The Tyranny of Dead Ideas

Matt Miller is probably best known as a columnist for *Fortune* and as the ever-reasonable man-in-the-middle on the public radio show *Left, Right & Center*. But he is also one of America’s most distinguished public intellectuals – one who specializes in challenging dogma that saps America of the will to reinvent itself. ¶ In *The Two Percent Solution*, published in 2003, Miller argued that relatively modest increases in federal spending could give Americans the benefits of a modern welfare state without undermining the vitality of the economy. In his new book, *The Tyranny of Dead Ideas*, he exposes the dry rot of unofficial American ideology – everything from the evils of taxation to the virtues of corporatism – to the light of sweet reason. Here, we excerpt chapters on two “dead ideas”: that every new generation of Americans is destined to be more affluent than the last; and that free markets compensate individuals in accordance to their true worth to society. You’ll have to buy the book, though, to find out what he proposes to do about them.

— Peter Passell

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The Kids Will Earn More Than We Do

In which we learn that downward mobility for millions is a new fact of American life, forcing us to think in new ways about “progress” in order to thrive.

The voters in the town hall meeting were so quiet you could almost hear them straining to listen. No public official, let alone a new president, had ever talked to them this way.

“Look,” said the president, walking across the stage with a microphone in hand, “here’s what no one wants to tell you. Structural changes in our economy, and new competition as countries like China and India rise abroad, mean that we’re in a different world now. That pattern we once took for granted, in which our incomes basically kept rising across the board, turns out to be something we can’t sustain. Many of you are earning less than your parents did, and the truth is, many of your children will earn less than you do.”

The president paused, watching as the words sank in. “Now, we can pretend this isn’t the case. Most people in Washington think we’re better off doing exactly that. But I don’t think denial helps any of us. I know it won’t help us come together to do the things we need to do as a nation to thrive even amid these new realities.”

Don’t worry, you didn’t miss the news; the scene above never happened. No politician would say these things even if he or she believed them to be true because they challenge a notion at the heart of the American dream: the idea that the kids will earn more than we do. Political leaders who hold up a reliable mirror to the convictions of their followers plainly believe we cherish this prospect because it is central to how they talk about our lives. If someone even suggests that economic progress is eroding, they resist the possibility with a passion that suggests how deeply they feel we all need to believe in this idea. “We won’t be the first generation in American history to leave our children worse off,” runs the familiar cry. “We can redeem the promise of the American dream,” we’re told. “We can hold on.”

We’ve already crossed the Rubicon, however. As many as 100 million Americans now live in families that are earning less in real terms than their parents did at the same age. The rise of developing economies such as China and India means this earnings picture is only likely to get worse. One in three American jobs may be exposed before long to competition from workers overseas, putting an effective wage cap on large swaths of employment even if jobs don’t actually move offshore. New research also shows that, contrary to popular myth, upward mobility – the ability to rise from the station into which you are born – is now lower in the United States than in many European countries.

To be sure, for the immigrants who make up 12 percent of the population it remains the case that America is the land of opportunity, where people who arrive with little but pluck and drive can rise. But the other 88 percent confront a striking new reality: ingrained assumptions about generational progress in America no longer hold, and before long may be at risk for nearly half the population.

People sense what’s unfolding, even if it remains politically taboo to say it. A July 2007 survey by the Pew Global Attitudes Project
found that 60 percent of Americans expect the next generation will be worse off than theirs, versus 31 percent who expect they will be better off. The persistence in our public life of a national self-image at odds with these private anxieties inhibits virtually any serious discussion of what we might do about the situation.

Yet the truth is that these developments need not prove as ominous as many of us imagine. Yes, they represent a jolt to our expectations and an unsettling break with our history. But if we approach the future with fresh eyes, the tests we now face will present an opportunity to fix flaws in our economy that have long been ignored because of our faith in the ever-rising tide. Seen in this light, our biggest problem isn’t the economic change that is upon us, but the way that our outdated thinking prevents us from responding forcefully to improve people’s lives.

No one takes pleasure in the prospect that many Americans will face harder times as the country adjusts to the rise of new economic powers and sweeping new technologies. But liberating ourselves from the Dead Idea that the kids are sure to earn more than we do will force us to reexamine a fundamental question that almost never gets explicitly discussed: What is the role of the individual, and what should be the role of the broader community, in assuring opportunity and security in a wealthy nation? As events force us to consider fresh answers to this question the result will be a good life, and in some ways a better life, even for Americans who face wage strains. When the dust clears, moreover, America will not have lost its native optimism. It will have gained the sturdier hope that comes from dealing squarely with unpleasant realities.

**THE BIG BANG**

Why do Americans think a better standard of living for their children is a national birth-right? A quick (and selective) trot through a few key episodes of America’s economic journey helps make clear why the assumption has deep roots in the American mind.

In the beginning, or at least going pretty far back, the idea of economic progress was meaningless because there was none. “From the earliest times of which we have record,” wrote John Maynard Keynes in 1930, “back, say, to 2,000 years before Christ, down to the beginning of the 18th century, there was no very great change in the standard of life of the average man living in the civilized centers of the earth.”

Some periods were a little better, some a bit worse, but overall there were no important movements in average incomes over some 40 centuries. Keynes ascribed this general stasis to the remarkable absence of “technical improvements” and “the failure of capital to accumulate” for growth-fueling investment. It’s a stunning thought. Older Americans today can recall youths spent without accessible commercial air travel, indoor plumbing, television, polio vaccines, long-distance phone service, and countless other life-improving inventions. The idea that 150 generations once passed without a meaningful rise in living standards seems hard to fathom. But thus it was.

Then, in the late 18th century, two powerful sets of forces converged to create a uniquely American creed of economic progress and generational betterment. Think of it as a sociological Big Bang with two key ingredients: the founding of the United States and the advent of the Industrial Revolution.

Take America first. The new republic’s official policy of classlessness and ethic of equal opportunity made it unique in history. To be sure, from our vantage point today many groups were excluded from this vision including, most shamefully, African-Americans.
But it’s hard to overstate the breakthrough represented by America’s foundational commitment to the idea that “all men are created equal,” with an inalienable right to “life, liberty and the pursuit of happiness.” Alexis de Tocqueville, though cognizant of variations in wealth and status in the republic, found it telling that America didn’t require its lowly born to acknowledge their inferiority or to bow to superiors. Tocqueville also caught the economic mood when he wrote that ordinary Americans seemed to “shine with the charm of anticipated success.”

In short, America was about upward mobility, the chance to rise from the station into which you were born to whatever heights your talents and efforts might let you attain. This helps explain why America came to lead the world in mass education not long after its founding. American mores also reflected this zest for improvement. Hard work and economic ambition were seen as proper pursuits for a moral person, not frowned upon as vulgar or wicked – the opinion of European aristocrats and clergy. The spirit was exemplified by Benjamin Franklin, the self-made publisher, politician, scientist and diplomat whose homey sermons on work, frugality and thrift in *Poor Richard’s Almanac* were wildly popular. But the most sublime and enduring emblem of America’s ethos of advancement was our 16th president, Abraham Lincoln.

**IT’S THE ECONOMY, ABE**

Lincoln forever seared the idea of economic progress into our national psyche. That a self-taught rail-splitter born in a log cabin could rise to the White House proved something marvelous about America, as Lincoln himself knew. “Nowhere in the world is presented a government of so much liberty and equality,” he told soldiers on their way home to Ohio in 1864. “To the humblest and poorest among us are held out the highest privileges and positions. The present moment finds me at the White House, yet there is as good a chance for your children as there was for my father’s.”

“Twenty-five years ago I was a hired laborer,” Lincoln told a group on another occasion. “The hired laborer of yesterday labors on his own account today, and will hire others to labor for him tomorrow. Advancement – improvement in condition – is the order of things in a society of equals.”

This passion for individual advancement shaped Lincoln’s approach to the slavery question in ways that we tend to forget. As he maneuvered in pursuit of the presidency in the late 1850s, Lincoln focused not so much on the morality of slavery (though he believed it wrong), but on the fate of Northern white laborers if slavery was extended to new states. After all, Lincoln argued repeatedly, how could men settling in these places ever improve their lives (and wages) if they had to compete with slaves who earned nothing? For the sake of the white working man’s prospects, he concluded, the line on slavery’s extension had to be drawn. This framing of the issue, which aligned the average man’s economic interests

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with the moral fervor of abolitionists whose goals far outran public opinion, helped catapult Lincoln to the White House.

The historian Richard Hofstadter reminds us that, by articulating the stakes this way, Lincoln made the Civil War not about slavery per se but about defending popular government as "a system of social life that gives the common man a chance." Lincoln spoke for those millions of Americans who had begun their lives as hired workers – as farmhands, clerks and mechanics – and had passed into the ranks of landed farmers, prosperous grocers, lawyers, physicians and politicians. Theirs were the traditional ideals of the Protestant ethic: hard work, frugality, temperance and a pinch of ability applied long and hard enough would lift a man into the propertied or professional class and give him independence and respect, if not wealth and prestige. For Lincoln, Hofstadter concludes, "the vital test of a democracy was economic – its ability to provide opportunities for social ascent to those born in its lower ranks."

The historian Jim Cullen adds that, for Lincoln, "the true end was the American dream" – not abolition, and not the union of the states. Lincoln saw the Civil War preserving "a place where upward mobility would thrive without hypocrisy or the challenge of alternative ideologies that would subvert it."

"If Ben Franklin was an Old Testament prophet of the dream of upward mobility," Cullen concludes, "Lincoln was its Jesus Christ."

ONWARD AND UPWARD

Yet when it came to the advancement of society as a whole, all the individual opportunity in the world might have meant little had America's early years not also coincided with the kickoff of the Industrial Revolution. This made the idea of economic progress something that applied on a grand scale to entire nations, not just to individuals with moxie and drive. Thanks to a mysterious alchemy of cultural readiness, engineering creativity and legal protections (such as patents), advances that altered entire industries began to appear in an extraordinary burst around this time. Inventions from the power loom to the steam engine spurred startling leaps of productivity in textiles, mining, chemicals, machine tools, coal, iron and more.

The unfolding industrial ascent was matched by a new way of thinking about history's trajectory. Until this time, history had generally been regarded as cyclical, a series of situations that repeated themselves endlessly. The Bible spoke of periods of war and periods of peace, and of good harvests and bad harvests, with no notion of "progress." Empires and civilizations rose and fell: think Persia, Greece and Rome. The rise of science, and science's capacity to bear fruit for industry, changed this outlook. The idea of economic progress came straight out of the Enlightenment, when "useful knowledge" – what we call science and technology today – showed itself to be the wellspring of sustainable advances in human society.

Keynes's endless night of stagnation was over. Beginning around 1820, the amount of income the U.S. economy produced per person began to take off. It has grown ever since at an average of more than 50 percent every 25 years.

The experience of "more" led ordinary Americans to expect more. Karl Marx wasn't happy about this. An avid America-watcher, Marx noted that economic growth and the open frontier produced high rates of social mobility – something that Europe with its feudal past and more rigid classes didn't enjoy. He worried that this might stave off the socialist revolution he sought. "Though classes,
indeed, already exist,” Marx wrote anxiously of the United States in the 1850s, “they have not yet become fixed, but continually change and interchange their elements in a constant state of flux.” His colleague Friedrich Engels observed in the 1880s that America seemed to be a nation “without a permanent and hereditary proletariat.”

But if the workingman’s plate was full enough to keep socialism at bay, and immigrants found opportunities to build a better life for their families, there were setbacks and pockets of suffering. The famous injunction “go west, young man” (inaccurately) attributed to Horace Greeley, was originally a bit of career advice after a financial meltdown had battered the nation. Between the Civil War and World War I there were at least five significant panics or depressions – in 1873, 1884, 1890, 1893 and 1907. The depression that began in 1893 was particularly severe. Fully 18 percent of the working-age population was jobless; by 1895, the incomes of a large proportion of the population had fallen to the levels first reached in 1880.

These reversals offer important lessons for today’s debates because they led affected groups to rebel against the mainstream faith in economic advance and to offer alternative visions of progress that resonate even now. Farmers, who faced long periods of price declines in the second half of the 19th century, led the way. Along with independent craftsmen and artisans, farmers saw their economic position being eroded by forces beyond their control – big business, industrialization, urbanization. The American creed of self-sufficiency no longer seemed to pay; the virtues that bred upward mobility, long preached by Thomas Jefferson, Andrew Jackson and Abraham Lincoln, couldn’t save many of these people from being crushed. So they took action themselves.

It is significant that the Populist movement, perhaps the most important democratic movement of the era, took form in opposition to innovation and “progress.” While the Populists’ posture did not prevail, many of the reforms they sought in order to preserve the little guy’s voice and buffer the impact of industrialization – the graduated income tax, the eight-hour day, regulation of business, the initiative and referendum, direct election of senators – were enacted by the Progressives in the ensuing decades. As global economic integration continues and it becomes clear that more and more people who “work hard and play by the rules” are not getting ahead in traditional American terms, the spirit of this Populist critique, alongside updated versions of its reform agenda, seems certain to be resurrected.

BOOM!
The twin tragedies of the Great Depression and World War II interrupted the general march of progress, but the remarkable boom that followed made earlier norms of generational economic advance seem timid. From 1945 until the early 1970s the U.S. economy grew at an unprecedented rate. Productivity, which in part determines earnings and living standards, surged. Real incomes doubled in a generation. Americans at all income levels shared in the gains. Poverty rates fell dramatically. College attendance and graduation
rates soared. The period has understandably become enshrined in discussions of the American economy as a “golden age.”

Yet, in retrospect, despite the achievements of the boom, the entire episode was in a real sense a historical accident, the result of the United States being the only economy left standing after a devastating global war. Consider: by 1950, though much of the reconstruction of Europe and Japan had been completed, the United States still accounted for 60 percent of the output of the seven biggest capitalist countries. Foreign competition was virtually nonexistent. Families that had been through two wars and a depression in 30 years were bursting to enjoy life, and greeted American manufacturers with long-suppressed appetites for cars, washing machines, televisions and air-conditioners. New highways spawned new suburbs and a building boom. Meanwhile, the federal government, pushing full employment and subsidizing the health and pension benefits increasingly offered by business, made it a great time — perhaps the best time ever — to be an American worker.

“Keeping up with the Joneses” became something of a middle-class obsession, as the boom unleashed a competitive consumption spree. Cheerleading for the good times pervaded the culture. Ronald Reagan, a TV pitchman for General Electric, would hold up a vacuum cleaner, flash his smile, and proclaim, “Progress is our most important product.”

Yet this wasn’t just the magic of the market. A number of other institutions helped ensure that prosperity was broadly shared. Labor unions, a robust minimum wage, progressive taxes, and a sense of restraint on corporate boards regarding the salaries of chief executives all contributed to a sense of a shared economic destiny. So, too, did active presidential intervention, as when John F. Ken-...
The first is that we've overestimated the power of individuals to shape their own economic destinies. The thread running through our admiration of Benjamin Franklin and Abraham Lincoln on to such modern icons as Bill Gates, Ronald Reagan, Bill Clinton and Barack Obama, is the celebration of the self-made man (or woman). This toasting of such ascents from humble or inauspicious beginnings has been joined by the conviction that our heroes are merely outsized versions of the possibilities within every American's reach. In Horatio Alger’s rags-to-respectability lies the sentiment that beats also in every immigrant heart: in America you shape your own destiny via determination and hard work.

The corollary of our faith in the individual has been a tendency to judge harshly those who fail: after all, with so much opportunity for the taking, if you can’t make it in the United States it’s probably your own fault. Over the course of the 19th century, the historian Scott Sandage observes, “Financial failure went from being an event that happens in your life to being something that defines your identity. A ‘loser’ in 1820 was literally a person who lost money in a business – the person who got the short end of the stick, the loser by the deal. But by the end of the nineteenth century, a ‘loser’ is a person who is completely worthless in every way.” One can draw a line from this evolving perception to the popular antipathy toward the “undeserving poor” in the debates over welfare reform in the 1980s and 1990s.

America’s emphasis on self-reliance has had obvious benefits. But our equation of economic weakness or vulnerability with worthlessness helped to retard the development of social protections that spread across Europe more than 100 years ago. The need for a collective response in the face of larger economic forces has always been minimized and scorned in the individualist United States. The question is whether our instincts here have been shaped by a faith in individual economic ascent that no longer accurately describes the prospects of even many hardworking Americans in the global economy.

The second problematic way of thinking, bred especially by our extraordinary postwar prosperity, is what the author and columnist Robert Samuelson has called America’s sense of entitlement. In this view, we became so spoiled by progress that we presumed endless growth was simply our due – and believed further that this growth would enable us to solve virtually every social problem, from poverty to racial animus to health inequities.

This is the economic face of American exceptionalism, the idea that the United States is somehow destined to be blessedly immune from the travails that ordinary nations face. It’s the hubris that economists and business leaders began to exude during the postwar boom, when they (wrongly) opined that the business cycle could be tamed and recessions eliminated entirely. It’s the culture of ever-expanding rights with little thought to associated responsibilities. Over the decades, this heady sensibility spawned a cycle of inflated expectations (“wars” on poverty, crime, drugs, cancer) followed by inevitable disappointments, contributing to a loss of faith in institutions and leaders who couldn’t make good on the unreasonable demand to vanquish every social ill. The distrust of government that is the legacy of such hubris makes the work of reform harder today because a high burden of proof is imposed on those who would use government for new purposes.

There’s a third worrisome attitude, traceable to our faith that the kids will earn more than we do: the imprudent conviction that we can live beyond our means because somehow we’ll earn enough later to deal with any
problems. This outlook represents a dramatic shift from earlier American thinking, as the sociologist Daniel Bell noted in 1976. “Twentieth century capitalism wrought a… startling sociological transformation,” he wrote, “the shift from production to consumption as the fulcrum of capitalism.” Bell went on: “This was the rise of consumer durables: automobiles, refrigerators, television sets, washing machines and dryers, and the like. And all this created the revolution in retailing, particularly … the invention of the installment plan, the most ‘subversive’ instrument that undercut the Protestant ethic. Against the fear of going into debt, there was now the fear of not being creditworthy. Instead of saving for the good things of life, one could buy them now and pay later. Marketing and hedonism… became the motor forces of capitalism.”

Both as individuals and as a society, we’ve been running the economy a bit like a giant Ponzi scheme, gambling on better days tomorrow to make good on unsustainable borrowing today. The litany is familiar. The government has run up a $9 trillion national debt, has made $40 trillion in unfunded health care and pension promises to seniors, and has tolerated unprecedented trade deficits that must at some point be reversed in a consumption-cutting day of reckoning. Meanwhile, families rack up record levels of debt – mortgages, home equity loans, payday lending, credit card balances – while saving next to nothing for retirement. Business has joined the bandwagon, with corporate debt rising in recent years and bankruptcy, once a mark of shame, now often viewed as a shrewd strategy for solving financial problems.

Such is the contemporary toll of a Dead Idea. We’ve overestimated the individual’s control; we’ve felt entitled to more and become disillusioned at its absence; and we’ve grown addicted to debt-fueled consumption. These habits of mind leave us ill-equipped to cope with the economic realities we now face.

**THE NEW NORMAL**

The erosion of America’s outsized dominance in the world economy, along with changes we still don’t fully understand in the way technology shapes the nature of work, has led to unsettling developments. Economic inequality has been rising to levels not seen since the 1920s, with the top 1 percent reaping nearly all of the gains from continued productivity growth across the economy. Wages for male workers have stagnated for three decades; household incomes have risen modestly only because of the flood of women into the workforce. While these trends have been debated for several years, optimists have fallen back on a familiar trope, arguing that wage stagnation isn’t cause for worry because of America’s proud legacy of upward mobility. By this reasoning, even if 30-year-old men are earning less than their counterparts did in the 1970s, it’s not a problem because over their lives men rise from lower to higher places on the income ladder. Today’s wage levels, these analysts also argue, are skewed downward by the recent influx of lower-earning immigrants.

Until recently these benign interpretations seemed plausible. But the latest research suggests that this hopeful view was unjustified. What’s new are studies that compare non-immigrant parents and children in the same family over two generations, analyses made possible by the Panel Study of Income Dynamics run by the Institute of Social Research at the University of Michigan. Since 1968 this survey has followed some 8,000 families from their youth into adulthood; for the first time it enables direct matching of family income of parents in the late 1960s with their children’s family income in recent years.

In 2008, the Brookings Institution, as part
of the nonpartisan Economic Mobility Project of the Pew Charitable Trusts, mined this data to reveal that one in three Americans of all races and at all income levels now live in families that earn less than their parents did. This finding is more disturbing when you consider that families work longer hours today, thanks to the rise of two-earner families. That's anywhere from 75 million to 100 million Americans living in families earning less than their parents did. One in three people whose parents earned the equivalent of $55,000 to $72,000 in 1968 now earn less than their parents did; one in two whose parents earned the equivalent of $100,000 back then have faced earnings losses relative to their parents as well.

It's old news that individual workers face “downward mobility” when, say, good manufacturing jobs move overseas. The new downward mobility – between generations, within families – is something much broader and far more threatening to an idea that has been at the core of American experience and thinking. “What it means,” says Isabel Sawhill, the Brookings scholar who helped lead the work, “is that the ingrained expectation that our children are going to earn more than we do just doesn’t hold true anymore for large numbers of Americans.”

Exactly why this is happening isn’t clear, but economists think one factor is the way technology is changing the nature of work. Through most of history, technical innovation displaced physical tasks – Pony Express riders gave way to the telegraph, secretaries gave way to voice mail. The automation of “thinking” jobs is a newer development. Not long ago, for example, people made good livings ruling on mortgage applications. Now such work is almost entirely computerized. The result is an increasingly polarized job market. Good jobs increasingly require expert thinking and complex communication; getting them increasingly depends on a good education. Jobs that don’t include these tasks won’t pay a decent wage.

Making matters worse, the new downward mobility findings come on the heels of recent international comparisons of upward mobility that would leave Abraham Lincoln and Ben Franklin aghast. The United States now offers its citizens a smaller chance of rising from their economic status at birth than do France, Denmark, Norway, Sweden, Canada or Germany. The contrast with the “good old days” is stark. After World War II, about one-fourth of the men whose fathers had been in the bottom quarter of the income distribution made it to the top quarter over their working lives. Now the figure is more like 6 percent. Thomas Piketty, an economist who has documented the extraordinary gains now going to the very top, frets that on our current path, “a small group of wealthy but untalented children will one day control vast segments of the U.S. economy and penniless, talented children won’t be able to compete.”

What’s even more worrying is that today’s growing downward mobility has emerged before the full impact of global economic integration has been felt. Despite all the alarms about the rise of China and India, only an estimated 3.3 million jobs will be lost to off-
shoring by 2015 – a tiny number in an economy that boasts 140 million-plus jobs and that created 1.7 million net new jobs in 2007. The real challenge will come in the following decades, and the risk isn’t that jobs will actually disappear. It’s that the presence of hungry, educated new workers in other countries, including many with comparable (or better) skills who will work for a fraction of what Americans expect to be paid, will put effective earnings caps on many American jobs.

The International Monetary Fund estimates that the labor force available to global producers quadrupled from 1980 to 2005, with most of the increase coming in recent years. Princeton’s Alan Blinder says up to 40 million U.S. jobs could be affected in the next two decades; he’s already seen evidence that the wages paid for offshorable jobs are taking a hit. With three billion new capitalists entering the global workforce, he’s probably onto something.

But the fact that many Americans will earn less than their parents does not mean the end of the good life in the United States. People will still have every chance to lead materially blessed and satisfying lives. Still, research and common sense tell us that people’s attitudes and happiness are largely a function of their expectations, which are in turn shaped mostly by how they see their situation relative to what it was earlier in their lives, and compared to the experience of others they view as a reference point. It may be little solace to be reminded that you’re living like kings compared to people who lived 100 years ago, or compared to poor souls struggling in abject poverty in the Third World today.

From a global point of view, of course, the demise of the American Dream is hardly a tragedy. The economic change now hurting many relatively well-off Americans is helping myriad others in the poorer countries of the world. The rise of developing nations is a fantastic thing for humanity. Hundreds of millions of people have already been lifted from poverty and literally billions more may follow. Science and technology continue to bring wondrous improvements and choices to every corner of life, even if these dynamics tend to sap the wages of people with fewer skills. But for those Americans hurt by these changes, a global point of view is cold comfort, indeed.

**WHICH WAY NOW?**

So what will these new circumstances mean for individuals and the country? The answer will turn on how the new downward mobility affects Americans’ attitudes toward the role of government. Public opinion surveys have long shown that Americans see themselves as authors of their economic fate, while Europeans tend to believe that forces outside the individual’s control have greater influence.

This helps explain why the United States has always had a smaller government than its European counterparts. In other nations, the first welfare innovations came from aristocrats and conservatives, like Otto von Bismarck in Germany and Benjamin Disraeli in Great Britain, who were comfortable with strong central authority. They introduced welfare provisions partly from a sense of obligation, and partly from a desire to protect their class’ privileged position by keeping a lid on public anxiety amid economic change. The more meritocratic, market-oriented and anti-statist United States didn’t have the same dynamics, which is why it literally took a depression to get the enactment of the first modest version of Social Security.

Yet the forces that are now undermining upward mobility and generational advance in America are, in fact, largely outside people’s control. Economists speak of the “skill-bias” of technological change making it harder for
less educated workers to earn wages that can support a family. If you’re a 50-year-old auto-worker who didn’t go to college when that wasn’t a prerequisite for a middle-class job, it’s hard to fault you now for not having gotten more schooling then. The cost of health care, housing and college have all risen much faster than incomes – what could any individual worker have done to stop that? Likewise, the rise of China and India was not affected by anything anyone did in Peoria; it’s part of an historic adjustment in the world’s economic activity.

With so many outside forces now shaping our economic fate, is America’s fierce optimism about the power of the individual sustainable? If not, does that mean Americans will be open to more aggressive policies (to bolster health care, pensions and education, for example) that might promote economic opportunity and security, even if they mean higher taxes or bigger government?

Democrats believe the answer is yes, but they’re not confident enough about evolving sentiment to feel safe in talking honestly about such choices. Republicans are convinced that the answer is no, and that their traditional assertion that government and taxes are the problem will remain effective. As the post-American Dream era unfolds, it’s hard to imagine that the growing disconnect between the economic trajectory of millions of families and the nostalgia of our public debate can be sustained much longer.

Unfortunately, a more honest debate is no guarantee of a happy outcome. The longer we go through a period of income stagnation, the more people lose faith in the notion of progress. When incomes rise broadly, as they have for most of our history, upward mobility is celebrated and admired; when median incomes stagnate and one person’s gain comes at another’s expense, upward mobility is represented. Our sunny optimism fades. Attitudes can turn bitter.

The political implication is that if we’re facing a long period of downward mobility for much of the population, people will feel less generous. Politics will thus be less inclusive and magnanimous, making it less likely that we will coalesce around an agenda that eases the pain and expands opportunity, and more likely that we will vent at scapegoats. Benjamin Friedman, an economist at Harvard University and the author of The Moral Consequences of Economic Growth, sees this dynamic at work throughout American history. In periods of stagnation, such as the 1890s or today, we see a surge in anti-immigrant fervor, for example; only in periods of growth do we enact reforms meant to broaden security and opportunity, as we did in the Progressive Era and during the Great Society of the 1960s. Friedman acknowledges that the Depression is the great exception to this pattern, when the economic crisis was so severe it generated a sense of unity and political consensus for important social initiatives.

If you’re trying to be hopeful, Friedman’s thesis poses a problem. Lenin famously argued “the worse, the better,” meaning that deteriorating conditions for ordinary people under the tsars would hasten the revolution. Yet even as more of our children earn less than we do, it’s not going to amount to anything like another Great Depression. It may be depressing, but that’s not the same thing. The risk, therefore, if income stagnation does in fact act as a drag on social progress, is that we get stuck in a bad place – with too many of us losing ground in the face of large economic forces, but too few of us able to muster the collective will to improve our condition.

But there is another, more optimistic scenario: the pressure of events, though far short of a calamity like the Great Depression, forces
America to tackle these questions anew. And the comforting news, at least from history’s perspective, is that our challenge may in some sense be temporary. Britain, after all, was said to be in decline from the 1870s onward, even as living standards for the British rose massively over the ensuing 100 years. Many British families were hurt in those early decades when Britain lost its relative economic edge. But once a new global equilibrium had been reached, the broad British earnings escalator resumed its ascent. Similarly, a period of painful adjustment now for millions of Americans as other powers rise and new technologies are deployed throughout the economy is not inconsistent with an eventual return to broadly shared long-term increases in material well-being. In other words, “the kids will earn more than we do” is a Dead Idea that could come back to life later in this century.

The critical question is how we define, or redefine, our obligations to those Americans who are fated to lose out during what may well be several decades of difficult transition. And that’s a task that starts, first and foremost, inside our heads. There has never been a nation with so much of its self-image riding on the idea that the kids will earn more than we do. The death of this idea as the measure of American progress will force us to rebalance American capitalism, to augment our romance with the power of free men and free markets with a deeper awareness of its limits.

Psychologists say that narcissists obsessed with their own specialness can be cured only when they learn to accept their ordinary humanity. Something like this acceptance in the realm of economic life lies ahead for the United States. We can’t control every aspect of our economic trajectory in this new era, and the old inherited magic won’t see all of us through. But we can control how we think about what is happening – and, more importantly, what we do about it.

Not long ago an investment banker worth some $80 million told me that he wasn’t in his line of work for the money. “If I was doing this for the money,” he said, with no trace of irony, “I’d be at a hedge fund.” Only on a small plot of real estate in lower Manhattan at the dawn of the 21st century could such a statement be remotely fathomable. That it is suggests how debauched our ruling class has become – which, at least since Marie Antoinette’s day, usually portends all manner of unpleasantness.

The widening chasm between rich and poor threatens our democracy. But if that banker’s lament staggers your brain as it did mine, you’re on your way to seeing why the coming clash over America’s income gap won’t be some retro fight between “proletarians” and “capitalists.” The new class war destined to shake up our society will be fought between what I call the “lower upper class” and the ultra-rich. And it will be launched
because of a Dead Idea.

My theory is that resentment at the bottom of the top 1 percent of America's income distribution is the new wild card in public life. Ordinary workers never rise up against Ultras because they take it as given that the rich get richer. But the most cherished illusion of a certain sliver of today's educated class is that capitalism is meritocratic.

Hence the psychic turmoil of the Lower Uppers. You know them as doctors, accountants, engineers and lawyers. At companies they're mostly executives above the rank of vice president but below the CEO. Lower Uppers are professionals who by dint of schooling, hard work and luck are living better than 99 percent of the humans who have ever walked the planet. They're also people who can't help but notice how many folks with credentials like theirs seem to be living in the kind of Gatsbyesque splendor they'll never enjoy—and squeezing them out of prerogatives they've long taken for granted.

This stings. If people no smarter or better than you are making $10 million or $50 million or $100 million, while you're working yourself ragged to scrape by on a million or two—or, God forbid, a couple hundred thousand—then something must be wrong.

You can hear the fallout in conversations in office towers and tony suburbs across the country. A New York-based market research guru—a well-to-do fellow who has built and sold his own firm—explodes in a rant about Ultras bidding up real estate prices. A doctor in Los Angeles with two kids shakes his head and explains that between tuition and donations, Ultras have raised the ante for private school slots to the point where he can't get his kids enrolled. A senior executive at a nationally known firm seethes at the idea of eliminating the estate tax; it's an Ultra conspiracy in his view, a giveaway to people whose outsized lucre bears little relation to hard work. As one civic-minded Lower Upper businessman told me, even his charitable contributions now feel insignificant: when buyout kings plunk down $1 million a year for youth or arts groups, his $20,000 contribution doesn't get him the right to co-chair a dinner, let alone a seat on the board.

There's only so much of this indignity a vocal, powerful elite can take before the seams burst and a bilious reaction against unmerited privilege starts oozing from every pore—especially when it's clear to Lower Uppers that many Ultras are not simply reaping the rewards of the "free market," but are benefiting from rigged compensation systems in boardrooms and on Wall Street that are as likely to reward mediocrity as success.

To be sure, it's hard to get too worked up about the "suffering" of the Lower Uppers. Their complaints can seem spoiled and unsympathetic, their whining like the warbling of a tiny, exotic breed. Yet their perceptions and attitudes matter greatly to the country because, as a group, the two million or so Americans at the bottom of the top wield disproportionate influence. Lower Uppers hold important positions in industry, finance, government, media and the professions. Today's Dead Ideas persist largely because of the faulty outlook of these elites; after all, if our culture is in the grip of old ways of thinking, who but our "opinion leaders" should bear the blame? Until they start thinking more clearly about the world we've entered, every American will pay the price.

This is why the current emotional crisis of the Lower Uppers isn't some niche sociological curiosity, but an opportunity for the country. The emergence of extreme inequality and the rise of the undeserving rich are shattering an idea that has long been at the core of the professional class' self-esteem. It's
the idea that money follows merit – that in a system of market capitalism, people basically end up economically where they deserve to. What the Lower Uppers decide to do once they’ve realized that this isn’t quite the case may well change the future for all of us.

Positions distributed according to family connections rather than talent resulted in kings who couldn’t rule, commanders who didn’t understand the intricacies of battle, and maids who knew more than their mistresses.

THE MEEK SHALL INHERIT, REGARDLESS OF THEIR SATS

The notion of a close link between economic standing and moral dignity or overall status is relatively new. As Alain de Botton observes in his wonderful book, Status Anxiety, from the time of Christ up to the 20th century there were three credible and soothing narratives on offer that assured the poor or otherwise humble that they were no “worse” in an ultimate sense than anybody else.

According to the first story, the poor were not responsible for their condition and were actually the most useful members of society. Pre-modern man believed that an individual’s place in the social hierarchy was decided not by anything he did or didn’t do, but by God. Despite vast differences in the lives of the nobility, the clergy and the peasantry, there was nonetheless a strong sense of mutual dependence. As one medieval abbot wrote around the year 1015, wealth was created almost entirely by the poor, who rose early, toiled in the fields, and brought in the harvests. Each class depended on the others playing their assigned roles; well-born children were raised to respect the hard lives endured by peasants in making economies work.

The second comforting story came straight from scripture: the New Testament preached that wealth and poverty were not measures of moral worth. Jesus, after all, had been poor, yet he was also the most blessed. As Christianity spread, the meek learned that they stood to inherit the earth, while the rich were told they had less hope of Heaven than did the camel of getting through the eye of that needle.

The third story was that the rich were sinful and corrupt and owed their wealth to robbery of the poor. Social critics from Rousseau to Marx denounced the exploitation of the masses and assured those at the bottom that justice and revolution were coming.

For 20 centuries these stories in one form or another offered solace for those not fated to be on top. Yet very different stories gained ground after the 18th century to alter people’s sense of their place in the world, even as the Industrial Revolution raised their living standards. One new narrative held that the rich were in fact the useful ones, not the poor. The economic theorist Adam Smith argued that the spending of the wealthy, rather than being proof of damnable corruption and extravagance, was actually an engine of economic activity and employment. Unattractive as their showy consumption and grasping behavior might seem, the rich, not the poor, were the real economic heroes.

Next came the narrative that economic status did have moral connotations. It’s hard to overstate the transformation this idea represented. Until this time, as de Botton writes, the assertion of a disjuncture between rank
and intrinsic value was hard to refute when in Western societies positions had for centuries been distributed according to family connections rather than talent – a practice that had resulted in generations of kings who couldn’t rule, lords who couldn’t manage their estates, commanders who didn’t understand the intricacies of battle, peasants who were brighter than their masters and maids who knew more than their mistresses.

Starting in the 18th century, however, people began to question the hereditary principle. “I smile to myself when I contemplate the ridiculous insignificance into which literature and all the sciences would sink, were they made hereditary,” wrote Thomas Paine in *The Rights of Man*, “and I carry the same idea into government. An hereditary governor is as inconsistent as an hereditary author.”

Napoleon, who loathed the “imbeciles and hereditary asses,” agreed; he extended educational opportunity, made senior appointments without regard to birth or pedigree, and generally promoted his vision of “careers open to talents,” an idea that survived his fall and inspired reformers everywhere.

In Britain and the United States, these new impulses combined with Charles Darwin’s theories to yield the ugly philosophy of Social Darwinism, which held that life’s economic race was simply another contest in which the fittest survived. For the winners – especially the self-made tycoons of America’s Gilded Age – this philosophy was a double boon: it conferred a welcome sense of superiority, even as it absolved the rich from any sense of obligation to aid the poor, since charity or government assistance would only sustain these sorry souls beyond the early demise ordained by their natural inferiority.

**THE ASCENT OF MERIT**

George Bernard Shaw was the most trenchant dissenter from these growing assertions of a link between money and merit. “Nothing hides the difference in merit between one person and another so much as differences in income,” Shaw sallied in 1928 in *The Intelligent Woman’s Guide to Socialism and Capitalism*.

“It is a monstrous thing that a man who, by exercising a low sort of cunning, has managed to grab three or four millions of money selling bad whisky, or forestalling the wheat harvest and selling it at three times its cost, or providing silly newspapers and magazines for the circulation of lying advertisements, should be honored and deferred to and waited on and returned to Parliament and finally made a peer of the realm, whilst men who have exercised their noblest faculties or risked their lives in the furtherance of human knowledge and welfare should be belittled by the contrast between their pence and the grabbers’ pounds.

“Only where there is pecuniary equality can the distinction of merit stand out. Money [then] is nothing: character, conduct and capacity are everything. ... [In a world of equal incomes] there would be great people and ordinary people and little people; but the great would always be those who had done great things, and never the idiots whose mothers had spoiled them and whose fathers had left them a hundred thousand a year; and the little would be persons of small minds and mean characters, and not poor persons who never had a chance. That is why idiots are always in favor of inequality of income (their only chance of eminence), and the really great in favor of equality.”

But Shaw’s iconoclastic egalitarianism didn’t catch on. Instead, in the United States, the harsh philosophy of Social Darwinism eventually yielded to a subtler, more pervasive and institutionally administered belief in meritocracy, and over time to the idea that those with “merit” would deservedly enjoy the best of society’s material rewards.

Like many great social transitions, the move to enshrine meritocracy was well-intended. In his superb history, *The Big Test*, the journalist
Nicholas Lemann tells how leaders like James Bryant Conant, the president of Harvard University, and Henry Chauncey, the intelligence-testing pioneer who came to lead the Educational Testing Service, thought the clubby, inheritance-based American establishment of the 1930s and 1940s made a mockery of the nation's founding ideal of equal opportunity. They believed that widespread use of tests like the SAT would finally allow Thomas Jefferson's vision of an “aristocracy of talent” to be realized, under which, in Jefferson's words, “the best geniuses would be raked from the rubbish annually and be instructed at public expense.” These diamonds in the rough, unearthed by the SAT and whisked off to the Ivy League from arms and ghettos, would be cultivated for lives of public service, unconcerned with financial gain. That, at least, was the theory.

Over time this changed. The desire to diversify America's insular governing elite eventually led to a fetish for IQ-related aptitude tests and a national frenzy over college admissions as the arbiter of economic destinies. In the decades since World War II these forces cumulatively altered the culture, creating among the winners a sense that their place in society, with all its financial and status rewards, was deserved.

It is true that the elite chosen and nurtured by the new system included more women, minorities and people from humble backgrounds than did the old boys' club. But there was always something amiss in the way the new meritocrats came to feel they “deserved” their position. Doing so meant ignoring the still vast discrepancies in people's starting places that assured that millions of poor children never had a chance to compete for the best colleges. The winners typically overlooked this reality since it tended to undermine their sense of worthiness; the presence of a few remarkable children who rose against the odds to take a seat next to them in Harvard's classrooms assuaged any lingering discomfort they might have felt regarding the fact that the deck was mostly stacked in the winners' favor from the get-go.

All of which makes the psychic blow now being delivered by the new ultra-rich deliciously ironic. Lower Uppers are being bitten by the sensibility that nourished them. The glorification of “merit,” it turns out, has a profoundly threatening downside. In the old
days, if you didn’t end up on top, it didn’t say anything about you personally. It was God’s will; you were playing your role in the great chain of being; you’d get your reward in the next life. But now, if you’re merely a corporate lawyer or a senior vice president of marketing in a world where your former classmates have private planes, something has to be wrong with you.

Michael Young, the British socialist who coined the phrase “meritocracy” half a century ago, saw the comeuppance coming. “Today all persons, however humble, know they have had every chance,” he wrote in 1958. “Are they not bound to recognize that they have an inferior status, not as in the past because they were denied opportunity, but because they are inferior?”

Oscar Wilde anticipated Lower Upper angst as well. “Misfortunes one can endure, they come from outside, they are accidents,” he once observed. “But to suffer for one’s own faults – ah, there is the sting of life!”

THE ROT AT THE TOP
For many Lower Uppers, the most egregious symbol of the growing disconnect between money and merit is CEO pay. Hardly a month goes by without another shocking instance of failed corporate leaders being rewarded with astronomical wealth despite abysmal performance. Consider Merrill Lynch and Citigroup. Under the leadership of Stanley O’Neal and Charles Prince respectively, these giants incurred more than $20 billion in losses during the subprime mortgage fiasco. Thousands of employees were fired as a result. Yet these men left with inexplicable riches.

Prince earned at least $120 million from running Citigroup for four years, during which $64 billion in market value vanished. O’Neal received a $161 million package when ousted after presiding over the biggest losses in the firm’s history. For both men these jackpots came on top of the tens of millions they had earned in previous years thanks largely to illusory gains from mortgage-related businesses that were fated to implode.

Such stories are depressingly routine. Robert Nardelli walked away from Home Depot with at least $250 million after a five-year stint in which the stock value remained flat—and Home Depot’s board had the chutzpah afterward to refuse to answer any questions about this scandal at the company’s annual meeting. Hank McKinnell left the helm of Pfizer with nearly $200 million, even though Pfizer’s market capitalization dropped by more than $130 billion on his watch. Carly Fiorina put Hewlett-Packard on the ropes, only to depart with $100 million. Gerald Levin earned a stunning $600 million despite engineering the failed Time Warner-AOL merger, which led the stock to drop from $58 to $9, costing shareholders a cool $100 billion. Morgan Stanley executives Philip Purcell and Stephen Crawford were ousted after a similar performance. Their consolation prize? A hundred million dollars on the way out.

It’s all a far cry from the days when CEOs and boards of directors exhibited some sense of proportion and restraint. George Romney, who served as the CEO of American Motors in the 1950s, may be the most interesting example of this lost species. Romney voluntarily turned down $268,000 in pay over five years when he was CEO, which represented about 20 percent of his earnings over that period. “In 1960, for example,” The New York Times noted, “he refused a $100,000 bonus. Mr. Romney had previously told the company’s board that no executive needed to make more than $225,000 [$1.4 million in today’s dollars], a spokesman for American Motors explained at the time, and the bonus would have put him above that threshold.”
And this was a CEO who was performing well! Can anyone imagine Stanley O’Neal or Charles Prince turning back their undeserved bounty? That it seems unthinkable speaks volumes about the decline of ethical corporate leadership.

The defenders of today’s CEO loot cite academic research purporting to show that compensation has risen appropriately in line with market sizes, global demands and the potential for individual “stars” to add enormous value. But anyone familiar with the clubby world of board compensation committees and their consultants knows that CEO pay has nothing to do with the operation of the free market – it’s a rigged system in which all forces conspire to push pay packages ever higher regardless of results. “I honestly don’t understand why more CEOs aren’t concerned about the image of business leaders in general,” Edgar Woolard, the retired CEO of DuPont, told the Times in 2005. Woolard, who knows the game from the inside, calls all the fancy justifications of today’s CEO pay “bull” and “double bull.”

Some hedge fund compensation schemes raise similar questions, but at even more outsized levels. In 2007 the top 50 individual hedge fund managers earned $29 billion, meaning their average income was 12,000 times the income of the typical family. The top five alone earned $12.6 billion, which was equal to the combined pay of the lowest earning nine million workers. In 2004 the top 25 hedge fund earners took home more than the CEOs of the S&P 500 combined. Some of these investors performed terrifically. But a growing number benefited from the classic hedge fund fee structure, under which the fund takes 2 percent of all assets under management off the top, and then adds 20 percent of the trading profits generated.

Funds that attract large volumes of assets are often guaranteed excellent paydays before the managers even turn on their computers. And with pension funds, college endowments and other institutional investors feeling increasingly compelled to chase higher returns via “alternative” investments (given the overall stock market’s mixed outlook), these volumes are not as correlated to “superior performance” as hedge fund managers like to claim. Bridgewater Associates, based in Greenwich, Conn., earned a net return of less than 4 percent in 2006, but its founder, Raymond Dalio, pocketed $350 million nonetheless. “The combination of extraordinary pay and ordinary performance is going to occur more and more in coming years,” concluded David Leonhardt of The New York Times after a review of industry trends.

I’VE GOT YOU UNDER MY SKIN

Not all Lower Uppers express resentment and frustration. One senior executive told me he’s earning so much more than he dreamed he would when he was growing up that the greater wealth at the tippy-top doesn’t bother him on a personal level. What worries him more is the way that executive compensation packages in, say, banking, have created incentives for high-risk behavior that produced a subprime meltdown that could threaten the whole economy. Lower Uppers I spoke with also routinely admired entrepreneurs who took risks to build businesses that add something valuable to society: no one begrudges Steve Jobs or Bill Gates their pile.

Still, that leaves plenty of undeserving rich getting under the skin of the Lower Uppers. The sociology of this brewing phenomenon is potentially explosive. The best performing gerbils on the treadmill of American meritocracy are learning that working hard, acing every test, attending top colleges, and succeeding in their chosen professions is no lon-
ger the path to the topmost ranks of wealth, influence and respect in American society. They are also learning that the era ahead may leave their jobs increasingly vulnerable to competition from abroad, as tax accountants, radiologists and divorce lawyers already know – and this vulnerability is certainly not something Lower Uppers feel they “deserve.”

At the same time, Lower Uppers see that their “betters” routinely behave in ways that are startlingly selfish, disqualifying them from playing any credible leadership role in society and leaving a vacuum increasingly filled by cynicism. Which brings us to a provocative question: If looking above now makes Lower Uppers bridle at the extent to which “merit” no longer seems to determine where people end up, to what degree will that arouse empathy for those below who are truly struggling and whose fates are shaped by similar degrees of luck or structural disadvantage? As it dawns on this elite class that people do not end up economically where they deserve to, the political implications may be striking.

“If you look at the lower part of the upper class, or the upper part of the upper middle class, there’s a great deal of frustration,” says Doug Schoen, a pollster who has counseled Michael Bloomberg and Hillary Clinton, among others. “These are people who assumed that their hard work and conventional ‘success’ would leave them without worries over the quality of their lives. It’s opening their eyes to things that are wrong with the economy more broadly. It’s the type of rumbling that could lead to political volatility.”

**HIGH STAKES**

America’s showdown with its Dead Ideas takes place in a broader global context. Indeed, people outside the United States would be happy to add a few other Dead Ideas to our list. The 5.6 billion people who don’t live in the West deeply resent the presumption that 900 million Westerners should be calling the global shots politically and economically. They’d also argue that the stunning gap between rich and poor nations is hurtling the system toward some kind of reckoning.

Seen in this light, the stakes couldn’t be higher because the way the United States meets its current challenges will help shape the fate of the planet. What steps will America take to deal with growing inequality inside our borders? If we do too little, do we risk a protectionist backlash that will shut down markets to which poor countries need access if they’re to rise? How do we keep a lid on the developing world’s resentment in the meantime? Making workers in wealthy nations feel more secure without undermining the economic progress of the developing world will be the central balancing act to manage as our Dead Ideas head toward the cemetery.

Today’s Dead Ideas didn’t establish their tyranny on the strength of logic alone. They won’t relinquish it by bowing to sweet reason either. Certain tycoons, for example, will always want us to believe that higher taxes of any kind will strangle the economy, and they’ll fund sophisticated propaganda to press their point. These interests will naturally be an obstacle to transcending the Tyranny of Dead Ideas. But in an era of unprecedented economic transformation, their sway has limits.

We’re likely to live through more change in the next 30 years than in the previous 300; in this extraordinary moment, the bigger impediment to our collective coping is our imagination. Once our thinking catches up to what’s changing around us, people and institutions that are obstacles will yield with surprising speed. Keynes had it right: “I am sure that the power of vested interests is vastly exaggerated,” he wrote, “compared to the gradual encroachment of ideas.”