
Political Economy

The Squandering of America:
How the Failure of our
Politics Undermines
Our Prosperity
by Robert Kuttner
Knopf. 352 pp. \$26.95

Reviewed by
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ROBERT KUTTNER is a non-mainstream economist with deep, deep doubts about free markets, free trade, unregulated industries, and nonunion workers. He may also be the only economist who still speaks positively of Richard Nixon's 1971 decision to impose wage and price controls. His *dirigiste* policy recommendations might seem to leave him without a natural audience in his profession, but, as a powerful polemicist with a

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readily available soapbox—he is a founding co-editor of the left-liberal *American Prospect*—he definitely has a following.

Over the last six years, the United States has enjoyed an unprecedented combination of low inflation and low rates of unemployment. But our economy is hardly free of problems. In Kuttner's telling, so powerful is their cumulative effect as to have brought calamity upon most Americans, and more calamities are yet to come. In this book, he sounds a trumpet call for political rebellion and for a radical reversal in economic direction. In one way or another, he wants to bring about the changes needed "to housebreak capitalism."

KUTTNER's grievances against our current economic arrangements are developed in ten chapters of *The Squandering of America*. He opens with a chapter about mass economic hardship in today's society. Given the fact that median personal income (after adjusting for inflation) is close to an all-time high in America, his title for this chapter—"A Hidden Depression"—would appear to be a case of forcing the facts to fit the theory. But Kuttner presents some undeniable bad news.

In the years after World War II, median household income in the United States increased at an annual rate of around 2.4 percent, a figure that would provide each new generation with incomes double those of its parents. But those days are long gone. Since the mid-1970's, median household income has risen on average by less than 1 percent a year, and the assumption—once a critical component of the American dream—that children will almost naturally come to live better than their parents is no longer valid.

What happened? In Kuttner's judgment, the transformation mainly reflects a growing disparity in income distribution, with the economy-wide gains of recent years going increasingly and overwhelm-

ingly to the rich. Many economists who are not extremists have observed that virtually all the productivity gains of recent years have flowed to the top 10 percent of the income distribution. Kuttner brings a sense of fire-breathing outrage to this shift. In elaborating its implications, he draws heavily on “the lived experience of economic stress.” By this he means not only the difficulties faced by the modern middle-class family in trying to pay for college, get decent health insurance, or buy a house, but also what he sees as the increased physical and psychic stress associated with longer work hours and the desperate effort to maintain “basic living standards” by deploying both parents in the paid labor force whether they wish to be there or not.

In his second chapter, “The Assault on the Good Society,” Kuttner casts a fond look back at the much more egalitarian America of the postwar years, when the GI Bill enriched the lives of millions seeking their own homes and college educations. His explanation for what happened to that lovely world leans hard on the collapse of the American labor movement, which today represents only about 8 percent of private-sector employees (versus about 40 percent in the 1950’s).

Organized labor, Kuttner tells us, is indispensable to the maintenance of a “broadly egalitarian economy” and a good society. He also tells us that American workers still want to have unions. But they have been defeated by the new willingness of American management to fight dirty by, “in flagrant violation of the Wagner Act,” firing workers who join unions.

As it unfolds over successive chapters, Kuttner’s argument takes on an increasingly strident tone. He contends, for example, that “one or both of the last two Presidential elections were stolen,” a proposition he relates to the dominance of the new business elite. He argues that

globalization—defined by him as “global deregulation in the interest of the business elite”—is an intellectual swindle, and writes that it has conned millions of Americans into viewing *laissez faire* as the only possible model for international trade. He cheers German and Japanese practices that routinely bring government into major corporate investment decisions. In the “managed capitalism” he yearns for, the private sector would be made less private.

IN EVALUATING Kuttner’s contentions, we might begin with his pitiable rendering of today’s middle-class families, frantically working overtime in an effort to maintain basic living standards. The portrait he paints simply does not square with what is known about job satisfaction and personal happiness in America.

The best available data on these matters continue to come from the ongoing General Social Survey conducted at the University of Chicago. As crisply summarized by Tom W. Smith, who directs the poll: “The rule is that most people are pretty satisfied. . . . The level of job satisfaction has remained virtually unchanged in the last four decades.” Smith makes it clear that job satisfaction is a major component of happiness.

Even increasing inequality, which *The Squandering of America* identifies as the greatest failure of the American political order, is not the disaster Kuttner makes it out to be. American voters have never been particularly concerned about income inequality or responsive to political appeals based on envy of the rich—obviously because, thanks to the mobility made possible by the system, yesterday’s poor continue to have a fair shot at becoming tomorrow’s rich. Inequality, in short, is not a static phenomenon.

No more realistic are Kuttner’s several proposals to restore middle-class income gains by adopting poli-

cies that would revive union power. Most economists today view organized labor as a bearer of bad tidings. Unions use their monopoly power—the power to shut down a company—to extract above-market rates for their members, resulting in turn in higher unit labor costs and a deadweight loss of efficiency in the economy as a whole.

In the decades when unions possessed real bargaining power, employers typically succumbed to threatened strikes, and the additional labor costs were routinely passed on to consumers, provoking never-ending inflationary spirals. This game became unsustainable by the 1970’s, when employers found themselves competing with low-cost foreign producers. In the auto and steel industries, employment costs were then running 80 percent over market levels. The unions ended up simply pricing their members out of the market and onto the unemployment rolls. The ensuing adjustment to reality has been painful, and the automobile industry is still not over it. But Kuttner’s explanation—that the cause of the pain has been management nastiness—is a fairy tale.

WHICH BRINGS us to Kuttner’s preferred alternative to the American system—namely, a managed economy. Many Americans with political memories will equate this with “industrial policy,” long since dismissed as a fad of the 1970’s. The core idea, as summarized by the economist Lester Thurow, one of the policy’s key advocates, was that “major investment decisions [had] become too important to be left to the private market alone.” Instead, the government should advise or arm-twist the corporate sector into putting its money where government planners thought it most likely to work, while also ensuring that factories would blossom in depressed areas rather than in the already thriving sunbelt.

This concept was embraced for a

time by the Carter administration. But Carter's own Council of Economic Advisers ultimately rejected it as unworkable, saying it was "presumptuous to assume that successful identification [by government] of winning and losing industrial sectors is possible."

Americans reflecting on the track record of managed capitalism elsewhere could also point to the two largest economies that today might qualify as "managed": Germany and Japan. Although their respective arrangements get good reviews from Kuttner, both have chronically lower growth rates than ours and, in Germany's case, higher unemployment rates. In Germany, during 1991-2005, income from wages declined in inflation-adjusted terms by 2 percent, while Japan has been almost continuously beset by deflation and recession over the past decade.

American ideas of fairness in economics seem to lead to meritocratic policies under which those who produce the most get paid the most. In contrast, European ideas of fairness have led to egalitarian policies. There is no longer much doubt about which produces healthier economic performance.

The major countries of Europe, having embraced many of the policies favored by Kuttner, are now coming under intense pressure to alter course. Even in France, the higher U.S. growth rates and lower unemployment rates were major issues in the most recent presidential election. (See "Can Europe Compete?" in the September COMMENTARY.) Whatever a non-mainstream economist may say, we must be doing something right.

TEN YEARS ago, I reviewed (in the *Wall Street Journal*) an earlier work of Robert Kuttner's called *Everything for Sale*. That book was, in essence, a protest against the triumph of conservative economics in the 1980's and 90's. Kuttner's core complaint centered on the move to

deregulation, with its accompanying emphasis on market-based solutions to the country's economic woes. But strangely lacking was any serious attempt on his part to explain why Americans had turned against the old regulatory approach, or any acknowledgment that they might have had some rational basis for disenchantment with the various statist approaches of an earlier era.

The Squandering of America is an updating and expansion of that earlier book, this time with a harder political edge. But once again something central is missing from Kuttner's exposition. He never explains why, if America's economic performance has been as poor as he insists, there has been no political upheaval—or indeed serious discussion of anything resembling the managed economy for which he pines.

Kuttner has obviously thought about this lacuna, and reaches for the reader's sympathy in a passage describing his frustration:

I have attended Democratic fund-raising events in the Park Avenue homes of investment bankers, where there was plenty of enthusiasm for human rights, morning-after pills, and climate change, but nary a word about financial regulation or social investment.

What has prevented the message from spreading? One answer might be that Kuttner's message is wildly unrealistic and unappealing—even to those who attend Democratic-party fund-raising events on Park Avenue.