College of Business Book Review by Gary H. Jones

Title: “Aftershock”

Authors: Robert B. Reich

Publisher: Alfred A. Knopf

Length: 174

Price: $25.00

Reading time: 5 hours

Reading Rating: 9 (1 = very difficult; 10 = very easy)

Overall rating: 4 (1 = average; 4 = outstanding)

In the relatively few pages of “Aftershock” author Robert Reich takes on some big questions regarding the financial meltdown of 2008—what this former Secretary of Labor refers to as the Great Recession. Were there underlying structural causes? How do we fix them?

Examining both the recent Great Recession and the Great Depression 80 years before, Reich cites a number of contributing factors. Deregulation went too far, government oversight was lax, banks grew greedy and reckless, many people took on far more debt than was prudent, some government policies (under both Presidents Clinton and Bush) were ill-advised.

But the fundamental problem, Reich argues, in both 1929 and 2008, was a grossly distorted distribution of income—concentrating ever greater wealth in the hands of the very richest Americans. Prior to 2007, as the author illustrates in a telling graph, the last time in American history when income was so highly concentrated at the top—when the top 1 percent of the population was paid 23 percent of the nation’s income—was in 1928. In the era of what Reich calls the Great Prosperity (1947-1975), in contrast, the top 1 percent’s share of total income hovered around 10 percent. Such a more-equitable distribution of income can support economic demand—and so production—across a broad societal base in ways that demand from the narrow band of rich simply cannot approach.

 [[ Incidentally, to qualify for the category of richest 1 percent in 2007 in terms of income you would have had to have made about $400,000. (Reich generally skirts the separate issue of concentration of wealth, contrasted with income. Estimates of the total wealth that the richest 1 percent own range from about 35% to nearly 50% depending upon how wealth is defined.) ]]

Reich outlines what he terms the basic economic bargain of a capitalist system: Workers are also consumers; their earnings are “continuously recycled to buy the goods and services other workers produce.” This is a bargain industrialist Henry Ford understood, as did, in more theoretic terms, the economist John Maynard Keynes. Focusing on the American middle class Reich reiterates: Without meaningful earnings consumer demand languishes, production then dwindles. This basic, if implicit, bargain was broken in the years preceding both major economic crises considered in the book.

Before suggesting a number of solutions to the current crisis and measures that would serve to prevent the next, Reich succinctly summarizes a host of contributing factors to the underlying problem of growing income disparity: Wall Street’s army of Washington lobbyists, a massive financial bailout which supplied scant aid to Main Street, the “revolving door” between government officials and lucrative private sector jobs, and a tax policy that puts a disproportionate burden on the middle class. For example, during the Great Prosperity of post-WWII the top marginal tax rate on the rich was 70 percent or more; since 1987 the official rate has been below 40 percent, and the effective rate typically below 25 percent.

If these and other flaws in the current economic system are not fixed, leading to a more equitable distribution of income, the aftershock from the Great Recession will be more than economic, Reich warns, it will be political—a backlash against trade, immigration, Wall Street, and even government itself.

In the final chapter Reich offers some specifics for nine potential solutions to the problem of wide and growing income disparity—nine ways to restore the basic bargain and reestablish the purchasing power of the middle class. These include a carbon tax, higher tax rates on the wealthy, a reinvestment in public goods (including public transportation), linking college loans to subsequent earnings, and, perhaps most fundamentally, taking money out of politics.

Gary H. Jones, Ph.D., is an associate professor of business communication in the College of Business at Western Carolina University. His interests include organizational communication and the perception and practice of ecological sustainability in higher education. For previously reviewed books, visit us at our website at www.wcu.edu/cob/.