Chapter 3:
What Contributed to the “Best of Times” in the Shared Prosperity Era and “Worst of Times” in the Growing Inequality Era?

The United States was one of the few developed countries to escape the level of destruction in World War II inflicted on European countries and countries impacted by war in Asia and the Pacific. The nation’s industries and infrastructure were not damaged and destroyed by shelling and bombing raids; the nation’s housing stock had not been obliterated in bombing campaigns; and providing the supplies and materiel for our military and our allies stimulated economic growth and produced full employment in the wake of a back-breaking decade-long depression. The unemployment rate reached a high of 24.9% in 1933 but had fallen to 1.9% by 1943. With men away at war, women entered the labor force, many doing what were thought to be a man’s job.

At war’s end the U.S. was the world’s economic and political powerhouse. With demobilization of the armed forces and pent-up demand following the Great Depression and war years, the challenge to the economy was to convert from one at war to one at peace and focus on civilian life. “American exceptionalism” was displayed in the Marshall Plan in which the U.S. provided aid to devastated European countries in their rebuilding efforts. When I lived in Europe and in my many visits, I engaged in conversations with men and women my age or older, who on behalf of themselves or their parents, thanked me as an American for the Marshall Plan aid which served as the seed corn needed for reviving their economies and rebuilding their lives after the war and Great Depression.

This display of American generosity is not diminished by a second reason our leaders supported the Marshall Plan. They feared a financially broke Europe at the end of the war and devoid of the necessary capital for rebuilding might continue to suffer and drift politically toward socialism or communism. The fear was, if these countries did not recover, they could become fertile ground for undemocratic regimes, might declare neutrality in the cold war and perhaps even worse align with the Soviet Union. This is a history our current president blithely dismisses.

The U.S. had assisted in the liberation of Europe and countries in the Pacific and was the undisputed world superpower. Peace and prosperity were on the march, nowhere faster than in the U.S. It was clear the sun was setting on the European colonial powers and it was only a matter of time before former colonies gained independence. Fifty-five former colonies gained their independence from 1945-1965.

The Best of Times, the Worst of Times

Post-war economic growth launched the U.S. on a shared prosperity path perhaps unmatched in the nation’s history. As Figure 3.1 reveals this period saw household incomes for all income groups in the U.S. increase significantly, the economy was delivering the private and public goods, figuratively and literally, to all Americans. The green bars on the graph show that
all income groups experienced impressive average annual income gains. All boats—row, canoe, dinghy, sail, small motor, cabin cruiser, yacht and luxury liner—were rising with the favorable economic tide. Thirty-five years into this Shared Prosperity Era around 1980 something happened and a Santa Clause economy guided by a form of democratic capitalism which had been delivering benefits to all income groups turned into an Ebenezer Scrooge economy guided by a modern-day form of feudal capitalism resulting in forty years of the Growing Inequality Era which has infected the economy and is threatening our democracy. The red bars on the graph reveal only the Top 1% had average annual income gains matching the earlier era. The other five income groups experienced the puniest of gains in average annual income when compared with the gains they enjoyed in the Shared Prosperity Era. It is somewhat ironic just about the time President Reagan assured the nation all boats would rise with the tide at a time when all boats were no longer rising with the economic tide and occupants of smaller boats were and still are being left in the backwash of the large yachts and luxury liners. Did Reaganomics play a role in this sea change?

Figure 3.2 reveals workers and families began to struggle in the Growing Inequality Era as the growth in wages begins to fall well below the growth in labor productivity. Growth in wages had been tracking with growth in labor productivity until 1973 when a gap develops. The first energy crisis found a tight energy market where demand for energy products was pressing supply when the 1973 Arab-Israeli war erupted and the price of a barrel of oil went from four or five dollars to $30 a barrel. This also triggered a new phenomenon “stagflation.” For the first time the
country was experiencing inflation and recession at the same time. As it appeared the adverse impacts of the first energy crisis were abating, the Iranian Revolution of 1979 sparked the second energy crisis and the price of a barrel of oil topped $100 and more stagflation and economic chaos ensued.

For those who might be inclined to conclude it was the two energy crises that infected the economy and brought on the Growing Inequality Era, this report does not agree. There is no doubt these two energy crises did not help but once the high prices for energy fell dramatically throughout the 1980s one might have expected the Shared Prosperity Era would return. It did not. As energy prices moderated, the gap between labor productivity and wage continued to widen unabated; by 2013 productivity had grown 151% since 1973 but wages had grown only 19%. Therefore, it would appear other factors played a more important role in accounting for the transition of the economy from democratic capitalism in the earlier era to a form of feudal capitalism in the latter era. The failure of the political economy in the U.S. to identify legislation and public policies that were accelerating inequality and replace them with legislation to check and reverse growing inequality has played the major role in the economic struggle workers and families are facing.

As the economy rebounded from the economic travails unleashed by the energy crises by the early 1980s and stagflation subsided, rather than wages rising again they plateaued while labor productivity gains continued to accelerate upwards. Ah, a first clue, if workers are not benefitting from increases in labor productivity by way of increases in wages, somebody else
is. Management, ownership and investors have been winning out over workers in the Growing Inequality Era and national legislation has done little to counter this trend.

Figure 3.3 shows the devastating impacts on most Americans of not making different public policy choices that could have kept the economy on the Shared Prosperity Era path. The Top 1% gained +$597,000 more per year per household than they would have gained had the income distribution of the 1947-1979 era been maintained. The 96-99% and 91-95% income groups enjoyed sizeable gains per household per year of +$30,000 and +$5,000. Conversely, the Bottom 90% experienced losses of –$5,623 per household per year. Perhaps the income group where most middle-class households are located, the 41-60% suffered losses of -$10,100 per household per year. All the success in building the middle class in the Shared Prosperity Era is being frittered away by failing to take actions to halt the economic assault on the Bottom 90% of households which lost on average $5,600 a year in the Growing Inequality Era. Clearly, a different set of policies could have produced a distribution of benefits more in line with those achieved in the Shared Prosperity Era.

Moving from a more progressive to less progressive tax system in the Growing Inequality Era was unwise if a more equitable distribution of income was to be maintained. “First, the progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s. For example, the top 0.01 percent of earners paid over 70 percent of their income in federal taxes in 1960, while they paid only about 35 percent of their income in 2005. Average federal tax rates for the middle class have remained roughly constant over time. This means the tax burden over time has been shifted from the wealthy to less wealthy. This
dramatic drop in progressivity at the upper end of the income distribution is also due to a drop in corporate taxes and to a lesser extent estate and gift taxes.”1

Starting with Reagan, Republican administrations have passed what have been labelled three “trickle-down” economics tax legislation bills in the last 35 years. All three have tilted the benefits of these tax cut packages to the very wealthy and justified this with the notion they would use these tax savings and invest in plant and equipment, creating jobs which would trickle down to the benefit of workers and families. The other free lunch promise was these tax cuts would unleash robust economic growth which would take in more revenues even at the lower tax rate and thus reduce yearly deficits and the national debt. Figure 1.9 shows the greatest percentage increase in the national debt since the Eisenhower years followed Reagan’s trickle-down tax cuts; the second large jump in the national debt followed Bush II’s trickle-down tax cuts. The 2017 Tax Cuts and Jobs Act, proudly passed by Republicans and signed by a beaming President Trump, is—to borrow a Trump term—the third trickle-down tax cut hoax and surprise, surprise most analysts forecast history will repeat itself and yearly deficits and the national debt will rise considerably because the rosy scenario predictions of rapid economic growth to magically balance the budget will not materialize. More will be said about these tax policies in Chapter 5. These tax cut extravaganzas are the backbone of the ongoing “starve the beast” project the Republicans have pursued the last four decades, unfortunately with a good deal of success but to the detriment of the country. Starve the beast “is a political strategy used by budget hawks to limit government spending by cutting taxes, in order to reduce the federal government's revenue in an effort to reduce public spending.” (Wikipedia) Cutting taxes drives up deficits and debt and make it impossible to support new and needed programs without raising taxes.

It stands to reason, if wages are not keeping pace with gains in labor productivity, wages and salaries and thus the purchasing power of employees and families will decline as a percentage of GDP. Figure 3.4 reveals this is the case. During the Shared Prosperity Era, wages and salaries as a percentage of GDP hovered between 49-51%,

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whereas in the *Growing Inequality Era* they have fallen to 42% of GDP by 2015. Had wages and salaries stayed at 50% rather than falling to 42% of GDP, in 2015 $1.44 trillion more dollars (about $4,800 per person) would have gone to workers and their families. The extraction of well over one trillion dollars a year is a major reason why Main Street economies across the country have suffered so much in the *Growing Inequality Era* while Wall Street gambles recklessly with investors’ money and is bailed out by taxpayers when the economy tanks.

**Union Membership Decline**

One of the trends contributing to wages and salaries decreasing as a percentage of GDP has been steady decline in workers in unions. Figure 3.5 shows the peaking of union membership at about 35% in the late 1940s, but membership has been in decline ever since. The higher union membership in the *Shared Prosperity Era* was the ticket to the middle class for many families. This is underscored in Figure 3.6 where the decline in union membership overlaps with the decline in middle class share of income from 1968 to 2013. During this time union membership rates fell from 28% to 11.5% and middle-class share of income fell from 53% to 45%.

The decline in union membership, but more importantly the decline in their effectiveness in securing higher wages, fringe benefits, retirement funds and safer working conditions, has placed greater power in the hands of management and ownership and workers and families have paid the price. One of the things those representing the interests of owners, management and some billionaire dark money donors have been successful at is in turning workers not in unions against those in unions, often it seems playing on their envy about how good union workers have it.
Women’s Participation in the Labor Force

Figure 3.7 shows how the percentage of households headed by women has grown from 10.8% in 1960 to 40.4% by 2011. With copious evidence that women with comparable qualifications make less than men and the percentage of female headed households growing by 300% since 1960, so many more American families suffer economically because of pay inequities for women. Those making hiring decisions are no doubt aware of these pay inequities and have been able, whether consciously or unconsciously, to hire women and minorities at lower wages as a way of cutting costs.

The U.S. Census Bureau in 2017 estimates of the 11,667,000 single parent families, 81.7% are headed by single mothers. Women make less than their male counterparts in every category as highlighted in Figure 3.8. Women earn from 67% to 99% what men earn for the nine employment categories. It was bad enough when this disparity was impacting 10.8% of households but now it is impacting 40.4% of households. Increasing female participation in the labor force in the Growing Inequality Era and lower wages for women is fueling gender discrimination and adding to the economic plight of households where women are the sole or primary provider. Figure 3.9 depicts the gender wage gap widened in the 1960s, leveled off somewhat in the 1970s, and has been slowly shrinking since 1980. Until the gender pay gap is closed for men and women with comparable qualifications, some companies will find it to their advantage to hire women instead of men and pay them lower wages. Median earnings for males was rising a bit faster than for women into the 1970s where it stopped increasing and has
plateaued ever since. The median earnings for women rose until roughly 2000 and has plateaued since. By 2012 the median earnings for women was just 77% that earned by men. Women graduating in larger percentages from college is no doubt fueling some of the closing of the earning gap depicted in the figure.

Gender and Racial Pay Inequities

Pay inequities along racial and ethnic lines have a pernicious impact on many households’ income. Figure 3.10 shows Asian men and women earn the most, followed by white men and women, black men and women and Hispanic men and women. The differential between men and women is less for blacks and Hispanics.

Figure 3.9: Median Earnings for Full-time, Year-round Males and Females in 2012 Dollars, 1960-2012

Figure 3.10: Gender Median Wage Gap for Full-time, Year-round Males and Female in 2012 Dollars, 1960-2012

The good news, as Figure 3.11 indicates, is gender pay equity has improved in the Growing Inequality Era. For all workers 16 years and older, women have gone from median hourly earnings of 64% in 1980 to 82% in 2017 of what men were making. For workers age 25-34 the improvement for women has gone from 67% to 89%. Frankly, this latter improvement is not all that impressive since the female percentage of college graduates has been increasing dramatically. In recent decades. Figure 3.12 shows women were 39% of college graduates in 1966 but had increased to 58% by 2011 and are projected to reach almost 60% by 2021. Given the link between higher levels of education and wages and salaries, even more success in closing the gender pay gap should be in the offing.

Unfortunately, the link between education and earnings has weakened some in the Growing Inequality Era. Figure 3.13 reveals when real wages (adjusted for inflation) are considered education is not reaping the economic rewards it did in the Shared Prosperity Era. Note, in the portion of the Shared Prosperity Era on the graph all five education levels achieved real wage gains. This changes in the Growing Inequality Era where only those with more than bachelor’s degree and higher continue to enjoy real income gains. Those with some college, those with a high school degree and those with less than high school experience a decline in real wages.
It is unfortunate that closing the gender gap for women has been explained in part by male wages declining in the Growing Inequality Era. In Figure 3.14, median earnings in inflation adjusted 2009 dollars for full-time male workers and for all men had grown and stabilized in the Shared Prosperity Era but have come down in the Growing inequality Era. That men have suffered economically as much as any large segment of the population may explain their stronger support for Trump’s faux populism; the recent tax cut for the wealthiest shows Trump was not serious and for white men without a college degree proudly wearing a MAGA hat may be their only compensation.
Figure 3.15 shows inflation adjusted median family income rose faster in the Shared Prosperity Era, rising $24,000 in 25 years for an average just under $1,000 per year. The increase in median family income in the Growing Inequality Era has been $15,000 over 35 years for an average of about $430 per year. Democratic capitalism in the Shared Prosperity Era worked delivered for most Americans; however, feudal capitalism in the Growing Inequality Era has failed so many American workers and families.

![Figure 3.15: Inflation-Adjusted Median Family Income in U.S., 1953-2015](image)

Figure 3.16 reveals the continuing increase in median family income in the latter years of the Shared Prosperity Era and in the Growing Inequality Era is explained in part by an increase in families in which both spouses are working. Although societal values have changed and women are more likely to pursue careers than decades earlier, the economic reason for women working when real wages decline provided strong economic motivation for women to work and may be a major factor allowing households to earn a living wage and remain in the middle class or reach the middle class.

Another way to view growing inequality is to consider how lower paid and highly paid workers have performed. Failure to maintain the real value of the minimum wage has served to depress wages for those earning the minimum wage and slightly higher wages. In 1968 the federal minimum wage was $1.60 per hour. Today it is $7.25 per hour. If adjusted for inflation in July 2019, a $12.04 per hour minimum wage would match the purchasing power of the $1.60 wage in 1968. For politicians who say they support workers and value workers and families, their refusal to raise the federal minimum wage to its purchasing power in 1968 would suggest otherwise. It makes no sense when real wages are stagnating or declining not to maintain the...
purchasing power of the minimum wage. Not to maintain or raise the purchasing power of the minimum wage in the *Growing Inequality Era* borders on political malfeasance.

**CEO and Average Worker Pay**

The ratio of CEO pay to average worker pay has risen to stratospheric levels in the *Growing Inequality Era*. As Figure 3.17 reveals CEO pay has risen to over 350 times higher than wages for the average worker and most recently in the range of 260 times higher.

Clearly, depressing wages for lower paid workers and rapidly increasing compensation for highly paid workers will accelerate income inequality and that is what the U.S. has been doing in the *Growing Inequality Era*.

Figure 3.18 shows a minimum wage worker would have to work 555 working years to make what the lowest paid CEO of Walmart making $8,371.057 a year earns; the average worker would have to work 205 working years; and the President would have to work 20 working years. When it comes to matching the highest paid CEO of Hewlett-Packard making $34,031,021 a year, the minimum wage worker would have to work 2,256 working years; the average worker 836 working years; and the President 85 years. No matter how good a CEO is this kind of disparity represents what modern-day feudal capitalism looks like.
Average Real Hourly Earnings Stagnate in Growing Inequality Era

Figure 3.19 highlights the major problem workers and families are facing in the Growing Inequality Era. Real average hourly wages which had increased at an average rate of 2.2% a year for much of the Shared Prosperity Era have largely flat-lined during the Growing Inequality Era. This has necessitated both two household members working, working longer hours and or working a second job than would...
Shared Prosperity Plan for the 21st Century
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have been the case if real hourly wages had continued to increase as they did in the Shared Prosperity Era.

Figure 3.20 reveals where the age of marriage rose slowly in the Shared Prosperity Era it has increased considerably in the Growing Inequality Era. The more challenging economic environment is no doubt contributing to postponing marriage and a higher percentage of men and women 25 and older never married. A PEW Research Center study reports in 1960 10% of men 25 and older were never married and this had increased to 23% by 2012; the figures for women showed an increase from 8% to 17%.

Since this report advocates making the living wage the goal of U.S. economic policy, how high would the annual mean wage in some of the seventeen employment categories in Figure 3.21 have to go in an average U.S. city like Peoria, Illinois for a family of four with one parent working, one staying home with 2 children. The MIT living wage calculator says $50,259 is the living wage in Peoria for such a family. With one parent working and earning the mean wage, the last 6 of the 17 employment categories in Figure 3.21 would meet and exceed the living wage. However, the annual mean wage for nursing assistants, cooks and food preparers, building cleaning workers, retail sales workers and waiters and waitresses would fall considerably more than $25,000 short of the living wage standard for Peoria. Retail sales workers represent the largest number of workers. The second largest category information and reference clerks fall over $15,000 below the living wage.
It is obvious, if the one parent working is in most of the employment categories in Figure 3.21, the other spouse will have to consider working if the family is to attain or come closer to earning a living wage. The living wage standard increases however if the other spouse works because it will likely require a second vehicle and paying for the children to be cared for and other expenses when both parents work as opposed to when only one is working.

**Many Employment Categories’ Wages Are Falling Below the Living Wage**

Of the seventeen employment categories in Figure 3.21, if the one working adult earned the annual mean wage for that category, only six of the categories would pay Peoria’s
living wage standard of $50,253—post-secondary teachers, law enforcement workers, physicians and surgeons, engineers, computer occupations and financial specialists. Other employment categories fall short of the living wage from $1,500 to $25,000 for a family of four living in Peoria with one working adult.

If each of the two working adults averaged earning $15.51 an hour, they would reach the living wage; each of the two jobs would average $32,266 a year to achieve the $64,522 living wage. Five of the employment categories do not pay an annual mean wage reaching $32,266—nursing assistants, cooks and food preparers, building cleaning workers, retail sales workers and waiters and waitresses. These five lower paying categories employ 19 million of the 52.8 million in all seventeen categories. If 2 adults working full-time in Peoria with 2 children earned $10 an hour at low paying jobs, together they would earn $41,600 a year leaving them $22,922 short of the living wage.

Financialization of the Economy

Figure 3.22 shows compensation in the financial sector of the economy rising accelerated in the Growing Inequality Era. Whereas in the Shared Prosperity Era workers and families and Main Street economies benefited across the country. The Growing Inequality Era has benefitted: 1) owners and the investor class more than the working class and middle class; 2) wealthier individuals, families and large corporations; and 3) Wall Street over Main Street. Whether coinciding with or contributed to by Reaganomics, compensation in the financial sector began to rise faster than in the non-financial sectors of the economy to the point where by 2009 average annual compensation was $44,000 higher in the financial sector.

Figure 3.23 shows the decline in manufacturing and rise in FIRE (Finance, insurance and real estate) added to as a percentage of GDP. The manufacturing of products produced tangible goods with inherent and useful value; the financial sector produces few goods of intrinsic value. “a pattern not seen since the years before the Great Depression.” A man stranded on an island
may find some utility in the manufactured product, a pocket-knife, but will find no tangible use for his check book and the savings it represents.

Although 1980 has been used as the dividing line between the Shared Prosperity and Growing Inequality eras, the real world seldom provides neat and clear dividing lines. Instead periods of transition and change occur, sometimes very slowly and other times more quickly. These slow transitions are more difficult to detect than a rapid change. The 1970s punctuated by two energy crises would appear to be one of these transition periods, although the outcome on the other side of this transition of returning to shared prosperity or venturing off on
growing inequality was not foreordained. The country has been making bad choices which, if not corrected, will continue the nation on a divided have and have-not and “less perfect” union.

Which era in Figure 3.24 was better for the United States? The current political economy has produced the Growing Inequality Era. Going forward, which era should the political economy of the U.S. attempt to emulate? You choose!

Figure 3.24: All Income Groups Thrived in Shared Prosperity Era While on the Very Wealth Thrive in the Growing Inequality Era