More to Fear than Fear Itself

BY GERALD E. MARSH

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IN HIS 1933 inaugural address, Pres. Franklin D. Roosevelt said, "Let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning unjustified terror which paralyzes needed efforts to convert retreat into advance." The effectiveness of the policies put into place by the Roosevelt Administrations continue to be argued about to this day. What ended the Great Depression was the advent of World War II and its enormous deficit spending and government control of the economy.

Today, while we suffer from ineptness and injustice, we are not yet fearful, but this could change. To deal with the stubborn unemployment of the Great Recession and the decay of large sections of the country needing infrastructure replacement and improvement, many wish for a smaller government, one that must, above all things, balance the budget by cutting social services and especially Social Security and Medicare. Be careful what you wish for.

Had pioneering economist Adam Smith's "hidden hand," as reified by the market, been allowed to function, the investment banks would have paid a heavy price for the 2008 debacle. Instead, their debt was socialized. The risk of a total implosion of the financial system and another Great Depression was believed to be too great. The result is a market that encourages what is now called moral hazard—a form of market capitalism that is not consistent with Smith's "hidden hand" and serves the few at the expense of the many. The public has the perception the playing field is tilted in favor of banks. Heads, they win; tails, the U.S. taxpayer bails them out.

A complicating factor is that workers, and indeed the general public, are becoming increasingly disenfranchised. Not that they are losing their vote per se, but fewer are unionized and their fragmented political voice increasingly is being drowned out by special interests. Even without the cacophony of special interests, how people vote depends on their information sources and this, unfortunately for the nation, now is mostly network stations and those available on cable and satellite television, as well as the Internet. Yet, with few exceptions, these sources of in-

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formation are becoming so polarized and devoid of substance as to make it impossible for voters to make rational decisions even if they wanted to. Moreover, the *Citizens United v. Federal Election Commission* (2010) Supreme Court decision made sure that large institutions of one type or another will be ever more dominant players in the future than they are now because of the enormous amount of money that will become available to shape the information sources. This will increase the drift towards a two-tiered society of haves and have-nots. Election costs today range from several million dollars for a House seat to close to $1,000,000,000 for the presidency. To get such sums, candidates must satisfy the interests of those who give them the money.

It has been argued that the reaction to *Citizens United* was a tempest in a teapot; the case only being about corporate funded commercials in the period just before elections. Corporations could, after all, run as many commercials as they pleased during other periods and, by forming a political action committee, employees of a corporation could run advertisements anytime.

Perhaps the real reason for the negative reaction of the general population to the Court's decision is best captured by the dissenting opinion of Justice John Paul Stevens: The Framers "took it as a given that corporations could be comprehensively regulated in the service of the public welfare. Unlike our colleagues, they had little trouble distinguishing corporations from human beings, and when they constitutionalized the right to free speech in the First Amendment, it was the free speech of individual Americans that they had in mind. . . . At bottom, the Court's opinion is thus a rejection of the common sense of the American people, who have recognized a need to prevent corporations from undermining self-government since the founding, and who have fought against the distinctive corrupting potential of corporate electioneering since the days of Theodore Roosevelt. It is a strange time to repudiate that common sense. While American democracy is imperfect, few outside the majority of this Court would have thought its flaws included a dearth of corporate money in politics."

Pres. Barack Obama, in his State of the Union address, claimed that the decision would "open the floodgates for special interests—including foreign corporations—to spend without limit in our elections. . . . I don't think American elections should be bankrolled by America's most powerful interests or, worse, by foreign entities."

Justice Samuel Alito seemed to object silently to this at the time, presumably because Justice Anthony Kennedy's majority opinion explicitly reserved the question of whether the ruling applied to foreign corporations. In truth, though, the line between foreign and domestic corporations in today's transnational world is very blurry indeed.

The U.S. gross domestic product, adjusted for inflation, was 1.2% larger in the first quarter of this year compared to the peak quarter before the recession, but unemployment has decreased only a small amount from its peak of about 10% in 2009, falling in 2012 to some eight percent. Unemployment has not fallen commensurate with GDP growth because many companies are using the opportunity offered by lower employment levels to increase automation and the offshoring of jobs. Cheap foreign workers and innovative technology are replacing domestic workers. This trend is expected to continue as office and knowledge workers increasingly are affected.

Official unemployment figures obscure the impact of automation and offshoring because they do not include discouraged workers who have given up, or the unemployment among young people who never have held jobs and have been unable to find them, or part-time workers who cannot find full-time jobs. Remember, unemployment figures only count individuals who actively are seeking jobs, not those who have given up looking. Official seasonally adjusted youth unemployment for ages 16-24 now is about 16%. In some areas and among some segments of the population, real unemployment may be as high as 50%-70%.

Many believe that the stubborn unemployment is due to insufficient demand—almost a truism, but how can there be anything but "pent-up demand" when most consumers either are in debt, fearful of the future, or have little discretionary income?

According to the Economic Policy Institute, real entry-level hourly wages for men who were recent graduates of high school fell to around $11.68 in 2011 compared to $15.64 in 1979. In 2011—22.8% of entry-level jobs offered health insurance. While it is claimed that inflation is low, this only is true if one does not count food, energy, and transportation—which has risen at a rate of almost 10% per year in 2010-12—and housing costs. Rental costs, like food expenses, have risen by some five percent in the last year alone, while the number of individuals receiving food stamps is 46,000,000 compared to just under 31,000,000 in 2008.

Companies complain that they cannot find qualified workers and, as a result, are forced to look outside the U.S. for their needs. This well could be true since, according to Donovan A. McFarlane, writing in the *Journal of Business Studies Quarterly*, "There is still a high rate of dropout among 16-24 year old students in high schools and colleges in the U.S. Furthermore, 33% of children in California are projected to never finish high school; the educational careers of 25% to 40% of American children are imperiled because they do not read well enough, quickly enough, or easily enough; since 1983, more than 10 million Americans have reached the 12th grade without having learned to read at a basic level, and in the same period, more than 6 million Americans dropped out of high school altogether; 50% of the nation's unemployed youth age 16-21 are functionally illiterate, with virtually no prospects of obtaining good jobs; 44 million adults in the U.S. cannot read well enough to read a simple story to a child; more than 20% of adults read at or below a fifth-grade level—far below the level needed to earn a living wage; nearly half of America's adults are poor readers or 'functionally illiterate'; 21 million Americans cannot read at all; 45 million are marginally illiterate and one-fifth of high school graduates cannot read their diplomas; 46% of American adults cannot understand the label on their prescription medicine; and 50% of American adults are unable to read an eighth grade level book."

Education is at the root of our problems and, while it is generally a state and local responsibility, given the abysmal educational situation, there is no rational reason Congress cannot set national standards and substantially increase financial aid to meet those standards.

Congress also has been totally inept and ineffective in dealing with the nation's budgetary issues and, if it does do not deal with them soon, we will fall off what Federal Reserve Chairman Ben Bernanke has referred to as "a massive fiscal cliff."

Raise taxes, slash budget

Here is what will happen, as put by Ryan Lizza writing in the *New Yorker*: "Federal tax rates for every income group will shoot up to levels not seen since 2001. Payroll taxes for employees will jump by two percentage points. Unemployment benefits for some three million Americans will be cut off. The Pentagon will start the New Year with a fifty-five-billion-dollar budget cut. The budget allocated to everything from the FBI to the Park Service to meat inspections will be slashed by the same amount. Soon after, Federal payments to doctors who treat patients using Medicare, the Federal health program for the elderly, will be slashed by about a third."

If this were to occur, there would be a drop in GDP of about three percent, enough to bring the economy back into recession with a loss of whatever small employment recovery we have had. The next Administration must put into place a fair, but realistic, set of policies to restructure the tax code, decrease the deficit, and bring national security funding down from close to a total of almost one trillion dollars a year, far more than is needed to deal with existing and potential global threats. Maintaining the existing tax and security structure means severe cuts to all other components of the budget. This, the Republicans have stated, is what they want, but do they really want the social unrest that would be very likely to follow? Do they really want to live in a gated plutocracy?

The confluence of many factors is driving growing social unrest. When people's lives are miserable, they turn to anything that will give them solace and a sense of belonging, whether these are associations the general society approves of or not, such as extremist religious sects or gangs. Of course, for those who choose the gangs, there is the money to be made from drugs, guns, stolen cars, and other forms of illegal and socially destructive activity. One cannot cure the problem by trying to improve one facet at a time. The issue of schools, for instance, cannot be dealt with effectively without treating the underlying social and community pathologies, such as fragmented and chaotic family relations, homelessness, hunger, violence, and abuse that children face.

What is the danger here? In *Business Week*, Peter Coy wrote an article, "The End is Coming: Jan 1, 2013." It was introduced by a dramatic image showing a city burning with people fleeing. The scene depicted, if it took place at all, was long ago. Some may remember the late 1960s and early 1970s when large swaths of American cities burned. It could happen again, and this time it might not be restricted to poor areas. Flash mobs that beat and robbed people in the posh area of North Michigan Avenue in Chicago already have occurred. Crime rates across the nation are beginning to rise after declining for many years.

Poor job and life prospects, rising inequality in terms of income and wealth, the growing lack of decent housing and secure health care, poor education for the many, and the rising cost of higher education for those capable of absorbing it—and who face bleak employment prospects when they graduate with mountains of debt—could lead to a social flashpoint that could have far wider public support than was the case a few decades back.

The U.S. has been a beacon to the world, but there is a warning we should remember that was given to us in 1630 by John Withrop, governor of the Massachusetts Bay Colony: "Wee shall be as a Citty upon a Hill, the eies of all people are uppon us; soe that if wee shall deale falsely with our god in this worke wee have undertaken and soe cause him to withdrawe his present help from us, wee shall be made a story and a by-word through the world." ★

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