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# THE POLITICAL ECONOMY OF INEQUALITY IN THE "AGE OF EXTREMES"

MICHAEL HOUT, RICHARD ARUM, AND KIM VOSS

*Massey's presidential address correctly points to growing economic inequality as one of the pressing issues of our day, but his analysis gives short shrift to the political institutions that underlie the economic trends. We supplement his analysis with a review of some of those institutions. In particular we point out how politics mediates between computerized production and inequality, between the segregation of education and inequality, and (drawing directly from American Apartheid) between housing markets and residential segregation.*

**M**assey's presidential address correctly points to economic inequality as one of the pressing issues of our day. The gulf that separates rich from poor both in the United States and globally animates political debates and troubles many consciences. Today we live in a world in which, according to a credible calculation, the 358 richest individuals control economic assets equal to the combined annual incomes of poor countries that are home to 45% of the world's population (United Nations 1996). Massey forecasts that the trends which brought us to this point will continue. To date only the rich have taken action, principally by isolating themselves from the poor in class-based enclaves and bringing on an "age of extremes."

Massey's address brims with political fervor, so it is surprising that he ignores political explanations for the inequality he decries. Instead he extrapolates economic trends as if they were immutable forces. Missing from his forecasts are the political actions and policy formulas that foster and shape social divisions. For example, Massey tells us that growing income inequality in the United States and other rich countries is "deeply rooted in the postindustrial economic order." The postindustrial economic order spawns inequality by killing some blue-collar jobs and deporting others, meanwhile bidding up the premium on technical skills. Only through scattered hints does he invite us to envision the actions behind these trends.

A growing body of evidence shows that the postindustrial economic order and its attendant inequality are the products of explicit policies and public choices (Fischer et

al. 1996). We reject claims that inequality is the inexorable consequence of sorting and ranking by unbridled markets. Inequality is part of the design of society, but that design is political, subject to controls, and always in flux.

In this note we illustrate our point by drawing attention to the political underpinnings of three economic trends that Massey cites: the computerization of production, the erosion of public education, and the geographical clustering of rich and poor. In each case political choices mediate between economic factors and inequality.

Massey is to be commended for the global reach of his address. Our comment is much more "U.S.-centric"; we discuss the United States so much because it is the case we know best. We trust that other commentators will take up the comparative issues.

## **JOBS, PRODUCTIVITY, AND WAGE INEQUALITY**

The growing use of computers in production can increase inequality if (1) computers replace some workers, (2) the workers left behind who use the computers are more productive but do not succeed in winning a share of the profits generated by that greater productivity, and (3) the workers displaced by the computers are unable to find work at comparable wages or at wages close to the average. These conditions—if they are met—could link technological change to inequality. They are neither sure nor necessary. How have they been met in the United States in recent years?

Ascribing specific job losses to computers is notoriously difficult. In our daily lives as academic researchers many of us type our own first drafts of research papers and teaching materials, thanks to easy-to-use word-processing software on our personal computers. We suspect that our word processing displaces a skilled typist. Yet at the University of California, at least, the number of nonteaching employees has gone up, not down, since 1985; the number of nonteaching staff FTE (full-time equivalents) increased by 5% in both 1993 and 1994, although the number of students did not increase and the number of faculty members declined (Office of the U.C. President 1995).

The job-killing consequences of computers are no clearer at the national level. The number of Americans working in manufacturing in March 1996—19.1 million—lagged 2.8 million behind the precomputer figure of 21.9 million in March 1980 (U.S. Bureau of Labor Statistics 1996a). Between 1983 and 1989, however, manufacturing employment increased. The net losses are easier to pin on the 1992 recession and the sluggish recovery than on computers.

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Many people write about U.S. manufacturing employment in the past tense. Although the share of total employment (and value added) due to manufacturing is smaller relative to services now than in the past, the absolute numbers have followed the business cycle up and down since 1973, showing no clear long-term trend. The trendless fluctuation of manufacturing employment results in a shrinking share of the total because the total is growing rapidly, absorbed by the burgeoning service sector (Figure 1). The total labor force has grown 40% and the number of service employees has grown 60% since 1975. Manufacturing employment was 27% of total employment in 1965; it lost 3.3 share points per decade to reach 23% in 1975, 19% in 1985, and 16% in 1995 (U.S. Bureau of Labor Statistics 1996a).

The geography of manufacturing losses reinforces the impression of the demise of manufacturing in many people's minds. Manufacturing firms have left their former locations in northeastern and midwestern cities for the south and the west. The northeast and midwest lost 1.6 million manufacturing jobs during the 1980s; one-third of these ended up in southern and western states (Kasarda 1995). Consequently the rust belt losses were twice as big as the net change for the country as a whole (a loss of 800,000 manufacturing jobs nationwide for the decade). The frequently noted saga of how good jobs, especially manufacturing jobs, have shifted from central cities to suburbs has a twist: Most of these moves are from the center of one city to the suburbs of another. These trends are exacerbated by the tendency of new jobs, in both manufacturing and services, to spring up where the moving jobs go, not where they come from.

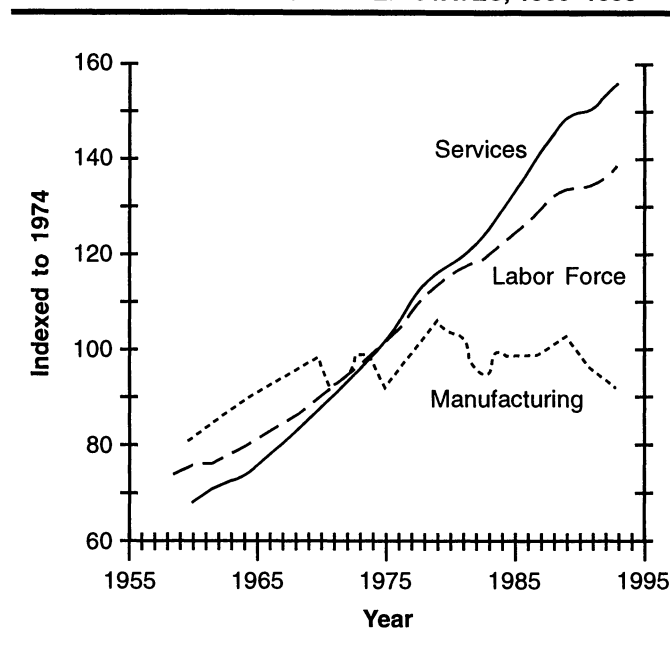
These are actually examples of *deconcentration* of employment. Jobs have moved from dense areas that formerly did most of America's heavy lifting to regions that have long lagged behind in per capita income and wealth.

Returning to our main point, the geography of manufacturing in the 1990s is a political geography. The south has recruited northern employers with packages that typically include tax breaks, community contributions to capital stake (e.g., industrial parks), and promises to discipline labor (Fischer et al. 1996:152–56). And there is the rub. Tax money—state and federal as well as local—is used to take jobs away from some communities and place them elsewhere. Furthermore, so-called “right-to-work” statutes have decimated union ranks, have allowed unionized employers to wring concessions out of threatened union locals, and have prevented workers from claiming a stake in their rising productivity (see below).

On a global scale, the United States has kept more manufacturing jobs than its European competitors. Since 1974 manufacturing employment has declined in Australia and in all six of the European countries that have data comparable to U.S. definitions (U.S. Bureau of Labor Statistics 1996a). Fluctuations in manufacturing employment in Canada parallel those of the United States. Among the nine comparison nations, manufacturing employment increased only in Japan.

The shift from manufacturing to services—even if it is relative, not absolute—can depress average wages if the ser-

**FIGURE 1. CHANGE IN THE SIZE OF THE LABOR FORCE AND EMPLOYMENT IN SERVICE AND MANUFACTURING JOBS: UNITED STATES, 1960–1993**

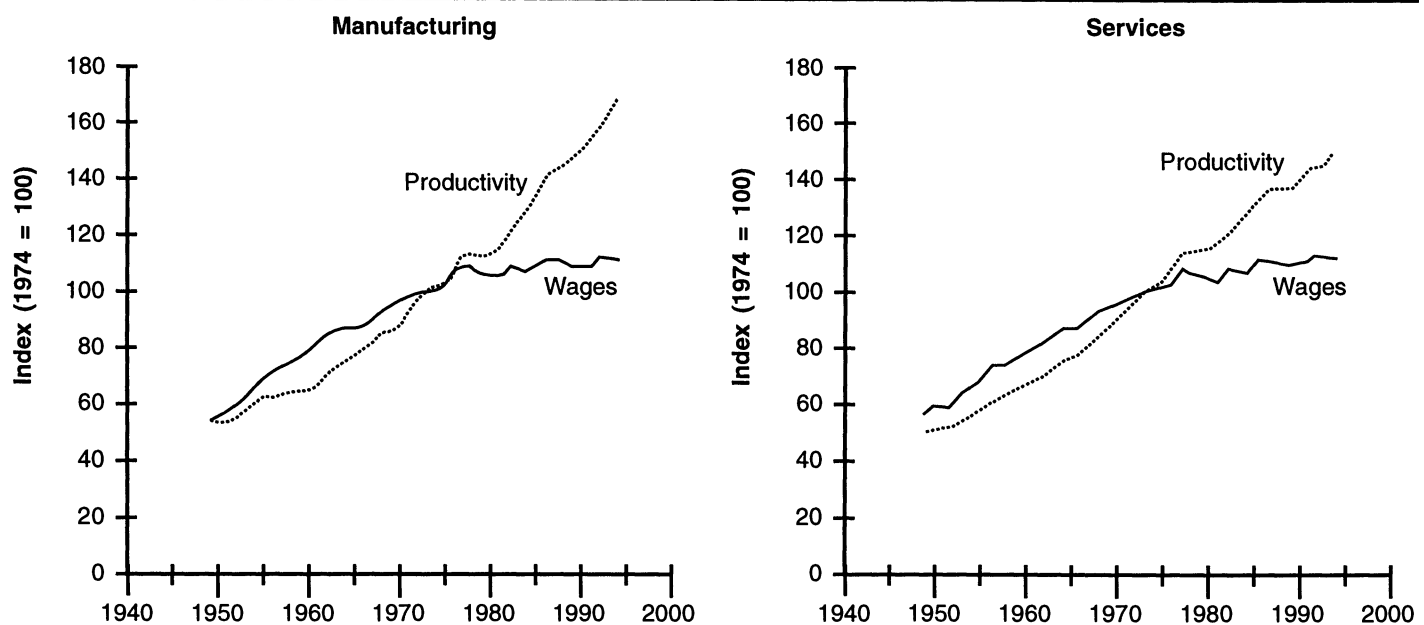


vice jobs pay less than the manufacturing jobs. In the United States, the pay of nonprofessional service workers lags further behind the pay of skilled manufacturing workers than in other countries; as a result, relative deindustrialization hits significantly harder here. In the second half of the 1980s, unskilled service workers in the United States earned half as much as U.S. skilled manual workers; skilled service workers earned 79% as much as skilled manual workers (Esping-Andersen, Assimakopoulou, and van Kersbergen 1993). The comparable figures for Germany were 89% and 88% for unskilled and skilled service workers relative to skilled manual workers; for Sweden they were 89% and 98% (Esping-Andersen et al. 1993). The key factors in these cross-national differences are the unions' commitment to equity, higher minimum wages, and the larger role of government in employing service workers in Germany and Sweden than in the United States.

Productivity—output per person-hour of work—is often cited as the key to wage growth (e.g., Uchitelle 1996). Workers cannot expect higher wages if they fail to produce more. The other side of the bargain is that they *can* expect a share of the bounty produced if their productivity rises.

Computerization of manufacturing might be a plausible culprit in the increase in wage inequality if workers who use computers (and other devices) are more productive but do not see an increase in their wages. That will happen if capital finds a way to keep the returns on rising productivity to itself.

Multifactor productivity has increased steadily throughout the postwar period and dramatically since the early 1980s

**FIGURE 2. MULTIFACTOR PRODUCTIVITY AND WAGES (INDEX = 100 IN 1974) BY SECTOR AND YEAR: UNITED STATES, 1947–1994**

Source: U.S. Bureau of Labor Statistics (1996b).

(Fischer et al. 1996:152). Since 1980, productivity has increased 68% in manufacturing and 50% in services; most of the change has occurred since 1984 (Figure 2). The 1980s rival the 1960s as an era of rising productivity in manufacturing: U.S. manufacturing workers broke productivity records every year from 1984 to 1994. Nor is the rate of productivity growth slowing down: The five years from 1984 to 1989 and the two years from 1992 to 1994 are the periods of fastest productivity growth in manufacturing and are years of above-average productivity growth in services. Computerization presumably is part of that story.

Comparing the trend in productivity with the trend of wages in manufacturing and services reveals that 1974 was a watershed year for U.S. workers in both sectors of the economy. Between 1949 and 1974, increases in productivity were rewarded by increases in wages, as expected. After 1974, however, the link between productivity and wages broke.

Where did the payoff from the increased output per hour go? To capital. Executives' compensation and stock prices set records, just as productivity did. Executives' compensation increased 600% between 1974 and 1995, from \$35 per dollar earned by blue-collar workers in 1974 to \$110 in 1989 and to \$212 in 1995 (Crystal 1992, 1996). The Dow Jones Industrial Average has risen from 1500 to 5500 since 1974. The economic pie has grown a great deal, but workers still share the same slice as they got 20 years ago.

Overall productivity has not increased as much as productivity in each industry separately (see Farley 1996, fig.

3–5) because more new jobs are in services, where initial productivity was lower and improvement has been slower. Prominent recent discussions, however (e.g., Uchitelle 1996), fail to state the problem correctly. A shift of jobs out of manufacturing and into services does not explain why the wages of the workers still in manufacturing stagnate while their productivity breaks records. The workers who leave may lose, but those who remain in manufacturing are more productive and should see a return on their productivity. They did so from 1947 to 1974, but not after that time.

The rules of the labor-management game changed in the late 1970s and early 1980s. Workers' compensation used to be tied to productivity because their unions made claims on a share of the rising income that productivity provided. Union representation of private employees has fallen from 35% to 13% since 1974 (U.S. Bureau of the Census 1996). Changes in fair labor practices rules, lax enforcement of the remaining rules by the National Labor Relations Board, and the employers' practice of hiring replacement workers during strikes all contributed to the demise of unions (Fischer et al. 1996:148–52; Freeman 1994).

Meanwhile, changes in securities laws, capital gains taxes, and state corporate tax laws—all political decisions, not market forces—fostered “investor capitalism” among stockholders and upper management (Useem 1996). Firms that opposed the low-wage, high-capital-return strategy were drummed out of the stock market. Firms that tried to resist by using cash instead of stocks for internal finance were taken over by hostile buyers (Gordon 1996).

These Darwinian tendencies once were held in check by laws and unions, but no longer. When the laws were changed and institutional supports for fair labor practices were undercut, capital gained, workers lost, and inequality grew.

### EDUCATIONAL SEGREGATION AND INEQUALITY

Massey's emphasis on class-based school segregation misses the mark. Although the segregation of the poor and the rich into different schools and into different tracks within those schools may be part of the persistent association between socioeconomic origins and educational achievement (Hout, Raftery, and Bell 1994; Mare 1980), it is not a source of new inequality.

The threat to poor and working-class youths is the erosion of public support for public schools. When research (Coleman and Hoffer 1987) shows that Catholic schools do a better job of educating high school pupils than do the public schools (and the nonreligious private schools, once socioeconomic background is controlled), political leaders call for vouchers to pay private school tuition instead of asking how the public schools can be made better. That position sends a message that the schools are beyond redemption. Yet high school graduation rates—as indicated by the proportion of 25- to 29-year-olds who have completed four years of high school—have increased steadily from 50% in 1950 to 75% in 1970 to 88% in the early 1990s (National Center for Educational Statistics 1994). Nor are these diplomas meaningless; public high school seniors in the 1990s know as much English and probably more mathematics than did their counterparts in the 1960s (Berliner and Biddle 1995).

Massey indicts the public schools for breeding oppositional subcultures that work against educational reform. Yet SAT scores for African American students taking the tests have increased from a combined average of 686 in 1975 to 741 in 1993 (despite the broader socioeconomic base of the 1993 test takers). More significantly, African Americans have closed the gap with whites in years of education completed: In 1960 the median education of African Americans in their late twenties was 10.8 years, compared with 12.3 years among whites. By 1993 the gap had closed to one-tenth of a year: 12.9 years for African Americans and 13.0 years for whites (National Center for Educational Statistics 1994).

As public institutions, the public schools are political creations. Their performance depends on the support of the populace that pays for them. If public schools are such a boondoggle, why did the Milwaukee voucher program collapse? Why did the private firm hired to privatize Baltimore public schools default? Perhaps the public schools do not meet voters' expectations because the task they have been assigned is a difficult one.

Inequality makes the task of educating young people that much tougher. The public schools cannot merely cope with the fallout of inequality; we expect them to solve the problems. Poor children do not bring the same resources to schools as wealthy students; educating the poor takes more effort. Yet average class size tends to be lower in the more affluent suburban districts than in poorer, racially segregated

central-city neighborhoods (Boozer and Rouse 1995) because of the residential segregation that we, as a nation, continue to foster.

### SEGREGATION AND INEQUALITY

Not surprisingly, one of the authors of *American Apartheid* (Massey and Denton 1993) draws our attention to the role of geography in inequality. The rich and the poor are not only socially isolated; they are becoming more and more geographically isolated. Massey, however, surprises us by drawing our attention away from the political institutions that structure and define apartheid, American-style.

As *American Apartheid* vividly documented, segregation is active, not automatic. Federal Housing Administration (FHA) mortgages, discriminatory lending practices by banks (so-called "redlining"), the layout of federally funded freeways, and urban renewal were all powerful practices that shored up racial segregation in the face of massive internal migration after World War II. Today zoning, redlining, school district gerrymandering, and suburbs' autonomy from central-city governments maintain the social isolation of African Americans and the poor.

The global segregation of rich and poor is more difficult to disentangle. The data do not meet American standards, and the few figures Massey cites are unconvincing. To note that the proportion of the poor in cities is on the rise at precisely the time when other classes are moving to the cities tells us nothing about urbanization and poverty. If 40% of the poor are urban when 40% of the population is urban, and if 80% of the poor are urban when 80% of the population is urban, poverty is not becoming more concentrated. That pattern implies no association at all between class and urbanicity.

### CONCLUSION

Recent research by us and by many others implicates political institutions in the rising tide of economic inequality. By not giving the politics of inequality its due, Massey miscasts his forecasts. He extrapolates recent economic trends outward a few decades. If those trends reflect immutable, lawlike economic relations (we think this is the meaning of *postindustrial economic order*), then the predictions may well come true. But if politics are the dominant force, then conditions will continue along their present path only so long as no one seeks political remedies for the problems at hand.

At the meetings, Massey ended his presidential address by inviting the audience to join him for "a stiff drink at the bar." He had nowhere else to go because he extrapolated many disturbing trends, but sought few underlying causes. A political sociology of inequality—as we propose in *Inequality by Design*—contradicts fatalism and offers a course of action to those who hope for more equality. As Big Bill Haywood might have said, "Don't get drunk. Get organized!"

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