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# Staff Paper Series

Staff Paper P96-9

June 1996

## **THE TROUBLED AMERICAN ECONOMY-- AN INSTITUTIONAL POLICY ANALYSIS**

by

Willard W. Cochrane  
Professor Emeritus, University of Minnesota

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Department of Applied Economics  
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## **THE TROUBLED AMERICAN ECONOMY-- AN INSTITUTIONAL POLICY ANALYSIS**

### Introduction

Since 1980 the American economy has cycled through good times and bad in what might be considered a "normal" pattern. The good years have outnumbered the bad, the financial markets have boomed and the electronics industry has made gigantic strides. Still all is not well. There is an underlying uneasiness, a widespread apprehension, about economic conditions, past, present and future.

Middle class Americans in the 1990s are saying in the voting booth, on radio talk shows and in letters to the editor, that in real economic terms their lives are not getting better--their lives are either getting worse or they are fearful that they will get worse. For the average American income earner, and his or her family, the everyday economy of which they are a part is performing poorly--it, and they along with it, are in trouble.

These negative views on the part of the average American income earner do not arise out of his, or her, imagination; they are based on reality. The rate of growth in real per capita GDP has trended downward since 1975, and in dollar terms real per capita GDP stagnated between 1988 and 1993. But within these declining or stagnating national averages much was happening. The distribution of both incomes and wealth has become increasingly unequal since the early 1970s. The very rich have become richer, the middle classes have struggled to break even, and the poor have become both poorer and more numerous. A recent study by the Rand Corporation finds that the median family income in constant 1993 dollars declined from \$30,580 in 1973 to \$27,148 in 1993, or by 11 percent over the 20 year period. Over the same period, the real income of family units at the bottom of the income distribution (at the 10th percentile) fell almost 16 percent, while the real

income of family units at the upper end of the income distribution (at the 90th percentile) rose by some 11 percent.<sup>1</sup> And one press story after another during the winter of 1995-96 makes it clear that the trend toward greater income inequality in the United States continues unabated.

Although parts of the economy are prospering (e.g., the electronics industry) and the stock market reached one high after another in 1995, the evidence is clear--the overall economy is in a long, slow slide. And the problems associated with this long, slow slide--greater job insecurity, fewer high paying manufacturing jobs, slow and erratic increases in worker productivity, a growing number of people living in poverty, dying towns and inner cities--are exacerbated by the increasing inequality in the distribution of incomes and wealth in American society. These two economic trends, one aggregative, the other distributional, are interacting to create a troubled economy in which only the rich and the very rich can feel optimistic about the future.

It is the central thesis of this essay that these trends will continue into the future resulting in declining levels of real economic growth, class struggles and political instability unless extraordinary measures are taken to blunt and reverse them. The argument here does not rest on the simple extrapolation of past trends, but rather on the observation that a series of institutional and environmental developments have in the past operated to drag the economy down to poor levels of performance, are doing so now and can be expected to continue to do so in the future. These developments, or forces, do not operate like monetary or fiscal policy, to push the economy into or out of a business recession; they are largely unrelated to the business cycle. They work in their own time and at their own pace to change business structures and rules of conduct, pay scales and income

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<sup>1</sup>Lynn A. Karoly, "Anatomy of the U.S. Income Distribution: Two Decades of Change," *Oxford Review of Economic Policy*, Vol. 12, No. 1, table 1, pp. 79-81. It should be noted that when these family income data are adjusted for family size, or are converted to individual persons, the results change somewhat but the basic story does not: for example, (1) the median income for the adjusted family, or on a per person basis, changes to a modest increase over the 20 year period, but (2) the increase in income inequality becomes more extreme than that reported in the text above when the data are converted to a per person basis.

distributions, incentives to save and work, human capacities and resource productivity and the physical environment. And where these changes have negative impacts, as certain ones have had in recent decades, they slow the output of real goods and services and give rise to undesirable distributions of that product.

I do not in this essay repudiate conventional Micro and Macro economic theory. Micro theory is useful in understanding, for example, the behavior of firms in the development of commercial agriculture in America. And Macro theory is helpful in explaining the cyclical behavior of the overall economy of the United States. But neither alone, or together, do they help us understand the on-going long, slow slide of the American economy. And neither do they come to grips with the rapid increase in income and wealth inequality in American society. To get a handle on these problems we must, I argue, come to understand the role that certain developments of an environmental and institutional nature have played and continue to play in American society and how those developments have been influenced, even accentuated, by the American socio-economic philosophy of extreme individualism.

But before we turn to a discussion of those developments, the question might be asked--was the slow growth of the national economy, as measured by the GDP, in the winter of 1995-96, an indication that the slow growth process has set in? The short answer is no. The slow growth in the winter of 1995-96 was very possibly a phase of the business cycle, and the economy could with the help of some interest rate reductions rebound sometime in 1996-97. (But I am not in the business of predicting turning points in the business cycle in this essay; I am concerned with long-term developments.) The long answer is that the slow growth in the winter of 1995-96 is a part of the slow growth trend in the GDP since 1975 and I would expect, according to my hypothesis, for that slow growth trend to continue into the future with the economy cycling around that downward trend.

However, I consider the GDP to be a very poor measure of national economic growth--in fact I consider it to be a misleading measure. Thus I will argue for a new and more meaningful measure of economic growth later in this paper.

We turn now to a discussion of a series of environmental and institutional developments that have one thing in common, they operate as drags on the economy.

### The Impact of Rapid Growth

One hundred years of almost exponential population and economic growth in the Western World has created two problems of major proportions for the economy. First, most of the readily available natural resources in Europe and the United States have been used up; extensive growth in those areas based on the easy, cheap exploitation of natural resources has slowed dramatically or ground to a halt during the past several decades. We are no longer adding farm land or farms to the national plant; clean unpolluted water is in short supply; we are running out of supplies of wood--the cut of public stands of timber is being sharply reduced; the rich deposits of iron ore are gone; and oil reserves in the United States have been drastically reduced. To make up for these short falls the United States and the other industrialized countries are now engaged in depleting the natural resources of such less developed areas as Brazil, Indonesia, Siberia and the Middle East. But given a continuation of population and economic growth of the past 100 years, this source of extensive growth on the world scene could be gone in another 50 years.

Sandra Postel sums up the present state of the earth's carrying capacity as follows:<sup>2</sup>

As a result of our population size, consumption patterns, and technology choices, we have surpassed the planet's carrying capacity. This is plainly evident by the extent to which we are damaging and depleting natural capital. The earth's environmental assets are now insufficient to sustain both our present patterns of economic activity and the life-support systems we depend on. If current trends in resource use continue, and if world population grows as projected, by 2010 per capita

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<sup>2</sup>"Carrying Capacity: Earth's Bottom Line," *Challenge*, March-April, 1994, pp. 4-12.

availability of rangeland will drop by 22 percent and the fish catch by 10 percent. Together, these provide much of the world's animal protein. The per capita area of irrigated land, which now yields about one-third of the global food harvest, will drop by 12 percent. And cropland area and forest land per person will shrink by 21 and 30 percent, respectively.

It is commonly argued that resource depletion, or resource limitation, can be offset, or more than offset, through research and technological advances. This is a powerful argument. Commercial agriculture in the United States illustrates the argument. The input of farm real estate--land and buildings--in agricultural production held almost constant from 1920 to 1990, although the number of acres cropped did fluctuate annually around a flat trend. Total farm output, however, almost tripled over this 70 year period as the result of research and farm technological advances. The input of human labor in agricultural production fell by approximately 80 percent over this same period. Power machinery and equipment substituted for human labor and fertilizer substituted for land, and total output increased through the miracle of farm technological advance. What made this miracle possible? Answer, the increased use of cheap energy, principally petroleum, to produce the farm machinery, to operate it, and to produce the fertilizer (principally nitrogen).

In this agricultural example the adoption of new and improved technological processes enabled output to increase as the input of land held constant and the input of human labor declined drastically. But as the saying goes "there is no free lunch." These new technological processes required large inputs of energy in the form of petroleum and/or natural gas. And these resources, too, exist in finite amounts on planet earth. Some day, perhaps in the not too distant future, dwindling reserves of these energy sources will drive up their prices and render their use in the technological processes noted above uneconomic.

What then? Either other new, more advanced technological processes making use of some new, different and relatively plentiful resources must be found through research and then substituted for the old new uneconomical processes, or output must fall. That is the resource-depletion



technological-advance race in which the modern sophisticated American economy, as a part of a larger world economy, now finds itself. It is advance technologically or perish.

With near exponential population and economic growth in the United States and the Western world over the past one hundred years has come innumerable negative environmental developments, which have shown up in increasing numbers in the past several decades, and which constitute a drain on the economy. Examples are: the increased release of toxic gases ( $\text{CO}_2$ ) into the atmosphere and the impending Greenhouse Effect, the incidence of acid rain, groundwater depletion and surface water pollution, extensive soil erosion, depletion of wetlands and the flooding of lowlands, increased costs of cleaning up oil spills and toxic dumps and the formidable problem of disposing of the wastes of modern society.

It takes resources--costs must be incurred--to cope with or manage these negative developments and thus make the environment a pleasant, healthful and productive place in which to live and work. Resources must be used to repair washed out roads, stop soil erosion, clean up toxic dumps, remove toxic fumes and pollutants from the air, and on and on. This is repair work and represents real costs to society, although in conventional national income accounting, the transactions involved are treated as additions to the accounts and cause the GDP to grow. So in this perverse reasoning we get economic growth from repairing damage to the environment or repairing physical facilities that have been damaged by a bomb or a hurricane. Restoring the damaged environment or a physical facility to their original condition may cause the GDP to grow, but in this process the life of the average consumer is not enriched by any additional goods and services. Some part of economic "growth" in the United States in the past 20 years has taken this form.

Worse still, much of the damage to the environment has not been repaired because Americans steeped in the philosophy of extreme individualism have been reluctant to meet the costs of these

repairs with their tax dollars. But eventually these costs must be met; they will be met and paid for by future generations in the form of a polluted, degraded environment.<sup>3</sup>

Concurrent with the decline in the readily available natural resources, the need for, the demand for, additional resources to feed, clothe and house the burgeoning world population is growing; unless the miracle of technological advance is unending the real cost of providing those necessary goods (food), (housing) and services (health care) must rise. The reality is thus that millions upon millions of people living in the Third World are falling into abject poverty, and in their struggle to survive they are destroying the limited soil, water and timber resources available to them. In the United States the consequences are somewhat different. Those segments of the population that have been left behind--those living in poverty in ghettos in big cities or in shacks in rural areas have viewed on television how the other half lives--are taking steps to rectify their condition by fair means or foul. "Fair," means increased education, training and housing costs which the rest of society must bear. "Foul," means stealing and killing, dealing in illegal drugs, gang wars, prostitution and arson; to combat all of this nonproductive activity social costs to the rest of society must rise. And the increased use of public revenues to combat these unproductive activities most often results in the reduced support for such productive activities as education and job training with the further consequence that the economy will grow still more slowly.

Weather patterns in the United States have been more unstable and violent during the past decade than during the previous 40 years. Droughts, heavy rains and flooding, "unusually" cool growing seasons, snow storms and hurricanes have plagued farmers and urban dwellers alike from

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<sup>3</sup>One view, a Doomsday View, of man's failure to adequately deal with the environmental degradation of the planet Earth may be reviewed in the volume *Beyond the Limits* by Donella Meadows, Dennis Meadows and Jorgen Randers, Chelsea Green Publishing Co., Post Mills, Vermont, 1992. The happy, Pollyannish views of Gregg Easterbrook regarding the global environment in his recent book *A Moment on Earth*, Viking Penguin, New York 1995 are refuted point by point by the Environmental Defence Fund in the pamphlet *A Moment of Truth: Correcting the Scientific Errors in Gregg Easterbrook's A Moment on Earth*, edited by Leonie Haimson and Billy Goodman, New York, 1995.

California to the East Coast during the past decade. Whether this more unstable weather is the first tangible result of the Greenhouse Effect or simply a more violent phase of the weather cycle may be debated. But whichever the cause, this increased weather violence results in much greater damage and negative cost consequences in heavily populated areas with concentrations of houses, commercial structures and farms than it would in a similar area covered only by trees and grass. Witness the heavy damage to property caused by wildfires in the western states, flooding in the central and southern parts of the country and hurricanes along the East Coast in the past two years.

Violent weather in populated areas of the United States can in the 1990s result in all kinds of losses: reduced retail sales, increased crop losses, industrial production stoppages and physical destruction of houses and infrastructure. If this increased weather instability is the first consequences of the Greenhouse Effect, the negative implications for the future growth and development of the economy are staggering. And the evidence that the Greenhouse Effect is for real is mounting.<sup>4</sup>

### The Work Force Left Behind

In 1994 some 2.5 million high school students graduated, and some 500 thousand dropped out of high school in 1993-1994, for a total of 3.0 million students who left high school for the real world in that year. Of that total 53 percent or about 1.6 million enrolled in college--some in 2-year colleges but most, 1.0 million in 4-year colleges.<sup>5</sup> Perhaps one third of this latter group will secure a world class education enabling them to become leaders in American society in the sciences, the arts, the professions and in business. The rest will have their language skills improved, and most will have

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<sup>4</sup>As reported in the *Star Tribune*, Minneapolis, MN, September 25, 1995, the Intergovernmental Panel on Climate Change, a body of 2,500 scientists dealing with climate issues, stated that: "Human activity, principally the burning of fossil fuels, plays a role in making the world hotter." See also, *Newsweek*, January 22, 1996 for the state of the debate on global warming.

<sup>5</sup>All of these educational enrollment numbers are from *News*, U.S. Department of Labor, Bureau of Labor Statistics, Washington, DC, June 1995.

gained some professional skills to enable them to become productive members of society. American society through its institutions of higher learning has made good to excellent provisions for the top half of students finishing high school in the 1990s.

But what of the bottom half--the 47 percent of students going out in the world in 1993-94 with a high school diploma or less? In science and math scores the average American high school student ranks near the bottom for the advanced industrialized countries, and the students we are considering here fall, for the most part, below the American average. Many of the students that drop out of high school are functionally illiterate (i.e., cannot read at the fifth grade level), and, unfortunately, a good number of the high school graduates fall into this category, too. Some local communities have developed programs to assist drop-outs to earn their high school diplomas, and to teach the noncollege bound young people various kinds of work skills. But the nation has no effective training and educational policy for the noncollege bound students coming out of high school. This means that any business firm doing any kind of sophisticated work must, when hiring a high school graduate, put that young person through a training program or take a chance with that young person learning on the job. Either option involves costs to the firm, and the economy.

Thus, we have a situation where almost one half of the students coming out of high school in the 1990s do not have the educational skills to become productive workers in the modern business world. In the words of Lester Thurow, who has long been concerned about the educational inadequacy of American students, "...That part of the American work force that does not go to college...is not world class, and that part of the work force that does not graduate from high school...is positively Third World when it comes to educational skills...."<sup>6</sup> In the 1990s nearly one half of the young people coming onto the labor market each year constitute a heavy drag on the

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<sup>6</sup>*Head to Head: The Coming Economic Battle Among Japan, Europe and America*, William Morrow and Co., New York, 1992, page 255.

economy, because the individual members of that part of the work force do not have the educational skills to become productive workers in the modern, technically sophisticated work place.

### High Tech Economic Growth

Science marches on. Advances in science and the technological innovations that flow from those advances result in increased high tech production in commercial agriculture, in many industries and in communications, but almost always with a decline in the human labor input. In high tech production processes machines increasingly substitute for human labor. In commercial agriculture the tractor and power driven machines substitute for human labor; in heavy manufacturing robotic machines substitute for human labor on the assembly line; in retailing, distribution and service industries computerized information systems substitute for middle level human management positions. Thus, we get high tech economic growth in the United States with reduced employment.

Some people argue that expanded world trade will permit new high tech production activities to expand sufficiently to absorb those workers laid off from earlier high tech developments. But that is a debatable proposition for the United States. Unless the United States develops and funds an effective technical training program and employment policy, it will lose jobs on a net basis under a more open trading system. How does this happen? It happens in the following way. A multi-national business organization will (1) locate its top management in the home country, (2) locate its low-skilled hand labor operations in countries with low wage scales and minimum labor and environmental regulations, (3) locate its high tech production processes in countries with the skilled workers that can manage the high tech production processes efficiently but at the lowest possible cost (this could be Poland or Brazil or even India just as well as the United States), (4) continue to replace each high tech process with new and improved processes with the consequence that the human labor input in the productive process is reduced, and the skill requirements for the remaining inputs of labor is raised to a still higher level, (5) thus for employment to expand in the high tech industries in the

United States to a socially acceptable level, new products and production processes must come along in sufficient number to employ the increased number of workers in the expanding population, those workers becoming unemployed as the result of high-tech production activities moving overseas, plus the workers released from increasingly advanced high-tech production processes.

Can such a wondrous growth in high tech jobs occur in the United States in the years immediately ahead? Maybe. But this writer is inclined to believe that the number of high-tech, high paying jobs in the United States will decline under a more open trading system as the globalization of high-tech industries continues.

Robert Reich in his book, *The Work of Nations*, discusses at length high-tech economic development with globalization, and formulates some intriguing concepts that have important consequences for job markets in the United States.<sup>7</sup> High-value, high-tech enterprises, he argues, have no need to invest huge sums in plant and equipment at the home base, employing an army of production workers doing repetitive operating procedures supervised by layers of managers, all presided over by a strong chief executive. A high-value, high-tech enterprise cannot be organized that way. Three groups provide this new kind of enterprise with its power and wealth--problem-solvers, problem-identifiers and strategic brokers. Reich calls the people who provide these services, symbolic analysts. These are the people that discover new opportunities, create new products and discard losing propositions. To perform this role they need to be in direct contact with one another in a continuous mode. These are the movers and shakers of the new high-value, high-tech business world.

Who are these people? They are highly educated, highly motivated individuals from many fields: research scientists, design engineers, software engineers, civil engineers, biotechnology engineers, sound engineers, investment bankers, lawyers, even a few creative accountants, and

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<sup>7</sup>Alfred a Knopf, New York, 1994.

consultants from every imaginable area--energy, agriculture, architecture, armaments and security, systems analysis, marketing and advertising, and on and on. Where do you find these people? All over the world from Argentina to Germany to Hong Kong, in the United States and even India. Thus the organizational structure of a high-value, high-tech enterprise takes the form of a global web with all these symbolic analysts linked together in the most modern electronic communication systems. Such an enterprise knows no national boundaries. It is organized to discover new opportunities quickly, to act on such opportunities quickly, to make huge profits quickly, and then move on to exploit the next opportunity. If products are to be made, they will be produced with temporary workers in whatever country can supply the needed workers at least cost at that time: perhaps Brazil, or Taiwan or Poland.

Where does this kind of high-value, high-tech kind of economic development leave the average American income earner--the man or woman with only a high school diploma, or even most college graduates with a broad, general education? It leave them out in the cold. That's where. Given the continuing evolution of this kind of high-value, high-tech economic development Reich predicts that by the year 2020 the top fifth of American income earners will account for more than 60 percent of all income earned by Americans. This top fifth consists primarily of his symbolic analysts with a few entertainers and professionals (who knows how to limit entry into their fields) thrown in. The bottom fifth will account for only 2 percent of all income earned. Presumably the middle three fifths (or 60 percent of the population) will fight over the remaining 38 percent of all earned income. This is not a happy prospect for American society in the 21st Century. And most probably will never occur because Americans will have revolted either through the ballot box or with guns long before this extreme unequal distribution of income is realized. But the numbers do point the direction in which the high-value, high-tech economic development is leading us as viewed by Robert Reich.

However, all American business organizations have not turned into high-value, high-tech enterprises overnight, and all have not developed into the web-like international structures conceptualized by Robert Reich. But for even the more traditional large-scale manufacturing, processing and distribution and retailing firms, which have adopted such high-tech technologies as computer systems and electronic communications systems, downsizing has in the 1990s become the order of the day. In 1994-95 thousands upon thousands of high paying jobs have been lost in the United States as manufacturing firms have substituted specialized machines for factory workers, and distribution and retailing firms have substituted electronic information systems for middle level managers. Where have these displaced workers gone? A few have found comparable high paying jobs in a tight labor market, more have become more or less permanently unemployed, and still more have found low paying jobs in the expanding service industries (e.g., the tourist industry).

Richard Barnet has the realities of the jobs market in the increasingly high-tech environment in clear focus when he writes<sup>8</sup>

...Organizing and communicating data in novel ways or concocting new dishes for expensive restaurants can be extremely lucrative. But punching data and washing pots are not. The global tourist industry is now the world's biggest employer; one out of every fifteen workers across the planet spends the day transporting, feeding, housing, herding, cossetting or amusing tourists. But most do not make enough money to eat even once at one of the tables they serve and clear.

To summarize this part of the argument, high tech economic development in combination with the globalization of the American economy each year pushes thousands more of highly paid workers out of jobs in middle management, the skilled trades and manufacturing, and into low paid service jobs or temporary jobs with no social benefits. Along with the downsizing of American business goes the downgrading of the American work force.

### The Shrinking Mass Market

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<sup>8</sup>"The End of Jobs," *Harper's Magazine*, September 1993.



Considering the discussion in the Rapid Growth section of this paper, a strong argument can be made against the average American consumer buying a larger and fancier television set, another sleek automobile loaded with gadgets or a second computer that does more things faster than the first one. But a rapidly growing, full employment economy requires the average American consumer to do just that. Industrial and processing firms geared to mass production require a mass market, comprised of consumers with the necessary "where with all," to purchase those products and keep the production lines running at full capacity. The American economy comprised of firms mass producing everything from bottle caps to automobiles can only grow and prosper when the market is there to absorb those goods--which means a mass market comprised of consumers with sufficient incomes and borrowing capacity to purchase those goods at or near the sellers' asking prices.

The developments discussed in the previous sections imply one thing--a shrinkage of the mass market in the United States. When almost half the young people coming onto the labor market each year are either unemployable, hence must join the army of unemployed, or must take low paying service jobs (e.g., working in a fast food restaurant or mowing lawns), the number of consumers in society with the buying power to purchase mass produced quality goods (e.g., television sets with wondrous new operations) can only increase at a severely restricted rate, and thus act to restrict the growth of the mass market. Factory workers and middle level managers displaced as the result of technological innovations who must take lower paying jobs and/or remain unemployed, have the same contracting effect on the mass market; their capacity to purchase quality mass produced goods has been reduced.

Two additional developments are working to shrink the mass market. Workers who see friends and colleagues around them lose their jobs as the result of technological advances and business down-sizing naturally become fearful that they could be next. In this frame of mind an employed individual is not going to be inclined to dip into savings or borrow money to buy a new dishwasher or refrigerator. To the contrary, this individual may be inclined to increase his or her savings as a

protective measure against some possible future unemployment. In either case, aggregate demand in the mass market is reduced. Similarly the downward pressure on wages through successful labor contract negotiations on the part of business organizations (often associated with union busting) over the past 10 years has acted to contract the mass market in the United States. Lower wages may help the bottom line of the firms involved, and may help those firms become more competitive in the world market, but lowering wages in and of itself must have the effect of shrinking the domestic mass market. For these several reasons, then, we argue that the mass market in the United States has been and continues to grow at a slower rate than is required by a growing, prosperous national economy.

The numbers support this line of reasoning. Average weekly earnings for all workers in the United States, measured in constant dollars, fell about 19 percent between 1972 and 1994<sup>9</sup>. The percentage of households in the middle income classes, \$15,000-24,999, \$25,000-34,999 and \$35,000-49,999 declined over the period 1970-1992, while the percentage of households in the highest income class, \$75,000 and over, increased significantly over the same period as did the percentage of households in the lowest income class, under \$10,000 (again all income numbers are in constant dollars). Changes in the distribution of aggregate income between 1980 and 1993 by quintiles, in constant dollars, is more dramatic; the percentage of aggregate income accounted for by families in each of the lowest four quintiles declines, while the percentage of income accounted for by families in the highest quintile (the fifth) increases significantly.<sup>10</sup>

What becomes clear from the above income numbers is that there was an erosion of purchasing power among middle income households during the decade of the 1980s, and weekly

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<sup>9</sup>*Economic Report of the President*, Washington, D.C., 1995, p. 326. 1972 was selected as a base year because it was the last year of steady increase in average weekly earning going back to 1960. Since 1972 there has been steady decline.

<sup>10</sup>Income distribution data presented in the above paragraph are from table 714 of the *Statistical Abstract of the United States, 1994*, and table 704 of the *Statistical Abstract of the United States, 1995*, Bureau of the Census, U.S. Dept. of Commerce, Washington, D.C.

earnings data running through 1994 suggests that this erosion is continuing. The number of people in American society who can buy a Mercedes is increasing while the number of people who are in the market to buy a cheaper model Ford or "Chevy" is declining. This does not bode well for the mass producing industries of the United States.

### The Dead-Weight Groups

The economy of the United States, as of 1995, is being held down, or held back, in other ways. It must support four large "dead-weight" groups in society. By "dead-weight" I have in mind groups which for one reason or another must be supported by the economy, but make no contribution to the production and distribution of marketable goods and services in that economy. Those groups include (1) the military, (2) the unemployed, (3) those living on welfare or charity, and (4) the expanding number of retirees.<sup>11</sup> These groups are not new to American society. But their magnitude, hence their dead-weight to the economy, is new. Let us consider each one briefly.

Because of its territorial, population and economic size, the United States is a great power. Because of the formidable military establishment which it has created in the past two decades, it is the number one great power in the world. In this position it has tried not to become the world's policeman, but that role has been increasingly thrust upon it in the 1990s. In this role the burden of the military establishment on the U.S. economy is a heavy one; a significant portion of the goods and services produced by the U.S. economy must be skimmed off each year to support the military around the world. The problem for Americans, in the words of Paul Kennedy, is to "preserve a reasonable balance between the nation's perceived defense requirements and the means it possesses to maintain those commitments."<sup>12</sup> Stated differently, the United States, as a great power, should not engage in

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<sup>11</sup>Individuals in these groups may make all kinds of contributions to society outside the market economy, but in their defined roles in their groups they are a dead weight to the economy.

<sup>12</sup>*The Rise and Fall of the Great Powers*, Random House, New York, 1987, page, 514.

"imperial overstretch" to the point where it places such a heavy burden on the domestic economy that it (the economy) stumbles and falters. This admonition is doubly important where, if the thesis of this essay is correct, the economy is for other reasons already stumbling and faltering.

The military provides a service; if properly managed it provides security and peace for its citizenry. The unemployed and those living on welfare provide no service and they act to hold back the economy in two ways. First, no product is added to the national product by those not working. Second, as with the military, goods and services must be skimmed off the national product each year to support those who are unemployed and those who are living on welfare. This is not to suggest that the nation should shirk its responsibility to treat these unfortunates humanely, but it is to suggest that the nation should develop positive policies to get these people back in productive roles as quickly as possible. As of 1995 the dead-weight of these two groups is considerable, whereas in a smoothly operating economy the negative impact of these groups should be minimal.

The retirement population (i.e., those 65 years of age or older) of the United States constituted about 18 percent of the adult population (i.e., those 20 years of age or older) in 1992. And this percentage will grow as the population of the United States ages, with the consequences that the magnitude of this dead weight in the economy will increase.

It is recognized that present day retirees made a contribution to the growth of the economy during their working years, and from their savings they have legitimate claims on the economy for goods and services in any given year. That point is not at issue. The point to be made here is that in any given year, say 1995, fully retired persons were adding no marketable goods and services to the Gross Domestic Product, hence were making no contribution to the growth of the economy in 1995. And, as with the other dead-weight groups, goods and services must be skimmed off the total national product to meet the claims of the retirees, leaving a smaller total pie to be distributed among the working population in the way of real income. It is in this sense that the retiree group constitutes a drag on the economy; it is a heavy drag now and it will become heavier with each passing year.

### Problems with a Foreign Connection

The problems of the United States are small compared with the nations of Eastern Europe and the nations created out of the break-up of the Soviet Union. The economies of these countries are plagued by and disrupted by antiquated machines and technology, a near total ignorance of Western commercial and financial practices, and natural environments horribly degraded by decades of resource destruction and pollution. Worse still is the position of most less developed countries where population pressure is pushing their inhabitants onto more fragile land, onto hillsides, into areas with inhospitable physical and climatic conditions, into the destruction of forest cover hence the destruction of natural watershed protection, and the final congregations of millions of displaced poor peoples into congested, disease ridden, crime-ridden urban areas (e.g., Cairo, Calcutta, Mexico City). As documented by Robert Kaplan, social and political anarchy has arrived for much of Africa, and, except for the countries of East Asia, it is on the march for much of the rest of the Third World.<sup>13</sup> Disputes and tensions in these lands quickly blow up into small international wars, civil wars, ethnic cleansing, acts of terrorism and riots. The international landscape in 1995 is dotted with these points of strife and destruction. Given the widespread incidence of little wars, civil wars, banditry, and communal strife around the world, the U.S. military is going to be extremely busy during the coming years, if we Americans accept the role of the world's policeman. The acceptance of that role means the continuation of a huge military establishment, the intermittent deployment of U.S. naval, marine, army and air forces to hot spots around the world, and a continued heavy burden on the domestic economy. This burden takes two forms. An absolute burden which U.S. taxpayers must meet year after year, and a relative burden--a burden relative to that which other industrialized economies are carrying. In the world policeman role the U.S. economy will be shouldering a heavy dead-weight military burden year after year while its leading competitors in the industrialized world are carrying

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<sup>13</sup>"The Coming Anarchy," *The Atlantic Monthly*, February 1994.

next to nothing in the way of a military burden. Americans must think seriously about what kind of a commitment they want to make to the maintenance of peace and order around the world in the chaotic world of the 1990s.

All of the international troubles are not of a military character. The United States has experienced a surge in immigration over the past 20 years. Over eight million immigrants entered the country in the decade of the 1980s and that inflow increased in the first four years of the 1990s to 4.5 million people. As a consequence of this surge and earlier immigration, the foreign born population of the United States in 1994 amounted to some 23 million people, making up almost nine percent of the total population. The largest group of foreign born come from Mexico--more than six million people--the Philippines is next with one million. The foreign born from Cuba, El Salvador, Canada, Germany, China, the Dominican Republic, Korea, Vietnam and India range from 500,000 to 800,000 each.

A high proportion of the immigrants from Mexico and the Third World countries are poorly educated with few employable skills. As a result one quarter of the immigrants from the decade of 1980s were living below the poverty level, according to a Census survey of 1994. And unemployment among the foreign born was 9.1 percent compared with 6.8 for native Americans.

The high tide of immigration from Mexico and Third World countries over the past 20 years has contributed importantly to the poverty problem in the United States, accentuated "gang related" crimes in big cities, and operated to place a heavy downward pressure on wage rates in the job markets outside the skilled positions areas. This pool of newly arrived, poorly educated immigrants, desperate for employment, has provided a continuous source of cheap labor--labor willing to work for any price that would give the individuals involved a toe-hold in the United States. And, of course, the inflow of "illegals" (the numbers of which are in dispute) further accentuates these problems. The continued heavy inflow of poorly educated, low skilled immigrants must have the effect of pushing the United States in the very direction of the countries from which they have been escaping, namely,

the classic Latin American Republic with a small, rich overclass, a struggling and diminishing middle class, and a growing underclass living in poverty.

Americans have been living beyond their means in the international trade market for some time. The United States has experienced a large trade deficit (the balance on goods and services) in every year since 1977. The trade deficit on goods and services rose from 27 billion dollars in 1977 to a high of 152 billion dollars in 1987 and then slowly declined to 28 billion dollars in 1991. Since that date, it has been growing again. A soaring merchandise trade deficit, offset in part by a sizeable surplus in services, caused the trade deficit on goods and services to reach 106 billion dollars in 1994--a 40 percent increase over 1993. Trade deficits of this magnitude have remained manageable over the years because foreign exporters have been willing to accept I.O.U.'s in payment for their goods. They have been willing to do this because they, or other traders who acquired those I.O.U.'s, could convert them to dollars, and invest those dollars in real estate in the United States, or the stock market, or in federal securities. This they were willing to do because such investments gave promise of long-term returns greater than what those traders could expect from investment in non-U.S. markets.<sup>14</sup>

These trade deficits have, as noted above, gone on for some time, but can they continue indefinitely? Probably not, for any number of reasons. Should the U.S. trade deficit increase significantly due to a rise in world petroleum prices, or to a further decline in U.S. petroleum production, new pressures to correct that expanded trade imbalance would certainly develop. Or should interest rates fall in the United States to stimulate a sluggish economy, investment opportunities for foreign held dollars would look less promising. Such developments would force

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<sup>14</sup>The foregoing statement is a gross oversimplification of the international transaction market. But I believe this simplified statement is logically correct. For those wanting a fuller and more detailed discussion of the "trade deficit problem" of the United States, they might begin with two articles on the subject in *Economic Review*, Federal Reserve Bank of Kansas City, Third Quarter 1995, Volume 80, Number 3.

the United States to take some kind of action to deal with its chronic trade deficit--anyone of which would most likely be painful. Steps to devalue the dollar would stimulate exports, but cause the price of imported goods to rise, hence contribute to a general price level inflation in the United States. Raising interest rates to make investments in federal securities and private debt more attractive to foreign held dollars would operate to dampen economic activity in the United States. And a move to a protectionist trade policy to restrict imports would mean reversing the trade policy of the United States of the past 60 years.

Somehow the United States must find a way to reduce or eliminate its chronic trade deficit. The desirable approach is obvious--increase exports relative to imports. But this is easier said than done. The United States has greatly expanded its exports in recent years, but not as fast as the increase in imports. In the highly competitive international market American producer-exporters are handicapped by relative high wage rates; and increasingly goods fabricated by American firms in low wage Third World countries must be imported into the United States for consumption. Thus, the chronic trade deficit problem shows no signs of going away.

There is, however, one solution to the trade imbalance problem that does not require any new policy initiatives. It is just keep doing what we have been doing for the past 15 years. Let the poor, uneducated immigrants from the Third World countries keep flooding into America. Let the Union busting of the 1980s continue. Let the corporate downsizing of the 1990s continue. And let the fabrication of consumer goods by U.S. firms continue to be shifted overseas to low wage Third World countries. Eventually wage rates outside the professional and top level management positions will be driven down to Third World levels, and then U.S. based enterprises can compete in the world market in the same way as enterprises based in Korea or China or Thailand--with cheap, unorganized labor. With the United States reduced to the level playing field of the Third World, the trade deficit would disappear, as would present day living standards for most Americans.



### The Slow Growth Hypothesis

To restate the argument, we have a slow growth national economy not because we are at the bottom of a short-run business cycle or on the downside of a Kondratieff long-wave. But rather because of the developments described above:<sup>15</sup> (1) extensive growth based on the easy exploitation of readily available natural resources is no longer open to us, (2) all kinds of costs stemming from environmental degradation and rampant population growth constitute a heavy drag on the economy, (3) nearly one half of the young people joining the labor force each year are too poorly educated to become productive workers in the modern, sophisticated work place, (4) high tech economic growth provides only limited and highly skilled employment opportunities, (5) a contracting domestic mass market, either absolutely or relatively, restricts the rate of growth of the national economy, (6) four dead-weight groups create a heavy drag on the modern economy and (7) the international arena poses serious problems for the United States--problems that Americans would prefer not to think about: endless decisions about deploying American military forces overseas, disturbing domestic race relations, and how best to live within our national means over the long-run.

All the developments discussed in this essay work in the same direction--they all work as a drag on the economy. It is my hypothesis that these developments in combination and interacting have the power to slow the growth of the national economy. In my judgment they (the aforementioned developments) have been doing so for at least the past 20 years, are doing so now, and will continue to do so in the future unless they are checked in some way.

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<sup>15</sup>An early, and somewhat different, formulation of this slow growth hypothesis was set forth by Amitai Etzioni in 1983 in his book *An Immodest Agenda: Rebuilding America Before the 21st Century*, McGraw-Hill Book Company. See particularly Chapters 8 and 9. He summarizes his position on page 285 as follows:

The American society entered the 1980s with a weakened productive capacity, a tendency to underdevelop, a kind of industrialization in reverse. ...It is worth repeating that this erosion had not proceeded to a crisis point. ...America's production project was still quite strong; it was, though, significantly less so than it used to be--and sliding backward.

This qualitative judgment finds quantitative support in a new index, the Genuine Progress Indicator (GPI). But first, what is this GPI?<sup>16</sup>

The Genuine Progress Indicator (GPI) is a new measure of the economic well-being of the nation from 1950 to present. It broadens the conventional accounting framework to include the economic contributions of the family and community realms, and of the natural habitat, along with conventionally measured economic production.

The GPI takes into account more than twenty aspects of our economic lives that the GDP ignores. It includes estimates of the economic contribution of numerous social and environmental factors which the GDP dismisses with an implicit and arbitrary value of zero. It also differentiates between economic transactions that add to well-being and those which diminish it.

While per capita GDP more than doubled between 1950 and 1995, the GPI paints a different picture. The GPI increased along with GDP in the 1950s and 1960s, but it has declined by roughly 45 percent since 1970. And the rate of decline has increased over the period 1970-95. The rate of decline in the GPI increased from 1 percent per year in the 1970s to 2 percent per year in the 1980s to 6 percent per year so far in the 1990s. The GPI tells us that the real economy is in a downward slide, and that slide is gathering speed. The average American consumer in the 1990s had some 6 percent fewer real goods and services available to him or her in each succeeding year.

### The Growth of Income and Wealth Inequality in the United States

One of the most dramatic happenings in the American economy in the past 20 years, and certainly the most demoralizing to the participants, has been the steady, but not so slow, increase in the inequality of personal incomes and wealth. This is reflected in American society in many ways: new and virulent strains of populism, an avalanche of talk on day-time radio shows bad-mouthing the poor and downtrodden on welfare, the election of the Speaker of the House of Representatives, Newt Gingrich, whose stated objective is to ..."overturn the fundamental achievements of Theodore

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<sup>16</sup>From material excerpted from *The Genuine Progress Indicator: Summary of Data and Methodology*, by Clifford Cobb, Ted Halstead and Jonathan Rowe, Redefining Progress, San Francisco, 1995, p. 9.

Roosevelt's Square Deal, Woodrow Wilson's New Freedom, Franklin Roosevelt's New Deal and Harry Truman's Fair Deal..." and give Americans once again a pure unvarnished, McKinley type laissez-faire domestic economy.<sup>17</sup> All this while the average American income earner tries but cannot understand, in light of his and his parents' experience in the 1950's and '60s, why his real income has flattened out or even declined over the past 20 years.

Edward Luttwak calls these developments the Third-Worldization of America<sup>18</sup>--the evolution of a national state where a small, rich, overclass becomes inordinately wealthy and powerful, a large and growing underclass lives in a continued state of poverty, and the middle class declines in numbers and power. In support of this view Mr. Luttwak presents some powerful evidence:<sup>19</sup>

...Bureau of the Census statistics now show that the percentage of all full-time, year-round workers (forty hours a week, fifty weeks a year) who did not earn enough to keep a family of four above the official poverty line (\$12,195 in 1990 dollars) increased from 12% in 1979 to 18% in 1990--i.e., not much less than one-fifth of all fully employed Americans....

...in 1983 the net worth of the richest 1% of all American families accounted for 31.3% of the nation's total private wealth, already a huge proportion, evidence of a sharp inequality at variance with the general American belief that the United States is largely owned by a broad middle class. But by 1989 the richest 1% of all families had increased their share to 36.2% of the nation's total wealth.<sup>20</sup> That is an inordinate proportion by First World standards, but common in countries of privilege and exploitation such as the Philippines....

...The drift toward the full Third World pattern of income distribution, with a poor majority, a rich minority, and a small class in the middle, can now also be

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<sup>17</sup>E. J. Dionne, Jr., *They Only Look Dead: Why Progressives Will Dominate the Next Political Era*, Simon & Schuster, New York, 1996, Chapter 7.

<sup>18</sup>This phrase and the basic idea comes from his book *The Endangered American Dream*, A Touchstone Book, published by Simon and Schuster, New York, 1994.

<sup>19</sup>*Ibid*, pp. 154, 163, and 164.

<sup>20</sup>These Bureau of the Census statistics showing an increase in the inequality of wealth in the United States in the 1980s are corroborated by estimates prepared by Professor Edward N. Wolff in his Twentieth Century Fund study entitled *Top Heavy*, except that Professor Wolff's estimates done in constant dollars show a somewhat greater inequality in wealth in the 1980s than the Bureau of Census estimates.

documented. According to a 1992 Bureau of the Census study, the proportion of all American families with "low" incomes (\$18,576 and below) increased from 10.9% of all families in 1969 to 14.7% in 1989, i.e., the poor and semipoor are becoming more numerous. The proportion of "high" income families (\$74,304) also increased, from 14.7% to 22.1%, but most significant of all, the proportion of American "middle" income families (i.e., between \$18,576 and \$74,304) *declined* from 71.2% to 63.3%....

I do not argue in this essay that the United States has taken on the full trappings of a Latin American Republic. But I do argue first that the United States is moving in that direction, perhaps faster than most people realize. And second, that the economic and class stratifications found in the classic Latin American model are absolutely incompatible with a prosperous, growing, modern economy. The broad middle class with high earning power is missing to provide the strong aggregate domestic demand required in a modern productive economy. And the governmental stability required to induce and protect large-scale, long-term investments is missing when a small, rich overclass must depend on military power and authority to maintain order and support the government.

The growing inequality in the distribution of personal incomes noted above thus becomes a factor in slowing the growth of the overall economy (GDP). It operates as a drag on the economy as it acts to shrink the domestic mass market for American produced goods. And it operates to expand the poverty and welfare deadweight sectors of the economy which then act as drags on the economy. This the Genuine Progress Indicator (GPI) recognizes by weighting personal consumption by an index of income inequality (the greater the index of income inequality the more the value for personal consumption is reduced);<sup>21</sup> this no doubt explains why the rate of growth in the GPI declines importantly in the 1990's, since the index of income inequality reaches a high point in 1993-94.

Although the growing inequality in the distribution of incomes and wealth operates as a drag on the economy, hence acts to slow its growth, it has another, more explosive, role to play in the

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<sup>21</sup>For computational details, see *The Genuine Progress Indicator: Summary of Data and Methodology* by Clifford Cobb, Ted Halstead and Jonathan Rowe, Redefining Progress, San Francisco, 1995, pp. 13, 14, 40 and 41.

American political economy. The greater the inequality the more confrontations must arise between the rich overclass on one side and the rest of society on the other--about fairness in the tax system, about assistance for the poor, about the quality of schools by districts and on and on. The growing inequality in the distribution of incomes and wealth that we are currently witnessing in the United States is setting the stage for a serious class struggle. In fact it is already here. Politics has become more partisan in the 1990's; the rhetoric more shrill and the art of compromise a lost virtue. The Republicans in the 104th Congress openly espouse the cause of the rich overclass seeking to protect and advance the income gains of members of that class, while the Democrats openly espouse the cause of working men and women seeking to protect the social programs enacted by earlier Democratically controlled Congresses that were designed to aid and assist those men and women.

To date the struggle has been contained within the political system. And if the present trend toward greater inequality can somehow be blunted there is reason to believe that the struggle among the classes can be resolved peacefully within the existing political systems. But, if the trend toward greater inequality continues at its present pace, then the hate speeches that we hear on talk radio shows and the heated political rhetoric that we hear out of Washington is likely to spill over into violence. Violent class struggles are new to America, but they can happen here too when the tide of economic development causes only those boats with the rich on board to rise.

### The Common Thread

The question arises--Is there a common thread that runs through the disparate developments which we have been discussing? Is there a unifying idea, or theory, that ties together the increased inequality in the distribution of incomes and wealth in the United States over the past 20 years with those developments which have acted as drags in the growth of the economy (e.g., the contracting mass market)? I think that there is. A philosophy of extreme individualism dominates the thinking and action of the great majority of participants in the present day economy of the United States. This

is a me-first philosophy which says "I'm out to get mine now--the devil take the rest." It has elevated personal greed to the position of the central, legitimate and accepted motivator of human action in economic behavior. It has powered those political forces in the United States which have induced governments to deregulate markets and create freewheeling economic sectors in which the economically strong have become stronger and richer, the economically weak have become weaker, poorer, and more numerous, while in the middle, members of the dwindling old-fashioned middle class have watched with wonder, amazement and impotence.<sup>22</sup>

In the deregulated, freewheeling American economy that has emerged over the past 20 years--the product of the philosophy of extreme individualism--it is only natural for the average citizen to demand more public services while at the same time seeking lower taxes; for the rich to demand cuts in the social programs for the poor and the downtrodden while seeking tax breaks for themselves; for high-school drop-outs and the poorly educated to try to increase their meager incomes by patronizing gambling casinos or perhaps dealing in drugs; for the elderly to vigorously fight to maintain the benefits of their social programs that are paid for in part by younger workers in the economy; and for the top management of great corporate enterprises to close down production facilities in high wage areas of the United States and transfer those production activities to low wage areas of the Third World. In this me-first society everyone wants more for him or herself without regard to the impact on others.<sup>23</sup>

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<sup>22</sup>Robert H. Frank and Philip J. Cook in their volume *The Winner-Take-All Society*, The Free Press, New York, 1995, present a neat theory explaining the increased inequality in the distribution of incomes in the United States in recent years. It is a useful theory as far as it goes, but it does not explain the negative development identified in this essay which act as drags on the economy. For that we need a broader theory such as presented here--the philosophy of extreme individualism as a motivator of economic behavior.

<sup>23</sup>It will be said that there are men and women in the religious communities, the environmental movement, in some business and professional organizations and in government who constitute exceptions to this general proposition. And this is true. These exceptional men and women have had some success in protecting the environment, supporting and improving education, aiding the poor and the downtrodden, and perhaps in dealing with the worst inequities

This philosophy of extreme individualism is not new to American life. Herbert Croly, writing in 1909, argued that extreme individualism has dominated the thoughts and actions of Americans since the founding of the Republic and before.<sup>24</sup> In his view this dominant philosophy was not detrimental to American society in a frontier setting of small economic units; it probably served to speed up the development process in the early and middle 19th Century. But by the first decade of the 20th Century, he argued that "rampant individualism" had given rise to..."the prodigious concentration of wealth, and of the power exercised by wealth, in the hands of a few men"...in America. The excesses and abuses of this power in the hands of a few men resulted in turn..."in a morally and socially undesirable distribution of wealth"...in the nation. Croly devoted much of his highly acclaimed volume to the question--how do you reform..."a system of unrestricted individual aggrandizement and collective irresponsibility"...his description of the American economic, social and political system in 1909.

The reform administrations of Presidents Theodore Roosevelt and Woodrow Wilson blunted the worst excesses of Croly's robber-baron era. The participation of the United States in two world wars created a spirit of community in the nation in which conflicts among classes, races and regions of the country were muted. But probably most important the New Deal of President Franklin Roosevelt followed by the friendly administrations of Presidents Truman and Kennedy-Johnson established the principle that the Federal Government was responsible for the smooth and satisfactory operation of the national economy and to such an end it would develop and administer programs to

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and failures of the economic system. But it is the point of this essay that the negative developments identified and discussed above have overwhelmed these good works and are dragging the economy down to unsatisfactory rates of growth. And the power of these negative developments grows in large measure out of the dominant philosophy of extreme individualism.

<sup>24</sup>*The Promise of American Life*, published in 1909 by the Macmillan Company, and reprinted in 1963 by Archon Books.

assist industries and economic sectors in distress, to provide economic safety nets for individual participants and to provide social programs of assistance for the young, the aged and the infirm.

In this economic environment and helped by the prosperous conditions created by World War II, the national economy grew and prospered from the late 1940s to the early 1970s. But in the 1970s some serious negative happenings occurred in American society. The withdrawal of American troops from Vietnam in defeat in 1975 shattered the spirit of community in the United States. The oil crisis resulting from the OPEC embargo demonstrated the critical dependence of the United States on foreign oil imports. "Stagflation" in the late 1970s made the point that even the strong U.S. economy was not immune to the virus, inflation. Then, of course, there was Watergate and President Nixon's forced resignation. In the context of these military, economic and political setbacks, the me-first philosophy of extreme individualism blossomed once again. In this context the pressure to cut taxes at all levels of government grew; the pressure to deregulate markets and industries grew; and the pressure to reduce the role of government in the economy grew. By 1980 with the election of President Reagan extreme individualism was once again the dominant economic philosophy of the land. And the kinds of drags on the national economy documented in this essay were in full swing.

The political theorist, Michael Sandel, finds the source of discontent in present day America in the lack of civic virtue.<sup>25</sup> This lack of civic virtue concept is not the same as the me-first philosophy of extreme individualism, but it is close. Civic virtue on the part of a citizen

...involves deliberating with fellow citizens about the common good and helping to shape the destiny of the political community. But to deliberate well about the common good requires more than the capacity to choose one's ends and to respect others' rights to do the same. It requires a knowledge of public affairs and also a sense of belonging, a concern for the whole, a moral bond with the community whose fate is at stake.

Professor Sandel then goes on to argue that:

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<sup>25</sup>"America's Search for a New Public Philosophy," *The Atlantic Monthly*, March 1996.



...Both the liberal and the republican understandings of freedom have been present throughout our political experience, but in shifting measure and relative importance. In recent decades the civic, or formative, aspect of our politics has given way to a procedural republic, concerned less with cultivating virtue than with enabling persons to choose their own values. This shift sheds light on our present discontent. For despite its appeal, the liberal vision of freedom lacks the civic resources to sustain self-government. The public philosophy by which we live cannot secure the liberty it promises, because it cannot inspire the sense of community and civic engagement that liberty requires.

The result is the same whether the citizenry is lacking in civic virtue or is imbued with a philosophy of extreme individualism--"the sense of community and civic engagement" required of a good society in a democracy are missing. We are unable in present day America to resolve the problems growing out of the negative developments identified in this essay in a civil and effective manner.<sup>26</sup> So the problems fester, discontent grows and the politicians, rather than seeking creative and constructive roles for the national government as did President Theodore Roosevelt in his "New Nationalism," are all running away from the only institution with the capacity to deal effectively with those problems, namely, the federal government.

### The Outlines of the Remedy

What can we do to check the negative forces of development that we have been discussing? There is no turning back the clock on one hundred years of plundering and polluting the planet earth. That is done. And we are not going to turn our backs on science, or a basically market economic system. But we can, if we would, change directions with regard to certain policies and programs that would make the next 50 years more harmonious, more productive and more economically sustainable than if we continue to follow the policies and programs of the last 30 years.

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<sup>26</sup>Michael J. Piore in his recent book, *Beyond Individualism*, Harvard University Press, 1995, develops the interesting argument that the broad acceptance in American life of the philosophy of extreme individualism as the proper guide to economic and social behavior does not provide the necessary understanding for taking effective action in the real political world when in fact the leading actors are groups--pressure groups (e.g., labor unions, trade associations, farm commodity groups, religious groups, ethnic groups).

Those new directions are set forth in a specific reform agenda below. But before turning to that agenda, we should recognize that a technologically advanced, market oriented national economy must have satisfied certain preconditions, if it is to be successfully productive and equitably acceptable. Those preconditions include the creation and maintenance of (1) an effective public school system, (2) an acceptable health care system with universal coverage, (3) a dependable system of unemployment insurance with universal coverage and, (4) a strong system of scientific research. Americans are struggling to satisfy in an acceptable manner all four of those conditions as the 20th Century draws to a close. They must do better in the years ahead.

We turn now to a specific reform agenda to deal with the negative forces identified earlier in this essay.

First, recognize that we are not just in another cyclical economic downturn, but rather, we are in a long, slow slide, headed toward complete economic collapse with the attendant economic and social chaos. And to reverse this slide we must replace the philosophy of extreme individualism with a philosophy of community responsibility.<sup>27</sup> Since we have just made the philosophy of community responsibility the center piece of our economic remedy--What exactly do we mean by it? By this we mean the willingness of each individual to consider the needs of all other members of the community; we mean the willingness of each individual to support the actions designed to meet the needs of all other members of the community; we mean that individual members must recognize that Mother Earth is an integral part of the community and come to respect her nurturing role in it; we mean that each and every child must be taught in the home, the church and the school what his or her rights in the community are and what his or her responsibilities to the community are; we mean, finally, that the Golden Rule must be our guide to human conduct in the community.

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<sup>27</sup>For a discussion of this philosophy see *The Spirit of Community* by Amitai Etzioni, Crown Publishers, Inc., New York, 1993.

Second, develop a measure of economic growth that is more than an addition of all monetary transactions (i.e., the GDP). This new measure of economic progress should be a net concept--a concept, for example, that deducts the costs of repairs to physical facilities and the environment as the result of the damage done by natural disasters, and takes into account the costs of crime, the loss of forests and wetlands and the depletion of nonrenewable resources. It should further take into account the productive activities in the home and communities that do not involve transactions. It should give us an inclusive but net measure of economic progress. Such a measure could build on the start made by the nonprofit organization, Redefining Progress, with its Genuine Progress Indicator (GPI).

Third, stop the foot dragging with regard to the U.N., become the dominant player in that organization and then take the lead (1) to protect the global environment; (2) to limit population growth around the world and in the meantime support international relief and peacekeeping efforts to care for starving and dispossessed people as close to their native cultures and homelands as possible; and (3) to establish a U.N. striking force to combat small wars and civil strife around the world (e.g., the Rwanda case), which is supported financially by all member nations in proportion to the size of each nation's GDP.

Fourth, to protect wage scales and living standards in the United States, given the great disparity which exists between the United States and Third World countries, steps should be taken (1) to reduce immigration into the United States to a trickle (say 100,000 persons per year), require that each adult immigrant be literate in the English language, and that they have an American citizen as a sponsor; (2) to require that all imported fabricated goods, or materials or parts from U.S. based firms that have moved their production facilities outside the boundaries of the United States after January 1, 1995 be certified by the CEO of that firm, or his or her agent, that such goods, or materials or parts produced in those facilities were produced under conditions that meet or exceed the then current minimum wage scales, child labor laws and environmental laws of the United States: violators

of this provision to be prosecuted under the felony provisions of United States law; and (3) to work to create a "free trade zone" among the industrialized nations of the world with relatively high wage scales protected by a system of tariffs against imports of fabricated goods, which increase against nonmember countries in proportion to the extent the wage scales of a particular low wage country falls below the average of the industrialized nations in the "free trade zone."

Fifth, develop and put in place in the United States a major human resource program with four principal objectives. The first objective would be to expand employment opportunities at existing rates of pay in those areas where human services are an important requirement (e.g., police officers, school teachers, day care center workers, playground supervisors, health and social workers). The second objective would be to develop and maintain a highly skilled work force in the United States by establishing a jobs training program for young people and a jobs retraining program for the unemployed. The third objective should be to raise immediately the national minimum wage by one-third and thereafter have it rise automatically with the cost of living. The fourth objective should be to take into account the longer average life span of Americans, and raise the minimum age at which healthy persons can retire and receive Social Security benefits from 62 to 67 years and perhaps eventually to 70 years.

Sixth, to complement the human resource program, establish a public investment program, community by community, to undertake projects that the private sector can't or won't do, but which are essential to the physical and social well being of those communities (e.g., build and maintain technical training centers for noncollege bound youths, build and maintain adequate jail and prison systems, rebuild rundown areas of inner cities, build and maintain effective parks and playground systems, build effective transportation systems, build safe waste disposal systems).

Seventh, embark upon a major environmental improvement program with the capacity to: (1) clean up toxic waste sites, (2) clean up the air in our cities, (3) eliminate acid rain originating in the United States, (4) stop the sale of public lands except where such sales are clearly in the national

interest and then only at the estimated market value for the intended use of that land, and (5) protect the biological diversity of our continent, as well as natural watersheds, by greatly expanding the system of National Forests, National Parks, National Wildlife refuges, grazing districts, wetland areas and green belts around cities, and then manage them in an ecologically responsible manner.

Eighth, and all important, put in place a system of public finance with the capacity to fund the programs outlined above and make some contribution to reducing the federal debt. The key components of such a system should be: (1) a reduction in the defense budget by at least one quarter, (2) the imposition of an additional one dollar a gallon tax on all petroleum fuels used in transportation, (3) the imposition of a one (1.0) percent flat rate wealth tax on all household units above a threshold of \$100,000 (such a tax should yield revenues of over 100 billion dollars each year);<sup>28</sup> and (4) the imposition of a simplified, progressive income tax structure; in this structure all revenues would be raised through the personal income tax; the corporate income tax with all its industry driven loop-holes would be completely eliminated; the only deductions allowed on the personal income tax schedule would be (a) \$1,000 for each dependent in the immediate family, (b) college tuition and fee expenses, and (c) out-of-pocket health care expenditures; the tax rate should be the same on all forms of income received including income from capital gains; the tax rate structure for a taxing unit of two with any number of dependents should begin as follows--a zero rate on income received (taking account of deductions noted above) up to \$15,000, a rate of 17 percent on all income received between \$15,001 and \$35,000, and a rate of 34 percent on all income received above \$35,001; these rates would no doubt need to change over time as experience was gained with the total revenue system.

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<sup>28</sup>See the *Twentieth Century Fund Report* entitled *Top Heavy*, prepared by Edward N. Wolff for a full discussion of this new tax for the United States, with simulations of the tax for different rates and provisions in the United States.

The above eight points do not constitute a potpourri of miscellaneous government programs. Those points constitute a reform agenda designed, first, to counter the negative environmental and institutional developments in America of the past 20 years and thus promote real and sustained economic growth. And second, to promote a kind of economic growth in which a high degree of social and economic equality is achieved--a form of growth in which the underclasses and overclasses shrink as a prospering middle class expands. The benefits of such an achievement are twofold: (1) the domestic mass market is widened to provide support for sustained economic growth, and (2) the core of prosperous, satisfied voters in the electorate is widened to support a stable government.<sup>29</sup>

### A Realistic Judgement

Will we take these actions? Certainly not today and probably not in the near future. They run counter to the conventional wisdom of most Americans and their leaders in both major political parties--a conventional wisdom grounded in the dominant economic philosophy of extreme individualism. The members of the rich overclass in America, the principal beneficiaries of the widespread acceptance of this economic philosophy, hence the leading proponents of it, would not let it happen in contemporary America.<sup>30</sup> The arrogance and power of this rich overclass is demonstrated by the serious reception the proposal to substitute the regressive Flat Tax for the existing progressive income tax is receiving by conservative politicians in and out of Congress; the adoption of such a proposal would give rise to an even more unequal distribution of income than now exists in the United States.

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<sup>29</sup>This economic reform agenda and its logical consequences are similar in many ways to the economic side of Michael Lind's concept of the good society, *Liberal Nationalism*. See *The Next American Nation*, The Free Press, 1995, the introduction and chapters 7 and 8.

<sup>30</sup>Ibid, chapters 4 and 5.

Given the probable rejection of the political reforms outlined above, the negative developments which we have identified will continue to operate as drags on the economy forcing it to perform at reduced levels. One future path that could evolve for such an economy is the following.<sup>31</sup> Somewhere down the road these reduced levels of performance will move the economy into a negative growth condition. Once negative economic growth sets in, the stage is set for psychological developments to take over. Consumer and business confidence will be shaken, investment decisions will be delayed, panic buying and selling will occur and the economy could go into a tailspin such as occurred in this country in the early 1930s. But this economic tailspin will likely differ in many ways from that of the early 1930s--riots among the underclasses and minorities will play a larger role, and the acts of hate groups and urban gangs will lead to greater violence. At this point we will have economic and social chaos in the United States. The political response to such chaotic conditions is not predictable.

At some point along the path described above the American people might accept a man on a "white horse" with the authority to redirect the economy and order their lives. Americans toyed with that solution in 1992 in the form of Ross Perot. And they flirted with a military hero once again in 1995--General Powell.

Or at some point Americans, with the help of some enlightened leadership, might accept a reform agenda similar to that outlined above with the capacity to redirect the economy along more productive, equitable, and sustainable lines. Although the dominant spirit of extreme individualism abroad in the land precludes such a political solution in 1995-96, given a prolonged period of economic hard times and a general condition of economic and social chaos, Americans might reach out to and accept the kind of political reform agenda outlined above.

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<sup>31</sup>For a different path--a downward spiral ending in some sort of Dark Ages--see *The Future of Capitalism* by Lester C. Thurow, William Morrow and Company, 1996, particularly Chapters 13, 14, and 15.

There is an historical precedent for such a political development--the New Deal of 1933-34.