Poor-Mouthing Prosperity

Does today's free market create too much insecurity?

BY BRINK LINDSEY

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Out of the stagflation and malaise of the 1970s emerged a new and improved American economic system—less regulated and unionized, more globalized and entrepreneurial than the old triumvirate of Big Government, Big Business and Big Labor that preceded it. And ever since, a considerable portion of the political left's intellectual energy has been spent in poor-mouthing the ensuing prosperity.

Complaints about increasing inequality and a supposedly declining middle class have formed a familiar litany since the days of Ronald Reagan. Now Jacob Hacker, a political science professor at Yale, seeks in "The Great Risk Shift" to call attention to another alleged failing of the new, more market-oriented economy: rising levels of risk and insecurity. "Over the last generation," he writes, "we have witnessed a massive transfer of economic risk from broad structures of insurance, including those sponsored by the corporate sector as well as by government, onto the fragile balance sheets of American families."

As evidence, Mr. Hacker cites the growing volatility of family incomes, escalating bankruptcy and foreclosure rates, the collapse of defined-benefit corporate pensions, and the swelling ranks of Americans without health insurance. And where does the primary blame for these ills reside?

He points the finger at "America's sweeping transformation away from an all-in-the-same-boat philosophy of shared risk toward a go-it-alone vision of personal responsibility." The consequences of this "Personal Responsibility Crusade" can be seen in the rapid rise of 401(k) plans, the creation of Health Savings Accounts and the proposal to replace traditional Social Security benefits with personal retirement accounts.

What to make of Mr. Hacker's case? It is true that intensified competitive pressures have increased the tempo of "creative destruction." Turnover in the ranks of Fortune 500 companies and elsewhere has accelerated, and layoff rates (especially for white-collar workers) are up. If the slippery term "economic security" means security from potentially disruptive change, we probably do have less of it than before.

One sign of heightened anxiety: Polls show a sizable increase over recent decades in the number of people worried about losing their jobs.

But if we're talking about security from material deprivation, that's a different story. Let's start with the biggest risk of all: that of premature death. Back in 1970, during Mr. Hacker's golden age of economic stability and risk-sharing, the age-adjusted death rate stood at 12.2 deaths per 1,000 people. By 2002, it had fallen more than 30%, to 8.5 per 1,000. In particular, infant mortality plummeted to 7.0 from 20.0, while the number of Americans killed on the job dropped to three per 100,000 workers from 18.

Next, look at the two main indicators of middle-class status: a home of one's own and a college degree. Between 1970 and 2004, the homeownership rate climbed to 69% from 63%, even as the physical size of the median new home grew by nearly 60%. Back in 1970, 11% of Americans 25 years of age or older had a college or higher degree. By 2004, the figure had risen to 28%.

As to consumer possessions, the following comparison should suffice to make the point. In 1971, 45% of American households had clothes dryers, 19% had dishwashers, 83% had refrigerators, 32% had air conditioning, and 43% had color televisions. By the mid-1990s all of these ownership rates were exceeded.
even by Americans below the poverty line.

No matter how the doom-and-gloomers torture the data, the fact is that Americans have made huge strides in material welfare over the past generation. And with greater wealth, as well as improved access to consumer credit and home equity loans, they are much better prepared to deal with the downside of increased economic dynamism.

Mr. Hacker leans heavily on his findings that fluctuations in family income are much greater now than in the 1970s. But research by economists Dirk Krueger and Fabrizio Perri has shown that big increases in the dispersion of income have not translated into equivalent increases in consumption inequality. In other words, most Americans are able to use savings and borrowing to maintain stable living standards even in the face of economic ups and downs. And those standards are much higher than those of the all-in-the-same-boat era.

Mr. Hacker, however, shows little interest in providing such context or balance. Fully committed to what could be called a "free market bad, big government good" narrative, he simply ignores data that point in the other direction. Thus he lambastes reforms such as Health Savings Accounts and Social Security privatization for shifting risks onto individuals while failing to mention that the policy status quo imposes massive risks of its own.

Specifically, if no changes are made to Medicare, Medicaid and Social Security, spending on those programs will increase from under 9% of GDP today to roughly 15% in 2030. Unless bold reforms are made sooner rather than later, we face the prospect of either draconian benefit cuts or massive, growth-crippling tax increases. What kind of economic security is that? Yet Mr. Hacker actually proposes expanding Medicare to include people under the age of 65, which would only make the grim fiscal outlook even grimmer.

Mr. Hacker gets this much right: America's highly dynamic economy does carry increased risks along at least some dimensions. And to his credit, he advances some interesting proposals for making safety-net programs more responsive to contemporary economic hazards. In particular, his idea for "Universal Insurance" that would protect against sudden income drops is deserving of serious debate. Too bad that he chose ideological posturing over an effort to launch that serious debate himself.

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