

## Who Stole the American Dream

By Hendrick Smith – 2012

America is facing a challenge from within – the separation between power, money, and ideology is pushing us toward “a house divided against itself...” The economic divide was best illustrated by the Occupy Wall Street movement and represents a nation coming apart at the seams due to a divide based on class (i.e. rich and poor).

### Power Shift

Since the late 1970s political insiders have gained vast powers, driven by a pro-business power shift in politics. This shift began in 1971 with “the Powell Memorandum”, written by Lewis Powell two months before he was named to the Supreme Court. In it he advised business to unite and create a political action force – or business lobbies – that would push for laws favoring business.

The pivotal time was the 95<sup>th</sup> Congress (1977-78) where a corporate mutiny against the status quo really took shape. The economic wedge started here and divided the nation into two Americas.

- 1977 saw the defeat of an attempt to create a consumer protection agency and the defeat of bills to expand union power and wages.
- In 1978 virtually every economic bill that passed had a policy tilt toward business and the wealthy, often at the expense of the middle class. Much of Nixon’s regulatory regime was repealed, bankruptcy reform put corporate management in control of restructuring the very companies they had bankrupted, the concept of pension reform was created within section 401k of a financial bill that ultimately allowed for offloading pension costs onto workers, and tax cuts for business and the wealthy were passed through a president who wanted tax loopholes reduced.

### Dismantling the Dream

The rules of the 1990s start and finish with the power of the financial markets to control the destiny and strategy of corporations. The CEOs the old concept of balancing the competing interests of management, employees, and investors and focused on maximizing returns to shareholders. CEO pay soared, while others in the corporate structure languished or declined. In America the CEOs didn’t face any countervailing power because the government shifted toward a business economic model and away from any responsibility toward labor.

As income radically shifted toward the wealthy, the concept of responsibility for a full-time labor force shifted to a desire for temporary labor contracts.

There is growing, and disturbing evidence that America has evolved into a caste society, increasingly stratified in terms of wealth and income, with people at the bottom almost frozen there. America is now classified as “a low-mobility country in which about half of parental earnings advantages are passed onto sons.” Education is no longer the great social leveler that it once was and we have moved from a society - the 1950s and 1960s - in which race was more consequential than family income to one today in which family income appears more determinative of educational success than race. The gap between rich and poor in determining who attends college has been steadily increasing.

Economists have calculated that if the laws and the social contract widely accepted by Corporate America during the 1960s and 1970s had continued, average Americans would be far better off today.

By pursuing a deliberate strategy of continual layoffs and by holding down wages, both of which yielded higher profits for investors, business leaders were strangling the middle-class consumer and making it far harder for the private sector to pull the country out of a slump. With each recession since 1990, it has taken longer and longer for the U.S. economy to dig out of the hole and regain the jobs lost.

The root of Americans' rising anxiety about their economic standing and future lies in the fact that more and more economic risk has been offloaded, by government and corporations, onto the increasingly fragile balance sheets of workers and their families.

The fault lines dividing losers and winners are income and age. Nearly two-thirds of those earning \$75,000 or more say they are holding their own, while 70% of those earning less than \$50,000 are losing ground and becoming more and more poor. The one thing these two groups have in common is the view that the decade between 2000 through 2009 has been 'down-hill'.

The biggest single cause of exploding private debt was a U.S. Supreme Court decision in 1978 – Marquette National Bank – that effectively deregulated credit card interest rates. The increase in credit card interest made it impossible for people who were higher credit risks to ever pay off their debt. Then the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 limited the debt that could be eliminated through bankruptcy.

Two trends are primarily responsible for today's hyperconcentration of wealth in America – corporate decisions to take a far bigger share of business earnings for themselves and the increasingly pro-rich, pro-business policy tilt in Washington in the late 1970s. For corporations, options have become a smokescreen for wealth transfer.

By the year 2000 six business groups had become the core of business political power in Washington and represented 1.8 million businesses

1. U.S. Chamber of Commerce
2. Business Roundtable
3. National Association of Manufacturers
4. National Federation of Independent Business
5. National Restaurant Association
6. National Association of Wholesaler-Distributors

## Unequal Democracy

What powered the business community's ability to persuade Congress to buck public opinion on the 2001 Bush tax cuts was a political machine with unparalleled clout in political campaigns and influence deep in the tax-writing committees of Congress. The media still treat business and labor as rough equals in the Washington power game, but that image is forty years out of date. In the campaign financing arena business has made use of the concept of soft-money PACs – where contributions are hidden - to finance political campaigns.

No slice of American business has amassed more political power or more astronomical profits – and contributed more to the economic divide and hyperconcentration of wealth today – than Wall Street. In spite of the peril it created for the country in 2008, Wall Street has escaped serious oversight. Tim Geithner, who worked for five years under a Fed board dominated by Wall Street bank CEOs, was chosen to head Treasury – thus insuring that under both Republicans and Democrats Wall Street would have its voice heard and followed.

With the refusal of government to regulate derivatives and the repeal of Glass-Steagall, financial institutions were able to become "Too Big to Fail". Now banks are in the business of "obstruct and delay" when faced with increased demands for regulation and the economic situation grows ever more divided and ever more dire. It is when ordinary people feel the system is rigged and that they are powerless to change it, that the social fabric is torn and societies crumble. Unfortunately, the record since the late 1970s shows that the concentration of wealth and the concentration of power in America are mutually reinforcing. We are becoming an 'oligarchy', not remaining a 'democracy'.

## Middle-Class Squeeze

In the last thirty years many lifetime pensions have become 'bankrupt promises' and it is the middle class worker who has paid for the CEO's decision to 'cut the fat', saddle the company with debt, then go through bankruptcy – all in the name of the investors on Wall Street. Bankruptcy has become a way to 'burn your promises' rather than an efficient aspect of capitalism. The big winners in bankruptcies are the banks and investment firms that run the process.

401ks have become do-it-yourself retirement plans. The only problem is that the middle class worker is in no position to make decisions as well as people who work in the finance industry, but they are in an ideal position to be taken advantage

of by these same banks and institutions. Financial success requires discipline over a lifetime of work, but most people lack sufficient discipline, especially in the New Economy, where periodic layoffs force many average Americans to change jobs, employers, and 401(k) plans. The individual has to make a choice every step along the way, where previous retirement plans were managed by people who spent their career actively investing as a full-time job. Company contributions to 401(k) plans can be changed with economic circumstance, not with bargaining, but the individual is the only person harmed by changes. Pooled funds with professional management have averaged 4% better returns than employee-run plans – over 20 years that means these funds will be over double the size of employee-run plans.

The subprime Mortgage Game switched people who didn't qualify, or shouldn't be owning a home in the first place, from loans requiring a firm financial background check into subprime loans that had numerous strings and were almost certainly going to cause financial failure over time. This insured any wealth these individuals/families had would be transferred to banks/Wall Street in a short period of time. The Mortgage Game had a fatal flaw; there is a dangerous disconnect – the separation of profit from risk in the secondary market where banks sold their home mortgages. The consequence of this flaw was that originating banks no longer were concerned with whether or not the borrower paid back the loan, because the risk could be passed downstream to distant investors on Wall Street. The Wall Street firms then sliced and repackaged these mortgages, creating derivatives which were then resold to investors. Bond-rating agencies were beholden to Wall Street for their income and this contributed greatly to their giving AAA ratings to many of these derivatives. This is where eliminating the wall between banks and investment firms – the repeal of Glass-Steagall – was immediately felt.

The crash and its wave of foreclosures and high unemployment were no accident, but sprang from the deregulatory fever that burst forth in the pivotal Congress of 1978 and gained momentum up until the crash in 2008. Banks cannot be trusted and the free market does not balance human failings with logical decisions – as was assumed by Alan Greenspan and politicians of the time.

Some hedge funds saw problems in the housing market and bought insurance against this eventuality, in the form of credit default swaps – they cashed in big-time when the market collapsed. Some Wall Street firms also insured themselves (Goldman Sachs) and actually made money on both sides of the housing market, disregarding their investors' best interests. It is notable that none of these firms has paid any price for disregarding their investors needs.

The Wall Street bust and bailout offered an opportunity to correct some of the misguided policies that led to the financial collapse, but the big banks blocked all efforts at reform and government assistance to the average homeowner.

Wall-Mart's business model has become the template for companies across the corporate landscape. For suppliers, forging a relationship with Wall-Mart is a double-edged sword – sales increase, marketing and distribution cost drop, but Wall-Mart demands short term cost cutting every year and the supplier's costs are not considered. Ultimately this has led to more and more products moving their production facilities to China, where there is a de facto joint venture between the company and the country. The U.S. government not only has ignored this situation, it has abetted the transfer of jobs with tax savings. A key to Wall-Mart's success is its ability to anticipate the demands of the customer and the key to predicting the markets was the bar code. Now power has shifted from manufacturers to retailers and manufacturers can be anywhere in the world. Wall-Marts selling strategy is to have an "opening price point" on a product line to draw the customer in, then to have items on the shelf that will exactly match what the customer is searching for, but they are not at the lowest price point in the area – it is a variation on the "bait-and-switch" sales strategy. It is China where the "opening price point" items, which make up about 25% of the market, are almost always manufactured and there is yearly pressure on manufacturers if they want to compete in this market. The U.S. ships raw material to China and China ships finished products back. This business model exacerbates the growing economic.

What is good for America's global corporations is not necessarily good for the American people. This is the new dynamic in this era of globalization. The American reaction to increasing globalization was to shift toward high tech jobs, but as soon as manufacturing moved overseas, the high tech knowledge economy jobs soon followed and the U.S. was increasingly left with a service economy. Even worse, technology theft by China and India became endemic. With the internet, many of the service jobs – i.e. call centers, etc – were offshored. With the recession offshoring has risen, while there are job cuts in America.

High-skilled foreign workers are brought into the country to replace, on a large scale basis, skilled American workers who have worked for many years and accumulated salaries and benefits that are not paid to the new foreign workers entering the country under the H-1B visa program.

## Obstacles to a Fix

According to Senator Evan Bayh, congress suffers from multiple pathologies: “strident partisanship, unyielding ideology, a corrosive system of campaign financing, gerrymandering of House districts, endless filibusters, holds on executive appointees in the Senate, dwindling social interaction between opposing parties, and a caucus system that promotes party unity at the expense of bipartisan consensus.”

The political center has been carved out of the two political parties and there is no longer any place where the two parties can come to an accommodation. When the polarization of the two parties is married up with the filibuster, the Senate becomes gridlocked. With the collapse of the political middle and modern polarized politics, the wealth divide has been sharply accentuated, i.e. minimum wage and the estate tax were originally intended to narrow the wealth gap, but are now under strong partisan attack because gridlock is an ally of the wealthy, preventing further corrections to a system seriously out-of-balance.

The most striking and profound change in American politics during the last half century is the transformation of the Republican Party and its takeover by the radical Right. This is a movement that views consensus as an evil to be avoided, rather than the natural result of different ways of looking at society.

Dwight Eisenhower, State of the Union Address 1953: “To amass military power without regard to our economic capacity would be to defend ourselves against one kind of disaster by inviting another.” We have embarked on an ever-expanding military-industrial complex that makes any kind of budget compromises extremely difficult. It would be good to remember that it was the Soviet Union’s attempt to maintain parity with the United States that finally bankrupted their economy, and we would be well served not to repeat their experience. America’s global footprint has become an “Empire of Bases”. Imperial overstretch is the problem of all past empires.

## Challenge and Response

We could have protected our country better and provided for our people better by pursuing different strategies and policies that minimized our economic erosion, financial inequalities, and weakening of our industrial strength, but we chose to pursue a market strategy and go our separate ways. In doing so we have stretched our social fabric close to the breaking point and our challenge is to find our way back to common ground. At the pinnacle of wealth, we need a revived ethic of social responsibility and at the grass roots, we need a renaissance in the politics of citizen action.

A domestic Marshall Plan (10 step strategy):

7. Infrastructure jobs to compete better – a public-private partnership
8. Push innovation, science, and high-tech research
9. Generate a manufacturing renaissance
10. Make the U.S. Tax Code Fairer – capital gains, payroll taxes, closing loopholes, executive stock options
11. Fix the corporate tax code to promote job creation at home
12. Push China to live up to Fair Trade to generate jobs in the U.S.
13. Save on war and weapons
14. Fix the housing finance problems and protect the safety net
15. Rebuild the political center
16. Mobilize the middle class

Congress – and presidents too – listen to money, not to polls. If we genuinely want government of the people, by the people, and for the people, then millions of average Americans will have to become directly involved once again in citizen action. Correcting the obvious inequalities in our democracy, as well as in our economy, will require political reforms – pushed from the bottom up.

To rebuild the political center will require...

- Reforming the primary system
- Reduce the corruptive influence of money

Government doesn’t work to solve all problems, but it does well when used to balance the power of business and provide a safety net for those not in financial control of the organs of business. What is needed is an army of volunteers to keep pressuring the government to listen to people, as well as the moneyed interests.