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The Mix is the Message

U! S! A! We're Number .... 15?

By Dalton Conley, The Nation
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The president's proposed budget will do much to bring progressivity back to the tax code. Upper-income households -- which have gained the most over the past three decades -- will contribute around 80 percent of federal revenues, and more modest incomes will finally catch some real tax relief. Meanwhile, the vast majority of Americans have applauded the administration's move to impose limits on executive compensation by attaching strings to bailout money. The reason is one of basic fairness, of course. But it turns out that limiting the windfalls of the few may actually be good for us all. That's because there appears to be a relationship in the United States between inequality -- which is largely driven by an explosive rise in incomes at the top -- and overall levels of human development.

In the ticker tape of economic bad news, there is perhaps one dire statistic that has not gotten as much attention as it deserves: the American Human Development Index (HDI), released for the first time last year. The American HDI is especially troubling because it puts all this economic gloom and doom in stark human terms. And the results are somewhat surprising: in good times as well as bad, in terms of aggregate health, education, purchasing power, security and general well-being, we have been in decline.

The HDI has long been used by experts and officials concerned with advancement in poor countries. In 1990 Mahbub ul Haq -- a former World Bank official who had also served as Pakistani finance minister -- created the indicator to capture the actual experiences of people in a given country or region in a way that GDP and other indicators of economically measurable output could not.

With some slight adjustments, the index was retrofitted to work for rich countries. The score consists of three dimensions: health, as measured by life expectancy at birth; access to knowledge, captured by educational enrollment and attainment; and income, as reflected by median earnings for the working-age population. And now the results are finally in.

The first bit of bad news is that America was slipping well before our most recent downturn. Whereas during the 1980s we were consistently No. 2 in the world (Switzerland occupied the top slot in 1980, while Canada did from 1985 to 1990), by the mid-1990s we had slipped to six. And by 2006 (the most recent year available), we had even fallen out of the Top 10 (to slot 15). Income clearly doesn't capture every dimension, since the United States still holds the No. 2 position in terms of income per capita. Rather, other aspects of American society make it less "developed" than it should be, given the resources available here.

This decline proceeded apace through the Reagan and first Bush administrations, during the go-go Clinton '90s, and through the regime of George W. Bush. We have slipped in periods of budget deficits and during the largest surplus in US history. So something deeper about the structure of American society is probably responsible.

Of course, there are some pretty good suspects. There is, for example, the issue of nearly 50 million people who don't have health insurance. There is the fact that college completion rates have been flat since the '70s despite an increasingly technological economy. And there is the wage stagnation for the bottom half, a problem that has dogged us since the oil shock of 1973. But there is one larger force underlying these trends that has been gaining steam over the past three decades, and that's income inequality.

Income inequality has been rising since the late '60s and is greater in the United States than in any other developed (i.e., rich) country. Income inequality can matter for general health, knowledge and our shared standard of living, for several reasons. First, the more that Americans have vastly different economic means at their disposal, the harder it is to generate political support for investments that would raise all boats. For instance, inequality often leads well-to-do people to abandon the public school system -- or to move to particularly well-funded districts, where house prices are highest. Some scholars even posit that high inequality harms our health, as a result of the stress from relative deprivation and increased efforts to keep up with the Joneses (or, as the case may be, the Gateses). While this claim remains highly controversial among health economists, the observation that more-unequal countries generally display worse health than more-equal ones is not in dispute. Such high (and rising) degrees of inequality in the United States (we are closer to Turkey on such measures than we are to France) are reflected in the HDI scores. Some Americans are a full fifty years behind others in terms of their level of development.

Yet the relationship between inequality and overall HDI scores is not straightforward. For example, state-level inequality is not a reliable predictor. The District of Columbia, New York and Connecticut all have high levels of inequality -- and are among the richest regions -- yet perform at the top in their American HDI scores. On the other hand, another rich state, California, boasts three out of the top five Congressional districts in terms of HDI (including Silicon Valley, West Los Angeles and West Orange County) while also bearing the shame of the worst district in the United States (Kings County in the Central Valley, which includes Fresno). Kings County is further behind in human development terms than any district in rural Mississippi; it is equivalent to the US average during the 1970s, and it isn't comparable to the scores of any of the rich countries we like to think of as our peers.

These differences -- even among rich states -- probably reflect distinct policy choices about how to invest in children and families. For instance, California -- held hostage by Proposition 13, which has limited property taxes over the last three decades -- is among the bottom half of spenders on K-12 education, despite having a diverse population with great needs in terms of English as a Second Language and related services. Meanwhile, New York spends more per pupil than any other state, and the District of Columbia and Connecticut are not far behind. In other words, educational investment might act as a bulwark against inequality's pernicious effects on human development.

Putting inequality in human development terms captures the cost to our collective future better than GDP, income or other abstract measures can, even -- or especially -- in perilous economic times such as these. And such a framework makes clear that if we want America to be "number one," it is more a matter of pulling up the bottom than of continuing to concentrate gains at the top. Until we deal with the rising tide of inequality we will not lift all boats -- recovery or no recovery.