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Reich's bold remedies seem like pipe dreams

Dennis McDaniel | Dec. 29, 2010

AFTERSHOCK: THE NEXT ECONOMY AND AMERICA?S FUTURE
By Robert B. Reich
Published by Knopf, $25

The 2010 midterm election results continue to perplex: Why did so many middle-class Americans vote for candidates who embrace policies that fail to serve middle-class interests? In a country in which the median family annual income is about $50,000, why would we ever support candidates who openly advocate making the Bush tax cuts permanent, when rescinding these cuts would raise taxes on the wealthiest Americans by only 3 percent? Why, in a country in which 98 percent of the wealth is possessed by only 2 percent of the populace, has ?income redistribution? taken on the same connotation as ?ethnic cleansing?? How can a president be considered a socialist for bailing out Wall Street and the auto industry, and devising a health care program that would reduce the deficit?

Robert Reich?s latest book provides an insightful, easily readable analysis of the post-recession economy and the strange voting patterns that it brings about. Unfortunately, Reich?s solution -- a bold reorganization of the economy -- seems like a pipe dream in the new Republican order.

Reich has earned the credibility to make his analysis and proposals persuasive. University professor and former secretary of labor during the Clinton administration, Reich is a prolific author who specializes in clearing the fog of economics for the general reader. *Aftershock* is characteristic of the Reich canon: straightforward, savvy, lucid and slightly left of center.

For Reich, the root causes of the recent ?great? recession are similar to those that caused that other ?great? economic collapse of the 1930s: a wildly skewed distribution of income. Reich?s analysis of the data likens the gap between rich and poor in the 1920s to that of the present day. Only by ?spreading the wealth around? did America dig its way out of the Depression. Enlightened economic reform brought about the ?Great Prosperity? that Americans enjoyed throughout the middle of the 20th century, during which wealth was shared to the degree that the middle class could afford, without borrowing, what the economy could produce. This shared prosperity was not an accident, but the result of government-managed mechanisms.

The responsible path of reform is illustrated through a historical narrative that valorizes Marriner Eccles, who chaired the Federal Reserve Board following the Great Depression. Eccles, a wealthy and pious Mormon, promoted policies that helped to usher in the Great Prosperity. Eccles? insight was that the Depression was caused by the concentration of wealth in few hands and the weakened purchasing power of the middle class.

Eccles proposed that the key remedy would be for the government to go deeper into debt by putting more money in the hands of the middle class. Through a variety of government initiatives like the minimum wage and unemployment insurance, the middle class would have greater purchasing power.

As the United States instituted the policies that Eccles favored, all Americans were indeed enriched and the income gap closed. Prosperity grew even as taxes increased on the wealthy, because everyone was able to participate in the ?American Dream.? However, as Americans became more enamored of tax cuts, small government and privatization, real wages became stagnant, upward mobility suffered, and the middle class had to borrow to maintain their accustomed lifestyle. The rest is the economic history of the past decade.

Reich looks to Eccles? insight as a way out of our present morass. To recover, Reich argues, we must ?restore the bargain? by guaranteeing the middle class the wherewithal to afford the goods and services that the economy can produce. However, restoring this bargain demands solutions that seem freakishly out of line with the contemporary political climate.

Raising taxes on the wealthy is the most realistic of Reich?s proposals, which also include a ?reverse income tax? in which the government pays rather than receives, a ?reemployment? system in which, for a limited time, the government makes up most of the difference in wages if a person takes a new job that pays less than the one lost, and ?Medicare for all.? Reich argues soundly for each of his proposals, but even the most progressive visionaries appear to lack the political courage to advocate any of these positions.

Hence the sad condition in which we must once again contend with the very policies that we voted out just two years ago. Such an electoral roller coaster will continue unbraked, argues Reich, so long as we face dramatic income inequality. As Reich convincingly states, this inequality is a moral issue: It?s just not fair that so few profit so outrageously at the expense of so many. But can we overcome our anger and vote for candidates who will bring about a fairer system? Sadly, such a hope seems ever more audacious.

[Dennis D. McDaniel is associate professor and chair of the English department at St. Vincent College in Latrobe, Pa.]
