THE AMERICAN DREAM VS. THE GOSPEL OF WEALTH by N. Garfinkle

p. vii Americans today confront a choice between two fundamentally different economic visions for America. The historic vision of the American Dream is that continuing economic growth and political stability can be achieved by supporting income growth and economic security of middle-class families without restricting the ability of successful businessmen to gain wealth. The counterbelief, based on the Gospel of Wealth, is that providing maximum financial rewards to the most successful businessmen is the way to maintain high economic growth to benefit all Americans. Both visions claim to support the goals of maximum economic growth and maximum benefit for the society as a whole, but they present radically divergent programs to achieve these goals. One approach claims that the engine of economic growth can best be sustained by a progressive tax system that supports the purchasing power of middle-class Americans. The other claims that the engine of economic growth can best be sustained by a regressive tax system that increases the wealth of the highest income families to support business investment. This book draws on the historic record and a detailed analysis of economic data to demonstrate that the middle-class American Dream not only supports the democratic ideals of our society but also provides the best path to maximum economic growth.

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p. 2 First came the inevitable. In March 2000, an inflated technology stock market crashed, setting the stage for the onset of a recession a year later. Then came the policymakers. President George W. Bush came to office in 2001 with a minority of the popular vote, a razor-thin electoral vote margin, and a radical plan to slash federal taxes. Tax cuts, the president and his advisers said, were the key to increasing investment. Tax cuts were the key to increasing jobs. Tax cuts were the key to getting the economy back on a pathway of growth. Between 2001 and 2003, the Bush administration pushed through major cuts in the income tax, the estate tax, corporate taxes, and taxes on dividends and capital gains. By 2004, the administration's tax cuts had trimmed over $200 billion from the federal government's annual revenues, with most of the money going to those in the top 12 percent of the income scale.

p. 3 After five years of their ambitious tax-cutting program, in other words, the central claim of President Bush and his advisers—that tax cuts would create a fundamentally new economic environment that fostered historically high rates of investment, job creation, and growth—had not panned out. At the same time, having added nearly $2.3 trillion to the national debt in the brief span of five years, the administration was still confronted with an array of urgent spending requirements—billions for homeland security following the terrorist attacks of September 11, 2001, a protracted and costly military occupation of Iraq, substantial relief and reconstruction costs after Hurricanes Katrina and Rita, and burgeoning oil prices—all destined to take their continuing toll on both the federal budget and the U.S. economy.

pp. 5-6 Every important economic policy has three kinds of consequences: factual, moral, and political. In effect, in evaluating economic policy, we have to ask three questions: (1) Does it work? (2) Is it fair? And (3) Will it sustain the democratic structure of our society?

Today our debate tends to focus almost exclusively on the first question, at the expense of the other two. It was not always so. A generation ago, most Americans would have instinctively understood the relevance of all three questions—factual, moral, and political. That is because public views of government economic policy were shaped by memories of the Great Depression. The Great Depression brought dramatic policy failure on all three levels. When the economy nosedived after the Great Stock Market Crash of 1929, the federal government literally did not know what to do. By and large, the federal government stood by almost helplessly as unemployment rose to catastrophic levels, eventually as high as 25 percent. Some of the steps the government took, including a tax increase in 1932, actually made conditions worse. Perhaps most gallingly, the otherwise compassionate president Herbert Hoover adamantly opposed any federal spending for relief

of the millions of unemployed. It is hard for Americans today to imagine unemployment at such levels, or what unemployment could be like in the absence of any federal unemployment insurance program.

p. 6 After the economy recovered in World War II, Americans were still thinking within this framework. Demand-side economics, which became a kind of unofficial economic policy for the nation in the postwar years, reflected this understanding. It integrated technical economic insights developed by the British economist John Maynard Keynes with the moral and political imperatives that had grown out of the Great Depression. In a book written in 1936, Keynes showed policymakers a way out of the Depression. Keynes's key innovation was to shift the focus of economists from production, or supply, as the engine of economic growth to the importance of consumption, or demand. The main lesson economists drew from Keynes was that government could restore growth to an economy suffering from high unemployment by engaging in deficit spending to expand "aggregate demand." Expanded demand would get the economy moving again, provide customers for business, give investors a reason to invest, and bring down unemployment.

pp. 7-8 Beginning in the mid-1960s, however, the demand-side consensus began to go awry. President Lyndon Johnson embarked simultaneously on massive federal spending to pay for a rash of Great Society antipoverty programs and equally massive spending to pay for the Vietnam War. The resulting huge expansion in the federal deficit (combined with the president's pressure on the Federal Reserve to keep money "easy") resulted in the emergence of high inflation. For roughly fifteen years, inflation remained a problem that would not go away. As inflation grew, the only alternative seemed to be restrictive policies that would create high unemployment—but preventing unemployment was the central goal of demand-side economics. By the 1970s, the economy began to experience "Stagflation"—high inflation together with high unemployment. For middle-class Americans, Stagflation represented the worst economic crisis since the Great Depression. Prices became unpredictable. Raises in salaries and wages were eaten up by price increases. Savings eroded as the value of money declined. Mortgage interest rates went through the roof. Moreover, Americans experienced ever-higher taxes as inflation drove them into higher and higher income tax brackets, brackets originally intended for the very rich.

pp. 10-11 The word "economics" comes from a Greek term meaning "household management." But economics in America has always been about more than managing the national household. It has always been about more than dollars and cents. It has been about defining who we are, and what kind of a nation we seek to be. The promise of the American economy and the promise of America itself have always been closely bound up together.

What kind of an economy do we seek, and what kind of a nation do we wish to be? Do we want to be the kind of country in which, as an old song from the 1920s went, "The rich get rich, and the poor get poorer"? Or do we want to be the kind of country we set out to be at the end of World War II, committed to an economy that provides for the common good, offers ready entry to the middle class, supports a middle-class standard of living, and provides generous opportunities for all? When the richest nation in the world has to borrow hundreds of billions to pay its bills, when its middle-class citizens sit on a mountain of debt to maintain their living standard, when the nations' economy has difficulty producing secure jobs or enough jobs of any kind, something is amiss.

pp. 14-15 Lincoln's focus was always on the fate of the ordinary worker. The new vision shifted focus to the extraordinary entrepreneur, the business owner, the industrial magnate as the engine of the new industrial prosperity. Lincoln thought government could and should enhance Americans' economic freedom by clearing the path for ordinary Americans to get ahead. The new view saw any government intervention in the economy as a severe violation of freedom and argued that government should stand aside and let business do its job. Lincoln stressed the universality of the American promise—prosperity and betterment, he repeatedly said, were to be for all. The new vision, contrast, saw society as divided sharply between winners and lowers and had little pity for the latter. Indeed, according to this new view, the very fierceness and ruthlessness of economic competition, its unbridled character, was what made prosperity grow. Under the influence of the doctrines of laissez-faire economics and Social Darwinism, the proponents of the new vision claimed that economic life—for that matter American national life—should encourage the survival of the fittest. The government should stand aside and let the laws of evolution determine who wins and loses. Toward the end of the nineteenth century, the industrial magnate Andrew Carnegie coined a phrase that captured the essence of the new vision: "the Gospel of Wealth." This new vision contemplated a society led by successful businessmen who were responsible for building a growing economy. Justice would be defined by the principle that those who contributed most to the economy deserved to be rewarded most and, in Carnegie's view, could be relied upon to use their wealth for the good of society.

pp. 15-16 The ideal behind the Gospel of Wealth was exceptional rewards for exceptional achievement. The American Dream aspired to a middle-class society. The Gospel of Wealth was content with a society sharply divided between the rich and the poor. The American Dream saw government as a potentially constructive force. The Gospel of Wealth saw government as a problem. P. 16 In his State of the Union address in 1944, President Franklin D. Roosevelt codified the essence of the Lincolnian vision for the modern economy. He proposed "a second Bill of Rights under which a new basis of security and

prosperity can be established for all regardless of station, race or creed." He included the following among these rights:

> The right to a useful and remunerative job in the industries or shops or farms or mines of the nation.
> The right to earn enough to provide adequate food and clothing and recreation.
> The right of every family to a decent home.
> The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment.

p. 17 Moreover there is in the Bush program a clear rejection of Lincoln's belief that government's role is to take affirmative steps to encourage equality of opportunity.

p. 18 But during the previous decade we had seen one of the longest sustained periods of economic growth and one of the biggest investment booms in American history, following President Clinton's *increase* in the top marginal income tax rate. Do cuts in the top marginal income tax rate increase economic growth, or don't they? Do they increase investment, or don't they? These are factual questions that should have factual answers (I'll examine the empirical evidence on these issues in chapter 8).

pp. 20-21 That is why issues of economic policy and issues of democratic politics are inextricably interlinked. Economic policy can go wrong in several ways. Economic policy can fail on technical grounds, simply because policymakers do not understand the impact of their policies on the workings of the economy. We have witnessed this kind of failure on a major scale twice in the past hundred years. The first episode was the Great Depression of the 1930s, and the second was the stagflation of the late 1970s, when the United States suffered from high inflation combined with high unemployment. In both cases, U.S. political leaders pursued policies that aggravated, rather than alleviated, severe economic problems. Economic policy can also fail on moral grounds, by undermining the sense of fairness on which our society depends. Such failures can lead to political instability by undermining the middle-class belief in the legitimacy of government that underpins our political democracy.

pp. 21-22 Historically, the major result (and to some degree also the cause) of a growing economy has been the emergence of a strong middle class. Nearly twenty-five hundred years ago, long before the advent of modern industrialism, Aristotle observed that the most politically stable polities were democracies with a large middle class. The middle class acted as a buffer between the rich, who sought to control society through their superior

economic and political resources, and the many, who sought through their superior numbers to seize power from and dispossess the rich. Polities with a strong middle class were polities in which the majority had a strong stake in the continued stability of society, because such a society provided decent opportunities and a decent living for most citizens. The great consequence of the advent of modern economic life in the sixteenth and seventeenth centuries was the emergence of the middle class. America was not only the world's first democracy; it was also the first modern state to be governed, not by an aristocracy, but by a prosperous middle class.

p. 25 What few middle-class voters understood was that the few hundred dollars they saved in income taxes in those years would likely be taken back from them or their children later—in the form of increased Social Security taxes, reduced Social Security benefits, or a reduction in the financial capability of the federal government to pay for other essentials such as unemployment insurance, national defense, homeland security, or relief following natural disasters such as Hurricanes Katrina and Rita.

pp. 27-28 Abraham Lincoln was not only a moral leader; he was also a political philosopher and an economic realist. We so fully understand Abraham Lincoln's contribution to our nation's *moral* beliefs that we have neglected his role in shaping our uniquely American *economic* vision. Because the moral issues surrounding the slavery question are so clear to us today, there is a tendency to understand the origins of the American Civil War solely in this familiar moral context. In actuality, the Civil War was fought not just about slavery, but about what kind of economy the nation would have. It was a moral clash, and it was also a clash between two economic systems.

p. 28 Lincoln's genius lay in his ability to discern the relationship between the workaday, economic realities of American life and the nation's highest moral and political principles. In Lincoln's mind, the opportunity "to improve one's condition" was an essential feature of the Declaration of Independence's claim that human beings have unalienable rights to "life, liberty, and the pursuit of happiness." To Lincoln, the economic, moral, and political elements were inextricably intertwined. Together, they represented what is distinctively American about our economy and democracy. "I have never had a feeling politically," Lincoln said, "that did not spring from the sentiments embodied in the Declaration of Independence." The reason that "government of the people, by the people, and for the people" was worth preserving—and even worth fighting a war to preserve—was precisely that it offered this opportunity to each American "to improve one's condition."

p. 29 The purpose of the United States was to "clear the path" for the individual to labor and get ahead. Lincoln understood that this purpose was challenged by the slave-based, aristocratic economic system of the southern states. It was this challenge that created a house divided: virtually two separate nations based on very different economic structures. He saw "saving the Union" not simply as a political effort but as a moral imperative to secure for the America of the future the middle-class economy of the northern states.

p. 29 For Lincoln, American liberty was intimately connected with economic opportunity. It was economic opportunity that gave liberty meaning. The universal promise of opportunity was for Lincoln the philosophical core of America; it was the essence of the American system. "Without the Constitution and the Union," he wrote, "we could not have attained …our great prosperity." But the Constitution and the Union were not the "primary cause" of America, Lincoln believed. There is something," he continued, "back of these, entwining itself more closely about the human heart. That something, is the principle of 'Liberty to all'—the principle that clears the path for all—gives hope to all—and, by consequence, enterprise, and industry to all.' "The prudent, penniless beginner in the world," Lincoln wrote, "labors for wages awhile, saves a surplus with which to buy tools or land for himself, then labors on his own account another while, and at length hires another new beginner to help him. This is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all." This was, for Lincoln, the American Dream, the raison d'être of American, and the unique contribution of America to world history.

pp. 30-31 Throughout his political life, Lincoln supported policies that would sustain and expand this "system." He was on one side of major partisan political struggles over tariffs, "internal improvements," a national bank, and ultimately the issue of the expansion of slavery in the territories. These struggles culminated in an all-out confrontation between North and South over two alternative ways of live. But whether the issue was tariffs, internal improvements, a sound currency, or the expansion of a southern economy based on slavery, Lincoln's fealty was always to the system. In the final analysis, Lincoln did not fight the Civil War to end slavery, though that was the war's great result. Lincoln fought the Civil War to vindicate and preserve the American Dream.

pp. 32-33 The fact that most Americans were neither rich nor poor—the middle-class nature of the nation—lent American society enormous stability, in Tocqueville's view. In combination with the opportunities for social mobility, the nation's middle-class nature was a barrier to social upheaval and revolution: "Between these two extremes of [wealth and poverty in] democratic communities stand an innumerable multitude of men almost alike,

who, without being exactly either rich or poor, are possessed of sufficient property to desire the maintenance of order, yet not enough to excite envy. Such men are the natural enemies of violent commotions; their lack of agitation keeps all beneath them and above them still, and secures the balance of the fabric of society."

p. 33 Perhaps the most fundamental question of all was the meaning of the Union itself. Only with great difficulty had the Framers of the constitution yoked the thirteen separate former colonies into a United States. Today time and long usage have led us to think of our fifty states as something akin to provinces, administrative and geographic units of a larger, unified nation.

p. 38 No one better epitomized this new populism than President Andrew Jackson. On the occasion of his inauguration in 1829, he famously opened the doors of the White House to one and all. Farmers stood on the fine chairs in their muddy boots. Damage to the presidential residence by the end of the affair was in the thousands of dollars. But the point had been made. The people were now in charge.

pp. 39-40 The most explosive issue facing American politicians North and South proved to be the tariff. Tariffs were the financial centerpiece of Clay's American System. As Speaker