* the wealth, not just the 401(k) nesteggs, that working Americans age forty-seven and over had accumulated for their retirements by the end of 1998, the latest year with full statistics available. Wolff expected these older Americans to be better prepared than their counterparts in the early 1980s. After all, a sizeable proportion of them were covered by 401(k)s or some other sort of defined-contribution plan, most of these dollars in these plans were invested in stocks, and stocks, between the early 1980s and the end of 1998, had soared, up 248 percent from 1989 to 1998 alone.[50]

But Wolff did not find what he expected. Working Americans who were forty-seven to sixty-four in 1998 actually held less retirement wealth than Americans who were forty-seven to sixty-four in 1983.[51] Between 1983 and 1998, the typical American household headed by an adult nearing retirement saw an 11 percent dip in accumulated retirement wealth, from $184,200 to $171,600.[52]

To live comfortably in retirement, financial counselors often advise, a typical family needs an income flow that equals about 80 percent of the family's pre-retirement income. Relatively few American families nearing retirement at century's end, Wolff's data show, came anywhere close to meeting this 80 percent standard. In 1998, only 38.2 percent of families nearing retirement had the wherewithal, between their accumulated wealth and their expected pension and Social Security benefits, "to replace at least three-quarters of their current income at retirement."[53]

By century's end, typical American families faced less retirement security, not more, just as they faced less health security, not more. The increasing share of "total compensation" devoted to fringe benefits had not, in the closing decades of the twentieth century, offset the pinch — and pain — of stagnant real wages. Benefits, as experienced by average Americans, did not advance in the 1980s and 1990s. They eroded.

GOOD THINGS HAPPEN WHEN JOBS BECOME PLENTIFUL. With jobs abundant, lousy jobs no longer seem such deadend traps. Workers know they can always just leave a miserable job — and likely find a better job elsewhere. Employers know that, too. So they do their best to keep their jobs attractive and their workers happy. The result? Higher wages, heftier benefits, a better deal for all working people.

So what went wrong in the 1980s and 1990s?

These two decades saw an amazing string of "boom" years. For all but twenty-two months in the 1980s and all but eight months in the 1990s, the U.S. economy expanded year after year, creating jobs by the millions.[54] The nation's official unemployment rate dipped below 5 percent in 1997 and kept falling, almost sinking under 4 percent, on an annual basis, in 1999 and 2000.[55] Jobs, at century's end, would be more plentiful than they had been in over a generation. Wages, as a consequence, should have been soaring. And new and improved fringe benefits should have been raining down upon workers. But they weren't. Wage rates, even after a run-up at the end of the 1990s, still didn't match, in real purchasing power, wages from the early 1970s.[56] And benefits were shrinking, not expanding.

How could this be happening? In the past, more jobs had always meant more smiles. Why wasn't America smiling this time around? The sharpest analysts knew the answer. America wasn't smiling because jobs had changed. Over the course of the 1980s and 1990s, corporate America essentially redefined the character of work in the United States.

A job, back in the 1960s, had meant forty hours of work a week — and a reasonable expectation that you could keep working those forty hours week after week, year after year, if you did your work well. A job had meant serious side benefits as well. A decent pension to reward your years of loyalty. Enough health insurance to protect your family.

In the 1980s and 1990s, fewer and fewer jobs matched this classic, all-American workplace standard. The nation's biggest companies, the firms that had historically provided the good jobs that Americans coveted, suddenly stopped creating the jobs that prosperity was supposed to bring. Between 1980 and 1992, America's five hundred largest corporations more than doubled their assets — from $1.18 trillion to $2.68 trillion — and, at the same time, slashed their payrolls by over a quarter. The number of jobs at the nation's top five hundred companies dropped from 15.9 million in 1980 to 11.5 million in 1993.[57]

This massive job-shedding introduced a new concept, downsizing, into America's business discourse. In downsizings, jobs disappeared, the work remained. That work could be accomplished, corporate America came to realize, without the bother — and cost — of having to keep full-time staff on the payroll. And this realization helped popularize still another new approach to getting work done, outsourcing. By 1996, 86 percent of America's large companies were farming out regular work to subcontractors, up from 58 percent of companies in 1992.[58]

Much of the work that wasn't outsourced would go to "temps" or part-time workers. In 1982, only 5 million Americans worked in a temporary or part-time capacity. That total increased more than fivefold over the next fourteen years, to nearly 28 million in 1996.[59]

Temps averaged, near the end of 1996, $8.79 an hour. Full-time workers, at the same time, averaged $11.44.[60] Corporations, naturally, seized this savings opportunity. By 1999, according to American Management Association research, 70 percent of America's businesses had replaced regular full-time employees with temporary workers.[61]

Temps, by the mid 1990s, could be found doing almost any task that needed doing, from the menial to the mindful. Companies could, for instance, pick and choose from among eighty-five thousand temporary accountants. These calculating temps earned as much as 20 percent less than full-time accountants — and received few or no benefits to boot.[62]

Part-timers, like temps, also hardly ever qualified for any benefits. Simply by splitting full-time work into part-time halves, companies could virtually eliminate, not just halve, their benefit outlays.[63]

Part-timers and temporaries would together make up, at century's end, a big part of what some economists came to call the "contingent workforce," the universe of people who held "nonstandard" employment.[64] All told, in 1999, almost a quarter of all working Americans labored in the contingent workforce, nearly always at jobs that were less financially attractive than comparable full-time work.[65]

Many more workers labored in "full-time" jobs that bore scant resemblance to the full-time jobs from days of yore. These *faux* full-time positions proliferated, most noticeably, in America's fast-growing retailing sector, and nowhere more so than at America's fastest-growing retailer, the mighty empire known as Wal-Mart.

WE TEND, AS A NATION, NOT TO PAY MUCH attention to retail workers. A marginal group, we assume. Lots of teenagers. Stay-at-home moms looking for diversions. Some bored retirees, too. Just a bunch of people trying to make an extra buck or two.

Retail workers don't deserve this casual indifference. Retail workers may actually be, in twenty-first century America, our single most significant employee group. One worker in five, outside of government service, now works in retail. Teenagers? At one recent count, only 16 percent of retail workers were teens. Almost half, 44 percent, were at least 35.[66]

"In working-class and inner-city communities across the country," notes Annette Bernhardt, a University of Wisconsin analyst, "retail is in fact the main employer."[67]

And not a very good one. A half-century ago, retail employees worked regular full-time hours, the same forty-plus hours a week that factory workers averaged.[68] By the end of the 1990s, manufacturing jobs still offered, week in and week out, more than forty hours of wages. But retail workers could only count on just over thirty.[69] Retail jobs, increasingly, paid less, too. In 1973, retail workers earned three-quarters of the national average wage. In 1999, they earned just over two-thirds the national norm.[70]

Retail jobs didn't just "happen" to deteriorate. Corporate America made this slide inevitable, points out analyst Annette Bernhardt, by consciously adopting a high-tech, low-wage model for retail work, a model "defined, almost single-handedly, by one company."[71] Wal-Mart, that one company, started out in the early 1960s as an Arkansas five-and-dime. Forty years later, Wal-Mart stores would blanket the nation and employ over 1.2 million workers, more than any other private employer in the United States.[72] These workers, at the start of the twenty-first century, were helping Wal-Mart to about $7 billion a year in profits.[73]

The key to Wal-Mart's success? In business circles, Wal-Mart flacks continually trumpet their company's super-sophisticated inventory-management technology.[74] Wal-Mart's television ads, meanwhile, credit the company's good fortune to the chain's ever grinning employees, the men and women who keep Wal-Mart store shelves stocked and register lines moving. These Wal-Mart "sales associates," the company notes proudly, have plenty of reason to grin. Seven of ten, Wal-Mart boasts, work "full-time."[75] And these full-time workers qualify for a variety of benefits, even health insurance and 401(k)s.[76]

Is Wal-Mart single-handedly saving the middle class? Not exactly. Wal-Mart employees work "full-time" only because Wal-Mart defines full-time work as twenty-eight hours a week. This curious definition does carry some advantages — but only for Wal-Mart. If business is brisk at any particular retail outlet, Wal-Mart managers can have their "full-time" associates work more hours, without having to pay time-and-a-half for overtime.[77] Federal law mandates time-and-a-half for full-time workers asked to work overtime, but that mandate only kicks in above forty hours a week.

Still, doesn't Wal-Mart deserve plaudits for offering benefits to employees who work just twenty-eight hours a week? Many Wal-Mart workers might not think so. At Wal-Mart, new hires do not immediately qualify for Wal-Mart's health insurance. Huge numbers of veteran employees who do qualify simply can't afford it. That's because Wal-Mart expects workers to pay health insurance premiums, out of their own pockets, that equal about half Wal-Mart's total cost for providing health care benefits. Nationally, companies that offer health insurance recoup from employees only a quarter of the insurance cost.[78]

Early in 2002, Wal-Mart upped its employee health insurance payroll deduction rate still higher, by 30 percent.[79] With the increase, workers would have to shell out $2,600, over twelve months, for family coverage.[80] How could Wal-Mart workers averaging less than $11,000 a year for "full-time" work possibly afford such costly health insurance? Company officials had some helpful advice. They suggested that employees withdraw money from their 401(k)s to offset the hefty health insurance premium increase.

"We want to give our associates," a Wal-Mart spokesperson explained to the *Wall Street Journal*, "as much flexibility as we can."[81]

Workers who took the company's advice — and started emptying their 401(k)s to pay for health insurance — would have been taking quite a gamble with their futures. Wal-Mart has never offered a pension plan, and the employee stock ownership plan the company touts as a substitute hardly secures many golden years. Less than 2 percent of Wal-Mart associates, by the end of the 1990s, had amassed more than $50,000 worth of stock in their individual stock ownership account.[82]

Wal-Mart workers might not enjoy much retirement security, but they could at least, in the 1990s, count on a proper burial. Midway through the decade, Wal-Mart announced a special $5,000 death benefit for the company's loyal associates. A noble gesture? Not according to the *Houston Chronicle*. The real "benefits" from the deaths of Wal-Mart workers, the paper would later reveal, were going to Wal-Mart, not to worker families. Wal-Mart had secretly taken out life insurance policies, payable to the company, on well over a quarter million employees. These "dead-peasant" policies, as they're known inside insurance circles, awarded Wal-Mart $64,000 whenever any covered worker kicked the bucket. Amazingly, these secret policies didn't cost Wal-Mart much of anything. The company "borrowed money from the insurers to pay the premiums" on the policies, then wrote off the premiums on its tax returns as a business expense. The entire package, one lawyer explained to the *Houston Chronicle*, amounted to an "elaborate tax dodge."[83]

Actually, Wal-Mart had stumbled on to more than a tax dodge. The company had found a way to make even dead workers productive.

"I never dreamed that they could profit from my husband's death," the widow of one of those workers, Jane Sims, told the *Chronicle*.[84]

Sims ended up receiving not a penny of the $64,000 Wal-Mart collected after her husband's heart-attack.

The heirs of Wal-Mart founder Sam Walton, meanwhile, have fared a good bit better than the widow Jane Sims. Of the ten richest people in the world, on the *Forbes* magazine annual list published in 2002, five were Waltons. Sam Walton's sons Jim, John, and S. Robson, daughter Alice, and widow Helen together sat on a fortune worth a combined $103 billion.[85]

Jobs in modern America do pay after all, just not for the workers in them.

IN THE QUARTER CENTURY AFTER WORLD WAR II, a full-time job at General Motors — or any other major corporation in the United States — meant a passport to a better life. Over the course of the next quarter century, corporate America essentially revoked that passport. That revocation made some Americans, like the Waltons, billionaires. That same revocation left millions of other Americans deep in poverty.

Poverty in America used to be something that happened to people who didn't have jobs. That changed in the 1980s and 1990s. By century's end, the driving force behind poverty had been transformed, from unemployment to underpaid work.[86] In the 1980s and 1990s, corporate America turned low-wage jobs into low-wage careers, with immensely profitable corporate giants like Wal-Mart leading the way. Wal-Mart, as founder Sam Walton explained, always paid workers "as little as we could get by with at the time."[87]

"I was so obsessed with turning in a profit margin of 6 percent or higher that I ignored some of the basic needs of our people," Sam Walton would later write in his autobiography, "and I feel bad about it."[88]

Not bad enough to correct it. Wal-Mart's low-wages survived Sam Walton's 1992 death. At century's end, about half of Wal-Mart's workers could qualify for food stamps.[89] In 2002, a single mom with two kids could work all year at Wal-Mart, in a $7.50 an hour "full-time" job, and still come out $2,000 *under* the official poverty line.[90]

Corporate America's cheerleaders did their best, throughout the boom years, to ignore numbers like these. Ignore all that carping about "low" wages, they argued. Trickle-down really does work. America, they announced, is conquering poverty!

The official statistics partly supported the cheerleaders' claim. Poverty, as measured by the Census Bureau, did shrink in the 1990s. In 2000, only 11.3 percent of Americans lived in poverty, the lowest rate since 1973.[91] America didn't just have *fewer* poor people, the cheerleaders argued, America had the world's most fortunate poor people. Almost every poor family in the United States — 97 percent of them, to be exact — owned a color TV, the conservative Heritage Foundation noted in 1998. Two-thirds of poor families lived in air-conditioning. Seven of ten had their own cars.[92]

"Poverty, understood as the absence of food, clothing, and shelter," one top right-wing commentator, Dinesh D'Souza, argued near the boom's end, "is no longer a significant problem in America."[93]

America's poor, in other words, aren't really poor. Sure, America has the world's richest rich. But America's "poor" are rich, too. Their homes boast microwaves, VCRs, stereos, dishwashers, an array of consumer goods unimaginable to the vast bulk of the world's people. How could any poor people so rich, conservative commentators wondered, possibly be labeled poor?[94] If even the "poor" were so blessed, what more proof could be needed that inequality, in the end, benefits everybody, not just the wealthy?

Those who take this perspective seriously tend to see "poverty" as nothing more than a set of simple absolutes. A family with a roof over its head, food on the dinner table, and a television in the living room, the absolutists believe, cannot possibly be poor. But poverty, more careful analysts point out, cannot be reduced to a roof or a meal or a TV set. Poverty has always been — and will always be — a *relative* reality. If substantial numbers of the people around us own things we cannot afford to own, we will be poor, even if our families own goods that might be considered "luxuries" by families in other societies. If substantial numbers of the people around us can do things we cannot afford to do, we will be poor, even if our incomes would seem ample to families elsewhere.

Poor people are, at root, excluded people.[95] They lack the wherewithal, as one British observer puts it, "to do the things that society takes for granted."[96] What any particular society "takes for granted" will, of course, evolve and change over time. Back in 1980, for instance, American families didn't need a home computer to feel part of the society around them. Now computers help define contemporary American life. To be unable to afford one is to be excluded from the ebb and flow of the lives most Americans live.

Just how much income, in modern America, do families need to afford the basics that constitute what our society considers a decent life? We need to know the answer. People who can't afford the basics are poor. If we want to know whether *real* poverty in the United States is decreasing, we need to know how much people need to earn to be able to afford these basics. Unfortunately, the federal government's official poverty numbers, as maintained by the Census Bureau, don't help us much here.

The Census Bureau currently sets the poverty line at three times the income a family needs to afford a minimally adequate food budget.[97] If your income falls above this line, you are not officially poor. The federal government first applied this three-times rule to poverty back in 1963. At that time, the rule made sense. Various studies conducted in the early 1960s had demonstrated that average families spent a third of their incomes on food.[98] That's no longer the case. Food, at the start of the twenty-first century, only consumes one-seventh of an average family's basic expenses.[99]

The lives average families live have changed in all sorts of other ways, too. Many more women work now outside the home. Child care and other work-related expenses loom much larger in the typical family budget.[100] And housing costs currently eat up a much larger share of family income than they did in 1963.[101] The federal government's poverty calculations reflect none of these changes — and, as a result, these official calculations do not define as poor millions of Americans who cannot afford "to do the things that society takes for granted."[102]

Just how outdated have the federal government's official poverty guidelines become? Sharon Daly, a Catholic Charities official, put a flesh-and-blood face on the inadequacy of the federal poverty numbers when she testified before Congress in 2001. Daly related the story of a single mom with two young children who had come for emergency food assistance to a local Catholic Charities agency in Allentown, Pennsylvania. The mother, at the time, was working fifty hours a week, at $8.50 per hour. Under the standard federal poverty standard, Daly noted, this young mother was not "poor," not even close to poverty. Her $18,000 annual income put her more than $3,000 over the $14,630 poverty threshold for a family of three. But how much would this mother have had to earn to really meet her family's basic needs, without having to resort to a food bank and other charitable assistance? She would have needed to earn, Daly observed, at least $14.98 an hour, almost double the young woman's actual wage rate.[103]

Daly's $14.98 wage estimate came from one of the many research efforts conducted, over recent years, to calculate just how much income American families need to meet their basic needs.[104] Researchers involved in these efforts have developed, as alternatives to the official poverty line, "basic family budgets" for households of varying size in different parts of the country. In 2000, analysts from the Economic Policy Institute in Washington, D.C. reviewed nearly two dozen of these "basic family budgets."[105] Each of the budgets EPI studied defined the "basics" a little bit differently. Some included, for instance, school supplies and checking account fees. Others didn't. The budgets also covered different geographic areas. Given these differences, the bottom lines for these basic budgets, not surprisingly, varied widely. For a single parent with two kids, the monthly income required to live a minimally decent life ranged from $1,605 a month in Kentucky to $3,484.44 in the District of Columbia, in dollars inflation adjusted to 1996 levels.[106] Overall, according to the twenty-three studies, the annual income a three-person family required to live a minimally decent life averaged a bit over $29,500.[107]

How many of America's actual single-parent, two-kid families met this $29,500 standard in 1996? Not many. In that year, the median income for single-parent, two-child households stood at $16,389. The "official" poverty level that same year? Just $12,636 for a three-person family.[108] In other words, single-parent families with two kids in 1996 could have earned considerably more than twice the official poverty threshold and still not have earned enough to meet minimal levels of decency.

What about two-child families with two working parents? In 2000, Economic Policy Institute researchers created their own "basic needs budget" and keyed that budget to actual 1998 living costs, the latest figures then available, in Baltimore. The EPI researchers defined their "basics" conservatively. A two-parent, two-child family living on EPI's Baltimore "basic budget" would have no pets and no cable TV and take no vacations. The family would never go out to the movies or eat at a restaurant, not even for fast food. The family would rent a two-bedroom apartment but buy no renter's — or, for that matter, life — insurance. The family would never use a credit card or be able to save a dime for retirement, college, or emergencies.

In 1998, this basics-budget family would have needed to earn $34,732 to get by, over twice the official poverty threshold.[109] How difficult would reaching $34,732 have been in 1998? The adults in a two-parent, two-child Baltimore household could have worked, year round, at jobs that each paid $3 *above* the minimum wage and *still* not have made enough to reach the basics-budget threshold.

In 2001, researchers from Ms. Foundation for Women calculated an update on the basic cost of living for a two-parent, two-child family. Such a family, these researchers found, needed $36,835 in 2000 to be able to afford the minimal basics.[110] The adults in this family of four could have worked, year round, at jobs that paid *$3.50 above the minimum wage*, the Ms. Foundation researchers concluded, and still have not made enough to reach a minimum needs budget threshold.

In 1998, in other words, the parents in a family of four needed jobs that paid $3 an hour *over* the minimum wage to give their kids a minimally decent life. In 2000, these parents needed jobs that paid $3.50 an hour over the minimum wage to provide, at a minimal level, for their families.

At century's turn, after a generation of widening inequality, such was the progress that poor people were making.

"PEOPLE ARE REALLY HURTING," Philadelphia Mayor Ed Rendell noted early in 1999, at the height of the 1990s boom, "and no one's paying attention."[111]

The year before, the number of local families seeking housing from city shelters had jumped 17 percent. Requests for help from local food banks had leaped 22 percent.[112] Poverty in Philadelphia, official or otherwise, did not appear to be shrinking. The benefits from America's great boom years hardly seemed to be trickling down to those who needed them most.

The ideologues of inequality begged to differ. Over the course of the boom years, they trotted out one new argument after another to counter those, like Rendell, who dared suggest that trickle-down America wasn't working as advertised.

Factor in all the handouts poor people get from the government, went one standard counter, and poor families turn out to be doing just fine.[113] Households weren't getting poorer, other ideologues contended, just smaller. "If two people earning $20,000 each divorce," one of these ideologues explained, "the result is two households of $20,000 instead of one with $40,000."[114] And that hand-wringing about all those struggling families in the poorest fifth of households? Take those numbers about the bottom fifth of households with a grain of salt, advised the conservative Heritage Foundation. The poor families in the lowest-income fifth actually have fewer people in them than the richer families in any of the upper fifths.[115] Add up the actual numbers of people in each household quintile, the argument went, and you'll find many more Americans at the prospering top than the struggling bottom.[116]

Other trumpeters of America's economic triumph blasted the nation's inflation statistics. The consumer price index, one panel of conservative economists argued, has been "overstating inflation by at least a percentage point." Real wages, these economists insisted, were actually rising, not declining.[117]

In sum, people at the bottom were doing quite well, thank you, so well, in fact, that maybe America needed to become more unequal, not less. As a matter of fact, some economists were arguing by century's end, America's rich weren't prospering at the expense of the poor. America's poor were prospering at the expense of the rich!

Indeed, contended economists like Robert Rector of the Heritage Foundation, if you add up the taxes rich people pay, add into the mix the benefits that cascade down to the poor, and then adjust incomes for family size and hours worked, all those severe inequalities between household incomes at the top and bottom simply disappear, leaving the hard-working affluent with a "remarkably low" share of the nation's after-tax income.[118]

The arguments of Robert Rector-types would fill the nation's op-ed pages throughout the boom years and beyond.[119] Economists less bedazzled by the boom, from think tanks like the Economic Policy Institute and the Center for Budget and Policy Priorities, would labor valiantly to carry less ideologically loaded numbers to the public and policy makers.[120] They would eventually get some formidable help, from landmark independent research prepared by the nonpartisan Congressional Budget Office.[121] This CBO research, published initially in 2001 and updated in 2003, gave income data from the 1980s and the 1990s by far their closest scrutiny and, in the process, put to rest any and all claims that rising inequality had somehow left average and poor Americans significantly better off.

The CBO researchers defined income broadly. They included every significant category of income, from the obvious (wages and salaries, interest and dividends) to the often overlooked (retirement benefits and employer contributions to 401(k)s). They took into account categories of income that primarily benefit the affluent (capital gains and rental income) and categories that primarily benefit the middle class (employer-paid health insurance premiums). And they took special care to include all categories of income, both cash and in-kind, that primarily benefit the poor (Medicaid health insurance coverage, food stamps, school lunches, and housing and energy assistance). In sum, the CBO totaled all the resources that "low-income households have at their disposal," even the dollars they receive from the Earned Income Tax Credit, the fastest-growing source of aid for poor people in the 1990s.[122]

The researchers also adjusted incomes for differences in household size, recognizing that if two households have $20,000 in income, a one-person household with $20,000 will be better off than a four-person household with $20,000. On top of that, to guarantee that the income going to the bottom fifth of the population was not somehow understated, the CBO placed the same number of people, not the same number of households, into each of its analytic income fifths, a departure from normal Census Bureau practice.[123]

The CBO researchers, in effect, had all their statistical ducks in order. They were counting all the income Americans, rich and poor, receive. They were adjusting for changing demographics. They were comparing equally sized quintiles. And what did they find, after all these calculations? Had America's increasingly unequal economy significantly benefited poor and middle-class Americans? Not even close.

Average incomes for the poorest fifth of Americans, after adjusting for inflation and after taxes, rose only $52, or less than one tenth of 1 percent, per year between 1979 and 2000.[124] Average incomes in the middle fifth of households also rose by less than 1 percent a year, from $36,400 in 1979 to $41,900 in 2000.

Households in the top 1 percent, meanwhile, saw their after-tax incomes more than triple, from an inflation-adjusted $286,300 in 1979 to $862,700 in 2000.

The significance of the CBO numbers, the best statistical evidence available, could not be any clearer. *Some* Americans were benefiting appreciably from America's increasingly unequal economic order. But precious few of these *some* lived in average- or low-income households.

CORPORATE AMERICA'S CHEERLEADERS, try as they might, have not been able to get the nation's income data to cooperate. They have sliced the data. They have diced the data. But the data have still not offered up the numbers the cheerleaders so desperately covet, the evidence, the proof, that all Americans do better whenever rich people get richer.

Some cheerleaders, in response, have essentially given up searching for evidence. Instead, they scapegoat. The United States, they argue, does not have growing inequality. The United States has growing immigration. Immigrants, the scapegoaters contend, are making America's economy look bad.

"I would challenge anybody to find a middle-class family in this region whose economic condition has declined," Stephen Kagann, the chief economist to New York Governor George Pataki, huffed after news reports in 2001 revealed that typical New York family incomes had dropped $2,876 over the course of the 1990s. "Nobody's real income goes down during periods of prosperity."[125]

So how could Kagann account for his state's declining median family incomes? Middle-class people had moved out of New York in the early 1990s, Kagann asserted, and immigrants, making less, had moved in.

"That by itself would bring the median down," Kagann told the *New York Times*. "But that does not mean that a middle-class person is less well-off than they were in 1990. That would simply be untrue."[126]

Kagann's protestations echoed themes that other economists had been circulating for several years.

America's "ever-higher immigration rates" are contributing mightily to the nation's "increasing income disparity," W. Michael Cox, the chief economist at the Federal Reserve Bank of Dallas, and Richard Alm, his frequent co-author, had asserted in an analysis published in 2000. Immigrants, Cox and Alm noted, constitute a significant presence in each of the nation's seven most unequal states. These unequal states — New York, Arizona, New Mexico, Louisiana, California, Rhode Island and Texas — average about 13 percent foreign-born. In the nation's seven least unequal states, immigrants average only 3.8 percent of the population.[127]

If you adjust America's wage data to account for immigration, chimed in American University economist Robert Lerman, you find that the nation's wage-earners did just peachy in the 1980s and 1990s. Without adjusting for immigration, Lerman maintained, the real wages of workers in the United States show a 1 percent drop from 1979 to 1999. After adjusting for immigration — by including the 1979 home-country incomes of immigrants who worked in the United States in 1999 — real wages show a 6 percent increase.[128]

Poor immigrants, in short, make the United States *look* poor. But both immigrants and the United States overall, the cheerleaders argue, are actually doing quite well economically.

"Let us say someone earning $2,000 per year in Guatemala in 1980 immigrates to the U.S.," *Forbes* magazine conjectured in 1999. "If this person ends up in a U.S. job that pays $10,000 per year, he would certainly be richer. However, since $10,000 is in the poverty range for the U.S., the number would show up in U.S. statistics as both an increase in the poverty rate and earnings inequality."[129]

The message to economists who worried about poverty and inequality: Wise up, the country's fine.

"If economists could concentrate more on simply doing economics better," *Forbes* concluded, "we could all relax and simply enjoy the fruits of the market economy."[130]

In the 1980s and 1990s, of course, those market economy fruits were most likely picked by low-wage immigrant workers. By the end of the 1990s, about 30 million foreign-born individuals lived in the United States, with over a million more arriving each year.[131]

These immigrants did little relaxing. They worked, nearly every available hour they could. In Maryland's Montgomery County, just outside the nation's capital, one immigrant from Latin America told an interviewer he was working "part-time." How many hours a week, the interviewer wanted to know, was the immigrant working?

"About sixty," came the reply

Sixty? How could you be "part-time," the confused interviewer asked, and be working sixty hours a week? The worker couldn't understand the confusion. He considered himself a part-time worker. After all, he was still looking for more work.[132]

A continent away, in California, millions of immigrant workers assembled computer chips, built houses, and served meals for wages so low that few could afford, on their own, a roof over their heads. In booming San Jose, immigrants lived as many as twenty-six men to a house.[133]

Were these low-wage immigrants, just by their presence, making the United States appear more unequal than the nation really was? Corporate America's cheerleaders certainly nurtured that claim. More perceptive observers disagreed. What was making America appear — and be — more unequal, they explained, was not the presence of immigrants, but their exploitation. America's low-wage immigrants, these observers noted, were creating wealth — and not getting much of it back.

This exploitation of immigrant labor gives the United States a distinct competitive advantage, as even some conservative analysts acknowledge.

"It's a form of reverse foreign aid," notes the Cato Institute's Stephen Moore. "We give less than $20 billion in direct aid to Third World nations and we get back $30 billion a year in capital assets."[134]

These "assets," explains journalist Greg Palast, are immigrants, "workers raised, fed, inoculated and educated by poorer countries, then shipped at the beginning of their productive lives" to the United States, where they add enormous value to corporate America's bottom line.[135] At little cost. Unskilled immigrant workers, particularly those without proper papers, can be worked hard and paid little. Workers inside the United States illegally, after all, can hardly stand up and object to ill-treatment. They might as well write up their own deportation orders.

Skilled immigrant labor may be, for corporate America, an even better deal. By 1997, skilled immigrants made up 21 percent of the computer scientists in the United States and 21 percent of the nation's chemical engineers.[136] These immigrant professionals arrived in the United States already thoroughly trained — on someone else's dime.

"The habit of siphoning off other countries' high-skilled workers," Palast observes, "permits America's monied classes to shirk the costly burden of educating America's own underclass."[137]

Corporate America has, in effect, created a system that works with a perverse brilliance.

"Bangalore-born programmers in Silicon Valley," Palast notes, "design numberless cash registers for fast-food restaurants so they can be operated by illiterate Texans."[138]

Not exactly the American dream.

OUR REAL AMERICAN DREAM, of course, revolves much more around homeownership than any particular job. What matters most, Americans agree, is having a home to call your own, a place to raise a family — and build equity for the future. In the booming 1990s, almost everybody in the United States, except perhaps illiterate Texans, seemed to be able to realize this homeownership dream. Homeownership rates set records throughout the decade, to the delight of America's economic pom-pom squads. Weren't these rates undeniable proof, they argued, that wealth at the top was indeed trickling down? Average Americans must be getting wealthier. How else could they afford to buy so many homes of their own?

How else? Simple. In the 1990s, America's real estate industry changed the homeownership rules.

Mortgage lenders in the United States, up until the 1990s, had always insisted that first-time homebuyers must come up with a substantial downpayment before any home loan would be advanced. Saving enough to afford a downpayment, in the years after World War II, became a rite of passage for

American families. Not every young family, to be sure, made enough to meet the real estate industry's stiff downpayment requirements, but enough could, in America's postwar decades, to keep the lending pump primed.

By the mid 1990s, the lending world had changed. After a generation of falling real wages, few young families were now making enough to prime the mortgage pump. Most families starting out could not come close to affording, no matter how hard they scrimped and saved, the substantial downpayments that lenders had traditionally insisted upon.

What did the lenders do? They stopped insisting. Can't afford 15 percent down? How about 5 percent?

In 1989, about 93 percent of mortgages required downpayments that ran *above* 10 percent of the purchase price. Ten years later, over 50 percent of mortgages went to families that put down, as their downpayment, *less* than 10 percent.[139] The typical downpayment, about 15 percent in the mid 1980s, slid to 5 percent in the late 1990s.[140] Many young couples couldn't even afford that. Lenders, ever considerate, ratcheted down the required downpayment still another notch, to 3 percent. Early in the new century, Fannie Mae, the giant mortgage investor, made the predictable final leap. To its standard loan product line, Fannie Mae added a "zero down" mortgage.[141]

These shrinking downpayment requirements meant that more young working families could "afford" to buy their own homes. But lower downpayments also meant that young working families, once they had mortgage in hand, would face crushingly high monthly payments. "A zero-down mortgage," as one consumer reporter warned prospective homebuyers, "is going to cost you more in payments every month, not just in higher principal and interest charges, but in mortgage-insurance fees as well."[142]

Younger families had no choice. They took whatever mortgages they could get. They gained, in exchange, a financial burden they could not sustain.

A prudent family, Fannie Mae had once traditionally suggested, ought not spend more than 25 to 28 percent of its gross income on housing. By the end of the 1990s, more and more families found themselves routinely outspending that standard, spending so much on housing, scholars from the University of Texas and Harvard reported, that they were "placing their financial security in jeopardy."[143] By century's end, according to the 2000 Census, nearly a third of American homeowners — 31.2 percent — were paying more than a quarter of their incomes on housing.[144]

These homeowners, to make matters worse, were gaining less economic security for their housing investment dollars. Homeownership, in years past, had always carried families up the economic ladder.[145] A family might start out with an $85,000 mortgage on a $100,000 home. A decade later, that family might still owe $50,000 on the mortgage, but the value of the home might have appreciated to $150,000. The fortunate family now held $100,000 in home "equity," and this equity, as the family continued to pay down the mortgage, would only swell higher, giving the family a long leg up on lifetime financial security. By the end of the 1990s, home ownership no longer delivered this automatic security. Homes were still appreciating in value, but average families were no longer building significant equity. Families under age 45, concluded a study by Freddie Mac, the nation's top housing finance enterprise, held 14 percent less equity in their homes in 1999 than families under 45 had held a decade earlier.[146]

"Despite a booming economy," observed Stephen Brobeck, the executive director of the Consumer Federation, the sponsor of the Freddie Mac study, "many middle-class families have built no wealth."[147]

Why wasn't home ownership helping families build wealth?

In the 1990s, more and more families simply couldn't afford to sit back and let their homes "build wealth." With incomes stagnating, families needed more cash to pay their bills. They took that cash from their homes — by "leveraging up," borrowing against their home value via home-equity loans and lines of credit. In 1981, only 4 percent of outstanding home mortgage debt came from second mortgages. By 1991 — after the introduction and proliferation of home-equity loans and lines of credit — the second mortgage share of total mortgage debt had tripled.[148]

Overall, between 1983 and 1998, mortgage debt nearly doubled, from 21 percent of the value of homeowner property to 37 percent.[149] By the turn of the century, warned the Consumer Federation's Stephen Brobeck, far too many homeowners were "standing on the edge." They might be able to make their payments, he explained, "but if anything goes wrong — job loss, illness, divorce — they could end up in bankruptcy and possibly lose their house."[150]

Many did. Between the early 1980s and the end of the 1990s, the number of homeowning Americans in bankruptcy proceedings more than quadrupled.[151]

EVERY THREE YEARS, THE FEDERAL RESERVE conducts in-depth survey research on the financial well-being of American consumers. In early 2000, Fed officials released the data from their 1998 survey research. The average American family's consumer debt, the Fed reported, had increased by almost $10,000 in just three years.[152]

In Washington, Congress and the White House took these new debt numbers in stride. Home equity down? Consumer debt up? No need, our movers and shakers believed, to fret. Average Americans, despite shrinking home equity, were still building brighter financial futures anyway — in the stock market.

Over the course of the 1980s and 1990s, the years of Wall Street's greatest bull market ever, a number of average Americans did indeed parlay stocks into brighter financial futures for their families, just as some average Americans, over those same years, parlayed some good fortune at casino blackjack tables into brighter financial futures. But most Americans, the vast majority of Americans, saw no appreciable gains from the great bull market that opened on Friday, August 13, 1982 and ran into 2000. Many American families may have owned stock by century's end, but few families owned much.[153] Among America's middle-income families, 52.1 percent owned shares of stock in 2001. This 52.1 percent's most typical families held just $15,000 worth of shares.[154]

The real rewards from stock market wheeling and dealing had gone, by century's end, to a narrow band of affluent households, as IRS data released in 2001 showed plainly. In 1997, the latest year with full stats then available, Americans who made at least $1 million — about one-tenth of 1 percent of the nation's taxpayers — made more money buying and selling stock than all other Americans combined. Overall, Americans made over 61 million stock market transactions in 1997, according to the IRS. All this buying and selling generated net gains of $136.4 billion. Over half this enormous trading profit, 54 percent, went to households that reported incomes of at least $1 million.[155]

In that same year, families that earned under $100,000 made up 89 percent of the taxpaying public. These under-$100,000 households received just 11 percent of all gains from the year's stock market trading.[156]

And whose fault was that? Why average Americans, of course, at least according to Wall Street. American families, Wall Streeters lamented right before the stock market bubble started bursting in 2000, were making a big mistake. They were not rushing fast enough into the market. Newspaper, television, and radio analysts urged those Americans not yet "in the market" to get with it. They detailed, with example after example, the dollars flowing to those brave enough to take the market plunge. A "stone-broke" family in mid 1989, as commentator Scott Burns pointed out, could have amassed a $28,000 nest egg, in just nine years, simply by investing $100 a month in common stocks.[157]

"At least half the families in America," Burns concluded, have "missed the easiest ticket to wealth in two generations."[158]

But lamentations like these did some missing of their own. They missed the one inconvenient reality — the absence of spare cash — that the great majority of American families could never forget. Most families not yet "in the market" couldn't afford to be "in the market." They couldn't afford to set aside $100 a month in stocks. They had nothing close to the initial stake necessary to make real money in stocks.

"If you had put $10,000 in the stock market in 1983, you could have more than $110,000 today," as journalist Holly Sklar noted in 1999. "Unfortunately, most Americans didn't have the $10,000 to invest then, and they don't have it today."[159]

And those struggling Americans who did their best to raise that $10,000, those who, by the late 1990s, finally did have a significant stake to invest, these struggling Americans, as things turned out, would have been better off keeping their money in a bank savings account. *Money* magazine, in 2002, looked back upon Wall Street's previous four years, and tried to calculate just how well average Americans had actually fared with their stock market investments. Not too well at all, *Money* concluded. Average mutual fund investors, for the four years, had earned just 1 percent a year on their investments.[160]

Main Street, corporate cheerleaders enthused in the 1990s, was going Wall Street. Wall Street, unfortunately, turned out to be a dead-end.

IN THE 1990S, MOST AMERICANS did not make a killing in the stock market. So what *did* most Americans get out of the boom years?

Not much.

In 2001, typical families in the poorest quarter of American families earned $19,700 in income. These families had all of $1,100 to their names, after subtracting everything they owed from everything they owned. This $1,100, their "net worth," amounted to an increase of just $500 over what typical families in America's poorest quarter were worth in 1992, after adjusting for inflation, according to Federal Reserve Board data.[161]

Typical families in the second quarter of America's wealth distribution, that quarter just below the national average, took home $34,900 in 2001. These families ended that year worth $40,800, a per family increase of $11,800 over 1992. Should we be impressed by this $11,800 increase? If these families had been able to put their 1992 net worths in a savings account paying a little over 4 percent annual interest, they would have ended up 2001 wealthier than they actually did.

Typical families in the next quarter up, the quarter just above the national average, earned $50,900 in 2001. These families averaged $156,100 in net worth that year, a $47,700 increase over 1992. But much of that increase came from the appreciation of homes and other assets these families already owned. Between 1998 and 2001, typical families in this third quarter actually lost money with their stock market investments.[162]

For average Americans, the national data make plain, the boom years brought no miraculous gains.

But maybe we have this all wrong.

Inequality, we have argued, has not delivered for average Americans. These Americans had been promised that great days would surely multiply if the nation only did more to help rich people become richer. With more dollars in rich people's pockets, the promise went, the economy would expand, prosperity would settle down upon the land, and average Americans would end up, if not rich themselves, significantly better off than they had ever been before.

Some of this promised sequence did, in fact, unfold. The economy did indeed expand, throughout the 1980s and 1990s, as the rich became richer. But that expansion left most average Americans, the national stats make abundantly clear, only marginally better off.

But why should our focus be *national*? Wealth in the boom years, after all, did not concentrate uniformly all across the nation. Great fortunes accumulated much more rapidly in some parts of the United States than others. If we want to explore whether helping rich people become richer does indeed benefit average people, don't we need to focus our attention on those areas of the country where rich people became the richest?

After all, if the ideologues on inequality are correct, if growing the fortunes of rich people does indeed grow good times for everybody, then those places where great fortunes are growing the fastest ought to be the places where average people are prospering the most exuberantly.

Fair enough. Let's look beyond the *national* numbers. Let's zero in on those places where rich people have accumulated wealth most impressively. In these places, according to greed economics, we should find average families thriving, not just surviving.

And where exactly should we look to find all these happy campers? We have an obvious choice. Throughout the 1980s and 1990s, one state consistently grew more fortunes than any other. This one state became, in the process, more thoroughly unequal than any other — became, by century's end, a virtual heaven on earth for the wealthy.

And average people? How did they fare, economically, in this inequality heaven? How did they fare, in California?

OVER THE LAST QUARTER OF THE TWENTIETH CENTURY, American computers and American entertainment thoroughly dominated global markets. Those computers and that entertainment came, overwhelmingly, from California, the nation's most populous state. Out of Southern California came television, movies, and music. Out of Northern California came the computers and semiconductors that, midway through the 1990s, accounted for nearly half of America's industrial growth.[163] By 1997, the seven thousand or so electronics and software companies around Silicon Valley — the corridor south of San Francisco — were valued at nearly half a trillion dollars.[164] Never before, proclaimed the Valley's biggest boosters, had so much wealth been created in such a short time.[165]

"You've got the biggest wealth creation machine," exclaimed one Menlo Park investment expert, "man has ever seen."[166]

And all this wealth filled Santa Clara County, Silicon Valley's hometown jurisdiction, with more rich people in one place than America had ever seen. In 1996 alone, the county "minted" sixty-two new millionaires every day.[167] In 1999, some sixty-five thousand county households, about 11 percent of the Santa Clara total, were worth more than $1 million, without even having to count the value of their homes.[168] At least thirteen local households, that same year, could claim billionaire status.[169]

Statewide, incomes for the wealthiest Californians soared in the years before century's end. Between 1993 and 1997, after taking inflation into account, the state's richest 1 percent saw their incomes, on average, leap over 57 percent, from $537,168 to $844,991. The taxpayers in this lofty 1 percent, a California

Budget Project report noted in 2000, were reporting more income than the entire bottom 60 percent of state taxpayers.[170]

In no other state, outside California, would wealthy people be doing so well.

That should have been good news for California's average-income people, according to trickle-down economic doctrine. Average Californians ought to have been following rich Californians straight up the economic ladder. They weren't. In the 1990s, the incomes of average four-person families in California actually lost purchasing power, $1,069 in all, after adjusting for inflation.[171] Between 1989 and 1999, the number of Californians living in *official* poverty increased, from 24 to nearly 29 percent.[172]

Over the longer timeframe, taking into account both the 1980s and the 1990s, the same trend line appeared. The more affluent Californians, those in the top fifth of the state's families, saw their incomes rise, after inflation, 49 percent between the end of the 1970s and the end of the 1990s. The middle fifth of California families, meanwhile, saw their incomes drop 3 percent — $1,538 in purchasing power — over the same period.[173]

By century's end, fewer, not more, average Californians could afford the basics of middle-class life.

"Seven million Californians have no medical insurance — not just the greatest number but the highest percentage of medically uninsured of any state," Harold Meyerson, a veteran political observer, pointed out in 2000. In Los Angeles, he added, "an entire city council district — that's a quarter-million people — could comprise Angelenos who live, all quite illegally, in family-home garages."[174]

Further north, in booming Silicon Valley, life certainly appeared more pleasant, at least by conventional measures. Jobs abounded in Santa Clara County, and these jobs paid an amazing $18,000 more, on average, than jobs nationally.[175] Overall, about a third of Santa Clara households made between $75,000 and $150,000, more than double the national norm.[176] Silicon Valley "seemed to have it all." The area, by century's end, ranked first nationally for annual spending on home furnishings, third nationally on travel expenditures, and fifth nationally in dining out. But most Santa Clarans, even those with incomes that doubled the national average, did not share in this good life. Silicon Valley, the San Jose *Mercury News* would report in 1999, "is becoming a place where only the top tier can live comfortably."[177]

The Silicon Valley squeeze started with the most basic of middle-class basics, housing. Nationally, in 1998, the cost of a typical American home ran about three times the income of a typical American family. In Santa Clara County, the median home price — $364,740 in 1998 — more than quintupled the local median income. Fewer than 30 percent of Santa Clara households could afford to buy a typical county home.[178] And those who could didn't get much home for their money. One tiny ranchette in West San Jose, an undistinguished property with a small dirt backyard and no central air, listed for $508,000 and sold for over $650,000 after the owners received thirty-seven offers.[179]

Journalist Karen Breslau, a writer for *Newsweek* and *Wired*, considered herself thoroughly middle class, until she moved to Silicon Valley in 1998.

"In Silicon Valley, I am a have-not," she would write a year and a half later. "It seems no amount of saving, of macaroni-and-cheese eating, of settling for vinyl instead of Italian tile can put me within a comma and three zeros of owning a house here. My friends suffer from the same shelter psychosis, that pervasive distress experienced by upper-middle-class migrants who on the cusp of middle age suddenly find themselves unable to afford even the cheesiest 'starter home.'"[180]

Silicon Valley rents did their share of squeezing, too. If you worked as a pharmacy technician, a tax preparer, a dietitian, an elementary school teacher, or an insurance underwriter, the San Jose *Mercury News* pointed out in 1999, you couldn't afford the rent on an average Santa Clara County two-bedroom apartment. If you labored as a local department store sales clerk, the paper added, you "would have to work more than 112 hours per week, every week" to afford a decent apartment.[181]

By the late 1990s, runaway housing costs had helped turn Silicon Valley into the nation's most expensive place to live.[182] That cost of living — 37 percent higher than the national average — shoved most local families onto a treadmill that never seemed to stop.

"I always thought that making over $100,000 meant that you wouldn't have to worry about anything," noted one area resident, Randy Wigginton, a thirty-nine-year-old San Jose software consultant with two kids. "I thought you'd light cigars with $100 bills. I found out it allows you to go to the grocery store."[183]

How did Silicon Valley families keep up? By going into the red. By 1998, Santa Clara County ranked number one nationally in average household debt.[184] Nearly 90 percent of county families owed money, above and beyond whatever mortgage debt they may have carried. Their average debt load: $12,237.[185]

In Silicon Valley, at the turn of the century, you either left the area or did whatever you had to do to keep from falling off the treadmill. One evening in 2000, long after midnight, a *New York Times* reporter found herself among a dozen locals riding Santa Clara County's No. 22 bus. The passengers, mostly workers with full-time jobs, rode that bus all evening long, just as they rode it every evening. They would nap along the way, waking up every two hours, when the bus had to be emptied between roundtrips. For someone trying to make ends meet in Silicon Valley, the "rent" on the No. 22 couldn't be beat. Only $3 for a ticket good all day — and night.[186]

THROUGHOUT THE 1980S AND 1990S, inside California and outside California, average Americans did their worst where rich people did their best.[187] In those places where magnificent fortunes took root for a few, frustrations took their toll on the many.

Places like Fairfax County, the pricey Virginia suburb outside Washington, D.C.

In the 1990s, no county in the entire United States boomed any better than Fairfax County, home to hundreds of high-tech fortunes in telecom and cyberspace. By 2000, the county median household income had topped $90,000.[188] In Fairfax County's trendy malls, shoppers could find $2,800 wine racks and $12,000 ovens.[189] The proud parents at one local high school, to send the Class of 2000 off in style, threw a $60,000, all-night graduation party. They handed out, as door prizes, televisions and stereos.[190]

Nearly a million people lived amid this gilded Fairfax County prosperity. But only a fortunate few shared in it. Lisa and Steve Pagliocchini and their two young children were not among them. Lisa and Steve together earned $90,000, well over the national average. But Lisa and Steve didn't feel above average. In Fairfax County, they felt trapped.

"I'm at war with myself half the time," Lisa told a local reporter in 2001. "There are times when I would love to be a home mom, but we can't afford it. It would be tight, very tight."[191]

Life would be tight even *with* Lisa working. She and Steve drove a "well-worn minivan" and an "aging Chevy Blazer." They scoured "discount stores for bargain detergent and consignment shops for $1.50 jeans." They rose before dawn to get their daughter to a free preschool. Still, they found themselves considerably better off than most young Fairfax County families. Thanks to an inheritance, Steve and Lisa had manageable mortgage payments, only $1,280 a month. That left them enough extra cash to add a deck to their home and drive into the mountains for hiking vacations.[192] But Steve and Lisa, even with that inheritance, didn't live a middle class life nearly as comfortable as the life that Lisa's parents had enjoyed.

Lisa's folks had raised their family only a few blocks from where Lisa was now raising hers — in a bigger house. Lisa's dad, a federal employee, had been able to buy and pay off that house on just his salary alone. Lisa's parents didn't seem to need a second income. They "always took nice vacations" anyway, "traveling throughout North America."

Lisa could not provide those sorts of experiences for her children. She ended the boom years wondering what she and Steve had done wrong. They hadn't been "wild spenders." They had worked hard. So why was middle-class life in Fairfax County so much sweeter for her parents? How could her parents, on one public employee salary, afford a lifestyle that Lisa and her family, on two full-time salaries, couldn't come close to matching?

LISA PAGLIOCCHINI IN THE 1990S and her parents in the 1960s raised families in decades that were, on one level, amazingly alike. Both decades saw record-breaking economic expansions. The 1960s boom started in February 1961 and didn't end until over a hundred months later, in December 1969.[193] The American economy had never before expanded for so many consecutive months. This 1960s record would not be broken for a generation, not until the boom of the 1990s opened in March 1991 and marched along, triumphantly, for ten full years.

Two decades, two booms. In both decades, gross domestic product soared. In both decades, jobless levels sank. But the two decades would not be identical. In only one of them — the 1960s — would average Americans prosper.

Lisa Pagliocchini's parents, in the 1960s, lived through a middle-income golden age. The median family income in this golden age, the income earned by the typical American family, zoomed 39.7 percent over the course of the decade, *after* taking inflation into account.[194] In the 1990s boom, by contrast, American median family income inched ahead, after inflation, just 3.9 percent.[195]

In the 1960s, wages and salaries rose substantially across the occupational landscape. In the 1990s, jobs that used to help people climb up the economic ladder didn't even pay enough to outpace increases in the cost of living. Teachers, airline pilots, and clergy all lost ground in the 1990s. Over the course of the decade, overall, about one fifth of America's most common occupations "saw wages decline after adjusting for inflation."[196] Most other occupations barely held their own. Real-estate brokers, registered nurses, and construction workers saw pay hikes that amounted, after inflation, to less than 1 percent a year.[197]

In the 1960s, poor people did just as well as their middle-income neighbors. The official poverty rate, 21.9 percent in 1961, dropped more than 40 percent over the next seven years, to 12.8 percent.[198] The 1990s boom gave poor people no such hefty helping hand. The official poverty rate dropped only marginally in the 1990s, from over 13 percent at the start of the decade to a bit under 12 percent in 2000.[199]

Throughout the 1960s, in other words, average Americans raced ahead economically. In the 1990s, average Americans made no significant progress whatsoever.

How could that be? How could average people benefit so substantially from 1960s prosperity and benefit so meagerly from the prosperous 1990s? Distribution, in the end, would make the difference. In the 1960s, most all the new wealth created would be shared across the economic spectrum. In the 1990s, by contrast, the benefits from the booming economy would not be shared. The goodies from the good times would concentrate, overwhelmingly, in the pockets of people at the top.

The 1960s and the 1990s actually help tell a broader story. Each decade climaxed an era.

The first of these eras began right after World War II and lasted into the early 1970s. Throughout this quarter century, the gains from America's growing economy swelled the wallets and pocketbooks of low- and middle-income Americans.

Between 1947 and 1973, a family at what researchers call the twentieth percentile — that is, a family at the top of the poorest fifth of American families

— saw its income just about double, from $10,270 to $20,214, in dollars inflation-adjusted to 1996 levels.[200]

During these years, America's lowest-income families, the bottom fifth of income-earners, increased their total share of America's national income by 10 percent.[201]

Middle-income Americans, in this first quarter century after World War II, would do even better. Families at the fortieth percentile — the bottom of the middle class — saw their incomes *more* than double, from $16,572 to $33,355. So did families at the sixtieth percentile, the top of the middle class. Their incomes leaped from $22,472 to $46,538.[202]

And wealthy families? Between 1947 and 1973, affluent family incomes rose, too, but not as rapidly as did the incomes of poor and middle-class families. By 1973, the total share of the nation's income pulled in by wealthy people had actually fallen. In that year, the most affluent 5 percent of American families took in 11 percent less of the nation's income than they did in 1947.[203]

The 1990s climaxed a substantially different era. In this second era, the years from the mid 1970s through the end of the century, the gains generated by America's growing economy did not enrich Americans up and down the economic spectrum. These gains concentrated — at the top. Over the first half of this second era, between 1977 and 1990, nearly 80 percent of all the nation's income gains, according to one estimate, "fell into the pockets of the top 1 percent of families."[204] America's richest 1 percent received 62 percent of all new wealth created between 1983 and 1989 and an even greater share, 68 percent, of the wealth created between 1989 and 1992.[205]

"If these trends continue," NYU economist Edward Wolff predicted midway through the 1990s, "the super rich will pull ahead of other Americans at an even faster pace in the 1990s than they did in the 1980s."[206]

The super rich would essentially do just that. Between 1992 and 2001, the households in America's richest 1 percent increased their share of the nation's income by 71 percent.[207] In 2001, the Census Bureau would report, the share of the nation's income going to the poorest fifth of Americans and the middle fifth of Americans dropped to the lowest levels ever recorded.[208]

So what happened to Lisa Pagliocchini's shot at the American dream? In the prosperous 1990s, why couldn't she and her husband, with two incomes, bring their family the same middle-class comforts that Lisa's parents, with just one income, had been able to bring theirs? The two families simply lived in different times. In the era Lisa's parents enjoyed, the era climaxed by the 1960s, average Americans shared in their nation's prosperity. In the era that saw Lisa start her family, gains concentrated at the top. That considerable share of the nation's prosperity that went to Lisa's parents in the 1960s — and millions of middle-income people like them —went, in the 1990s, to Lisa's bosses.

In 1968, the best-paid boss in the entire United States, General Motors chief executive James Roche, made 142 times the pay of America's average worker. Thirty years later, America's best-paid boss, Disney CEO Michael

Eisner, took home twenty-five thousand times more than the average American worker.[209]

The corporate executives who employed Lisa's generation, the financiers who bankrolled these executives, the corporate raiders who played footsie with the financiers — all these movers and shakers captured, as the last quarter of the twentieth century unfolded, an ever greater share of the wealth that working Americans created. They turned the middle-class golden age of the 1960s into a 1990s gilded age that only the affluent could truly enjoy.

Average Americans, back in the 1960s, would never have imagined that this sort of turnaround could ever take place, not in the United States of America. In their America, the fruits of prosperity seemed to be more widely shared each and every year. The days when elites could hoard America's rewards, they believed, had passed and could never return, not in a society as democratic, as just, as sensible as theirs. Only depraved civilizations let great wealth concentrate at the top.

Even Mr. Spock said so. In 1969, in one of the last original *Star Trek* episodes, America's most popular pop philosopher calmly explained why life on the planet Ardana was most certainly headed down the wrong path. On Ardana, *Star Trek* viewers had learned, rulers lived amid luxury in a cloud city while miners toiled in wretchedness below.

"This troubled planet is a place of the most violent contrasts," Mr. Spock noted. "Those that receive the rewards are totally separate from those who shoulder the burdens. It is not a wise leadership."[210]

Millions of 1969 viewers no doubt gave Mr. Spock's analysis a knowing nod. Rewards, they agreed, ought to be shared. Nothing good could come from any society where they weren't. So assumed average Americans in the 1960s. They were right.