American inequality in the past: Myth and reality

Among the novel objects that attracted my attention during my stay in the United States, nothing struck me more forcibly than the general equality of condition among the people.

Alexis de Tocqueville,
Democracy in America, 1835

Men would not accept inferior wages and a permanent position of social subordination when this promised land of freedom and equality was theirs for the taking. . . . In a word, then, free land meant free opportunities.

Frederick Jackson Turner,
The Frontier in American History, 1920

American myths die hard. For the most part their credibility has depended upon the eloquence of their proponents. But no longer must we rely on rhetoric to demonstrate a case. Sophisticated analytic techniques now enable economists to utilize incomplete historical data to draw firm conclusions about the past. With these new methods—the science of Cliometrics—it is possible to answer such questions as, What was American experience with inequality? What were the causes of trends of inequality? The questions asked are not academic, though posed and answered by academicians. Interpretations of America's past are having important effects on the routes being taken to industrialize the Third World.

There is, for example, the great "Growth-Equality Trade-Off Debate" now going on. According to Simon Kuznets—a Nobel Prize winner who pioneered in the field of income distribution—modern economic growth (that is, rising income per capita) generates rising inequality in its earliest phases and declining inequality later on. This interpretation of history has encouraged developing nations to put up with great inequalities in the hope that conditions for the poor will improve eventually, as the country industrializes. Some countries have permitted widening inequalities on grounds that, because the rich save more than the poor, the result will be faster capital accumulation and thus speedier growth. But the assumption that an "income revolution"—the equalizing of incomes late in the process of capitalist development following long episodes of increasing inequality—will occur eventually is by no means universally accepted. Indeed, Marxists believe that the rich get inevitably richer in a capitalist society, and doubt that an "income revolution" ever takes place.

Nor is it just developing countries that are looking to the American past for direction. America's future is predicated upon an interpretation of its past. Can we, when our capital plant is aging, afford welfare policies that redistribute money from the rich, who save, to the poor, who consume? What does history tell us about the past and future of capitalism?

Using data on wages, income, and wealth, Jeffrey Williamson and Peter Lindert in *American Inequality: A Macroeconomic History* document the trends toward equality and inequality from colonial times to the present. Working back from the World War II era, for which data abound—from surveys of the Census Bureau, the Federal Reserve System, the Institute for Social Research at the University of Michigan, and from federal income taxes and national income estimates—they have dug through earlier sources, by no means as plentiful, using probate inventories, manuscript censuses that recorded household real estate and personal estate holdings, local tax assessments, and the findings of other researchers to provide a comprehensive picture of trends in American inequality.

The trends

Williamson and Lindert have found that the ratio of wealth and income of the richest 10 percent to the poorest 10 percent in America has not been constant, that certain periods stand out as ones of rising or falling inequality. Furthermore, these trends run their course unaltered by those minor perturbations in the economy known as business cycles. Given that their data for early years may still be insufficient to support firm conclusions, they conjecture that inequality (among free Americans) before the Revolution was roughly the same as inequality today, but they record wide fluctuations between 1776 and 1980.

Their evidence points conclusively toward an epoch of increasing inequality during the four decades before the Civil War. Ironically, inequality in America began to surge during the era of Jacksonian Democracy—the era of the common man—and just when Tocqueville was lauding "the general equality of condition among the people." The Civil War reduced inequality within regions but increased it between South and North. Although Williamson and Lindert found no evidence of an inequality trend across the rest of the nineteenth century, the trend picks up again in the twentieth century so that, despite the absence of a landed aristocracy, despite the supposed value of the frontier as a "safety valve," and despite a national commitment to the concept of equality, inequality in America at the time of World War I had reached proportions on a par with inequality in the Old World: in Germany and Great Britain. Although World War I temporarily arrested and reversed the trend toward inequality, by 1929 it was back to prewar levels. And then, as Kuznets found, there occurred a dramatic and pervasive shift toward equalization in income and wealth through World War II. This trend did not reverse itself after the war. Instead, postwar distributions of income have been surprisingly stable, with a slight increase in inequality offset by government policy: progressive taxation and increased transfers to the poor.

Such, at least for now, is the picture of inequality in America. Williamson and Lindert, cognizant of the paucity of data for colonial years, offer a number of suggestions to researchers looking for material to either corroborate or contradict their findings. For that period and the post-Independence years there are of course hundreds of thousands of probate records yet to be examined; company records combined with local cost-of-living indices may produce new wage series; profit rates for industrial enterprises, land rents and values, poor-relief rolls, local tax records, and even the distribution of life expectancy (it being assumed that the death gap between the better-paid and the worse-paid widened and narrowed with economic gaps). No doubt further data will come from records as yet unsought, waiting in dusty corners for an ingenious and lucky scholar to use to fill in the missing pieces of American economic history. But it is the earliest period that is still in some doubt. The rest of the story is firm.

The causes

Having found confirmation of the supposition that inequality in income and wealth rose sharply with the onset of modern industrial growth in the United States, Williamson and Lindert direct their investigation to the explanation of this supposed correlation. Did one cause the other? Were they both results of some third phenomenon? Finding the sources of inequality trends is not a simple and straightforward exercise, as no single variable explains why a trend occurred in some periods and not in others. The causes turn out to be complex and commingled. Technological progress, labor supply, and capital accumulation are powerful agents in explaining inequality, but it is only with the help of a general-equilibrium model that Williamson and Lindert have been able to disentangle the ways these forces have operated to cause and perpetuate trends of inequality in the distribution of income and wealth. That is, by constructing sets of equations to represent the interrelationship of all the elements in an economy, the authors are able to determine the relationship of change in one variable to the others.

Williamson and Lindert find that the trend in wage inequality before the Civil War was caused primarily by extraordinary rates of capital accumulation, which favored skilled and high-wage workers in two ways: (1) capital can substitute for unskilled labor more readily than for skilled labor; and (2) capital accumulation, in raising income per capita, through the workings of Engel's Law ("the percentage importance of food expenditure declines as income increases") caused agriculture to contract as a share of national income, a process which threw many more unskilled than skilled workers out of jobs.

The next question obviously is, Why did capital accumulation rates rise so rapidly? The authors find the answer in the sectoral imbalance of antebellum technological progress. Because total factor productivity growth was most rapid in the industrial sector, especially in those industries supplying producers' equipment, it increased the supply and lowered the price of producer durables, making them a bargain relative to other commodities. Total factor productivity growth was biased toward sectors using large quantities of capital as a factor of production, rather than such other factors as labor and land. As these sectors expanded, they raised the demand for capital and skills nationwide, checking part of the reduction in cost of capital goods and raising capital accumulation, and, by further buoying up the wages of skilled labor, increased the gap between the skilled and unskilled. Thus it was not capital accumulation as such, but a sectoral imbalance causing capital accumulation, which was behind the inequality trend of the nineteenth century. Once a trend starts, it gathers momentum, since its effects are intensified by another economic principle at work: The dynamics of prices are such that in times of rising inequality, the prices of

AMERICAN INEQUALITY:
A MACROECONOMIC HISTORY

by

Jeffrey G. Williamson and Peter H. Lindert

Academic Press, $29.50

commodities purchased by the poor rise in price faster than other commodities, and conversely, in times of trends toward equality, these prices rise more slowly than prices of commodities less frequently purchased by the poor.

But that is not the whole story. Other complications enter. For example, the declining rate of growth in inequality at the end of the nineteenth century appears to have been caused by the decline in the proportion of the labor force that consisted of unskilled immigrants from lower-income countries. Then the inequality gap widened once again, with the further resumption of unbalanced technological progress. This was the era of cheap energy: of an energy-using, labor-saving economy.

But why, following a seemingly self-perpetuating trend of inequality, was there a marked reversal? What happened to the country after 1929? According to Williamson and Lindert and their general-equilibrium model, the leveling that began then was the result of both technological and demographic forces. Total factor productivity had evened out among the sectors of the economy (agriculture for example had become highly capital-intensive and virtually insignificant). Americans conscientiously limited the size of the work force by having fewer babies and halting immigration altogether. Proportionally there were many fewer unskilled workers.

The future

Complex though the causes of the American inequality experiences have been, it is clear that during periods of high inequality national income per capita grew no faster than during periods of leveling and lower capital accumulation. In fact, growth in income per capita has been quite stable across periods of full employment since 1839. There was, then, no growth-equality trade-off. According to the authors: "The link between income inequality and the rate of growth in income per capita is very tenuous and pliable. It depends critically on the *sources* of both the inequality and the growth" (p. 290). Thus there is no necessity for choosing between growth and equality. Certain kinds of investments which enhance the assets of the poor *may* enable developing countries to eat their cake and have it too: growth with equality. The word "may" is of course necessary, because there is no such thing as *ceteris paribus*.

As for the United States, the authors refuse to be as dismal as their discipline. They raise the question, If an economy which is strongly labor saving and energy using promotes inequality, then should not the era we are entering—one of energy conserving and labor using—lead us farther along the road to equality? Furthermore, shouldn't this nation have room for and need of the new wave of immigrants coming from Latin America? ■

Black statistics
continued from page 4

strated that in fact the accession of blacks to municipal leadership results in positive measurable gains for the black residents of that city.

In a comparative study of 43 cities with more than 10 percent blacks, using data on affirmative action required under the Equal Employment Opportunity Act of 1972, Eisinger found that although both black-run and white-run administrations respond to black voting blocs by using affirmative action techniques to lower such barriers to black public employment as civil service requirements and city hiring practices, under black mayors this trend is accelerated significantly. In some cities the mayor has personally pushed for the implementation of affirmative action plans; in other cities (Detroit and Atlanta), mayors have appointed black personnel directors to modify recruitment, testing, evaluation, and grievance procedures to increase minority employment. Eisinger concludes:

> The presence of a black mayor has clear incremental effects on levels of black employment and on affirmative action effort, enabling us ultimately to conclude that a significant portion of black gains is a product of black political power. This is particularly the case in the area of hiring administrative officials and professionals. . . . The penetration by blacks of these job categories ensures black influence in bureaucratic policymaking, the internal administration of various agencies . . . information gathering and control . . . and implementation of policies (pp. 31-32).

In a separate study Eisinger examined one of the tools enabling black mayors to respond concretely to the needs of urban blacks: the residency requirement. He found that in virtually every major city with a black mayor, this ancient device of machine politics—a requirement that municipal employees live within the city limits—has been passed or, if already on the books, enforced. The residency regulation provides employment for the unemployed blacks in a city by eliminating workers who live outside the city from the competition for local public sector jobs; it stabilizes in the city some portion of the nonminority population that wants to hold onto city jobs, and it keeps within the city the taxpayer moneys that are expended in the salaries of public employees. Thus the rule supplies not only jobs, but also money—no small amount.

Yet in politics as elsewhere the gains have been slow. One estimate indicates that if blacks continue to be elected at the rate that prevailed in the 1970s, by the year 2000 they will hold only 3 percent of the elective offices. Of 103 counties where blacks were a majority of the population in the 1970s, only one-third elected black officials. In 1972, only 50 percent of black eligibles were registered to vote.[5]