FOURTH EDITION

Exploring Social Change

America and the World

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CHAPTER 4

Economics, Politics, and the American Prospect

We hope from reading the last chapter that you realize that you can't go very far in understanding personal life changes without some consideration of how these are embedded in large-scale change. Two of the most important such institutional arenas of large-scale change for you to understand are the economy and the political system. You may not be much interested in understanding politics or the operation of the economy, but these forces are "interested" in you, because they jointly shape the circumstances in which much of your life takes place. Together, they integrate and control much of what goes on in the broader society. They define the winners and losers of change by affecting such things as changes in wages; the availability of credit; and the growth and decline of jobs and industries, taxes, benefits we have come to expect, and rules that define our obligations to each other. The connections between economics and politics (or between money and power, if you wish) are so intertwined that to separate them is a bit artificial. But we will do so because we can't analyze everything all at once, and Americans in particular are used to thinking about politics and economics as separate realms. After describing economic changes and then political change, we will end by discussing some particularly important implications of these changes for American problems, public policy, and prospects for the future.

THE CHANGING ECONOMY

In the last chapter we discussed a major and much publicized dimension of economic change—the emergence of the "service" or information-based economy—so here we focus on other aspects of changing economic institutions. You can clearly see in the changing U.S. economy the trends and themes of modernity and the emergence of reactions and countertrends that were the focus of Chapter 2.

Growth in Scale and the Centralization of Economic Power

Until the 1980s, the most dramatic and visible economic trend in the United States was the continued evolution of the huge corporations and corporate empires. Beginning with the historic industrialization of the predominantly agricultural economy in the late nineteenth century, transformation meant a significant increase in the scale of economic transactions and the growth of huge bureaucracies that came to control the relations of investment, production, and employment between firms and people. Then gigantic corporate empires modified the expectations of Americans about the ability of "free markets" to serve interests of the population. The emergence of giant corporations was connected with continual efforts by unions to organize on behalf of workers and by governments to regulate them for the public good.

Large firms and their owners came to have overproportionate power in the American economic enterprise in at least two ways. First, they accumulated power *in ownership of corporate stocks and securities.* Lots of Americans own some shares of stock, but by 1983 people in the upper 10 percent of wealth holders (who numerically made up only 2 percent of the population) owned fully 72 percent of all the stock to be owned (Federal Reserve System, 1984). Even if you account for the presence of big institutional investors in which millions of ordinary people—like us—own annuities and retirement programs, real control of the American economy is largely in the hands of a small number of people (see also Kiester, 1999).

Second, they accumulated power in *market control.* Markets for particular products are dominated by a small number of large firms. Market control was always stronger in manufacturing rather than retail firms, but these firms have become more concentrated also (think of the historic example of Sears and Roebuck and the current dominance of WalMart). One way of visualizing market control is to look at multinational sales data for the world's largest corporations. In the mid-1990s, sales of the 31 largest corporations were the same size or greater than the entire economic output of nations like the Russian Republic, Thailand, Turkey, Poland, and Egypt (see Bradshaw and Wallace, 1996:49). Of these thirty-one multinational corporations, twelve are U.S. based.

Small Firms, Entrepreneurs, and the Bimodal Economy

Giant, highly bureaucratic, and centralized firms are still with us. We're sure this comes as no surprise to you because they still get most of the media attention. But according to many observers, the trends toward greater size, scale, and centralization reached a zenith in the 1970s and are now declining. Futurist John Naisbett claims that by 1994 the "Fortune 500 companies" (that is, the big ones) accounted for only 10 percent of the total U.S. economy, down from 20 percent in the 1970s (Naisbett, 1994: 7; see also Hodson and Sullivan, 1995:407–410; Bartos, 1996), and the trend toward smallness can be seen in employment statistics as well (U.S. Department of Commerce, Bureau of the Census, 1999a). Indeed, the economic news of the