AG: What led you originally to this topic? You've become a man in this area. What led you to this topic?

TM: Well, the inequality boom has been a story for the entire length of my career as a journalist. I graduated from college in 1980 and it began in 1979. I've heard over the years various explanations for what was causing it, many of them contradictory. Finally, I began to think, well after 30 years, we must have some definitive answers as to what's causing this. I read a bit here and there about some of the emerging scholarship that seemed to be proving some answers based on the data that came in. So in 2010, I decided to write a magazine series that I subsequently turned into a book looking at really trying to piece together the specific causes of the income inequality boom.

AG: What were the key points that stood out for you?

TM: First I looked at some of the things that turned out not to be causes. For example, when we think about inequality, period, the first two things we tend to think about are gender and race. But, as it happens, you can't really blame the great divergence on gender or race, not directly at any rate. That's because the income gap between men and women has actually narrowed a bit since 1979. The income gap between blacks and whites is essentially the same as it was in 1979. Those would have to have increased in order to contribute. Whenever I mention the fact that incomes between blacks and whites are the same relative to one another as they were in 1979, I come to a full stop and I say, let me concede, that is a horrible, horrible fact in itself about which many books have been written. If I went into a time machine back to 1979 and told you that in 1979, guess what, a third of century from now, the income gap between blacks and whites will be entirely unchanged, you would have told me I was out of my mind. Nevertheless, it did not increase, so you have to look elsewhere for the causes of the increase. Immigration is a logical suspect. The timing works just about perfectly—the 1965 immigration law hugely liberalized immigration in the US. That's when we saw a lot of Asians and Latin Americans coming into the United States, especially Latin Americans, and especially Mexicans. However, when you look at the data closely, what you find is that this influx has not really affected any population in the United States, except for one, and that is high school dropouts and that's because the majority of immigrants coming into the United States lack a high school
degree. So there has been some impact on high school dropouts but the great divergence is really a phenomenon that relates to the middle class and the affluent. The income relationship between the middle class and the poor hasn’t changed that much since 1979. It was lousily poor in 1979, it is lousily poor today. But, it didn’t use to be lousy to be middle class. It used to be that middle class incomes grew a little faster than high incomes, or at the very least grew at the same rate. That stopped being true in 1979.

AG: The big question people seem to ask is have the people at the people end of the scale, the rich, the 1 percent, or even the slightly less than one percent, have they started to rig the rules in their favor? Is that one of the reasons income inequality has increased?

00:05:28 TM: Let me break it down this way. There are actually two when I talk about the income inequality trend. There are really two trends. One trend is the skill-based trend where you’re seeing greater rewards going to skilled labor than in previous times. And that is really a function of the high school graduation rate ceasing to increase in the 1970s, it actually dipped a little bit and then leveled off. The story of the 20th Century economically is that there were steadily greater technological demands made on workers, starting from the beginning of the 20th Century. Through to 1970, you saw that the high school, the percentage of the population that graduated from high school rose and rose and rose to meet the technological demands of the marketplace. But it stopped rising in the 70s and of course, the technological demands only continued to increase with the advent of computers and a number of other technologies. We saw that skilled labor, the price of skilled labor sped up. It was a simple supply and demand problem. The causes of that were faulty education systems, faulty public education systems for K-12. We’re all familiar with that critique. Another problem was that colleges were getting harder and harder to pay for. Tuitions have in real terms, doubled since the early 1980s. Even when you factor in inflation, it’s still twice as much as it was in the early 80s. And the other big piece of that skilled based divide it the decline of labor. Belonging to a labor union was roughly equivalent to having a college degree at one time. But fewer and fewer people belong to labor unions. The union density peaked in the early 1950s at close to 40 percent in the private sector. Now in the private sector it’s down to about seven percent. So that’s the skill based divide. Then there’s the one percent versus the 99 percent. The rich vs. everybody else. The causes there are pretty simple. One cause is the runaway in CEO pay and that’s certainly a rigged game. You’ve got CEOs being rewarded by their boards,
often have cozy relationships with members of those boards. There’s a whole industry of pay consultants that were brought in to recommend what the CEO should be paid but they provide a range and of course the board always chooses the top of that range. You also have some of it, I’m afraid, has to blamed on Bill Clinton. He had what sounded like a very good idea during the 1992 campaign. He promoted this idea that we should cap the tax deductibility of CEO pay above the million dollars and as Neil Minow, a pay expert, a corporate governance expert said to me, “Two things happened. First thing happened was everybody got a raise to a million dollars and the second thing that happened was that corporations started shoveling up stock options to corporate CEOs to replace salary.” There were absolutely no breaks on the giving out of stock options because for a while they weren’t even on the books because financial officers took the absurd position that they couldn’t value them because they wouldn’t know what their ultimate value would be. To which Neil said, “Fine, can I have some then?” It was just absurd that they pretended that these stock options had no value. Another problem was that the stock options, in theory, sound like a sensible reform because if the company prospers, then the CEO prospers but in fact, the rise of the value in stock options mainly reflected the rise in the value of the overall market. The awards were not calculated based on the performance of the individual company and for all those reasons, CEO pay just spun completely out of control. The other cause for…

AG: Let me interrupt for a second. There’s also another thing that Clinton did. Wasn’t there the…(interrupted by sound adjustment). Didn’t he reduce the tax rate on interest and capital gains?

00:11:23 TM: Yes. Also, under Clinton we saw a reduction on capital gains rate. It’s very ironic. It was Ronald Reagan who set the capital gains who set the tax rate the same as other incomes. Why should capital gains be taxed differently from regular income? Income is income. In the 1986 tax reform bill that’s what President Reagan did. Then, under President Clinton, of all people, we saw a drop in the capital gains rate and then it dropped again under George W. Bush. And that had an impact. A powerful impact as well.

AG: So you were saying, before I interrupted you, there was an issue that was CEO pay.
00:12:21  TM: Right, and then the other issue was CEO pay. CEO pay was one factor and the second factor was the financialization of the economy. That’s been happening since the 1970s. We’ve seen a steady erosion of regulation on Wall Street. Wall Street used to be tightly regulated, now it’s fairly loosely regulated. That was a result, partly of active deregulation and partly a result of what Paul Pierson and Jacob Hacker called drift, which is when the economy evolves in certain directions and new regulations are not created, new regulations and laws are not created to follow the economy into these new areas. It’s as a lobbyist, a lot easier to prevent something new from happening than to actually affirmatively pass a law. So drift is a major factor in the gradual deregulation of the financial economy. So deregulation was an issue. Another issue was the conversion of investment banks from partnerships to corporations, which gave them a huge amount of money to play with. Suddenly all these guys were playing with other people’s money and that’s where you start seeing this big-time leverage that proved to be so dangerous but financially rewarding for the people that were in the financing industry.

AG: You buy a company with very little of your own money.

00:14:06  TM: That’s right. And the rise of the private equity market, which were initially called leverage buyouts but they got sort of a bad rep in the 1980s with the Michael Milken scandal and so they entire industry was renamed. We no longer call it leverage buyouts, we call it Private Equity, which sounds so much more civilized. It's a form of capitalism, it manages to reduce risk to pretty close to zero. You purchase existing companies, you load them up with debt and you collect fees for running the companies. And hopefully, if things go well, then you take the companies public and make a lot of money. If things go poorly, you don't make as much money, but you don't lose money because you make so much money on fees.

AG: It does seem that one of the things that’s happening all of the time as the one percent gets, particularly in the financial industry, further and further away from the rest of us. There’s a tinkering of the worlds constantly in terms of how things work. My favorite example is the carried interest loophole, and the hedge fund loophole where you have…it's not about risk and reward, it’s about rigging. It seems to me to be about rigging the game and rigging the rules so that the game works in your favor.

00:15:58  TM: And it’s bipartisan rigging. Larry Bartels, political scientist has done some interesting work looking at the income distribution
effects of having democrats vs. republicans in the White House. He produced some really interesting information that we turned into a chart for the book. What you see, quite plainly, is that going all the way back to 1948, under Democrats, the biggest income gains went to those at the bottom and tapered up as you went up the income scale. Under Republican presidents, the biggest income gains went to those at the top and tapered off as you went down the income scale. So that conforms to our cartoon notions of the differences between democrats and republicans. But really, that’s just a story about the income divide between skill levels. When you got above the 95 percentile, the distinctions started to break down. You saw that the rich and certainly the one percent do as well under democrats as well as republicans.

AG: Why?

00:17:08 TM: I think they’re a very powerful lobbying force. Part of the story is that in the 1960s, corporate America looked around at what was happening in government. In the late 60s in particular. It scared them to death. First you saw the rise of the consumer movement, Ralph Nader, deeply hated figure by corporate America in those days. Then you saw the rise of the regulatory state in the late 60s and early 70s. If you go back to 1960-1961, there were only a small number of full time corporate lobbyists in Washington DC. Perhaps a dozen. One of those people was Bryce Harlow, who is probably best remembered as kind of a good guy in the Nixon White House, one of the honest men in the Nixon White House. An enemy of Haldeman’s and Ehrlichman’s, brought in after they resigned to try and clean things up. The White House really couldn’t be cleaned up, so he and Melvin Laird, the other guy brought in to clean things up, left. But Harlow, in addition to being an honest man in the Nixon White House, was also a rabid, rabid anti-regulatory lobbyist. He was a corporate lobbyist in Washington and he started going around the country Evangelizing for great corporate involvement in what was going on in Washington. He made it quite clear…(interrupted by vehicle)

AG: Take it back a bit.

00:19:11 TM: Harlow was a lobbyist for Proctor & Gamble, he went around Evangelizing across the country, saying that we’re getting our pants beaten off here, we need to fight back. And he said, he was a very plainspoken man, delightfully so, nobody speaks this plainly today in the lobby world. He said two things, which were especially notable. One thing he said that, I’m not getting this quote precisely
right, but he basically said, “You know when business really tries, when we really, really try, we never lose.” And the other thing that he said was that, “The ultimate enemy here was the government wanted too much equality.” He made that connection between the build-up, the necessary build-up in corporate power in Washington DC and the government’s alarming interest in promoting equality. So Harlow got the business community interested in building up their presence in Washington DC. A few other people were saying the same thing around the same time—William Simon, who was Treasury Secretary under President Ford, also was preaching this message after he left the White House. And Louis Powell before he joined the Supreme Court was preaching this message. He wrote a famous memo for the Chamber of Commerce where he to, connected the need for greater corporate presence in Washington with this alarming push for equality. Corporate America heeded that call. You saw an enormous build-up during the 1970s in corporate lobbying power in Washington that continues to this day.

AG: Has it accelerated?

00:21:16 TM: I don’t know that it’s accelerated. The biggest acceleration probably was during the 1970s because they went from zero to a significant number of lobbyists but I don’t think it’s slowed down.

AG: Well one thing they did, correct me if I’m wrong, was load it up in terms of supporting think tanks and sort a battle of ideas. One thing that they seem to have done very effectively is to be able to, they’ve managed to create a caricature of the idea of equality. That people who talk about equality, they really want flat equality across the board that everybody has to be the same and what they really want is to destroy capitalism. They wanna create, you know, a quasi-Socialist country where everybody gets the same…

00:22:19 TM: Then they capitalized on the 60s. I mean there were a few years in the late 60s and early 70s where there where the left was talking some pretty radical talk but part of their strategy was to maintain the left with still talking that talk long past the point when they were. By the mid 1970s, all that kind of talk had died down, but the corporations, to this day, they still harp on fears that we’re gonna see a return to the politics of the 1960s.

AG: Well, they call Obama a socialist.

TN: Mhm.
AG: Which is ironic particularly from a financial standpoint when you consider how socialized the rescue operations are.

TN: Right, right, yes. Absolutely. Um.

AG: Um, but it does seem to me that most Americans seem to agree on the idea of equality of opportunity. That's supposed to be the American dream. You know, um, but, to hear a lot of people talk, like, Connor, and others, uh, you know, inequality is a good thing because it will force those people at the bottom out of that safety hammock and force them to work hard and that that'll be a very good thing but the fact is, do we really have equality of opportunity? What about the people who aren't at the top? Is it as easy for them to make it in America? How do we compare to other countries in that regard?

00:24:00

TN: Hard for a middle-class American, very hard for someone at the bottom, so hard for somebody at the bottom that overall mobility in the United States lags most other advanced industrial democracies. There’s no ACD study that, um, asses only of the United Kingdom and Italy, um, this is, you know, runs completely counter to what peoples’ notion of America has been for a very long time, we think of ourselves as the land of opportunity and, um, uh, the two, uh, people we really look to for our notions about mobility in the united states are – James Truslaw Adams, Aljer, uh, everybody’s heard of Adams, but they’ve heard of the phrase that he invented which was the American dream, um, Adams and, and Aljer both lived, uh, at a time when there really was very rapid upward mobility in the United States, during the period of the American industrial revolution, late 19\textsuperscript{th}, early 20\textsuperscript{th} century, which both of them experienced, um, we really did have spectacularly rapid, uh, uh, increase in upward mobility. Also spectacularly rapid increase in income inequality because the entire economy was shifting from an agricultural economy to an industrial economy. Um, but we haven’t really seen that level of upward mobility since, um, uh, it, uh, it declined and then it, uh, it picked up again in the 1950’s and then, uh, casual severance suggests that it really has not increased at least going back to the 1970’s, maybe going all the way back to the 1950’s. A number of economists think that declined somewhat.
AG: You mean there’s a, there’s a fact that suggests just, suggests the very thing that we, uh, if we talk about, um, the American revolution, I mean, but, look at England and conditionally they have a very sort of in practice, ridged system that we don’t like and we don’t fit. That somehow your parent is, uh, is more important than, you know your ability. You were saying, what was it, what was the thing in – about a man’s future earnings and his height and weight?

00:26:38

TN: That’s right, yes, you are likelier to, uh, match your parents earnings relative to the rest of society than you are to match their height and weight, which is, remarkable of course because height and weight are literally biologically inheritable. Income is not biologically inheritable. It’s not supposed to be heritable at all and yet clearly it is in our democracy.

00:27:04

AG: So what do we think, like, you know I sketched off our brief, uh, the brief notion of what we’re doing in the documentary – You had somebody rose up on…[cut of, end of clip]

00:27:17

TN (beginning cut off): …And that is clearly necessary in order to have a more, um, equal society. Um, to have more equal opportunity in addition to more equal outcomes, uh, access to a good education is, uh, obviously going to be different. Um, uh, if you’re growing up on Park Avenue in Manhattan you will most likely be going to a fancy private school, um, if you’re growing up on Park Avenue in the Bronx, I don’t know how good the public school is for that area but in general, public schools in low income areas are not very good, um, and even if you do very well in school how are you going to get to college? Very hard to get to college if you aren’t pretty affluent. Um, the, uh, the price of, uh, college tuition has been rising and rising and rising and it’s the colleges have been, pricing themselves out of the market for lower income people.

AG: What about health in and of itself. I mean, you know, some woman, I was talking to some woman about health care in this country – of course our mortality rates are not very good compared to other industrialized countries… she was explaining and she said well that’s not, that in particular doesn’t have much to do with our
health care system, it has to do with the fact that we accept a level of poverty in this country that other countries simply won’t accept.

00:28:41

TN: That’s right, that’s right. Yes, I mean, it is very, very hard to uh, pull yourself out of extreme poverty in the united states, it almost never happens. It does happen now and then, but, um, it almost never happens.

AG: And to hear this guy Conor, and I don’t want to you know, inequality can be a good thing, because it forces people to pull themselves up by their ear straps, if you don’t have anything you look at someone who has a lot and you’re really going to try hard to succeed.

00:30:47

TN: Well, you know the presumption in my criticism of income inequality and I think just about everybody’s criticism of income inequality is that we need some of it to be sure if you believe in capitalism as I do and as most liberal critics of income inequality do, virtually all of them I think, then you have to believe in some, some level of income inequality in order to make it work, you have to reward skill you have to reward effort. Uh, the question is, how much do you need to reward it? We have rewarded it less in the past during some very prosperous times from 1934-1979, uh, we had the great depression and we had World War II but we also has the post-war economic boom that lasted a very long period, incomes became more equal, either more equal or they remained stable, relative to one another and we had a level of prosperity that we would absolutely kill for today. Um, so obviously, uh, we were sufficiently incentivizing the job creators back in the 1950’s and the 1960’s, even when the top marginal income tax rate was 90%. Today the top marginal income rate is 39% and we’re hearing a lot of screaming and hollering about the prospect that it might raise up. Um, so, uh, it’s a question of how much income inequality you need to have and I think most urgently the issue is the fact that income inequality has been expanding steadily for a very long time. That is the source of true alarm. Uh, back in the 20th century, um, the mid-20th century, the 1950’s – Iman Kuznets, the Nobel prize-winning economist, looked at the prevailing trends and he observed that there was a trend towards growing income equality not just in the united states but in other advanced industrial nations and from this he formulated a theory, he said that, uh, when an economy moves
from an agrarian to an industrial base, you’re going to see a great increase in income inequality but as that industrial economy matures, you’re going to see a move towards greater income equality. He didn’t put it quite this way but the thrust of what he was saying was that this was a mark of an advanced civilization. That we would see a move towards greater income equality. And, uh, this remained an plausible theory to explain the 1979 – economists put great stock in it until the trend reversed itself in 1979 and at first economist thought that well, this is just a quirk in the statistics but it continued and it continued and eventually economists had to conclude that either Kuznets was wrong or that we were going through a transformation similar to that of the industrial revolution which I actually find implausible I think people who say that, uh, the move to a post-industrial economy, uh, people who say that that’s as wrenching as the move from an agrarian economy to an industrial economy are not paying very close attention to history.

AG: I mean, it does seem, there’s a kind of a base about it, is there? I mean, if, if there’s growing income inequality and all the money is flying up top, who’s gonna end up buying the products that keep the economy going.

00:33:05

TN: Well, right, right. This is the puzzle of Wal-Mart, right? They lower and lower the price of goods and that’s supposed to be a good thing for lower income Americans and in many ways it is but, uh, you do reach a point where, uh, you have to pay people enough to be able to purchase those good. Wal-Mart in addition to being a force for lowering the price of, of, goods in America is also American. And they’re not paying those employees very much. And they’re not letting them unionize, there has been only one successful attempt to unionize any Wal-Mart ever in the United States and that was in Texas, once the meat-cutters voted. There was a small number of meat-cutters who formed a unit and were able to vote to unionize and within days Wal-Mart concluded that it was no longer going to be cutting meat. It’s was only going to sell packaged meats. The system of course that has absolutely noting to do with their loss in this union vote.

00:34:09

AG: Are we concerned, I mean, there’s another phrase that I’ll use about income inequality which is a kind of, ticking time bomb thing. I’m reminded of the Bob Dylan line, “when you ain’t got nothing,
you’ve got nothing to lose.”

00:34:23

TN: Well that’s, that’s exactly right, I mean you hear a lot of talk about how we need to incentivize, you know, the job creators at the top, but you don’t hear very much talk about the need to incentivize people at the median. Uh, median income has, uh, scarcely risen going all the way back to 1979 in comparison to the period before it. It has risen but compared to the post-war years it hasn’t risen very much compared to the rise in top incomes. It hasn’t risen very much and, uh, if you just look at the last dozen years, it hasn’t risen at all, it’s actually gone down a little bit, now during that period the last dozens years as median income has gone down, productivity has gone up a lot and the economists scratch their heads at this. They say, well, our understanding is that when productivity goes up, that’s when you see increases in the median wage, and, that hasn’t been happening. Uh, the economy has somehow figured out a way to avoid paying, uh, most workers for their productivity gains. Now if I’m a worker, working at the median and I’m affecting productivity gains, what’s in it for me? Why should I care whether I affect productivity gains, why should I care whether my company prospers, why should I care whether the country prospers if none of that is going to redound to my benefit. The only reason to care is the fear of losing your job. And I think that, that, uh, that has got to have a deadening effect on the economy.

00:36:00

AG: Right and we, one of the interesting things is this notion of – and it came out of the Think Tanks and I don’t know who said it but it seems to me that salaries, salaries have series of ideas kind of like –which was simply said that into, you know, if you, if you see it, you, --- everything will work out for the best, and that’s not only in an economy but it’s in a political economy that we say, you start tinkering with the normal for your benefit that’s a good thing, so people are sort of saying, well, how about if productivity in our company increases, how about CEO pay will go up to say, what is it now, what is the average CEO pay?

TN: I can’t remember.

AG: But anyway.
TN: It's very high.

AG: It's increasing, is it not?

00:37:07
TN: Yes, it has been increasing substantially. Uh, and again, largely because of, uh, stock options. There are some people who quote figures that, where they claim that CEO pay has been going down and that to arrive at that conclusion you have to, uh, make a very tricky interpretation of the value of stock options. Um, any reasonable look at the statistics shows that the uh, CEO pay has been climbing and climbing and climbing

AG: So...

00:37:34
TN: Uh, but the, yes, and I would agree with your broader point, you know the, the republican ideology has been changing in very disturbing ways over the last couple of decades. Uh, there was this idea that republican had and conservatives had, uh, starting with senator Russell Long who invented the earned income tax credit which was a tax break for those at the bottom, refundable tax break, uh, in order to reward work. It was a conservative idea. We think that the working poor are the deserving poor and we wish to reward them for that. Um, we would like to treat them better than we treat people on welfare. So this became a prevailing notion. And Ronald Regan vastly increased the earned income tax credit. Bill Clinton came in and bought into the idea as well. He also greatly increased the earned income tax credit. It ended up being a very meaningful poverty program, uh, largely unrecognized because it was just occurring in the tax system. And, uh, this was all based on the idea that, that the working poor were virtuous and that we want to reward them for working. Well, uh, fast-forward to today and what you’re hearing more and more from republicans and from conservatives is that we need to broaden the base. That’s code for, we need to tax poor people, we need to, uh, reduce or eliminate the earned income tax credit and put people at the bottom back on the tax rolls. Um, this is just astonishing to me. You know if you look at the income tax going back to 1979, um, it’s actually slightly more progressive today, then it was in 1979, which is very counter-intuitive because we’ve seen such a massive reduction in marginal
tax rates on the rich, but what...

AG: Hang on for a second… [pause for loud truck to pass]

00:39:44

TN: Okay, um, conservative republicans today talk about broadening the tax base, what they really mean is putting people at the bottom back on to the tax rolls, uh, uh, these people are supposed to be virtuous working poor but, um, republicans, uh, no longer want to reward them, they want to raise taxes on them so that they can lower taxes on the rich, which just blows my mind. And, uh, if you look at the income tax going back to 1979, um, one surprising thing you’ll find is that it’s slightly more progressive today in 1979 in spite of the great divergence and the reason is that even though the top, the uh, top marginal rates on top incomes have come down, um, we’ve taken so many people off the rolls at the bottom that the income tax ends up being slightly more progressive. It’s just about the only good thing that’s happened for poor people in the last 30 years and republicans would like to undo it.

00:40:48

AG: I mean, um, but, is income inequality just a matter of altruism, you just want things to be better, I mean why do we hear so much about the fact that there’s rising income inequality.

TN: Whenever I get asked why we should care, I always begin with a preface, which is, that this is not a question that would’ve been asked 100 years ago and it’s not a question that would’ve been asked 50 years ago, of anyone. The reason it would’ve been asked, wouldn’t have been asked 100 years ago was that 100 years ago the elites in America were afraid that there was gonna be a violent overthrow of the US government. Um, we had, uh, we had anarchists hurling bombs at capitalists, we had socialists speaking very radically about the nature of the U.S. government, we had attorney general Palmer’s house was bombed and then we had the Palmer raids, um it was, uh, probably the moment in American history where we were closer to, uh, violent revolution than any other time, you know republicans talk today about class warfare, any discussion of the existence of class is class warfare, real class warfare was happening at the turn of the century was quite different. People got killed. Um, uh, so, uh, as a result of all of that
turmoil, 100 years ago, um, elites were very aware of the fact that they couldn’t allow income inequality to get too far out of hand because there was already so much unrest. And that was a real concern, it was understood. Um, and going back 50 years this question never came up because 50 years ago there was a cold war. The United States was competing with the Soviet Union for parts and lines, uh, in other nations, 3rd world nations and elsewhere and the United States had to make a case for itself. Uh, uh, against it’s rival, the Soviet Union, and, uh, one concern was that, uh, we couldn’t let income inequality get too far out of hand or else we wouldn’t really be able to make a very good case to those other countries who we wanted to side with us versus the Soviet Union, now today, there is no, uh, chance that there will be a violent overthrow of the U.S. government and there is no cold war. So now the question does get asked. Um, so that’s my preface to the, to the answer. Uh, now the answer, um, I have a political answer and I have an economic answer the political answer is that American society as it grows more unequal, based on income, grows more tribal.

00:43:35 You see, um, uh, greater separation, uh, geographic separation, which is documented very well and, um, the big sword, a book by Bill Bishop, um, also documented surprisingly by Charles Murray a conservative writer in his recent book, Coming Apart, um, uh, he, he writes, uh, I think very persuasively about the fact that the middle class and the affluent have become strangers to one another, they have very different values, um, they have very different behaviors, much of the behavior of the middle class has turned self-destructive, um, where, where Murray drops the ball is that he pretends this has nothing to do with the rise of income inequality, he seems to think it has to do with the 60’s and culture. Um, which is of course absurd. It has everything to do with income inequality. And, um, it is very destructive and very alarming, uh, our politics today, um, are based on resentment. Resentment is probably the most powerful driving force in American politics today. Um, much more so than in most of American history maybe more so than all of American history. Um, and that is, I think, largely the result of income inequality. I think, um, even the tea party, I believe is driven to some extent by, um, class resentment, it just so happens that the resentment is directed not at Jamie Diamond or Lloyd Blankfein but at Barak Obama and I think that’s mainly because when you think about the elite, the people who are on top in America, well most people don’t know what Lloyd Blankfein looks like, most people haven’t even heard of Lloyd Blankfein, but Barack
Obama, he’s the leader, he’s what they’ve got. And so the resentment gets directed at him. And we also have the Occupy Wall Street movement which is also driven by a similar kind of resentment, but there you do see the resentment directed at, Wall, well maybe not Blankfein or Jamie Diamond directly but certainly at Wall Street and at, um, a number of aspects of the capitalist system. So, our politics has been polluted by this, this, uh, resentment and this mutual hostility and the decline of the notion of E pluribus unum, that’s my political answer. My economic answer is that as the middle class gets dealt out of prosperity its, uh, motivation to contribute to prosperity diminishes and I don’t see how an economy can work very long when people, uh, earning at the median have nothing to gain from productivity increases and prosperity.

00:46:24

AG: What about the social safety net- has it become a hammock?

00:46:30

TN: Has the social safet... Uh, you know that question I think is largely irrelevant to the whole issue of, um, the great diversions because again this is, uh, a divergence in the middle class and the rich and there really isn’t much of a social safety net for the middle class, Charles Murray in his book tried mightily to argue that the working class is on welfare, but of course welfare never was available to men who are the people hurting the most in the middle class and, uh, it’s also true that, um, uh, there isn’t really much else that, uh, there aren’t many other programs that mean can turn to, he tries to argue that, um, that, uh, you know, an excess of claims for disability has become a new kind of welfare. The numbers just don’t add up. Uh, now when you talk about the poor, um, it doesn’t seem to me that the hammock has gotten any more comfortable, we had welfare reform in 1986, a huge reduction, and our, um, uh, payments, welfare payments. Um, and, uh, it was expected that there would be adjustments made when the economy declined, um, that was part of the promise of the 19-uh,1990’s welfare reform. Uh, uh, part of the promise of the 1996 welfare reform was that, uh, when economic condition worsened that provisions would be made for poor people, well, economic conditions did worsen, of course, at the end of the otts [?] and no provisions were made for poor people, poor people have suffered terribly during the recession and during the slow recovery that’s followed so it’s hard to see that life has gotten especially cushy for the poor.
AG: You know I’m going have --- I was invited by a guy named Tim Phillips who runs for David Koch Americans for Prosperity, and I was invited out to their rally here in Washington when the Supreme Court was hearing arguments about Obamacare.

TN: Mhm.

AG: Um, what I found so interesting was that- and there were a lot of middle, I would guess, middle class people there - I mean not a lot but there were some, um, and they were screeching about, um, the idea that health care was going to take away their freedom.

TN: Mhm.

AG: Um, and it seemed very heartfelt and I wondered why, why would they think that? Uh, and how is that idea become so firmly entrenched when it seems to me that, that, you know, for the middle class health care was a huge issue.

TN: Mhm.

AG: Um, you know, Barbara Ehrenreich wrote a wonderful book a couple of years ago called ‘Bright Side’ – that, that looks at this whole, uh, tendency of American to, uh, resist any community minded solution to any problem and to think that self-reliance is the solution to all problems. Including having cancer. That the book was inspired by her having breast cancer and she was just infuriated by this, this happy talk that said, you know, if you really put your nose to the grindstone you can cure yourself of cancer, um, which is one of the more maddening things that cancer patients, uh, hear. My wife, who died of cancer about, uh, seven years ago, uh, also heard a lot of that – well you gave yourself cancer. Um, and uh, it’s a, it’s kind of a, uh, popular idea for, uh, new agers especially and, um, uh, Barbara had the insight that this was really not unique just to the area of medicine, that in many, many areas of American life people have trained themselves to think of things that clearly, uh, are the result of forces bigger than themselves, uh, as being exclusively, uh, a challenge to their self-reliance. And self-reliance is a wonderful thing and it’s an American strength that we believe so firmly in it but we can’t believe in it to the exclusion of everything else. Um, I mentioned earlier that we’ve seen a huge decline in union representation in the U.S. I think one of the great values of the union beyond what it’d doing in the
workplace is that it has taught working class Americans to think collectively. Um, you know I don’t think it’s any coincidence that you see a, uh, pretty much you see union members are much more likely to vote democrat than non-union members. I think that, uh, the notion of thinking collectively does not come naturally to Americans and that you need institutions like unions in order to persuade people that there is such a thing as shared interests and that people can work together to achieve social change.

AG: Which is of course part of addressing the issue of income inequality.

TN: The, uh, you know what’s funny about Obama-care, Obama-care is actually going to achieve huge, um, uh, it has you know huge implications for inequality. Um, not strictly speaking income inequality, per say, but there is going to be a huge expansion if the bill is allowed to stand of Medicaid coverage for low income people. It’s a significant transfer of wealth- the Obama administration has not mentioned a word about this because I think they’re terrified of being painted a radical socialists.

AG: As the welfare president [TN: Mhmm} Um, one of the problems of course with income inequality, I mean, two sort of broad issues- I’m not going to keep you too much longer- uh, I’m a little bit mystified why there isn’t more anger over income inequality when we consider, uh, you know most Americans when pressed have a certain, you know have a pretty raw nerve when it comes to a sense of fairness, a sense of justice. And yet, you know, even after the 2008 crisis, which you know was reckless in the extreme and the bankers got bailed out, but most people who have underwater mortgages are not being bailed out. You know, you don’t, I don’t sense a huge amount of righteous anger…

TN: Yes but you do sense some. I would caution about being too pessimistic about this because at this moment we are seeing more interest in the issue of income inequality than we have for the past third of a century and I think that can only be a good thing. I credit the, uh, Occupy Wall Street movement with raising interest in this issue, the media got very interested in this issue, the president of the United States has talked extensively about this issue, the
chairman of the council of economic advisors, Alan Kruger, has talked about this issue and has produced some research showing, uh, a relationship between a growth in income inequality and a reduction in upward mobility. Um, I don’t remember hearing any talk about this during the Clinton administration and of course you certainly didn’t hear that much talk about this during the Bush and, uh, uh, the two Bush administrations and the Regan administration. You did hear George W. Bush acknowledge once that this was a real problem. Um, he, he, I begin my book with a quote from Bush where he says income inequality is real and, uh, but you didn’t hear much more from him about that and you didn’t hear him talking about doing anything about it apart from trying to improve the conditions of the schools which is certainly worthwhile but he was never going to take on the 1%.

00:54:56

AG: One of the issues that- one of the solutions you have of course to income inequality is somehow, you know, a reinvigoration of the union movement… but there’s another thing that concerns me which is when you have a growing income inequality, more and more money goes to the top, and then you have an ability of those people at the top to apply that money in the political process in ways that are allowed now to be unprecedented…oh hang on for a second.

00:55:28

TN: Can I just---

00:55:59

AG: How much time do we have, Trevor?

[Cross-talk]

00:56:47

AG: Okay, so, hold that thought, Blair, and let me just get, uh, the money and politics question done first.

TN: Mhm.

00:56:57

AG: So, um, my concern is that, as you, as, as, as more wealth goes to the top and less goes to the middle, um, you have more
ability of the people at the top to continue to manipulate the rules by the application of money which seems to be the best way, um, to get results in Washington.

00:57:18

TN: That’s true. But that’s been true before in our history, if you look at the late 19---

00:57:22

AG: It’s not- you don’t think it’s accelerating now, you don’t think it’s more of a problem now that it ever has been?

00:57:26

TN: No I think it was worse at the end of the 19th century. The era of the robber barons, the gilded age. Uh, eventually there was pushback from the progressives and from Teddy Roosevelt. You, um, uh, you know we have seen some small progress in recent years through the Dodd-Frank legislation. Uh, it’s, uh, it doesn’t do everything, it’s just a first step, clearly, uh, towards what needs to be done, but it is a first step that hadn’t been taken before, um, and that’s worth paying attention to. Uh, example: Say on payrolls under Dog-Frank- shareholders, uh, are now allowed to vote on pay-packages for top CEOs. Not a binding vote, but, um, these shareholder votes are taking place and they’re causing serious embarrassment for corporations and the tentative early read is that they are having some impact. I opened my New York Times a couple of months ago- the lead story in the New York Times was that share holders had voted down the pay-packages for top executives at Citi Group. And I thought to myself, ‘Well, that’s not going to change the pay-packages in itself, but I bet Citi Group’s board was not to happy to see this be the lead story in the New York Times.’

00:58:50

AG: I guess the example- my more pessimistic example comes back to the whole hedge fund loophole, the one that keeps getting promoted year after year after year in Congress and always gets shot down, particularly by the people who tend to be in charge of the baking committee- Democrats and Republicans.

00:59:06

TN: Right, well that’ll eventually get closed, it might take a long time but, uh, you know what Martin Luther King said about the arc of justice I think also applies to the arc of economic justice. Um, so we
will see some improvement eventually, I think. And then after we see some improvement, things might get worse again. I think these trends move in cycles.

00:59:31
AG: Blair, sorry, what did you want to-

00:59:33
BF: You paint a very direct relationship between the decline in unions and the decline in the middle class- if you could just walk us through that relationship just very briefly it will help with the other things you were saying.

00:59:49
TN: Uh, if you plot on a graph the decline of the middle-class and then you plot on a graph the decline of unions, you will find that they are virtually the same line. These two trends are very intimately connected. Another thing you will find is that the, uh, amount of, uh, GDP that goes to labor versus capital has shrunk. Um, this, uh, according to, uh, an economist with JP Morgan-Chase, um, so I figure if they say it, uh, it’s pretty likely to be truth since they have every reason to not want to believe it. Um, it’s exactly what you would expect during a period when labor is declining. And, not just, uh, labor, and it’s not just that labor is declining but that the power of shareholders has been increasing. Uh, we are seeing a movement away from labor towards capital and that’s the result of the decline of labor unions. You know? We’re always hearing the term “Big Labor” bandied about and I always wonder what the hell people are talking about when you’ve got 7% of the private sector work force. It doesn’t sound very big to me.

01:01:06
AG: It is interesting to me though, that there is some, some different screw loose in the heads of some of the 1% in the sense that Henry Ford, you know was smart enough to understand that you know, workers had to earn enough to buy the cars that he was producing. Why is it that, that, uh, the current ideology seems so insistent on, on figuring out rewards for themselves to produce and no rewards for the people at the bottom.

01:01:41
TN: There’s a reluctance to recognize the relationship between inequality and prosperity, or lack of prosperity. The income share
for the top 1% in 2007 matched the income share for the top 1% right before the 1929 crash. Um, maybe it’s a coincidence. But, that seems unlikely when you have that kind of an imbalance in the economy it creates instability.

AG: Tim is there anything else that you think is really important for us to understand about, um, inequality in this country and the trends and how we will have to reckon with it, that we haven’t discussed.

TN: Well, I could talk- this might be a little abstruse- I could talk a little bit about why I pay more attention to inequality than wealth, um, there’s a little history there, the progressives, really, were the first ones to talk about income based inequality because they were the ones who, um, um, uh, sort of made their peace with the industrial economy.

AG: You mean the idea that some people would get wealthy?

TN: No, that we would have a- in an agrarian economy, wealth is the only thing that matters because you need to have land to have your farm to, you know, grow your crops, feed your family, bring the surplus to market. Income isn’t really relevant, you need wealth. But in an industrial economy what matters is, is income, industrial workers don’t grow their own food, they buy their own food at the grocery store. And for a long time, the, uh, the left of center, uh, politically in the United States really didn’t want to recognize that we were gonna be an industrial nation. You know, they thought of, uh, industry as dark, satanic mills and they wanted to restore the agrarian ideal, and it wasn’t really until the progressives that you see, um, liberals making their peace with the industrial economy and in making their peace they, uh, realized that they had to look at income as the true indicator of economic well-being as opposed to wealth.

AG: Now speaking of that- and we touched on this before but let me ask the question more directly- why does it make sense or why doesn’t it make sense to have passive, uh, interest or you know stocking income being taxed a so much of a lower rate than regular
earned income.

TN: It doesn’t make sense—income is income. Capital gains should be taxed just like everything else. It makes absolutely—I’m sorry. It makes absolutely no sense to tax capital gains differently from other income and that great leftist Ronald Regan recognized that in 1986 with the passage of the tax reform bill.

AG: Which was meant to bring the rich into alignment.

TN: That’s right, it did bring them into alignment—we were taxing for awhile capital gains at the same rate as regular income and then, uh, that got changed under Bill Clinton.

AG: What about the incentives at the top? I mean, I sometimes think of it as, the hooker and Ferrari formula, the idea that you have to really, you know, give people at the top an enormous number of hookers and Ferraris to keep them investing in production. Do you think that—does the evidence bear that out? Do we really need to give them such enormous incentives in order to produce?

TN: No, I think it’s degrading, actually. To the people at the top. I think, you know, the notion that you have to, uh, that they have to feed at the trough in order to want to do a good job insults them. I’m surprised that they’re not more insulted by the notion themselves. Um, uh, I should think that they would want to let us all know that they are motivated primarily by their desire to do good work. Um, that yes they want an economic reward but that they’re not going to you know, pick up their toys and go home if they don’t make $10 million.

AG: Blair, we good? Excellent. Ten seconds of room tone.

[End File]