

January 8, 2007
KUFM / KGPR
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Economic Foreboding amidst Economic Expansion

By most aggregate measures, the American economy is doing quite well:

Production across the economy has been growing at a healthy clip, unemployment rates are relatively low, the stock market has been setting new record highs. As George W. Bush likes to brag, “The economy is doing great, thanks to my policies.”

Bush regularly tries to make this point, usually in a whining tone, because a majority of Americans believe otherwise. Polling data indicates that a majority of citizens consider the state of the national economy just “fair” or worse, “poor.” The Bush administration finds this frustrating and dismisses that popular negative judgment of economic conditions as obviously irrational given the “facts on the ground.”

But wide disparities in individual experiences can be hidden in such aggregate statistics or averages. The truth is that for the majority of Americans economic conditions have not been improving because wage and income growth have not kept up with inflation even though there has been substantial real growth in the overall economy.

It sounds contradictory: The economy expands but real wages and incomes decline for the majority. But all of expanding the wealth produced by the economy does not get paid out to workers. Those who put up capital expect a return too. Between 2000 and 2005 corporate profits doubled while the earning of full-time workers adjusted for inflation declined slightly.

Besides more of the productivity of the economy going to profits, the distribution of income among individual citizens has become more and more skewed with most of the growth in productivity benefiting a very tiny sliver of the overall population. For the 32-year period 1973 to 2005, for instance, average incomes grew 33 percent after adjusting for inflation, but the income of the top one-tenth of one percent, the top one out of every thousand people, income increased 400 percent, 12 times as much as the average.

This outrageous inequality in the distribution of the benefits of economic growth is not an inevitable result of capitalism and a market economy. The share of total productivity going that top one in a thousand in Britain is half what it is in the US and in France only a third of what it is here. We have adopted public policies in the United States that have narrowed the range of “winners” in the overall economy and lavished most of the overall economic growth on that exclusive sliver of the total population.

The actual economic experience of the majority of citizens as our economy has expanded has been worse than these income statistics suggest because other changes have increased the actual level of economic insecurity. The outsourcing of relatively high-paid blue-collar jobs overseas to low wage nations has increasingly eliminated the blue-collar path to the middle class that produced the broad prosperity America experienced after the Second World War. Even white-collar professionals are now facing an increasingly insecure economic existence as their jobs are systematically converted to the status of independent “consultants,” with no long term tenure or benefits. These professionals now work on a “as work is available” basis and have to provide for their own health insurance and retirement. In fact, across the board,

workers are expected to shoulder most of the risks associated with medical costs and retirement income, as corporate pension funds are either converted into uncertain future benefit streams or abandoned altogether. Meanwhile, as medical costs sky-rocket, families are left to pickup more and more of those costs on their own too. For those at the lower end, poverty rates have increased significantly since the beginning of this decade.

The expanding American economy has been accompanied by increasing inequality and increasing economic insecurity. It is no wonder that most American do not believe that economic conditions are improving.

For Bush and his fellow ideologues, all this will have a positive outcome as all of us are forced to be more “entrepreneurial.” Faced with the fact that we cannot count on either our employers or our governments for support in hard time, we will have to take more responsibility for our fate ourselves. That, we are told, will energize the economy and make it more flexible and adaptable.

However, that rising inequality and insecurity is more likely to have the opposite impact. It will undermine the “moral community” we as citizens share. It will corrode our trust in one another and the belief that we are “all in this together.” We will cease to see ourselves as sharing a common fate. Trust is the glue that makes economies productive and democracies functional. Without it, economic productivity decays.

Increasing inequality and a declining sense of a shared purpose encourages corruption as individuals and organization abandon shared ethical limits on their behavior. The well-to-do bilk their stockholders or fellow corporate leaders. Those struggling at the other end increasingly abandon the formal economy for the

underground economy where law, taxes, and regulations can be ignored. This adds to the uncertainty and risk and undermines the provision of basic public services. The glitter of private opulence is dramatized by the spreading public squalor.

This is not dreary fantasy. Simply look at the resource rich countries of Latin America over the last century, where gross inequality, corruption, and persistent revolutionary divides have regularly stifled the emergence of prosperous and stable democracies.

In the pursuit of a minority's ideological fantasies, we are mindlessly toying with the very underpinnings of our prosperity and stability.