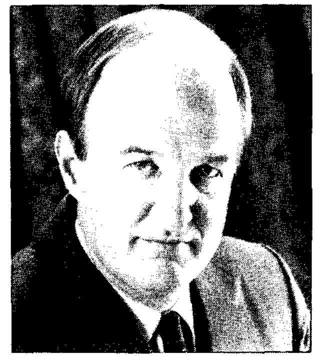
By Mark Skousen



The Rich Get Richer, and the Poor Get . . .

"The modern market economy accords wealth and distribution income in a highly unequal, socially adverse and also functionally damaging fashion."

—John Kenneth Galbraith

The allegation is appearing everywhere: Real average wages are stagnating and the distribution of wealth and income in the United States is becoming more unequal. In his latest book, Galbraith cites recent Federal Reserve statistics: "By 1992, the top 5 percent were getting an estimated 18 percent, a share that in more recent years has become substantially larger, as that of those in the poorest brackets has been diminishing. This, the good society cannot accept."[1] According to the Bureau of Labor Statistics, average real wages have been declining since the mid-1970s. If benefits are included, total real compensation has been rising, but only modestly. Finally, *Business Week* (February 25, 1996) declared, "Is America Becoming More of a Class Society?" The magazine cites several academic studies indicating less upward mobility for less-educated Americans. The *Wall Street Journal* (December 23, 1996) adds, "Inequality may grow for lifetime earnings."

Critics of market capitalism are often misled by conventional measures of economic well-being, in particular the Lorenz curve, which measures income distribution.

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The Lorenz curve measures the percentage of a nation's total income as earned by various income classes. Typically, it is divided into five income groups. In the United States, the highest fifth (the highest income earners) usually receive 40 percent of the nation's income, while the lowest fifth (the lowest income earners) receive around 5 percent. Using the Lorenz curve, U.S. income appears to be seriously maldistributed, "now the extreme case among the major industrial countries," says Galbraith.

However, the Lorenz curve establishes an unfair and misleading guide for measuring social welfare. Suppose, for example, that an "ideal" line of "perfect" equality is achieved on the Lorenz curve, i.e., the highest fifth (top 20 percent of income earners) only receive 20 percent of the nation's income, while the bottom fifth (lower 20 percent) increase their share to 20 percent. What does this ideal mean? Everyone—the teacher, the lawyer, the plumber, the actor—earns the same amount of income![2]

Since few economists think equal wages for everyone is an ideal situation, why do they think moving toward "perfect equality" on the Lorenz curve is appropriate? Moreover, the Lorenz curve is unable to show an increase in a country's standard of living over time. It merely measures distribution of income.

To measure changes in social welfare, economists often rely on a second measure—average real income. This, too, has its shortcomings. A single statistic may mask improvements in an individual's standard of living over time.

For example, average real income shows hardly any change since the mid-1970s. Yet other measures of well-being, such as consumer expenditures and the quantity, quality, and variety of goods and services, show remarkable advancement over the past 20 years. Consumer spending rose a dramatic 40 percent per person in real terms during this period. As Professor Richard Vedder says, "How many Americans in 1975 had VCRs, microwaves, CD players, and home computers?"

The Work of Stanley Lebergott

Stanley Lebergott, professor of economics at Wesleyan University, has probably done more work in this area than anyone else. Instead of relying on general measures such as average real income, he uses a more commonsense approach—looking at individual consumer markets in food, clothing, housing, fuel, housework, transportation, health, recreation, and religion. His work is fascinating.

For example, he developed the following table to measure improvements in living standards from 1900 to 1970:

Living Standards, 1900–1970

Percentage with . . .	Among All Families in 1900	Among Poor Families in 1970
Flush toilets	15	99
Running water	24	92
Central heating	1	58
One (or fewer) occupants per room	48	96
Electricity	3	99
Refrigeration	18	99
Automobiles	1	41

Source: Stanley Lebergott, *The American Economy* (Princeton University Press, 1976), p. 8.

In *Pursuing Happiness*, Lebergott demonstrates repeatedly how American consumers have sought to make an uncertain and often cruel world into a pleasanter and more convenient place. Medicines and medical facilities, artificial lighting, refrigeration, transportation, communication, entertainment, finished clothing—all have advanced living conditions.

Regarding women's work, Lebergott notes that weekly hours for household and family chores fell from 70 in 1900 to 30 by 1981. The 1900 housewife had to load her stove with tons of wood or coal each year and fill her lamps with coal oil or kerosene. "Central heating also reduced the housewife's tasks. She no longer had to wash the carbonized kerosene, oil, coal, or wood from clothes, curtains, and walls, nor sweep floors and vacuum rugs as persistently. Automated and mechanical equipment reduced her labor further. . . . By 1950, over 95 percent of U.S. families had the facilities [of] central heating, hot water, gas, electric light, baths, and vacuum cleaners."[3]

Regarding water, Lebergott comments, "The average urban resident consumed about 20 gallons of water per day in 1900. Rural families had virtually no piped water; 55 percent did not even have privies. . . . By 1990, American families devoted two days' worth of their annual income to get about 100 sanitary gallons every day, piped into the home."[4]

Benefits to the Poor, Too

This kind of historical perspective is refreshing and eye-opening. The increase in the standard of living as measured by the quantity, quality, and variety of goods and services has increased dramatically and profoundly in the twentieth century, for people of all incomes. In many ways, the poor have advanced the most and are now capable of living in decent housing, owning an automobile, and enjoying many of the pleasures previously afforded by the wealthy. Cheap airline services allow them to travel extensively. Television gives them the chance to see sports events and musical shows previously limited to the rich and the middle class. Compared to yesteryear, every house today is a castle, every man is a king. □

1. John Kenneth Galbraith, *The Good Society: The Humane Agenda* (Boston: Houghton Mifflin Co., 1996), p. 50.
2. For a critique of the Lorenz curve, see my work *Economics on Trial* (Irwin, 1991), pp. 187–197.
3. Stanley Lebergott, *Pursuing Happiness: American Consumers in the Twentieth Century* (Princeton, N.J.: Princeton University Press, 1993), p. 58.
4. *Ibid.*, pp. 117–118. See also Lebergott's latest work, *Consumer Expenditures* (Princeton, N.J.: Princeton University Press, 1996).

BOOKS

The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia

by Murray Weidenbaum and Samuel Hughes

Free Press • 1996 • 272 pages • $24.00

Reviewed by William H. Peterson

A sharp turn in human events since the end of the Cold War is the emergence of a powerful new global economic force, one without fanfare, and in an unexpected place: Southeast Asia.

The force is the "Bamboo Network." It's made up of rich entrepreneurial Chinese families in Greater China: booming Mainland China (population 1.2 billion with a land mass as big as Canada), Hong Kong, and Taiwan for the most part; and, in one degree or another, in nearby and similarly booming Thailand, Singapore, Malaysia, Indonesia, Vietnam, and the Philippines.

This Bamboo Network is quickly advancing from socialism or heavy state interventionism to a huge market economy, from degrees of totalitarianism to forms of limited republics—with Mainland China and its strict one-party rule having the greatest way to go.

What is more, this late-blooming economic miracle, an unmatched recast of much of the Far East, is envisioned, financed, and led in great measure not by Japanese and Western investors but by those aforementioned wealthy, mainly overseas Chinese family investors and entrepreneurs. They bring to mind the earlier House of Rothschild phenomenon of internationalization and multiplication of family fortunes.

Ironically, most of these ethnic Chinese superinvestors, while removed from their ancestral home, are now closely involved with its economic success as well as that of their new-found homes, despite some lingering local discrimination (Malays vs. Chinese, for example). These superinvestors are the refugees, or their children, who fled the Maoist communists in the 1940s. They have much to teach their Western counterparts who invest in that part of the world—or anywhere else.

Such are the fascinating Weidenbaum-Hughes findings. Murray Weidenbaum, President Reagan's first chairman of the Council of Economic Advisers, holds the Mallinckrodt distinguished chair at Washington University in St. Louis, where he also serves as chairman of the University's Center for the Study of American Business. Samuel Hughes, a former Center fellow, is a St. Louis-based management consultant.

The authors supply fresh meaning to networking, noting "it is common for the father-CEO stationed in Hong Kong or Bangkok or Singapore to send one son to Shanghai, another to Taipei, a son-in-law to Manila, and a nephew to Kuala Lumpur," so positioning them in the Bamboo Network for future senior leadership. (Nepotism doesn't extend as far for daughters.)

Confucian culture explains a good deal of what's behind the dramatic rise of the Bamboo Network and its growing, pounding heart, Mainland China. The philosophy of Confucius, who died in 479 B.C., has been the fare of Chinese students ever since. His values help explain the Bamboo Network's business success—values that include loyalty to the hierarchical structure of authority, a code of defined conduct between children and parents and other adults, a work and quality ethic, a sense of ethnic responsibility, a disdain for conspicuous consumption, consequent high saving rates, a bent for focus, and a drive for entrepreneurship as a dynamic rivalrous process to combine land, labor, and capital into profitable, privately held enterprises that serve and are served.

Covered here then are the Charoen Pokphand Group of Thailand, the Li Ka-shing Group of Hong Kong, the Ong Beng Seng Group of Singapore (whose holdings include participation in Planet Hollywood, a movie-theme restaurant chain co-owned by Arnold Schwarzenegger and Sylvester Stallone), the Y. C. Wang Group of Taiwan, the Salim Group of Indonesia, the Kuok Group of