Economic Inequality and Economic Crisis: A Challenge for Social Workers

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To social workers, extreme economic inequality is primarily a violation of social justice, but this article shows how growing economic inequality since the mid-1970s was not only unjust, but also dysfunctional to the U.S. economy and linked to the recent economic crisis with its devastating effects, particularly on the social work clientele. The article identifies interrelated changes in ideology, the market economy, and government policies since the mid-1970s; contrasts the political economy of this period with the preceding post-World War II decades when the trend was toward a "shared prosperity"; and shows how increased economic inequality and political consequences that undermined democracy itself contributed to the economic meltdown. The analysis has implications for the direction of social reform and for broadening the constituency of social movements in pursuit of the social work mission of social justice. How social workers can contribute to such movements and to a reduction of economic and political inequality is explored.

KEY WORDS: economic crisis; economic inequality; political economy; social justice; social movements

In everyday practice social workers encounter—and try to counter—the effects of severe economic inequality. Daily we witness the devastating effects of economic crisis—loss of jobs and shelter, increasing hunger, and decline in income and living standards. Social workers may be on the shorter end of the stick, our jobs threatened by cutbacks, our earnings too low to sustain middle-class lifestyles. Social workers, however, usually do not consider economic inequality from another angle: its harmful effects on the economy. This article shows how increasing economic inequality has contributed to economic dysfunction and economic crisis in the United States.

From the perspective of economic inequality, the 65 years since World War II can be divided into two periods: (1) the first three decades when inequality, though ever present, was diminishing and (2) the subsequent 30 years when its rise culminated in economic crisis. The article begins by contrasting the two periods with respect to the distribution of income and wealth, wages, unemployment, and poverty. It then describes the political economy of the first period or the relationship between the democratic system of government and the capitalist economy. Although inequality remained a fact of American life in the first period, it was during this time that according to the British economist Andrew Shonfield (1965), a "new capitalism" emerged, one in which the advance in national income benefited people unable to gain a share of prosperity through their earnings. Shonfield also called attention to "the conscious pursuit of full employment" (p. 63), a policy that enabled more people to earn higher incomes. In retrospect, this era may have been an anomaly in the history of capitalism, owing, in the case of the United States, to the federal government's more active role in the economy in response to the highly unusual conditions that preceded it: the Great Depression and World War II. Furthermore, competition with the Soviet Union forced the leader of the "Free World" to demonstrate the superiority of the "new capitalism." With the demise of communism and of competition, capitalism, like all monopolies, has less need to please its constituents.

The trend toward "shared prosperity" came to a halt in the mid-1970s when the nation took a "great U-turn" (Harrison & Bluestone, 1985). Some reasons for this reversal are identified, and the consequent political economy, one more akin to traditional capitalism, is described. Discussion of the second postwar period shows how the interaction between economic and political inequality contributed to economic dysfunction and to near collapse of the economic system. A subsequent section focuses on the proximate causes of the meltdown—the expansion of credit and the
housing bubble, both fueled by rising economic and political inequality, specifically, growing control of government by wealth and a burgeoning financial sector. The concluding sections point to implications for social reform and action by social workers.

**RISING ECONOMIC INEQUALITY**

Escalating economic inequality in the past 30 years comes as no surprise. Yet even those who are cognizant of the economic divide can be shocked by how wide it has become. We encounter egregious inequality wherever we look—at wages, income, wealth, poverty, and unemployment.

In the decades after World War II, real wages rose steadily along with productivity (U.S. Bureau of Labor Statistics [BLS], 2010, n.d.). Thus, the nation’s wealth was shared to a greater extent than in previous eras. In contrast, between the U-turn and the meltdown, output per person or productivity grew 85 percent while average hourly wages fell 13 percent (in constant dollars) (BLS, 2009a, 2009b). The real value of the minimum wage declined 30 percent between 1968 and 2006 (Bernstein & Shapiro, 2006).

Not everyone’s wages suffered. While the average worker lost ground, chief executive officer (CEO) pay was skyrocketing. In 1978, the average CEO took home 35 times more than the average worker—itself no small divide. By 2005 the ratio had risen to 262 or sevenfold (Michel, Bernstein, & Allegretto, 2007).

At the peak of shared prosperity, in 1973, the poorest 20 percent of households nonetheless had only 4.3 percent of total income. By 2003, this tiny share had shrunk 20 percent, whereas the middle fifth or quintile lost even more ground. The share of the top quintile grew at the expense of the bottom 80 percent, and yearly since 2000, it garnered about half the nation’s total income (U.S. Census Bureau, 2010b). By contrast, in the earlier era, the incomes at the bottom increased more than those at the top. Moreover, all quintiles grew at a higher rate in the earlier period than after the U-turn (see Figures 1 and 2).

Particularly egregious are the enormous and disproportionate income gains of the top 1 percent of households. According to a report of the U.S. Congressional Budget Office (CBO) (2010), the average after-tax income of these richest Americans in 2007—just prior to the financial collapse—was $1,319,700. This was an increase of $976,120 over the 1979 average, compared with increases of only $11,200 and $2,400 for the middle and bottom quintiles, respectively (in 2007 constant dollars). Analyzing these data from the CBO, Sherman and Stone (2010) of the Center on Budget and Policy Priorities pointed out that the gaps in after-tax income between the richest 1 percent and the middle and poorest fifth of the country more than tripled between 1979 and 2007. Sherman and Stone concluded that the new data, along with prior research, “suggest greater income concentration at the top of the income scale than at any time since 1928” (p. 2)—the eve of our prior, disastrous financial crash.

If the families who began at the bottom had moved up the economic ladder, such mobility would have brightened the picture of growing inequality. Viewing the income mobility of U.S. families over nearly four decades (1969 to 1996), Mishel et al. (2007) found that from one
decade to the next, about half who began in the bottom quintile tended to stay there, while another 21 percent to 26 percent landed in the second lowest—a total of about three-fourths still in the bottom 40 percent of the income distribution. About the same percentages pertain to those who began each decade in the top quintile and either stayed there or landed in the next highest quintile.

Wealth is even more top heavy than income, and it has become increasingly concentrated in recent years. In one short interval—1995 to 2004—when aggregate household net wealth nearly doubled, almost all the net gains went to the top quartile of the income distribution (Di, 2007). By 2004, the richest one-tenth owned 71 percent of private wealth (Wolf, 2007). Top Heavy is the apt title of a study of the increasing inequality of wealth in this country by Edward Wolff (1995), a leading scholar of the subject.

During the period of shared prosperity, unemployment, though not low, was less than it was in ensuing decades, averaging 4.8 percent from 1949 to 1973, compared with 6.5 percent from 1974 to 2008 (Council of Economic Advisors, 1962, 2010). Unemployment not only spells lost income for workers and increasing inequality; it also means loss of potential output to the economy (Ginsburg, 1995). Moreover, years of relatively high unemployment have contributed to stagnating wages. (When unemployment is high and there are many more jobseekers than available jobs, employers can hire the workers they need without raising wages or providing attractive benefits and working conditions.) The converse is true when the labor market tightens. When unemployment dipped slightly below 4 percent in the 1990s—hardly full employment, particularly for minority men—wages and benefits rose, especially for low-wage workers, and this occurred despite counterpressures from globalization (Bernstein & Baker, 2003; Pollin, 2007). Unemployment, of course, reduces incomes and tax revenues and increases government outlays to benefit jobless workers, thus contributing to budget deficits.

Along with wages, income shares, and unemployment, progress against poverty went into reverse. The U.S. poverty rate was cut in half between 1959 and 1973. Instead of falling with rising total output and national income, the poverty rate was almost 13 percent higher in 2007 than in 1973 (U.S. Census Bureau, 2010c).

Inequality marches on: between 2008 and 2009, the number of millionaires increased by 1.1 million (Spectrum, 2010) while the poverty count rose by 3.7 million (U.S. Census Bureau, 2010c). Poverty is expected to keep company with recession, but an increase in millionaires?

To meet the severe challenges of the Great Depression and World War II, the federal government exerted more control over the economy. As a result, the American people became accustomed to a government that was larger and more active than it was prior to the Depression. Government spending and taxing policies reduced the severity of recessions and mildly redistributed income. Social welfare measures enacted in the 1930s, particularly unemployment compensation, served as economic stabilizers, expanding during recessions and thereby reducing the contraction of consumer spending that would otherwise have worsened a downturn. New Deal regulatory policies, meant to reduce the disastrous financial speculation that led to the stock market crash of 1929, were maintained in the first postwar era. The progressive, higher tax rates of World War II were continued in peacetime, and rising real wages were the quid pro quo for relative labor peace. "Say what you want about the violations of free-market economics" (p. 64), wrote progressive economist Robert Kuttner (2007), "a system that produced nearly three decades of egalitarian economic growth at an average annual growth rate of 3.8% cannot be all bad" (p. 64). International comparison of the two periods on such measures as unemployment and growth in world economic output favor the earlier one (Skidelsky, 2009). For example, the growth rate of global gross domestic product was one-third lower between 1980 and 2009 than from 1951 to 1980.

Three Republican Presidents—Dwight Eisenhower, Richard Nixon, and Gerald Ford—left the New Deal and the Fair Deal, the New Frontier, and the Great Society "virtually intact" (Burns, 1989, see also, Griffiths, 1982). The first Republican president after 16 years of Democratic rule, Eisenhower repealed none of the major New Deal laws, and, in fact, disability insurance was enacted under his aegis. Eisenhower is considered conservative, yet one revisionist account of his presidency emphasizes its public works programs and holds that Eisenhower viewed his highway program as both infrastructure improvement and

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job creation (Wilson, 2009). Political scientist Hugh Wilson considered this active labor market policy akin to the employment of jobless workers during the Great Depression. Unemployment insurance, by contrast, is passive labor market policy.

The period also saw incremental growth in the welfare state, notably expansion of social insurance through wider coverage of the elderly population, initiation of disability and health insurance (Medicare), and indexing or adjusting retirement benefits to rise in the cost of living. Toward the end of the period, public assistance grew to include food stamps, health care (Medicaid), and, for a time, “welfare rights,” an oxymoron before and after this time. Government-subsidized housing also grew in the 1960s. Nonetheless, even as income support was expanding, political scientist Harold Wilensky (1965) dubbed the United States a “reluctant welfare state.” Wilensky wrote, “We move toward the welfare state but we do it with ill grace, carping and complaining all the way” (p. xvii).

To call attention to progress in the decades following World War II is not to overlook the great inequality that persisted, particularly for African Americans. The black poverty rate was at its lowest in 1973, when it was still 3.7 times the white rate. From 1954 to 1973, black unemployment averaged 9.2 percent, twice the white average (U.S. Department of Labor, 1974). Yet it is important to point out that in the 1960s, the political and civil inequalities of race and gender were reduced by such landmark measures as the Civil Rights Act of 1964 (P.L. 88-352) and the Voting Rights Act of 1965 (P.L. 89-110).

An important exception to the maintenance of New Deal reforms—one that would facilitate return to traditional, hard-edged capitalism—was the successful attack on labor immediately after World War II. The Wagner Labor Act of 1935 (P.L. 74-198)—the Magna Carta of Labor—was greatly weakened by the Taft-Hartley Act of 1947 (also known as the Labor Management Relations Act) passed over the veto of President Harry Truman by a Republican-controlled Congress. Actually, the attack on labor that culminated in the Taft-Hartley Act began in the late 1930s (Piven & Cloward, 1977). Taft-Hartley prohibited many forms of strikes, secondary boycotts and closed shops. Particularly important was its requirement that union officers sign noncommunist affidavits. Along with the accelerated anti-communism of the 1950s, this resulted in the loss to the labor movement of its most progressive leaders, those more inclined to organize women and minorities in the expanding service sector (Schrecker, 2000; Yates, 1997). A labor movement temporarily strengthened by alignment with New Deal Democrats was weakened and less able to resist later efforts by capital to turn back the clock. Nonetheless, in the postwar years labor bargained for substantial economic gains for its membership that enabled many blue-collar workers to achieve a middle-class lifestyle.

STAGNATION AND CHANGE OF COURSE

By the late 1960s, the war-shattered economies of Europe and Japan had recovered, leaving a complacent U.S. manufacturing sector insufficiently competitive. The 1973 oil embargo of the Organization of Petroleum Exporting Countries created inflationary pressures at the same time that the economy was stagnating. This perplexing new phenomenon, inflation and stagnation together, was called stagflation. Inflation was also related to the government’s failure to raise taxes to pay for the Vietnam War. These developments contributed to a “profit squeeze,” a drop of 40 percent in the average net after-tax profit rate of domestic nonfinancial corporations between 1965 and the second half of the 1970s (Bowles, Gordon, & Weisskopf, as cited in Harrison & Blustone, 1985). Other challenges to the U.S. economy cited by economist Richard Wolff (2009) include technological innovation, globalization, increased immigration, and rising labor-force participation of women. However, the effects of some of these are debatable, as is their timing in relation to the U-turn. Although technological advancement displaces jobs in one sector, it may create employment in another. A surge in immigration was not a factor at the time. Moreover, research on the employment effects of immigration on various population groups is inconclusive (Goldberg, 2002). Women’s employment, particularly labor market entry of mothers with young children, was partly a response to, rather than a cause of, their husbands’ displacement and lower wages, and it was also a necessity for the increasing numbers of divorced, separated, and never-married mothers. Women’s entry also created jobs.
in child care, fast-foods, the automotive industry, and so forth, and they seldom displaced men. Indeed, women had to fight hard to be hired in jobs traditionally taken by men. In any case, economic woes shattered faith in the reigning Keynesian economic paradigm that prescribed a larger and more strategic government sector, and the eclipse of Keynesianism gave impetus to the revival of market supremacy and laissez-faire government policies.

In an effort to reduce its competitive disadvantage, business could have stepped up investment to increase productivity and innovation. Instead, most businesses adopted alternative strategies that increased inequality (Harrison & Bluestone, 1985). In response to the profit squeeze, business squeezed labor—through wage freezes and new work arrangements that increased the flexibility with which workers could be hired, fired, and scheduled. Globalization—transfer of capital and business operations to lower-wage areas of the world—was another strategy that followed rather than preceded the U-turn, and it was encouraged both by federal tax policies that gave more favorable treatment to income earned abroad than stateside and government financing of overseas manufacturing plants. Still another strategy was to abandon production for paper profits, again resulting in manufacturing job losses. For example, General Electric sold off its consumer appliance manufacturing division and concentrated on its more profitable credit corporation (Phillips, 2002). Similarly, General Motors emphasized financial services over auto production (Wolf, 2009). Still another strategy was to lobby government to reduce taxes and regulations.

I ideological Change

Through an unprecedented political mobilization, the business community and its allies in the media and academia sought to revalidate the free market and to effect a return to a government that keeps its hands off the economy. This process was initiated in 1973 and 1974 by a small group of Washington's most influential corporate lobbyists (Edsall, 1984). At the beginning of the 1970s, a handful of Fortune 500 companies had lobbyists in the District of Columbia, but by the end of the decade, 80 percent were represented there (Greider, 1992). Political action committees (PACs) were established to get around restrictions on individual campaign donations, and by the end of the 1970s, business PACs greatly outpaced labor unions as major contributors to political campaigns (Greider, 1992).

Corporations began to advertise their ideas in the media and to pour money into new and refurbished foundations and think tanks to develop and promulgate the revived ideology of laissez-faire (Goldberg & Collins, 2001). Social theory reconstructed the poor, recasting them as an "unworthy" and undeserving "underclass." This campaign culminated in the 1996 repeal of Aid to Families with Dependent Children (AFDC) (for examples of recasting the poor, see Gilder, 1981; Murray, 1984).

Antigovernment Ideology in the Oval Office

In 1980, Republicans succeeded in uniting the interests of their fiscally conservative, pro-business base with a portion of the Democrats' New Deal coalition. As Edsall (1991) observed, such issues as affirmative action, the welfare expansion, school busing, women's liberation, gay rights, abortion, and perceived high taxes had become offensive to numerous, former Democratic voters (1991). Many white people, including blue-collar workers, defected from the party they associated with these policies, particularly because it was no longer seen as the purveyor of prosperity.

The 1980 election of Ronald Reagan landed a principal proponent of limited government in the White House. The watchword of his administration, set forth in Reagan's inaugural speech, was: "Government is not the solution to our problem; government is the problem" (Reagan, 1981). What followed were the antilabor, antiwelfare, pro-business, tax-reduction policies known as Reaganomics. Of particular interest to this discussion is Reagan's refusal to reappoint Paul Volker as Federal Reserve chairman because Volker believed that financial markets must be regulated. Instead, Reagan chose deregulation advocate Alan Greenspan. The choice of Greenspan, as Nobel laureate Joseph Stiglitz (2010) observed, signaled that "deregulation ideology ... had taken hold" (p. xvii).

Centrist Democrats

The period following the U-turn, like earlier excessively money-driven eras, featured a centrist, if

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not right-leaning, Democratic party. Historian Arthur Schlesinger, Jr. (1986) compared President Jimmy Carter to President Grover Cleveland, another conservative Democrat and businessman who served two terms during the Gilded Age. Although Carter initially expanded the Comprehensive Employment and Training Act (P.L. 93-203), the first substantial government job creation program since the Great Depression, and proposed relatively liberal welfare reform, he became less progressive later in his term. Carter’s (1979) “Crisis of Confidence” speech to the nation pre-saged Ronald Reagan’s much deeper denigration of government’s capacity to solve problems. The later Carter years also included the beginning of deregulation and a military build-up that crescen-ded under his Republican successor.

Democrat Bill Clinton, despite a progressive, populist persona, presided over the repeal of AFDC and the quintessential New Deal banking regulation, the Banking Act of 1933 (or the Glass-Steagall Act) (P.L. 73-66). Repeal meant that commercial and investment banks were no longer separated and that the high-risk culture of the latter that traditionally managed rich people’s money would prevail. Globalization policies that largely ignored workers’ rights and environmental protection were also carried on by Clinton, virtually without change from his Republican predecessor George Walker Bush.

**Plutocracy**

Former Nixon advisor Kevin Phillips (2002) described “the relentless takeover of U.S. politics and policymaking by large donors to federal campaigns and propaganda organs” (p. 322). This, of course, signifies the emergence of plutocracy and consequent blunting of the capacity of a democratic government to reduce economic inequality through regulatory and redistributive policies.

The increasing amounts of money spent in election campaigns is a barometer of this change. In 1976, winning Senate incumbents spent an average of $610,000; in 1986, $3 million; and by 2000, $4.4 million, a more than sevenfold increase (Common Cause Congressional Hearing, as cited in Phillips, 2002). In 1996, candidates who raised the most money won 92 percent of the time in the Senate and 88 percent in the House. At the turn of the century, John McCain, then an advocate of campaign finance reform, called the system “an elaborate influence-peddling scheme by which both parties conspire to stay in office by selling the country to the highest bidder” (Phillips, 2002, p. 325). The recent Supreme Court decision that government may not ban election spending by corporations can only increase capital’s stranglehold on democracy.

**“Financialization”**

The influence of the financial sector was exemplified by President-elect Bill Clinton’s abandonment of the populism of his presidential campaign. Candidate Clinton promised an economy that “put people first.” However, even before taking office, Clinton recognized that rich people were “running the economy” and that “we help the bond market [by lowering deficits] and we hurt the people who voted us in” (Woodward, as cited in Pollin, 2003, p. 91). Robert Rubin, co-senior partner of Wall Street giant Goldman Sachs, head of Clinton’s National Economic Council and later his treasury secretary, was only one of several advisors urging the president-elect to focus on deficit reduction (Rubin & Weisberg, 2003).

The great increase of election contributions from the financial sector was concurrent with its rising prominence in the economy. Robert Rubin had been a fundraiser for the democrats since the early 1980s (Rubin & Weisberg, 2003). Contributions to political campaigns from finance, insurance, and real estate (FIRE) rose from what Phillips (2002) described as “peanuts” in the early 1980s to the election cycle of 2000 when it was collectively the largest donor. It was also the biggest spender on lobbying—more than $200 million in 1998 (estimate by the Center for Responsive Politics). That was the same year that Wall Street lobby heavily and successfully for repeal of Glass-Steagall (Phillips, 2002; see also, Kuttner, 2007). Big money spent on elections and lobbying paid off—in the hands-off policy of government.

Actually, Wall Street had it both ways: deregulation and government protection. The Gramm-Leach-Bliley Act of 1999 (also known as the Financial Services Modernization Act of 1999) (P.L. 106-102) extended Federal Deposit Insurance Corporation guarantee to investment banking. As Johnson and Kwak (2010) pointed out, bank employees and shareholders could reap profits from increasingly risky activities, “but now the federal
government was on the hook for potential losses” (p. 134). Only a few years later, the government did bail them out.

The big campaign donations and lobbying that bought deregulation for FIRE were financed with off-the-chart FIRE salaries. The top 50 hedge and private equity fund managers earned an average of $588 million in 2007, 19,000 times that of the average worker (S. Anderson, Cavanagh, Collins, Lapham, & Pizzigati, 2008). By the mid-1990s FIRE was responsible for a larger proportion of the total economy than manufacturing (Phillips, 2002). The economy and politics had been “financialized.”

**The Media and Inequality**

The more economic inequality in a society, the less open and free are its mass media. This is the conclusion drawn from research on the media in 100 democratic nations (Petrova, 2008). Because the economic interests of the wealthy are inimical to those of the vast majority of voters, it is in their interest to limit the range of policy options covered in the media.

Contributing to that limitation in the United States was increasing “media monopoly.” Between 1983 and 2004, the number of corporations controlling most of the newspapers, magazines, radio and television stations, book publishers, and movie companies shrank from 50 to five (Bagdikian, 2004). The media watchdog, Fairness and Accuracy in Reporting (FAIR) held that “mergers in the news industry have accelerated, further limiting the spectrum of viewpoints that have access to mass media” (FAIR, n.d.). The viewpoint of the media was largely that of their owners.

**Wage-setting Institutions**

In studying “the collapse of low-skill wages” economist David Howell (1997) found that the culprit was not primarily technological innovation. Low-wage workers actually improved their skills, but their wages nonetheless fell. The culprit is policy changes leading to the decline of wage-setting institutions, namely the federal minimum wage and the labor movement. The steep drop in the real value of the minimum wage has already been noted, as have political changes that weakened the labor movement, even in the period of shared prosperity. Including 35 percent of wage and salaried workers at its height, union membership had already declined by one-third between 1950 and 1973.

Ronald Reagan declared war on labor by firing striking federal air controllers, denying food stamps to strikers not already on the rolls, and making antilabor appointments to the National Labor Relations Board. By 2004, the percentage of union members among wage and salary workers (union density) was only 12.5 percent, just over half of the 1973 figure (G. Mayer, 2004). Government and business policies that contributed to diminished employment in manufacturing—labor’s former stronghold—were additional reasons for greatly reduced union density. Union members have higher wages and better workplace benefits (Mishel et al., 2007). Thus, reduced union density, like decrease in the minimum wage, increased economic inequality.

**ECONOMIC INEQUALITY AND ECONOMIC MELTDOWN**

In explaining the meltdown, economist Arthur MacEwan (2009) emphasized the “nexus of factors” that have been identified in this discussion: “growing concentration of political and social power in the hands of the wealthy; the ascendance of a perverse leave-it-to-the-market ideology which was an instrument of that power and rising inequality, which both resulted from and enhanced that power” (p. 23). This perspective takes into account both the commanding heights of the economy and its lower reaches. Arising from this “nexus of factors” are developments proximate to the meltdown that will be discussed in detail later—the expanding role of credit, increased deregulation, and the housing bubble.

The approach taken here gives some weight to agency, that it was a choice on the part of U.S. business to make workers pay the price for the profit squeeze instead of rising to its challenge through innovation. By contrast, others on the left hold that the factors associated with the meltdown are endemic to capitalism—extreme economic inequality, the consequent inability of some consumers to meet their needs through their earnings, a vast accumulation of profits creating “a giant pool of money” in the hands of capital and lack of sufficient productive investment outlets for it (Blumberg & Davidson, 2008 on the “giant pool of money”; Foster, 2008; Magdoff &
The tendency of such analysts is to regard the combination of sustained growth and equity after World War II as unique in the history of capitalism, only temporarily displacing its structural contradictions (Vidal, 2009).

The contrasting perspective—on agency and choice—is consistent with the view that the political economies of capitalist countries are not homogeneous. Others, for example, are less wary of “big government.” Cross-national study shows that wealthy capitalist countries differ substantially with respect to poverty prevention and the size and scope of their welfare states (Esping-Andersen, 1999; Goldberg, 2002, 2010). Despite retrenchment in nearly all welfare states in recent years, the relative poverty rates (percentage of the population with less than 50 percent of median income) in 2000 were 7.3 percent and 8.4 percent in France and Germany, respectively, compared with over twice these rates, or 17.0 percent, in the United States, Canada and the United Kingdom, though often compared to the United States in welfare state typologies (Esping-Andersen, 1999), had considerably lower poverty rates (12.4 percent and 13.7 percent, respectively). Lower rates, ranging from 5.4 percent to 6.6 percent, were found in the Netherlands, Denmark, Finland, Norway, and Sweden (Luxembourg Income Study, n.d.). In these capitalist countries, the range, level, and coverage of social welfare benefits such as subsidized child care, paid parental leave, elder care, sickness insurance, and public pensions are wide, and the extent to which government income transfers reduce poverty based on market income alone also differs greatly. Culture and political traditions make a difference. Rugged individualism is a recurring, if not persisting, value in the United States, and so, from its founding, is wariness of the power of a central government.

**PREDATORY LENDING AND OTHER REGULATORY FAILURES**

Economic conditions created nefarious prospec-
tive borrowers and, owing to the recent accumula-
tion of a “giant pool of money,” a financial sector with a compulsion to lend, even at increasing risk. Alive and well in contemporary America, victim-blaming has it that greed and overconsumption led to increased borrowing, indebtedness, and bankruptcy. To the contrary, Harvard law professor Elizabeth Warren and Amelia Warren Tyagi (2003) found that in 2000, the average middle-class family with two children and the male parent earning the median income spent less (inflation adjusted) on food, clothing, and appliances than their counterparts in 1973 but more on health insurance and housing—the latter to gain access to better, safer schooling for their children. A second car and child care for the nontypical two-earner family drove the expenses of the average family in 2000 up still further. At the later date, reasons for borrowing and indebtedness included downsizing and lower wages. More than doubling in the last 30 years of the century, single-mother families swelled the ranks of indebted consumers (U.S. Census Bureau, 2010a, Table 4).

In the 1980s the credit card industry began aggressively marketing its services to a wider range of consumers: middle-class people, workers unemployed by corporate downsizing and recessions, college students, retirees, the working poor, and the recently bankrupt. The result was huge profits for lenders and rising indebtedness of ordinary folks. Consumer debt rose from 67 percent of disposable personal income in 1973 to 30 percent more than disposable income in 2005 (Mishel et al., 2007).

From the nation’s earliest days, states had protected citizens from aggressive lenders by limiting the amount of interest that could be charged on consumer loans. This changed when a 1978 Supreme Court decision (Marquette Nat. Bank of Minneapolis v. First of Omaha Service Corp) permitted lenders in a state with liberal usury or interest-rate ceilings to lend at those rates to consumers in states with more restrictive ceilings. After the Marquette decision, banks aggressively and successfully lobbied state legislators for liberalization of state interest-rate ceilings (Ellis, 1998; Manning, 2000). Following this, credit cards were issued to people who previously would have been denied credit altogether, or certainly large amounts. The result was a huge increase in personal bankruptcies (Ellis, 1998).

With the collapse of regulatory control over interest rates, high subprime mortgage rates became possible. Banks fat with profits from credit card lending applied the same aggressive marketing techniques they had used to increase credit cards to the sale of subprime and other unconventional mortgages that required little or no proof of income and assets (Warren & Tyagi, 2003).
Deregulation of finance abetted predatory lending. Some buyers who qualified for conventional terms were nonetheless induced to take out subprime mortgages because the interest rates on these were higher. African Americans were targeted by predatory lenders. In fact, middle-class African American neighborhoods had higher rates of subprime mortgages than poor white neighborhoods (Warren & Tyagi, 2003).

Intended to minimize the risk of these subprime mortgages were the complex financial instruments known as derivatives. According to the editors of the New York Times, derivatives were “at the heart of the bubble, the bust, the bailouts” (“Congress passes financial reform,” 2010, p. A26; see also Stiglitz, 2009). Credit-default swaps, a form of derivatives, are packages of mortgage loans for which banks that bought subprime mortgages sought insurance. Because insurance was regulated, the sellers of insurance on these loans called them “credit default swaps” to escape regulation. In 1998, the head of the Commodity Futures Trading Commission proposed regulating these derivatives but was roundly opposed by Bill Clinton’s Treasury Secretary Robert Rubin, his deputy Lawrence Summers (later head of the National Economic Council), and Federal Reserve chief Alan Greenspan (Johnson & Kwak, 2010; Kuttner, 2007; Stiglitz, 2009).

Lenders were encouraged to extend credit to riskier borrowers because they felt protected by securitization of the insurance on their packages of mortgage loans. Between 1998 and 2005, the number of subprime loans tripled, and the number securitized increased 600 percent (C. Mayer & Pence, as cited in Johnson & Kwak, 2010). What turned out to be false security was the result of the dubious assumptions on which the experts based their computer-generated estimates of default: average defaults at an earlier time when the assets and income of borrowers were carefully scrutinized (Blumberg & Davidson, 2008).

As long as housing prices rose, borrowers could refinance when their mortgages became unaffordable, and this, in turn, created more business for the lenders. When the housing bubble burst and prices began to fall, it was no longer possible to escape through refinancing, and many borrowers were unable to cover their mortgage payments through their regular incomes. When people defaulted on their mortgages, the value of credit-default swaps fell steeply, their values could not be determined, no one would buy them, and some banks were left holding huge amounts of “toxic assets” (MacEwan, 2009). The stage was set for a federal bailout.

Leveraged buyouts (LBOs), another failure of regulation that spread in the 1980s, used tax-deductible borrowed money to take over a targeted company with its own assets as collateral—an example of making paper profits rather than improving products and productivity. LBOs wrecked good companies like the once highly profitable Simmons Mattress Company, destroyed jobs, and at the same time, netted millions for the equity groups that acquired companies through hostile takeovers (Creswell, 2009). Congress and the Securities and Exchange Commission could have prevented hostile takeovers but did not. Kuttner (2007) considered this an example of “a move away from the prudent habits of an earlier era—one that remembered the excesses of the 1920s” (p. 98). Forgetting the consequences of earlier free-wheeling periods is one explanation of the wildly speculative behavior that emerged on Wall Street before the crisis. Some observers consider this a recurring process in capitalism (Fox, 2009; Minsky, 1986). The United States is particularly prone to historical amnesia in this and other areas.

RECOVERY AND REFORM

The prescription for recovery and reform can be inferred from this analysis. Reregulation of the financial sector; measures to reduce control of politics by economic elites; and a stronger, more progressive labor movement are needed if we are to reduce the fundamental problem of economic inequality. Policies to reduce inequality include the following: increases in social welfare, both the range of needs covered and the level of benefits, and the assurance of living-wage jobs for all who want to work. With increased income; broader and more adequate coverage of health care, housing, and child care; and availability and affordability of public transportation, lower- and middle-income consumers could meet their needs without feeling obliged to borrow beyond their capacities.

Full employment is more consonant with the work ethic and personal well-being than incomesupport alone. To achieve this goal, government can create living-wage jobs that repair and recreate
flagging social and physical infrastructures as well as green the economy. Such jobs, many of which can be filled by the social work clientele, would begin to meet our vast, unmet needs for child and elder care, affordable housing, public transportation, retrofitting energy-guzzling structures, and development of an alternative fuel infrastructure (Baiman et al., 2009; Bell, Ginsburg, Goldberg, Harvey, & Zaccone, 2007; Ginsburg & Goldberg, 2007).

Such job creation resembles the New Deal work programs planned and administered by social workers Harry Hopkins and Aubrey Williams. Path breaking though they were, these work programs did not employ women and minorities in proportion to their need (Rose, 2010). We can improve on the New Deal model by emphasizing jobs in the social—child and elder care, education, health care—along with the physical infrastructure. A new industrial policy to revive U.S. manufacturing would create jobs, increase opportunities for productive investment outlets, and decrease dependence on the financial sector (Pollin & Baker, 2009). These changes would require a substantial involvement of the federal government.

How can we afford these changes? A tax on financial transactions is a frequently proposed revenue source, as is decreasing military spending to genuine defense needs, such as dismantling of costly military bases around the world, not to mention unjustified foreign wars. High on the list is discontinuance of the Bush tax cuts that were expected to cost the U.S. Treasury $2.5 trillion between 2001 and 2010, over half of which benefited the richest 5 percent of taxpayers (Center for Tax Justice, 2009). Before these tax reductions, the federal budget was not only balanced, but also in surplus.

Ideology played a prominent role in economic and political changes that increased inequality and contributed to the meltdown. Reform requires a different set of values. President Franklin Roosevelt took advantage of financial collapse and its severe aftermath to articulate different values: “The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths [to] social values more noble than mere monetary profit” (Roosevelt, 1933). New Deal deeds often fell short of lofty New Deal values, but these values were nonetheless important underpinnings of the less-than-perfect reforms that found their way into the statute books.

Is the ideology of the free or unregulated market and hands-off government in decline? The money changers, despite failures that nearly imploded the world economy, remain in the temple. In the view of some knowledgeable observers, the power of Wall Street has increased (Johnson & Kwak, 2010). So far, it has fared better than Main Street. The stock market recovered, but unemployment hit the double-digit mark in October 2009 and continued to hover near 10 percent for months. Financial interests are opposed to deregulation. By late 2009, lobbyists representing banks and other business interests working on financial regulation outnumbered consumer advocates 25 to one (Johnson & Kwak, 2010), and financial interests spent nearly $600 million to weaken regulatory reform (“Congress passes financial reform,” 2010). Yet Congress enacted the first regulatory legislation in a generation in July 2010. Although the legislation may not go far enough to limit the speculative practices that preceded the meltdown, it has a powerful consumer protection component. The real question is how effectively the new law will be implemented. Financial interests are preparing a “lobbying blitz” hoping to succeed in implementation where they fell short in blocking enactment (Lichtblau, 2010). Wall Street still cooks up exotic schemes. After the meltdown, bankers were planning to buy “life settlements,” insurance policies that elderly people sell for cash—$400,000 for a $1 million policy was one figure. These policies would be packaged into bonds and resold to investors who would receive the payouts when insurers die (J. Anderson, 2009). The perpetrators of these and similar schemes, such as taking out mortgages for dead people, would be at home in Gogol’s satire of a would-be landowner who purchased “deal souls” or deceased peasants from their masters as collateral for the purchase of land.

WHAT CAN SOCIAL WORKERS DO?

Social workers need to be concerned with a wider range of policy and advocacy issues than their current repertoire, including some that were important in the profession’s infancy. A critical issue is control of the political system by economic elites. More social workers should become informed about political organizations and more
actively involved in them. NASW’s Political Action for Candidate Election is one way to work for candidates who support social work’s policy agenda. It is particularly important to become involved with organizations that seek to limit the political power of wealth, thus facilitating election of officials less beholden to economic elites and freer to support measures to reduce inequality. A task for social work educators is to increase students’ understanding of how democracy is undermined by the heavy hand of money.

Although some social workers were in the forefront of government job creation in the 1930s, the profession thereafter has been more concerned with welfare than with work. Unemployment, even at half the current rate, leaves millions jobless or marginally employed, not to mention the social and economic effects of loss of income and a valued social role. Social workers could contribute to the reduction of inequality by participating in organizations that advocate direct job creation by government. Successful living-wage campaigns and efforts to raise the minimum wage and the Earned Income Tax Credit would decrease inequality. A stronger labor movement would also contribute to this goal and be a powerful voice for the working class. A way to do this is to support the Employee Free Choice Act of 2009 (H.R. 1409) that would make it easier for workers to join unions and reduce firing and harassment of those who take part in union organizing. Another would be for more social workers to join unions and, as members, to advocate for labor’s commitment to reforms benefiting workers generally, not just union members.

Social workers are well aware of the country’s abysmally low poverty standard that, at $21,756 for a family of four (2009), excludes all but the extremely poor. Their advocacy of a higher standard could result in increasing the beneficiaries and constituencies for reform. We could follow the European model by defining poverty in terms of inequality rather than lack of bare necessities. Wealthy European democracies have long defined poverty as excessive inequality or an income less than 50 percent of the median. In recent years, most of these countries nations have adopted a higher relative standard, less than 60 percent of the median. In 2004, that would have meant nearly one in four Americans was poor (Luxembourg Income Study, n.d.). One-fourth of a nation would be harder to ignore than the 14 percent counted as poor by the official U.S. standard (2009). An alternative, developed by social worker Diana Pearce, realistically estimates family expenses in different geographic areas. In 2010, meeting basic needs or achieving self-sufficiency in the Bronx, the New York City borough with the lowest living costs, required $60,934 for a family of three, over triple the official standard of $18,310 (Pearce, 2010). Beginning in 2011, the Census Bureau will use a supplemental poverty measure (SPM) intended to measure a broader set of expenditures but not expected to replace the current standard. Social workers should evaluate the SPM, determine whether it or another measure should replace the official standard, and advocate for their choice.

The high cost of meeting basic family needs shows that numerous families above the median income, including many social workers, are hard-pressed and vulnerable to predatory lending. Who was protecting families against these predators? In earlier days, some settlements would have taken on that role, and they advocated as well for consumer protection and regulatory measures. In addition to consumer education, social workers should press for implementation of recently enacted consumer protection laws.

Reversing the continuing march toward egregious economic inequality requires a movement comparable in scope and commitment to the great mobilizations that brought civil and political rights to all our people. Social movements are thought to consist of both direct beneficiaries and conscience constituents (Edwards & McCarthy, 2004), but this analysis of the relationship between economic inequality and economic dysfunction implies a blurring of this distinction. If great inequality harms the economy and puts much of the population at risk, then reducing economic injustice would aid the income groups that have lost the most ground since the great reversal of the 1970s and those who collectively have lost trillions of dollars in homes, wealth, and jobs as a result of the economic crisis. Much of the rest of the population who are less directly affected by the crisis would, nonetheless, stand to benefit from a more stable economy and less lopsided distribution of income.

With this perspective social workers might be more likely to identify their interests with those of their clients—as some did in the social workers'
rank and file movement in the 1930s (Ehrenreich, 1985). In addition to becoming politicized by recognizing their own position in the economic system and their stake in economic justice, social workers might be more likely to engage in political socialization of their clients: the reframing of social experience or consciousness raising such as that which led women to seek political redress of gender inequality. Social workers could also "bear witness" to the suffering wrought by inequality and the unemployment crisis and could encourage their clients to do so as well.

In meeting their ethical obligation to challenge social injustice, social workers can appeal not only to a substantial portion of the public that falls short of self-sufficiency. They can also appeal to Americans in all economic strata, who stand to gain from an economy that is at once more just and more stable. **SW**

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The newly released Legal Rights of Children is the first in a series of Law Notes written by the NASW Legal Defense Fund. This title highlights the various approaches taken by states concerning how the legal status and age of a child affect the right to sue, the right to make treatment decisions concerning the child's care, the right to contract, the right to educational services, and the right to be free from abuse and neglect. The complex legal issues surrounding the determination of what constitutes a "family" or a "child" in the 21st century are also reviewed, as are adoption laws, the foster care system, divorce and child custody, visitation, and support.

This Law Note also includes a discussion of the admissibility of social workers' testimony on child custody at custody hearings. An excerpt reads:

"Social workers may be called to testify in custody proceedings, either as expert witnesses or as fact witnesses. Confusion and anxiety may be generated for the treating clinician if a party to a custody dispute attempts to utilize treatment information as if it were the evaluation or report of an expert retained for the purpose of evaluating and recommending custody. Clarifying the role of the social worker when records or testimony are sought for use in custody proceedings is a necessary step in determining how to respond to legal requests for disclosure of client information."

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