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Wages, Wealth and Politics

By PAUL KRUGMAN

Recently, Henry Paulson, the Treasury secretary, acknowledged that economic inequality is rising in America. In a break with previous administration pronouncements, he also conceded that this might be cause for concern.

But he quickly reverted to form, falsely implying that rising inequality is mainly a story about rising wages for the highly educated. And he argued that nothing can be done about this trend, that "it is simply an economic reality, and it is neither fair nor useful to blame any political party."

History suggests otherwise.

I've been studying the long-term history of inequality in the United States. And it's hard to avoid the sense that it matters a lot which political party, or more accurately, which political ideology rules Washington.

Since the 1920's there have been four eras of American inequality:

• The Great Compression, 1929-1947: The birth of middle-class America. The real wages of production workers in manufacturing rose 67 percent, while the real income of the richest 1 percent of Americans actually fell 17 percent.

• The Postwar Boom, 1947-1973: An era of widely shared growth. Real wages rose 81 percent, and the income of the richest 1 percent rose 38 percent.

• Stagflation, 1973-1980: Everyone lost ground. Real wages fell 3 percent, and the income of the richest 1 percent fell 4 percent.

• The New Gilded Age, 1980-?: Big gains at the very top, stagnation below. Between 1980 and 2004, real wages in manufacturing fell 1 percent, while the real income of the richest 1 percent — people with incomes of more than $277,000 in 2004 — rose 135 percent.

What's noticeable is that except during stagflation, when virtually all Americans were hurt by a tenfold increase in oil prices, what happened in each era was what the dominant political tendency of that era wanted to happen.

Franklin Roosevelt favored the interests of workers while declaring of plutocrats who considered him a class traitor, “I welcome their hatred.” Sure enough, under the New Deal wages surged while the rich lost ground.

What followed was an era of bipartisanship and political moderation; Dwight Eisenhower said of those who wanted to roll back the New Deal, “Their number is negligible, and they are stupid.” Sure enough, it was also an era of equable growth.

Finally, since 1980 the U.S. political scene has been dominated by a conservative movement firmly committed to the view that what’s good for the rich is good for America. Sure enough, the rich have seen their incomes soar, while working Americans have seen few if any gains.

By the way: Yes, Bill Clinton was president for eight years. But for six of those years Congress was controlled by hard-line right-wingers. Moreover, in practice Mr. Clinton governed well to the right of both Eisenhower and Nixon.

Now, this chronology doesn’t prove that politics drives changes in inequality. There were certainly other factors at work, including technological change, globalization and immigration, an issue that cuts across party lines.

But it seems likely that government policies have played a big role in America’s growing economic polarization — not just easily measured policies like tax rates for the rich and the level of the minimum wage, but things like the shift in Labor Department policy from protection of worker rights to tacit support for union-busting.

And if that’s true, it matters a lot which party is in power — and more important, which ideology. For the last few decades, even Democrats have been afraid to make an issue out of inequality, fearing that they would be accused of practicing class warfare and lose the support of wealthy campaign contributors.

That may be changing. Inequality seems to be an issue whose time has finally come, and if the growing movement to pressure Wal-Mart to treat its workers better is any indication, economic populism is making a comeback. It’s still unclear when the Democrats might regain power, or what economic policies they’ll pursue when they do. But if and when we get a government that tries to do something about rising inequality, rather than responding with a mixture of denial and fatalism, we may find that Mr. Paulson’s “economic reality” is a lot easier to change than he supposes.