

**Testimony by James K. Galbraith, Lloyd M. Bentsen jr. Chair in Government/Business Relations, LBJ School of Public Affairs, The University of Texas at Austin, to the Inaugural Hearing of the Select Committee on Economic Disparity and Fairness in Growth, United States House of Representatives, 2359 Rayburn HOB, July 29, 2021, 10 am.**

Mr. Chairman, Members of the Select Committee, my name is James Galbraith. I am a creature of this House, having served on the staff of the Committee on Banking, Finance and Urban Affairs in the 1970s and as Executive Director of the Joint Economic Committee in the early 1980s. Presently I hold a professorship at The University of Texas at Austin, where for over twenty years I have directed a research group called the [University of Texas Inequality Project](#), mainly concerned with accurate measurement of pay and income inequalities, in the United States and worldwide.

The mission of this Select Committee has historic potential, comparable to the Pecora Commission of 1932 and the Temporary National Economic Committee of 1938. The future of the country depends on effective action to restore common economic ground, in the face of a concentration of wealth and power that has plainly gotten out of hand. The trend to concentration is long-standing. It has bipartisan roots. It is in some respects the outgrowth of policies that were thought practically necessary or even to have progressive intent – as I witnessed in the 1970s and 1980s. But irrespective of intent, we must now deal with the situation that we face.

Adam Smith wrote, “Wealth, as Mr. Hobbes says, is power.” Today we have islands of wealth and power on one side and an ocean of precarity and powerlessness, alongside persistent poverty, on the other. This is a structural development over 50 years, the consequence of politics and policies, but also of industrial change, globalization and new technologies, with intense regional, social, demographic and political implications.

In a nutshell, an agro-industrial middle-class economy that from the 1930s to the 1970s was centered in the heartland, feeding and supplying the world with machinery and goods while drawing labor from the impoverished South to the thriving mid-West – an economy of powerful trade unions and world-dominant manufacturing corporations – has become a bi-coastal economy dominated by globalized finance, insurance and high-end services on one coast, and by information technology, aerospace and entertainment on the other. In between, with important exceptions here and there, communities struggle – and inner cities, smaller towns and rural areas especially so.

The unfortunate fact is that our most successful sectors – finance and technology – do not support a large base of direct employment. And the conduct of business in those sectors is highly competitive, often rapacious and predatory, shading from time to time into fraud. There are other industries that promote the concentration of wealth – petroleum and railroads are great historic examples – but very few have done so as efficiently and ruthlessly as finance and technology in recent years. To give just one indication: some years ago we calculated the rise of income inequality measured between counties during the 1990s boom years, and found that [half the increase was due to income gains in just five counties](#): New York NY, San Mateo, Santa Clara and San Francisco CA, and King County WA. There have been other big gainers since, but the point remains: the largest income and wealth gains in America have become highly concentrated in very specific sectors and very specific places.

On the other side of the ledger, practically all new jobs created in the past 30 years in the US, and especially since the Great Financial Crisis of 2007-2009 have been in services, and most of those in what may be called “stagnant services” – the profusion of restaurants, retail shops, hospitals and

clinics, offices and entertainment venues, that have grown up in American cities and towns, fueled by household incomes (and borrowings) exceeding requirements for material goods, whose cost has been kept down by a rising share of inexpensive imports. Pay in these jobs is often mediocre and employment is unstable. Families have compensated by having, characteristically, two or more earners, each sometimes holding two or more jobs, where 50 years ago the normal pattern was one earner with a steady job paying a living wage.

For this reason – a curious fact – if you examine *surveys* of household disposable income in the United States, and if you exclude the vast gains of a tiny minority with large capital rents – you find that *household* income inequality, after taxes and transfers, has not actually risen very much since the 1990s ([See Figure A25](#)). The big change is that it takes many more hours of work to sustain a middle-class living standard, in work that is less intrinsically rewarding, and more precarious, than was the case two generations back. The rises and falls of inequality in estimates that are based on *taxes* – and therefore cover the wealthiest households – are closely aligned with the movement of stock prices and real estate values. They reflect the vast gains, and sometimes the sharp losses, of the wealthiest groups.

The rise of “stagnant services” also explains why the median wage has been stagnant for so many years. It is not that individuals don't receive raises as they gain experience and seniority, nor that workers in manufacturing and in advanced technology no longer share in the productivity gains and profits of those sectors. It is, rather, that with more than half of all jobs in sectors that have a relatively flat and stagnant wage structure, the *median* worker is now found in those sectors. The path of the median wage therefore depends on what happens in the “stagnant services” sectors.

There are reasons why it might have been better to maintain the balanced middle-class, manufacturing-based economy that we enjoyed 60 years ago, but it's gone. Globalization and the information revolution are irreversible facts of life. [The June 2021 White House Review on the supply chain](#) made this very clear, using four key sectors as examples. In particular, our advanced sectors need world markets – including the Chinese market – as much as they need access to the world's resources. Our consumers benefit from imported goods and from the efficiencies of the information age.

The question for the Select Committee is: what do we do now? The answer, broadly, is that we must build on the advantages we retain, deal with the problems we now face, and convey the benefits to the whole of American society, recovering the unity and sense of common purpose that we need in order to solve our common problems. A sound strategy going forward should be free of illusions – the great economic powers and the information networks emergent today are going to be with us for the indefinite future. But we can adjust, and build a fair and secure middle-class society, free of poverty and of oligarchy alike, with tools that are broadly familiar. These tools include:

**Expand social insurance.** Social Security, Medicare, Medicaid, Unemployment Insurance and SNAP already greatly reduce poverty, insecurity and hunger in America. They can be broadened and strengthened, in spite of the obstacles that we all know of. If you can't get Medicare for All, then [drop the age of eligibility to 55](#) – that would cover a large part of the most vulnerable population and reduce in a stroke the burden of private health insurance on employers.

**Raise the minimum wage.** A federal minimum wage at \$15 per hour would provide a raise to at least 20 percent of all working Americans. It would solve in a stroke the supposed problem of “labor shortage” just now – and it would do so in a way that would not disadvantage any employer relative to any other.

**Implement a job guarantee.** A federal job guarantee is [well-prepared proposal](#) that would eliminate involuntary unemployment, set a basic wage standard, and provide willing workers with continuous employment on useful projects, giving private employers a labor pool from which they can easily recruit the workers that they need. As a stabilizing force in the economy, the job guarantee is self-limiting – with strong private demand for labor it would remain small, yet able to be expanded in emergencies. In this way, the job guarantee would finally realize the employment objective of the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978, on the drafting of which I was privileged to work 45 years ago.

A job guarantee is a better policy choice than a “universal basic income” – an idea that would not wear well politically and socially in America, in my view. Still, we have learned from the pandemic that in an emergency, a generous cash benefit can be paid out quickly, providing a bridge that holds families and households together. So we can think of the job guarantee as a long-term stabilizing program, and cash grants as stop-gaps for exceptional situations.

**Build public services, infrastructure, and fight climate change, while trimming military commitments and expenses.** A great and largely neglected element of economic fairness is the quality of services and amenities we enjoy in common – schools, parks, libraries, museums, theaters, music and the arts. The main point of infrastructure, including broadband, is to enhance the quality of life, with clean water, good transport, and – urgently – to change the energy and resource mix so as to mitigate, so far as possible, global warming. We cannot meet this need and at the same time devote our talents and resources to military projects whose limits are anyway apparent after 20 years in Afghanistan and 18 years in Iraq.

**Shift the basis of taxation toward rent.** One of the great principles that the classical economists of the 19<sup>th</sup> century understood, was that taxes should fall on the factors that can least successfully evade them, and should encourage labor and enterprise while discouraging waste and extravagance in both the public and private spheres. In the 20<sup>th</sup> century, under the compulsion of the Depression, New Deal and war efforts, progressive income taxation, corporate taxation, land-value taxation all moved in this direction, creating an industrial middle-class economy. In the great economic counter-revolution of the 1980s, taxes were shifted away from personal and corporate incomes and capital gains and toward payrolls and sales – and the unsurprising result was the rise of an oligarchy of hyper-wealthy persons, a new generation in the mold of Carnegie, Mellon and Rockefeller, emerging mainly from finance and technology. The remedy now is to tax, as closely as possible, these accumulations and the associated rents – land values, mineral rights, technology quasi-rents – so as to bring the new plutocrats back to earth. A stronger estate-and-gift tax can spur the transfer of great fortunes to foundations and non-profit institutions, helping to prevent the emergence of dynasties, financial and political.

**Definancialize the economy by rebuilding debt-free education and health care.** The point of the Glass-Steagall Act was to protect the middle class – the ordinary depositor at a commercial bank – from the speculative instabilities of the financial elites. It is true that those protective barriers had already been eroded by the late 1990s when Glass-Steagall was repealed. But we saw in 2008 where that led. The way forward is restore the independence of the middle class from great financial risks – and the way to do that is to provide for the major expenses of most American families – health care, higher education and retirement security -- once again, on a basis that is largely free of debt. Once this is done, financial risks will be at least somewhat insulated from key elements of the social fabric. If this reduces the scale of the financial sector and takes some of the glamour out of being a banker – that too will be a step toward a more fair and stable system.

**The remit of the Select Committee includes the word “growth.”** This word is largely taken to mean growth *of the economy as a whole*, measured by total income and expenditure, the gross domestic product. This is a crude measure from another time. The national income and product accounts were created in the 1930s for an industrializing economy that was largely self-contained, with consumer and capital goods far more standardized than they are now. And the purpose behind the accounts, namely macroeconomic management in war-time and in the post-war world, led to an emphasis on private material well-being, raising the problem of “social balance,” or “private opulence and public squalor,” already discussed by my father in [\*The Affluent Society\*](#) in 1958.

The Select Committee should consider carefully the role of “economic growth” as a policy objective in the world today. Today, the growth metrics that matter most are not gross expenditure and incomes, but the quality of life, especially the sustainability of life and the economic security of the American people over time. These metrics are less well-developed and harder to measure. But the Committee should set a course that gives them the weight that they deserve, recognizing that a rapidly growing gross product is not, any more, the sole or central goal of a proper economic policy.

**Finally, there is a political dimension to economic disparity in America.** This may be of some interest on both sides of the aisle. It is a fact that the gains of the Democratic Party in presidential elections since the early 1990s have been [by far the strongest in those states where inequality and disparity have grown the most.](#) Indeed in all such states, the Democratic presidential ticket now routinely prevails, and it is rising inequality in the South and Southwest that is propelling a political transition there. The reason is that the Democratic Party is a coalition of high- and low-income groups, notably urban professionals on one side and working-class minority communities on the other. Whereas the Republican Party remains dominant in the countryside, small towns and many suburbs, mostly in the middle of the national income distribution.

It follows, therefore, that while Democrats have an idealistic interest and moral commitment to reducing economic disparities and improving economic fairness, Republicans have a practical political interest in the same goals. Indeed their political future, at least at the level of presidential election outcomes, would appear to depend on it. So for the good of the country, let Democrats be idealistic and Republicans be practical. And not the other way around.

Thank you very much for your time and attention.