The Rich

How They're Different... Than They Used to Be

BY MICHAEL LEWIS

Whatever Happened to the Leisure Class?

I've been loitering in the vicinity of rich people for nearly 15 years now, and in that time I have seen and heard a lot of strange things, but nothing as strange as what was related to me during a single brief encounter with the species in the summer of 1982. It was during a picnic in the Blue Ridge Mountains of North Carolina. I was minding my own business, more or less, when a middle-aged woman appeared and introduced herself as a close relation of Pierre du Pont 5th, with whom I had just graduated from Princeton University. After she asked what I intended to do with my life, and I replied that I had no idea, she explained to me how much more difficult things were for young Pierre. In a surprisingly aggressive tone she ticked off his many achievements: Pierre had graduated with honors, she said; Pierre had 23 job offers; Pierre was already putting in 14-hour days at some computer company; the company was paying Pierre nearly $30,000 a year. The list was long but sc :how failed to include the fact most central to Pierre's existence: the du Pont family fortune, recently estimated by Forbes to be at least $10 billion, a large chunk of which he stands to

What should become of the capital-gains tax? If the gains tax is designed to create incentive for capital, then it ought not to happen until the need for capital is a greater need. Investors and owners are doing quite well, thank you. Mario M. Cuomo, former governor of New York. Should the rich give more to charity? I think they should make sacrifices in terms of higher taxes. I've proposed a wealth tax, like they have in Europe - not just income, but wealth. The wealthy here don't pay their fair share. Edward N. Wolff, Economist and Author of "Top Heavy."

inherit. Clearly, something was amiss. I had no trust fund (or job) and yet there I was having a picnic. Young Pierre was well on his way to inheriting millions, and yet there he was, a veritable human workhorse, enslaved to some dreary corporation for a pittance. The contrast was a clear confirmation of my own lassitude — but also, I think, a small sign of the shift taking place in the imaginations of the rich: just as new money once sought to obscure itself with the trappings of ancienne noblesse, old money was now shifting its focus to achievement. The antimarket snobbery, the pursuit of useless hobbies, the preference for filigreed personalities over human ramrods, the taste for understatement — all those qualities that had distinguished du Ponts for more than a century apparently had vanished. Old money was being buffeted not merely economically but culturally. It was uncomfortable in its own skin.

In his marvelous 1988 memoir, "Old Money," Nelson Aldrich revealed, among other things, the then-recent creation of a support group for troubled heirs. The Dough Nuts, as they dubbed themselves, felt ill at ease in the modern world. You could sympathize — after you heard the gruesome tales about the rich kids who failed to overcome their trust funds. One evening in 1989 a young Mellon found the decal on the back window of his BMW defaced. On top of "The Wharton School" someone had scrawled "Night School" in thick black letters. The villains, as it turned out, were a couple of full-time Wharton students. The worst part was that it was true. A Mellon was attending night school. Life was that harsh.

MAKING MONEY, ONCE REGARDED AS THE FIRST IN A SERIES of steppingstones to the top of society, now was the only step that really mattered. Even as young Mellon wiped his sticker clean, the new ground rule — that you had to earn your way to the top of society — was being reinforced by several related trends:

- Money is being made faster than ever before. In 1987 Warren Buffett was worth $2.1 billion and Bill Gates $1.25 billion; in eight years Buffett's wealth has more than quintupled to $12 billion and Gates is now worth $15 billion. One year Michael Eisner is an upper-middle-class American; the next he has exercised his Disney stock options and has $200 million in the bank, thus launching him onto the Forbes list of the 400 richest Americans. The speed with which wealth is now amassed gives it a magical, rabbit-from-the-hat quality. The rich man has performed a wonderful trick. We applaud him so loudly he wants to do it again.

How They're Different

- The ultra-rich are growing richer faster than the very rich and the very rich are becoming richer faster than the merely rich. Between 1977 and 1989, the average income of the top 1 percent of American families rose from $323,942 to $576,553 — even as the incomes of average families remained essentially flat. And the gains among the richest Americans have been even greater. In 1987 a net worth of $225 million landed you on the Forbes list; this year it took $340 million. The yawning and ever-changing gaps enhance the tendency of rich people to compare themselves mostly with other rich people. If the sale of CNN to Time Warner goes through, Ted Turner can gloat that he has gone from being a billion or so dollars behind to being a billion or so dollars ahead of Rupert Murdoch. (It's worth noting that Malcolm Forbes the elder poached the idea for his list, first published in 1982, from Mrs. Astor, of New York and Newport, who judged people by more than their money, and whose social adviser decreed that only 400 could fit into her ballroom comfortably. Fittingly the Forbes list has

reduced the complex blue-blood social formula of the Astor 400 to simple, coldblooded accounting.)

- Partly because of the trend in the raw numbers, there has been an odd shift in the rich man's view of his social role. The source of all fortunes is, of course, profits. Rich men have always romanticized these. The robber barons — and indeed all American businessmen until about 15 years ago — arrogated to themselves the prestige of military leaders. Hence the phrase "captain of industry." Beginning in the 80's, however, the controlling metaphor of wealth accumulation changed. The modern rich man — and those who make huge sums still are, as a rule, men — is much less likely to imagine himself a military leader, or even a great sports hero. Such images are too sweaty and concrete for a group of people who, less and less, make *things* and, more and more, earn their money in such intangibles, or barely tangibles, as media, entertainment, investment, finance and computer software.

To the timeless and thorny question, "Daddy, how come you make a billion dollars?" the answer is no longer, "I am an iron-willed leader of men." The answer is, "I am an artist." All the prestige we accord the artist in his quest for originality and authenticity we now grant the businessman in his quest for profits. Saying Warren Buffett is limited because all he can think to do with his $12 billion is to turn it into $20 billion is like saying Picasso is limited because he couldn't think of anything else to do but paint. The rich man's "duty," such as it is, is not to society but to his art, and his art is making money.

"MUCH OF OLD MONEY'S ESTHETIC," NELSON ALDRICH OBSERVED, "depends on the belief that membership in the class is a gift bey achievement." But in a society less inclined than ever to credit any b beyond achievement, the old-money esthetic appears increasingly

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Michael Lewis, who writes The Capitalist column for the Magazine, is working on a book about George Soros.

ridiculous. Sensing this, rich people have been fashioning themselves a new esthetic — call it the esthetic of windfall gains. Herewith, its salient features:

INCONSPICUOUS CONSUMPTION: The flushing of fortunes down gilded toilets is a lost art. The rich will never entirely escape their acquisitions, of course. But there is nothing in the 1990's, for example, to compare the consumption of the 1890's, when rich men habitually raised omed palaces of Numidian marble and filled them with dozens of servants and hundreds of oil paintings and thousands of trinkets that made life bearable for the European aristocracy (plus a few luxuries never thought of in Europe, like linen beds for the horses). William K. Vanderbilt, a fairly typical Gilded Age specimen, spent the equivalent today of $365 million to build his Newport "summer cottage," Marble House. Even Andrew Carnegie, who wrote that "the duty of the man of Wealth is first to set an example of modest, unostentatious living, shunning display and extravagance," owned 32,000 acres and a castle in Scotland, and a palace on Fifth Avenue.

The waste value of these homes was further enhanced by their intense discomfort. Next to their cavernous ballrooms, their dark gothic chambers, the chilly dripping of their ormolu-accented fountains, the Metropolitan Museum feels like a cozy place to curl up with a cup of tea. There were reasons the great Newport mansions were closed for nine months of the year and slept in only on weekends by the men who paid for them; the effective cost of sleeping in Marble House came to about $1 million a night, in current dollars. By comparison the $30 million and counting that Bill Gates is dropping on a suburban Seattle residence in which he intends actually to live, and which is often cited as proof of the wild-eyed extravagance of rich people, is a disgrace to the tradition. Gates's stock in Microsoft has been appreciating on average at a rate of $450 million a month. He could build himself a proper home. Why doesn't he?

The answer begins with the collapse in the appeal of European aristocracy. One important purpose of the Newport mansions was to create the illusion of dynasty, and thus to curry favor with old ey in general and European old money in particular. As sugar s to attract the blue bloods, these places worked wonders. For example, in 1895, according to "To Marry an English Lord," a 1989 book on Anglomania, nine American girls from Newport society married peers of the British realm, most of whom the girls had first met at Newport summer parties. Try to imagine Ted Turner writing a check so that a daughter might marry an English Lord. It's far easier imagining an English Lord writing a fan letter to Ted Turner. Indeed, in the past 20 years one of the surest ways for an *Englishman* to become a Lord was to mimic this sort of quintessential American tycoon, and more or less buy the title. (Lord Hanson of Hanson Trust, Lord Weinstock of Britain's General Electric Company, Sir James Goldsmith, et al.)

But there is another reason still for the decline in conspicuous waste: anybody can do it! In 1895 big-ticket shopping was a competitive sport, like tennis, open to the few. In 1995, any of the more than 65,000 American families that declare an annual income of $1 million can play. A few years ago, American Express nicely illustrated the nature of this very modern problem. Its first charge card issued in 1958 — the green card — was quickly taken up by the rich. It genuinely *was* exclusive, for a brief moment. Over time, however, the rich were joined by the not-so-rich, and then by the frankly middle class. The company responded by creating the gold card, but this, too, soon was lost to the chest-hair-and-gold-chain crowd. Gold segued into platinum and platinum into the mysterious black card until finally the American Express Company, perhaps sensing its own absurdity, threw in the towel, issued a down-market credit card, Optima, and toned down its noise about prestige.

What was true about a little plastic card is nearly as true even of nsive homes: too many people can afford them. As soon as some bauble acquires sufficient appeal it attracts so many buyers that it loses its cachet and becomes faintly risible. The end result is that the home with all its chattels has lost its grip on the social imagination of the very rich. The only people who behave consistently the way the middle cl expect the rich to behave are the middle class. The Old World belief i *magnificenza* — in the hoary tradition of spending well that has shaped th landscape of Europe for 600 years — echoes clearly only in the Vi statements of the Jersey suburbs.

Rich people still afflicted by consumption neuroses are now mo likely to obsess about what they do *not* buy: Warren Buffett, who worth $12 billion, still lives with great self-consciousness in a house th cost $31,500 in 1958. Back when he was a multibillionaire, Micha Milken never bought anything for himself but more junk bonds. Bi Gates once explained that it did not matter to him if the stock price of Microsoft collapsed, because "I would still eat the same hamburgers." We should be thankful that he eats at all. The wealthier moguls in Hollywood have taken to lunching without food — just a plate of undressed arugula and a glass of Evian.

CONSPICUOUS PRODUCTION: When a man becomes rich the best way for him to boost his status is not to give alms to the poor or to acquire a wall full of Roman sarcophagi but to become even richer. Like shopping, leisure has ceded its bragging rights to the middle class. This year's Forbes 400 list confirms that many very rich people also want to be seen to be doing nothing other than making even more money: "No hobbies. 'I work too hard.'" (Steven Anthony Ballmer. Software. $2.9 billion.) "'I don't do anything but work. I used to play golf. I made a hole in one once, so I quit.'" (Alpheus Lee Ellis. Banking. $490 million.) "'If you slow down, you really doom yourself.'" (Gordon Earle Moore. Computer chips. $2.8 billion.) Summing it all up: "'I love America. We've got the only system that works. It keeps everyone hustling.'" (John Richard Simplot. French fries. $2.2 billion.) In this crowd the legendary hours of Bill Gates (72 hours a week) and Michael Milken (at his Drexel desk by 3 A.M.) are unexceptional.

Here is where the American rich have turned for psychic income: production has replaced consumption at the core of the rich man's identity. Production, not consumption, is also the source of a rich man's publicity. Just as crowds once gathered in the streets to witness the unveiling of a new mansion, now the public, in search of revelation, pores over the details of the latest giant deal cobbled together by moneycrats over a pitcher of ice water. The degradation of large corporations through highly publicized mergers or buyouts has replaced the degradation of the Rhode Island coastline through highly publicized construction. As a result, the modern tycoon can focus on what genuinely interests him without having to learn which fork to use, or how to spell Houdon.

But there is a trade-off. The rich man's identity is less diversified than ever before: he is distinguished only by his commercial acumen as measured by his net worth. It is no coincidence that the one hobby many rich people allow themselves — owning a professional sports franchise — is dressed up as a successful business.

The need for constant financial success, actual or perceived, has spawned a new form of madness — the tycoon who is obsessed with his financial image. Warren Buffett, who one would think would have better things to do with his time, sees red when accused in print of underperforming the market averages. (I found out the hard way, by making the embarrassing mistake.) At least a few of the more extravagant corporate buyouts and takeovers of the past decade — RJR Nabisco, to name one — gathered steam for no better reason than that a rich man — Henry Kravis, in this case — wanted to call attention to his capacity to get richer.

The old-money concern with social reputation has been transformed into a new-money concern for commercial reputation. This extends far beyond the desire for more spending power. Buffett, for instance, probably wouldn't care very much if he lost half his pile in a market crash, as long as everyone else lost more than he did. But if he lagged the market for, say, five years running, even if his pile kept growing, he would suffer an identity crisis. The crowds would cease to turn up at his annual meetings, his old annual reports would go out of print, his hagiographers would turn sour and he'd lose his ability to merge giant corporations on his lunch breaks.

What are the best depictions of wealth in American literature? James Wharton and, to a certain extent their descendant, Scott Fitzgerald, as well as John O'Hara. That particular foursome, as far as I know, are the only American novelists to have successfully given us character studies and social visions of the American upper-upper class, the morals, manners and sensibility to established wealth. Also, there's a motto, one of my favorite sentences from Emerson: "Money...is, in its effects and laws, as beautiful as roses." Harold Bloom, Author of "The Western Canon."

In the rich man's image-grooming the unrich play the role of willing accomplices. Up to the point of bankruptcy or incarceration we regard the rich man and his work as complex beyond our understanding. Beyond understanding, it is also beyond criticism. All highly public business decisions made by rich men are, at the time of the decision, not evaluated on their own terms but widely applauded as strokes of genius. The major business magazines exist in part to whip up this applause (while occasionally stomping on smaller fry to maintain journalistic credibility). When Warren Buffett buys into US Air or Salomon Brothers it's a sign that the firm is undervalued. When the Walt Disney Company agrees to buy Capital Cities/ABC, it is both bold and ingenious because the deal was dreamed up by Michael Eisner and Warren Buffett. This deal met with near-unanimous approval, though the only reason ever given for it was that last refuge of crackpots, "synergy." What this means, in fact, is that ABC, which already was able to buy as much from Disney as it wanted, will now be coerced into taking things it doesn't want. Already everyone has forgotten the disasters that befell Sony and Matsushita when, governed by the same logic, they bought Columbia and MCA.

THE ILLUSION OF INDEPENDENCE: The rich man is ever less entwined in the society that has made him wealthy. Unlike the captain of industry, the modern artist is a loner. His prestige does not depend much on giving away money (the ungiving Buffett is maybe the country's most-highly-thought-of rich man), or on marrying his daughter off well, or in draping his wife in furs and jewels. He derives status from his marriage only insofar as he monopolizes the childbearing years of a series of women much younger than himself. A timely divorce, for example, may actually raise his status in the eyes of his adoring public: his creative juices are flowing again! Thus the price for women's liberation was paid in part by the women at the top of society, who, with a couple of notable exceptions, now enjoy less control than ever over the lives of their husbands. The Gilded Age party in which the men were required to make fools of themselves for the amusement of the women — dining on horseback, dressing up as Roman orators — is a thing of the past. So, increasingly, is the giant trust fund. The rich man's conviction that achievement is all often outweighs his desire to see his children spend his money. On the rare occasions when Warren Buffett was willing to lend his kids money, he required them to sign loan agreements. The centi-millionaire Ronnie Chan has been quoted in Forbes saying, "I told my kids early on: you're not going to get a dime." This echoes sentiments heartfelt by many rich men today.

Not surprisingly, then, the rich man's empathy for the unrich has diminished. Or, since it was never very great, perhaps it is more true to say that the pretense of compassion for life's losers is no longer as fashionable as it once was. What we have lost in civility we have gained in honesty. Rich people used to shield themselves from the pleas of the unrich with social-class pretensions. Their chief defense these days is their keen sense of personal accomplishment. From this follows their righteous indignation toward the claims of the unrich: you can't give money to anyone you don't respect, and you can't respect anyone who doesn't make money.

The conundrum has led to an odd development: alms for the rich. When David Geffen buys and temporarily buries his friend Calvin Klein's junk bonds, or Ted Turner earmarks a $50 million tip for his friend Michael Milken as a way of thanking him for his role in Time Warner's planned purchase of Turner Broadcasting, we are witnessing a strange permutation of noblesse oblige. Rich men have always lo to impress other rich men, but these g tures seem fueled by something deeper than the desire to impress. They are a form of atonement. We have arrived at a point where the rich man disposes of his social responsibility by giving $50 million of other people's money to another rich man who has fallen on hard times. (According to Forbes, Milken is worth only about $500 million today, down from about $2 billion a few years ago.)

Cut loose from society the rich man can play his chosen role free of guilt and responsibility. He becomes that great figure of American mythology — the roaming frontiersman. These days the man who has made a fortune is likely to spend more on his means of transportation than on his home: the private jet is the possession that most distinguishes him from the rest of us. The jet facilitates his favorite male ritual — gathering in out-of-the-way places with other rich men. With his jet, he can go anywhere he wants when he wants and, more important, leave.

The old aristocratic conceit of place has given way to a glorious placelessness. There was a time when the next step for the man who made his fortune mining gold in Colorado was to build a house on Fifth Avenue and pretend he had always lived in it. The East offered the rich man his places — in Newport and Charleston and New York. Now he goes West, to the last nonplaces in America. He builds a ranch in the remote Wyoming desert or the Montana grasslands or the Colorado steppes — someplace far away from the society he has mastered. On his ranch he experiences Shane-like surges of rugged individualism — but without actually being alone. For other rich men have come before him, and other rich men are there to keep score of what he has made, and still other rich men are sure to fol — to reassure one another that they are, in fact, different. ■

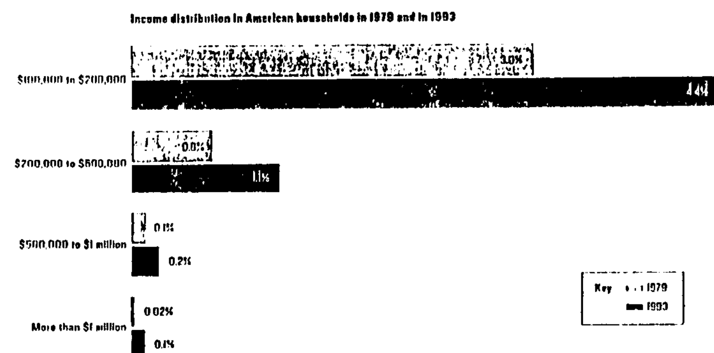
Who They Are

BY ANDREW HACKER

Upper Tail Yes, the rich keep getting richer. And the very rich are *really* raking it in

1 JUST HOW RICH IS RICH?

To a member of the average American household – the median income of which is $31,241 – anyone who makes six figures looks rich. To those working away for their six figures, however, even a million might not seem so magical. And even someone worth $100 million must feel only slightly well off in the company of Bill Gates, who, at last count, was worth about 150 times that much. For the sake of argument, though, let's declare you a rich American if your household's annual income is, say, $500,000. That would put you in the top 0.3 percent of America's households, or 1 in every 556 families. This "upper tail" of wealth has grown drastically over the past 15 years:



Number of tax returns in 1979 with income exceeding $1 million: 13,505.

Number of tax returns in 1993 with income exceeding $1 million: 65,656.

Number of households in 1989 with $1 million or more in investable assets: 834,000.

Number of households in 1992 with $1 million or more in investable assets: 3,200,000.

(Measured in constant dollars.)

2

WHAT DO WE KNOW ABOUT THE NEW CLASS OF RICH PEOPLE?

In 1993, of the 205,623 American households that reported incomes of more than $500,000 . . .

29,843, or 15 percent, received Social Security benefits, averaging $16,426.

9,676 paid out alimony, averaging $48,085.

151 received alimony, averaging $148,636.

1,017 received unemployment benefits, averaging $4,465.

20,354 filers, 1 in 10, claimed no deductions for charity.

Just who are these affluent people?

The most dependable statistics can be gleaned from Census reports, whose wealthiest category is individuals earning more than $100,000. (The median for men was $22,443; for women, $13,896.) In 1993, about **2.7 million** men and women made more than $100,000. Of those 2.7 million . . .

89 percent are men.

91 percent are white. People who identify themselves as Asian, Hispanic or African-American each make up about 3 percent.

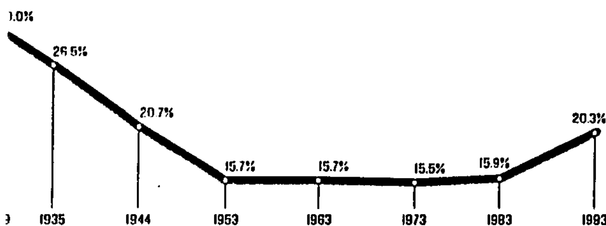
81 percent are married, **9 percent** are divorced or separated, **2 percent** are widowed and **8 percent** have never been married.

49 percent had postgraduate or professional degrees, **31 percent** had only a bachelor's degree, **12 percent** had only some college and **9 percent** had a high-school diploma or less.

3

JUST HOW MUCH DO THE RICH CONTROL?

...ce ... time, a very small group of American families took home a very large ...tion ... nerican income. Welcome back to the past.



Meanwhile, total household wealth, as distinguished from income, has become even more unevenly distributed. In 1970, the top 1 percent of households owned about ... percent; in 1989, the top 1 percent held about 36 percent.

But that doesn't mean that the wealth stays in the same hands. Consider the parade of newcomers to the top of the pyramid. Here, culled from Forbes magazine's list of the 400 richest people in America, are the 10 richest people who built up and are still active running their own businesses — and where they stood on Forbes's overall wealth list in 1982, when the list first appeared.

	Worth (in billions)	1982 ranking
Bill Gates (Microsoft)	$15	—
Warren Buffett (Investments)	$12	82
John Kluge (Metromedia)	$6.7	182
Paul Allen (Microsoft)	$6.1	—
Sumner Redstone (Viacom)	$4.8	276
6. Jay Van Andel (Amway)	$4.3	71
6. Richard DeVos (Amway)	$4.3	71
8. Lawrence Ellison (Oracle)	$4.2	—
8. Ronald Perelman (Investments)	$4.2	—
10. Rupert Murdoch (News Corporation)	$3.3	—

By today's standards, the top five self-made businessmen in 1982 were of rather modest wealth (in constant dollars).

	Worth (in billions)
Daniel Ludwig (shipping)	$3.0
Philip Anschutz (oil)	$1.5
Forrest Mars (candy)	$1.5
David Packard (Hewlett-Packard)	$1.5
Marvin Davis (oil, real estate)	$1.5

Of the 1,019 people who have ever appeared on the Forbes 400 list, 5 were black (Berry Gordy of Motown Records; John Harold Johnson of Ebony and Jet magazines; Reginald Lewis of Beatrice Foods and Oprah Winfrey and Bill Cosby) and 3 were women (Winfrey, Estee Lauder and Mary Hudson, a gasoline-station mogul). The top one-year earnings ever was the $1.1 billion attributed to the investment impresario George Soros, in 1993. A not-so-close second: Michael Milken, in 1986, reaped $550 million.

4

SO, YOU WANT TO BE . . . AN ORTHOPEDIC SURGEON?

Ma... ...ricans have got r... ...anks to the microchip. But some old standby professions have more than kept pace.

The typical partner in an American law firm earned $168,000 last year, 7.5 times more than median earnings, whereas back in 1951, the typical lawyer earned $49,000 (in constant dollars), 2.7 times the median. The typical partner in one of Washington's top 10 firms earned $455,638 last year while the typical partner in one of New York's top 10 firms earned $959,038.

The average income for physicians in private practice last year, $218,000, was 8.3 times greater than the median earning, whereas in 1973, the average income was $137,000 (in constant dollars), 4 times greater. Last year, among doctors, orthopedic surgeons made the most, averaging $364,000, while doctors in family or general practices

The best bet, of course, is to run the company. The C.E.O.'s of America's 100 largest corporations last year averaged $1,554,000 in total compensation, most of it coming in bonuses and stock gains. (The average salary for these 100 was $898,000.) And the C.E.O. position has appreciated: 20 years ago, the typical C.E.O. made about 40 times the typical American worker; now the ratio has swelled to 190 times as much.

Experts of every stripe are constantly seeking to explain these substantial disparities, citing, among other factors, the rise in jobs that require expertise and education. But one facet of the divergence is unmistakable. It's obvious

that sex still sells, but which one? At left, the 10 best-paid stars in Hollywood in 1934; at right, last year's top 10.

1934
Will Rogers
Clark Gable
Janet Gaynor
Wallace Beery
Mae West
Joan Crawford
Bing Crosby
Shirley Temple
Marie Dressler
Norma Shearer

1994
Harrison Ford
Sylvester Stallone
Bruce Willis
Tom Hanks
Kevin Costner
Clint Eastwood
Arnold Schwarzenegger
Michael Douglas
Jim Carrey
Robin Williams

How does old money differ from new? The old-money rich, the hereditary rich, are totally out of sync with the dominant theology or ideology of American life. They have no place in the American dream. The American dream is to "make it." The American dream is a dream of self-making - not just self-moneymaking. But the inheritor of wealth is already made. So the only thing he or she can do is to somehow make a virtue out of the syntax of his wealth. In other words, he or she *is*, everybody else is *becoming*. Nelson W. Aldrich Jr., Author of "Old Money."

Why Their World Might Crumble

BY LESTER THUROW

How Much Inequality Can a Democracy Take?

The income gap in America is eroding the social contract. If the promise of a higher standard of living is limited to a few at the top, the rest of the citizenry, as history shows, is likely to grow disaffected, or worse.

The year 1968 was among the worst years this century for the United States — assassinations, riots, campus uprisings and the infamous Democratic National Convention in Chicago. But an event that attracted little or no attention at the time may ultimately prove to have the most lasting and destabilizing effects of all. Suddenly that year, like a surge in a long immobile glacier, economic inequality started to rise. Among men working full time — the group most sharply affected — inequalities in earnings between the top 20 percent of wage earners and the bottom 20 percent doubled in the next two and a half decades. By 1973, the median wage for all men working full time began to fall.

Over the next 20 years, men's earnings fell 11 percent, from $34,048 to $30,407, even though the earnings of the top 20 percent grew steadily and the real, per-capita gross domestic product (G.D.P.) rose 29 percent.

Within the family, American women came to the rescue of American men. Mostly by working many more hours per year, women kept median household incomes slowly rising until 1989. In 1989, however, median real wages for women working full time year-round also began to fall. Preliminary data for 1994 and early 1995 indicate that these wage declines are accelerating. As a result, since 1989 median household incomes have fallen more than 7 percent after correcting for inflation and family size, to $31,241 in 1993, from $33,585. Already working full time, women had no more extra hours of work effort to contribute to the family's income.

The same sharp rise in inequality has occurred in the distribution of wealth. The share of total net worth of the top one-half of 1 percent of the population rose from 26 to 31 percent in just six years, between 1983 and 1989. By the early 1990's the share of wealth (more than 40 percent) held by the top 1 percent of the population was essentially double what it had been in the mid-1970's and back to where it was in the late 1920's, before the introduction of progressive taxation.

These are uncharted waters for American democracy. Since accurate data have been kept, beginning in 1929, America has never experienced falling real wages for a majority of its work force while its per-capita G.D.P. was rising. In effect, we are conducting an enormous social and political experiment — something like putting a pressure cooker on the stove over a full flame and waiting to see how long it takes to explode.

BEHIND THESE CHANGES LIE TECHNOLOGICAL shifts that demand a more skilled work force, competition from lower-paid but well-educated workers in the rest of the world and two decades of Federal Reserve Board policies of creating unemployment to fight inflation. There also has been a big shift in the implicit contract between owners and workers.

After World War II, white-collar workers and managers came to expect lifetime employment with rising wages, assuming their firms remained profitable. Blue-collar workers, who also expected and received real annual-wage increases, did face the prospect of occas[illegible] layoffs. But these were restricted most[illegible] younger workers, who could expect to be recalled in the next boom. This implicit contract has been smashed by companies with high and rising profits that are nevertheless reducing wages, eliminating fringe benefits and permanently laying off hundreds of thousands of workers from what had been society's best jobs.

The middle class is scared, and it should be. The supports for its economic security are being kicked out from under it. The remedy must include a huge program of re-educating and retraining the bottom 60 percent of the work force, investments in research and high-tech infrastructure and a willingness to run the economy with tight labor markets so that labor shortages push wages upward. But it takes organization to do that, and it's not clear that America has the will to get organized to solve its problems.

Historically, some very successful societies have existed for millennia with enormous inequalities of wealth and income — ancient Egypt, imperial Rome, classical China, the Incas, the Aztecs. But all these societies had political and social ideologies that fit this economic reality. None believed in equality in any sense — not theoretically, not politically, not soc[illegible]y, not economically. Democracies have a pr[illegible] with rising economic inequality precisely because they believe in political equality — "one person, one vote."

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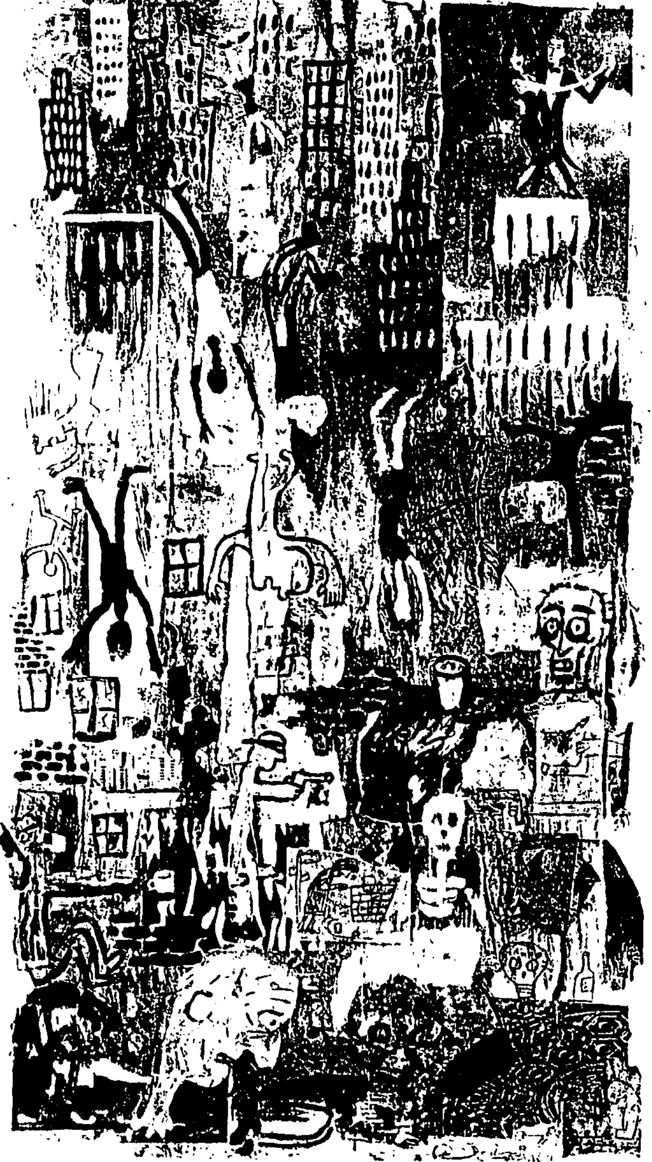
One solution to this divergent distribution of power is to drive out the economically weak. A 19th-century economist, Herbert Spencer, introduced the idea of "survival of the fittest" capitalism, a phrase that Charles Darwin appropriated to explain evolution. Spencer believed that it was the duty of the economically strong to drive the economically weak into extinction; that drive was in fact the secret of capitalism's strength.

Until recently, Spencer's suggested solution was roundly rejected, and democratic governments systematically worked to reduce earnings and wealth inequalities. A state-financed safety net protected the weak (the old, the sick, the unemployed, the poor) from economic extinction. Social investments in education, infrastructure and research and development helped raise the earning power of the middle class. The capitalist's power to exploit his work force was legally limited, and a combination of social and legal pressures insured that rising output was shared with the work force.

The Republicans' balanced-budget plan essentially offers a return to Spencer's survival-of-the-fittest capitalism. It raises taxes on working Americans and lowers them for the wealthy. It shreds the safety net, apparently on the theory that individuals facing starvation will knuckle down and work. Fear will make them hold on so tightly to the economic trapeze that they won't fall off.



No one has ever tried survival-of-the-fittest capitalism for any extended period in a modern democracy, so we don't know how far rising inequality and falling real wages can go before something snaps. Social systems can certainly snap; the recent implosion of the Soviet Union is a good example. But to snap, there must be some alternative banner under which the population can quickly regroup. In the case of Communism, that alternative banner was capitalism. But if capitalism does not produce acceptable results, there simply isn't any alternative system under which the people can quickly regroup. As a result, a sudden social collapse is highly unlikely.

What is more likely is a vicious cycle of individual disaffection, social disorganization, falling incomes and a slow downward spiral, something like the long slide from the peak of the Roman Empire to the bottom of the Middle Ages. There were those in the Middle Ages, for example, who knew everything the Romans knew about fertilizing crops. What later Europeans lost was the ability to get organized to fertilize. Without fertilization, crop yields fell so far that the best land yielded only three pieces of grain for each one that was planted. Put aside one seed to plant next year, subtract seeds eaten or spoiled by vermin and there is very little left to sustain life through the winter. There simply were not enough calories available to sustain vigorous activity, and the quality of life inevitably declined.

Today we are refusing to make the investments in the modern equivalents of fertilization

and development. Public spending on infrastructure, as a percentage of G.D.P., has been cut in half in the last two decades and is scheduled to be reduced even further by Washington's budget cutters.

Rome's downward spiral did not begin with an external defeat. It began with a period of uncertainty and disorientation. Further military expansion no longer made sense, since Rome was at its natural geographic limits and facing empty deserts, steppes and forests. Our equivalent is the disorientation that came at the end of the cold war. The enemy was gone, yet defense budgets had to be maintained.

Rome was faced with huge numbers of immigrants who wanted to attain the higher standard of living they saw before them. But Rome had lost the ability to make them into Romans. Perhaps Proposition 187 in California means that America has also lost that ability.

Literacy, widespread in the Roman Empire, was restricted to a few cloistered monks in the depths of the Middle Ages. Today functional illiteracy is on the rise even amid a sharp escalation in the educational requirements for productive workers.

During the medieval era, banditry became widespread and was widely accepted (remember Robin Hood) as a populist revenge upon the defenders of the political and social order. Unwalled cities and free citizens were replaced by walled manor houses and serfs. Walled and gated communities are once again on the rise. Twenty-eight million Americans live in such communities, if one counts privately guarded apartment houses, and the number is expected to double in the next decade.

No one can know what will happen if inequality continues to rise and a large majority of our families experience falling real incomes. But if capitalism does not deliver rising real wages in a period when the total economic pie is expanding, its hold on the political allegiance of the population will be threatened. Similarly, if the democratic political process cannot reverse the trend to inequality, democracy will eventually be discredited. What we do know is that a large group of hostile voters who draw no benefits from the economic system and don't think the government cares is not a particularly promising recipe for economic or political success. ■

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