

Barack to basics

di Alex Waddan

A common explanation for the levels of economic inequality in the US is the continuing popular adherence to the values embedded in the “American dream”. This version of the American political culture, seminally expressed in Louis Hartz’s *The Liberal Tradition in America*, has been challenged by political analysts who emphasise the role of political institutions and powerful interest groups in shaping economic outcomes. Furthermore, historians highlight how public policies have reflected enduring conflicts over race and gender. Whatever the cause, however, it is evident that the US has higher levels of economic inequality with less government action to ameliorate uneven market distribution than is the case in other advanced industrial societies.

Moreover, according to the Congressional Budget Office, income inequality has risen significantly since 1980. In 1980 the average after tax income of a household in the lowest quintile was \$13,900. By 2005 this had risen to \$15,300 (all figures are in constant 2005 dollars). The average household in the middle quintile saw after tax income rise from \$40,100 to \$50,200. The leap for the highest quintile was from an average household income of \$92,900 in 1980 to \$172,200 in 2005. The top 1% of households saw a staggering rise from an average after tax income of \$319,400 to \$1,072,500.

Explanations for these patterns have focused on the impact of technological change and the displacement of skilled blue-collar jobs. All agree that the remedy is to improve educational standards so that all Americans can compete in the global marketplace. Whatever the merits of this consensus, however, it narrows the range of public policy choices that might abate the growth in inequality. Indeed, the importance of wider policy choices was highlighted by the tax cuts enacted in 2001 and 2003 that disproportionately benefited the wealthiest Americans and further accelerated income inequality.

In 2008 wider concerns about the state of the economy, highlighted by the instability in the financial sector and the rise in mortgage foreclosures, forced economic issues to the top of the political agenda. In the presidential election race the mainstream candidate who most directly addressed the issue of poverty was former Senator John Edwards. His message about a divided America, however, failed to make serious inroads against Senators Barack Obama and Hillary Clinton in the Democratic primaries. This latter pair did echo Edwards when talking about the economic distress of those who had seen their skilled jobs disappear over the years, but the two candidates expressed this through opposition to trade liberalisation rather than through an anti-poverty package.

The general election debate between Obama and Republican nominee John McCain is rarely explicitly about inequality, but there are clear distinctions between their positions on a range of socio-economic issues. With mortgage lenders issuing foreclosures at a rate of about 8,000 a day in the early summer of 2008, McCain initially mused that those householders who borrowed too much

only had themselves to blame if they found themselves unable to pay. He subsequently backed away from this hardline position but has not matched Obama's call for homeowners facing foreclosure to have the terms of their mortgages redrawn under court order—a proposal denounced by the mortgage industry.

The two candidates also differ in their tax plans. Most of the Bush tax cuts are scheduled to expire at the end of 2010. McCain has called for extending these cuts and for cutting corporate tax. Obama wants to continue only those Bush era cuts that apply to those earning less than \$250,000 and wants to raise capital gains taxes. He has also talked about eliminating the cap on earmarked payroll taxes that fund social security and Medicare.

The two candidates also diverge over how to remedy the inequities of the US healthcare system. The US spends a higher percentage of its GDP on healthcare than any other country but 47 million Americans remain uninsured with many millions underinsured. McCain proposes further individualisation of the health insurance market to help contain prices and provide cheaper insurance packages. In contrast, Obama has called for greater government intervention to reduce the number of uninsured (although during the Democratic primary battle Clinton denounced Obama's plan as likely to still leave numbers uninsured).

Reforming healthcare, however, illustrates the problems that any progressive agenda will face. In 1993 the time seemed ripe for health reform but President Clinton's major effort was humiliatingly defeated in a Democratic Congress. Subsequently Clinton's proposal was described as too ambitious and with too much state intervention, suggesting that public opinion has shifted significantly on the issue. Initially majorities supported reform, but as the opposition organised and led an effective political fight-back, so polls showed a reversal of opinion.

This example should serve as a warning about the prospects for a progressive socio-economic agenda. The nature of American political institutions makes any major reform difficult to legislate. Internal party cohesion has increased in recent years but that is no guarantee that even unified Democratic control in Washington DC will result in public policy that significantly narrows the gaps in American society.

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