

The Wealthy Hurt the Middle Class?

It Just Ain't So!

Bashing the rich just ain't as easy as it used to be. With the stock market at record levels, unemployment low, and wages rising, most Americans are busy trying to become rich, not brooding over how much others earn. Most of us are better off, so why begrudge those who, through hard work or sheer luck, are making lots of money?

Well . . . Cornell University economist Robert H. Frank has found a reason. Frank, coauthor of 1995's anti-capitalist manifesto *The Winner-Take-All Society*, argues in the April 12, 1999, *New York Times* that the wealthy harm the middle class. They do so simply by spending money on such ordinary things as bigger houses, heftier cars, and nice clothes, which raises a sort of "entry barrier" to the good life for the rest of us.

Pity the unfortunate middle-class families that can't buy houses in the best school districts, whose puny sedans share the roads with 6,000-pound Lincoln Navigators, and whose children don't wear the hippest clothes. "The gifts you give, the night out at the theater, the family vacation—all are affected by the upward pull exerted by the sharply higher affluence of top earners," Frank contends.

Defending the upper classes doesn't provide the same feel-good factor as standing up for the poor and downtrodden. Yet it's dangerously wrong to malign the rich and their spending as some sort of hindrance to the rest of society. Fact is, Frank has it backwards.

We'd all be a lot poorer if not for the rich. Let us count the ways. First, the rich give generously to charity. Households making \$100,000 or more donate over five times as much as middle-class families making

\$30,000 to \$50,000—supporting hospitals, libraries, homeless shelters, research, schools and universities (including Frank's own privately endowed university, Cornell, named for the generosity of its chief benefactor, Ezra Cornell, who earned his fortune laying telegraph lines). Second, the rich start new businesses, which create jobs for the rest of us. Third, the rich deliver goods and services to society's rank and file. Indeed, we routinely fill our homes with the products the rich have invented, improved, or simply made more affordable: Colgate (toothpaste), Borden (milk), Campbell (soup), Gillette (razors), Heinz (ketchup), Maytag (appliances), Mars (candy), Dell (computers), Turner (entertainment), Mrs. Fields (cookies), Mary Kay (cosmetics), and on and on. The rich have virtually "branded" America with their gifts.

Fourth, and perhaps most important of all, the rich play a subtle but vital role in funding economic progress—not by their saving but by their *spending*! By and large, economies move forward by introducing waves of new products. New goods and services typically enter the market very expensive, with sales to only a small number of consumers—generally the wealthy. The rich are able to buy, even at what would for most of us be prohibitive prices, simply because they've got the money.

Henry Ford's first Model T hit the market at \$850 in 1908, a sum that would take an average factory worker two years to earn. Not surprisingly, Ford sold only 2,500 cars that year, and critics dismissed the early automobile as a "rich man's toy." The sticker prices for today's cars may cause buyers to gag, but they actually take less of a toll on the family budget. A 1997 Ford Taurus required only a third of the work time of the first Model T.

Few entrepreneurs get rich selling only to the rich, even at extravagant prices. The big money—and the greater benefit to society—lies in bringing products within the reach of the masses. The "rich man's toy" will remain so forever unless it gets cheaper—if not in

dollars and cents at least in the currency that really matters: hours of work.

America's free-enterprise economy routinely makes what were once luxuries for the few affordable to the masses. Videocassette recorders fell from 365 hours of work in 1972 to a mere 15 hours in 1997. A cellular telephone dropped from 456 hours in 1984 to nine hours in 1997. An IBM computer declined from 435 hours to under 60 hours (while being jazzed up with 20 times more power). So many goods and services that middle-class America takes for granted started out as niche products for the rich—electricity, telephones, washers, dryers, dishwashers, televisions, microwave ovens, answering machines, compact disc players, airline trips. Today's "jet set" includes not just society's wealthy but middle- and lower-income workers as well. Over four-fifths of Americans earning \$20,000 to \$40,000 annually have flown on commercial airlines. For those earning under \$20,000 a year, the fraction is nearly two-thirds.

Even families at the lower end of the income distribution can count on eventually having goods and services once bought only by those with fat wallets. Indeed, 97 percent of American households in poverty have color TVs, nearly three-fourths own one or more cars, two-thirds have microwave ovens and live in air-conditioned dwellings. It wasn't a government welfare program that cut the price of these items to where they're affordable by the masses in America. It was that "unfair" capitalist system against which Frank so pugnaciously loves to rail.

More to Come

And what about the future? Will the spoils of an increasingly wealthy nation go only to a few? Again, of course not. What the wealthy have today will someday be common on

middle-class incomes and below. Take high-definition television, which delivers crystal-clear images. HDTV sets are selling for \$5,000 to \$10,000, well beyond the means of the average household. Only the rich will buy the first sets. In time, though, we'll repeat the experience of past innovations. Prices will drop quickly, allowing the typical U.S. family to own a high-definition set within a decade or so. If history has anything to teach us on this score, it's that the capitalist booty is spreading *faster* through society today than in the past, making its way to middle- and lower-income Americans in half the time it did a century ago.

In *Capitalism, Socialism and Democracy*, Joseph Schumpeter offered a succinct capsule of the benefit of a free-market economy: "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Frank doesn't tell us how to rid society of the inequality that imposes the burden of keeping up with the rich. Those who buy into his argument are likely to advocate penalties on the wealthy—steeply progressive taxes on income or sky-high excise taxes on luxury goods. These measures might very well reduce rich people's spending. But they're not likely to do the middle or lower classes any good. Quite to the contrary, stopping the rich from spending would retard progress and reduce the general standard of living. We'd all end up worse off.

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A Better Brand of Parent

by Marshall Fritz

After World War II, aborigines in New Guinea scraped clearings in the brush in hopes that planes would land and bring “cargo.” They’d seen U.S. forces do similar scrapings, and soon thereafter, great silver birds landed and disgorged “cargo,” some of which was left behind and was quite useful.

Of course, they were perpetually disappointed. No combination of width, length, slope, and decoration ever brought in a single silver bird because they didn’t know the real source of “cargo.” From their standpoint, however, they were doing reasonable things.

I used to push for tax-funded school vouchers. My logic was that since most times the private schools do better than the government (a.k.a. “public”) schools, why not use the tax funds to allow parents a choice? Like the New Guinean who had limited understanding of “cargo,” I had limited understanding of “private education.”

Let’s ask what is the real source of why private schools have better results overall than government schools? Is it the private ownership? Competition and the profit motive? Uniforms? Curriculum? Smaller class size? Prayers and Bible verses? Typically lower spending on teachers? Stricter discipline? Unity of worldview between par-

ent and teacher? Charging tuition of their customers?

Of all of these, only the last gets us near the heart of the watermelon.

Unfortunately, like Cargo Cultists, most of the conservative and libertarian—and recently, “liberal”—proponents of tax-funded school vouchers have not figured out *why* private schools, on balance, outperform government schools.

So what does cause, or at least allow, private schools to have better students? Douglas Dewey, executive vice president of the Children’s Scholarship Fund, put it simply: home and private schooling use a better brand of parent.

Wealth No Indicator

By the way, my one-year experience as a teen in an expensive Swiss boarding school convinced me that wealth is not an indicator of good parenting, and my experience running a private school where 71 of 72 students received financial assistance showed me that poverty is not an indicator of weak parenting.

The Reverend E. Ray Moore, founder of Exodus 2000, and I worked up a thought experiment to help explain Dewey’s Dictum. Here it is:

1. Come up with five or more indicators of “good parenting.” Our list includes: (1) getting married before you have children;

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