

---

# BOOK REVIEW

---

## **Money: Who Has How Much and Why**

**By Andrew Hacker**

**Scribner, 1997, 253 pages**

*Reviewed by John C. Braddock*

Facts are simple and facts are straight  
Facts are lazy and facts are late  
Facts all come with points of view  
Facts don't do what I want them to  
Facts just twist the truth around  
Facts are living turned inside out. . .

David Byrne and Brian Eno

*Money: Who Has How Much and Why*, by Andrew Hacker, a professor of political science at Queens College in New York City and author of seven other books, is a book of facts and commentary about how much money people make in the United States and how they make it. It is a book that can alternately disturb you into examining your assumptions about free enterprise and goad you into entrepreneurial glee at the prospects of amassing wealth.

- 
- *Reviewer John C. Braddock, Executive Director-Investments at CIBC Oppenheimer in New York City, offers individuals and families a full range of wealth preservation and investment strategies, including asset management, securities brokerage, direct private investment, and structured transactions. He was the managing director and founding partner of the firm's Structured Products Group where he developed a wide range of financial products and investment strategies for private clients. Before CIBC Oppenheimer, he headed the Structured Products Group at PaineWebber Incorporated and co-founded the Capital Markets Group at the American Stock Exchange. Mr. Braddock is the author of Derivatives Demystified: Using Structured Financial Products (Wiley, 1997) and a contributing author to The Handbook of Equity Derivatives (Irwin, 1995). He is an adjunct professor of financial engineering at Polytechnic University in New York City and a periodic guest lecturer at a number of graduate business schools. He is also the Chairman of the Deans Business Advisory Council at Baruch College School of Business and a member of the Advisory Board for the International Association of Financial Engineers.*

Based on data gleaned from annual Census Bureau surveys and other publicly available information, and computed in constant 1995 dollars, Mr. Hacker shines the glaring light of statistics on what appears to be a trend of declining economic welfare among a significant portion of the U.S. population. A rising tide may lift all boats, but Mr. Hacker leaves us with the view that, economically speaking, there are quite a few boats in the United States with water sloshing around in their hulls. From 1975 to 1995, the average per household income in the United States increased from \$37,365 to \$44,938, and all segments of the U.S. population enjoyed absolute increases in income over that 20-year period. The top fifth of the population, however, appears to have been the only segment whose *share* of all income actually increased, growing from 43% of total U.S. income in 1975 to almost 50% in 1995. Indeed, the richest 5% of all Americans in the United States saw their share of total income more than double over the past 20 years. The number of tax returns filed in the United States with incomes of \$1 million or more increased by more than 400% from 1979 to 1994. It is likely that the number of such incomes has continued to increase since 1994, given the effects of the dramatic U.S. economic expansion that has pushed many middle class Americans into the upper class. These statistics show that many people are getting ahead in the United States and that capitalism as a social and economic construct is successful, a conclusion Mr. Hacker draws us away from. He paints a darker, more Hobbesian picture of our society. He characterizes the top 20% of U.S. income winners as those who suck money from the pockets of the little guys. They benefit at the expense of the other 80% of U.S. households, as illustrated by the information in Table 1.

A number of disturbing trends are illuminated by Mr. Hacker's work. For example, in 1995, although the *average* annual household income in the United States was almost \$45,000, the *median* or midpoint salary was a modest \$25,000. American women made about half the median income of men. A third of all children in the United States lived in homes with incomes of less than \$25,000, with 20% living in homes with incomes below \$15,000. Almost a third of all U.S. children lived in single-parent households, up from approximately 15% in 1970, which in and of itself is not a bad thing, it's just that many one-parent families struggle to make ends meet. African American households in the United States earned about half the median income of white American families, and the typical black single mother earned about \$13,000 a year compared with \$18,000 for white single mothers. These figures remind us that African Americans in the United States, and particularly their children, have a disproportionately harder time developing whatever promise they may

**TABLE I**  
Allocation of Income Among U.S. Households (in 1995-value dollars)

<i>U.S. Population Segment</i>	<i>Share of all Income in 1995</i>	<i>Increase from 1975 to 1995</i>	<i>1995 Average Income</i>
Richest 5%	21.0%	+54.1%	\$188,962
Top 20%	48.7%	+35.4%	109,411
Second 20%	23.3%	+13.0%	\$52,429
Middle 20%	15.2%	+6.7%	\$34,106
Fourth 20%	9.1%	+4.4%	\$20,397
Bottom 20%	3.7%	+1.5%	\$8,350

have and that American women on average are still far from approaching economic parity with men. Further, more than ever before, unmarried adults are living with their parents or with each other, apparently postponing marriage and child rearing; the number of people living in trailers or mobile homes has more than doubled during the past 20 years (some of which may be attributable to the growth in the number of so-called “snow birds” or retired people in the United States who follow the good weather during the winter months by pulling their trailers to warmer climes); and tens of millions of relatively high-paying blue collar jobs have moved offshore, replaced by relatively low-paying, high-tech-sounding “information industry” jobs, such as mail order clerks who sit at computer screens and capture catalog merchandise orders over the telephone.

A fascinating picture developed by Mr. Hacker is that of the United States existing as three parallel nations living under a political philosophy that expounds equality while a contradictory and brutally efficient economic philosophy churns out haves and have-nots. One of the major reasons for America’s economic success may be that the rules of the game are well known, enforced, and generally applied equally to maintain harmony between its seemingly competing political and economic philosophies. The author provides informative references to a number of historical tenets of American economic thinking by citing James Madison’s late 1780s Federalist papers and his emphasis on property rights and a “natural truth” that disparities in human talents will produce an “unequal distribution of property.” The author cites Alexander Hamilton’s belief that “individuals are apt to succumb to the strong influence of habit and imitation [and] the fear of failure in untried enterprises and new attempts.” In Hamilton’s view, to develop the vast new continent, Americans would have to enter the market to sell their skills and services in competition with others.

One American “nation” describe by Mr. Hacker is the top 20% or so of the population comprising the “comfort class,” or those with incomes averaging over \$100,000 per year. The author notes that about 80% of this category involves dual-income families. Second, there is the “middle” 60% multitude of the population earning on average between \$20,000 and \$100,000 per year. These Americans do not see themselves as anywhere near being poor. In a 1995 Roger Starch survey, the author notes that fully 70% of Americans felt they could manage to live decently on \$35,000 a year, and that with another \$15,000 they could live quite well. The author notes that even with an income below those stigmatized as being “welfare” recipients, a \$14,000 per year airline reservationist can feel the satisfaction of being self-supporting. Many people who would otherwise be categorized as “poor” (e.g., those making significantly less than \$20,000 a year) may actually be the second income earner in a dual-income family or a roommate living among unmarried adults. The bottom 20% of the economic spectrum, those making an average of about \$8,000 a year, are truly poor in our society. For 1995, the author cites the poverty threshold in the United States as \$7,763 for a single person or about \$12,278 for a single parent with two children. The author notes that many people in this category obtain supplemental financial assistance from a number of governmental sources (sources that may have diminished, given recent U.S. welfare policy changes) and often live in rural areas where costs are low and poverty is less evident, or they live in inner cities.

Throughout this book, without ever asserting concrete proposals, Mr. Hacker dances with notions of draconian income redistribution to soften the images of disparity drawn by his work. There is a consistent undercurrent of criticism of the rich (i.e., almost anyone making more than \$100,000 a year, except the president of the United States whose \$200,000 salary sets the benchmark for all other government workers), be they professional athletes, movie stars, Wall Street executives, or corporate leaders. The author repeatedly questions the value of highly paid CEOs and other recipients (including fellow academics and university deans) of performance-based stock option and annual salary compensation above \$100,000. Many shareholders (both individual and institutional) of public companies also question executive compensation and can easily vote their displeasure with management performance and compensation by selling their stock holdings in such companies. Significant and protracted stock price declines is a common cause for entire management teams to pack their bags. In his attacks on those who are “rich” (e.g., those who may be our mentors and invite imitation), the author makes no mention of the economic pain and discipline imposed on thou-

sands of rich and not so rich risk-takers whose business ventures falter each year. Mr. Hacker also advances a rather peevish notion that the most distinguishing characteristics of senior executives is their ability to exploit passive boards of directors and to perpetuate their jobs through a variety of Machiavellian schemes executed through old-boy networks. Without a doubt, the foregoing characteristics exist, and unfortunately, they may define the nature of a number of very economically successful people. However, such easily advanced stereotypes mask the overwhelming fact that successful businesses are typically run by talented people, without whom businesses usually fail. The primary engine of commerce is the economic philosophy of capitalism, warts and all. It engages and coordinates the talents of hundreds of millions of people and provides a brutally efficient and spectacularly successful means of addressing and overcoming challenges in our complex and interdependent world. It is an economic philosophy that tends to squeeze the best performance out of people, reward them, and allow them to look up toward their goals with a sense of independence and hope.

A refreshingly candid aspect of Mr. Hacker's book is his illumination of the weaknesses of our society, a glaring example of which is his focus on inequities in our culture that contribute to the prevention of certain groups of individuals (e.g., African Americans and women) from fully developing their skills and talents, impeding their access to economic success. A fair, objective, and compassionate society values the potential contributions of all of its members. It selfishly provides mechanisms for advancing and rewarding skills that contribute to social and economic success. An entertaining aspect of the book is its ability to allow the reader to informally "keep score," that is, compare his or her earnings to the statistical averages of various groups studied by Mr. Hacker. Such comparisons can either relieve or exacerbate the frustrations many often feel in terms of their inflated perceptions of the earnings of others and their own sense of relative poverty. "Money" is full of sign posts that are important to our present understanding of our culture, sign posts that may prove extremely valuable in the future if socio-economic problems gain ascendance in the United States over other domestic and international issues.