

# Introduction

When I was a young boy, I once asked my father what the difference was between a recession and a depression. He replied with the now over-used cliché: a recession is when the economy goes sour for your neighbor, it's a depression when it hits your pocketbook.

The essential point of the cliché is that how one looks at the economy depends on one's vantage point. Every day we are bombarded with facts and figures that tell us what to think about the economy yet we often have no way of knowing who is telling the truth, where they get their information and, more important, what are their own biases. Over time, we begin incorporating into our personal language and way of thinking a whole set of ideas—for example, the need to be “competitive” in the global economy—that may in fact be harmful to us and the people around us.

Ordinary Americans are angry and confused by the conventional economic analysis espoused by pundits and politicians. We simply do not believe what we hear on the evening news or read in newspapers because what journalists and pundits tell us doesn't fit with their own daily experience. When most Americans are working for less money and are deeper in debt, why is Dan Rather so excited when he announces a rise in the Gross Domestic Product (GDP)? Indeed, what does an increase in the GDP mean for most people? Is it good or bad? We have good cause to have these emotions.

In part, we tend to forget that economics doesn't just happen. The economy we live in is not an independent, unbiased current, nor a natural phenomena like the sun rising every day or the ebb and flow of the ocean's tide. It functions because of decisions made by political and financial people or institutions, many of whom are unknown or only vaguely familiar to the American public. The traditional labels of “liberal” or “conservative” do not explain the more important factor shaping the economy: self-interest.

What we demand from the economy says a lot about what we think we want for our families and society as a whole. Most of us probably want decent schools, libraries open, streets that are safe, clean and in one piece, hospitals accessible to anyone for a sane price, and, of course, a good job. That is our self-interest, one that is reasonable and inspiring.

When we don't understand how some of the basic forces molding our economy deny us a reasonable life or when those forces are deliberately hidden from view, it becomes easier to point fingers and blame visible, less powerful targets. Or, just as bad, we begin believing that we are at fault. It's similar to the con game played by hustlers in New York City's Times Square. A quick-talking man will show you a pea, put it under one of three cups, quickly shuffle the cups around and ask you to point to the cup under which you think the pea now rests. Most times, of course, you point to the wrong cup; you think you've kept track of the target but, whoosh, it's gone—along with your twenty bucks.

Our “peas” in the economy—the things we have to keep our eye on—are a tax system shifting more money to the rich or the need for a national health care system to control rising costs of Medicare and Medicaid. But we are distracted by “hustlers” who wave and scream, distracting us from the real issue. They tell us we have less money because of government bureaucrats who waste our money, not an unfair tax system that helps widen the gap between rich and poor. They want us to believe that, at a time when corporate profits are soaring to record levels, we can’t afford to have good jobs and a clean environment. Or they say, don’t blame the private health insurance industry for raking in large profits but the poor and elderly who are helped by Medicare and Medicaid when they are ill.

We set out to demystify common assumptions and misunderstandings heaped upon most folks, particularly via the mass media.. We did not try to describe every single concept you might be thinking about. Rather, we wanted to touch on the most important ideas that pop up almost every day in the public policy debates central to our society. We wanted a handy, inexpensive, portable booklet that could sit on your coffee table or within easy reach of your favorite chair where you sit watching television, listening to the radio or reading a newspaper. We designed this so you don’t have to read the whole booklet; if all you need is a clear explanation of deficits with a few facts to remember, jump straight to that chapter.

We also believe that once these facts are understood, every individual has a responsibility to pass the information along: to friends, family, CO-workers and institutions who influence our economic lives. I once heard someone say, only half joking, that he was sick of hearing drunken loudmouths spouting off on talk radio with uninformed opinions and he wondered why “his” drunken loudmouths weren’t picking up the phone and calling in with their thoughts. So, we have added at the end of this booklet a short “action” section, giving a few helpful hints on what each person can do to educate others and maybe even change the world around us.

I would like to acknowledge a group of people who helped make this booklet possible. Patricia Bauman saw the need for the booklet, not to mention the larger work of The Preamble Collaborative. Scott Nova, the Preamble’s executive director, was an excellent editor who helped guide and shape the booklet. Nicole Woo was a terrific researcher. A number of people also helped work through economic concepts: Mark Anderson, John Canvanagh, Sara Horowitz, Thea Lee, Regina Markey, Greg Tarpinian, and Lori Wallach.

## Chapter One

# THE DEFICIT AND DEBT SHAM

One of the hottest political debates centers on the perceived dangers of the deficit and the debt. Almost every day, people are told that government deficits are out of control and that future generations will crumble under a terrible debt burden.

First off, these two concepts are often used—by politicians and so-called “expert” talking heads on television—in the wrong way. When we talk about the government spending more money each year than it takes in, that is the deficit. If you add up all the government’s deficits accumulated over a period of time, that is the debt. So, for example, running smaller deficits each year still adds to the overall, long-term debt.

Actually, deficits and a debt are not inherently bad. There are two main questions we need to ask in trying to get through the rhetoric we hear. First, when the government runs a deficit, what is it spending the money on? Is it going for a long-term public investment (like roads or education)? Or are we, the taxpayers, paying for something else (like a multi-billion dollar bailout of the savings and loan industry or tax cuts for the very wealthy) that does not add to the overall public good?

Second, how does the deficit compare to the larger economic picture? Is it a relatively small or large part of overall economic activity? You wouldn’t know it if you listened to the pundits but, in 1995, the U.S. budget deficit was just 2.3 percent of the Gross Domestic Product (GDP is one measure used to compare overall economic activity; see Chapter 8). If you looked at the whole world, the U.S. budget deficit compared to the size of the economy is the lowest of the major industrialized countries.

When we hear politicians demanding that Congress balance its checkbook “just like ordinary people have to do everyday,” many of us nod—mistakenly. Indeed, thinking of our own personal conduct is a good way of understanding the larger picture. Working people do spend more than they earn, often times for worthwhile reasons. For example, taking out a loan to send a child to college would be considered a worthy reason—personally and in the eyes of many others—to assume some debt; this would pay off later in, perhaps, your child landing a better job.

On the other hand, running up a huge debt by borrowing money so you can gamble in Las Vegas would not be prudent; it would probably cost less—and be a better long-term investment achieved with a manageable debt—to pay for a counseling program to end a bad gambling habit. Those are all choices we make.

Companies also finance their future with debt—some of it good, some of it bad. Buying new equipment today with borrowed money is a good choice because it will hopefully create new jobs and new revenues that will, in turn, pay off the debt ten years from now.

But, taking on huge debt to bankroll a merger for dubious reasons (like raising a company's stock price so a few top executives can make millions of dollars) can lead to layoffs or bankruptcy, as was too often the case in the 1980s.

The government makes similar choices. The post-WWII boom—which we read in grade school textbooks was the beginning of the American Dream—was financed by a lot of debt. On the other hand, the \$5 trillion debt we read about today piled up because of a policy decision in the 1980s—proposed by the Reagan Administration and approved by the Congress—to greatly increase defense spending and cut taxes at the same time. In other words, the policy said “let's spend a lot more money in this one area without earning more money to cover those costs and, to top it off, let's also give away truckloads of money we're supposed to get to pay for our bills.”

So, what is all the commotion about? To some extent, the great concern among voters about the deficits and the debt is a reflection of great anxieties about the economy that have little to do with the deficit and the debt. Except it is easier for us to blame government spending (because we can actually see the people who represent government on television) than wrap our hands around an unfair taxation system (we don't see the rich people every day who are living it up because they pay practically no taxes) or the freedom of companies to move jobs offshore or cut tens of thousands of jobs.

In the long term—15 years or so—it is certainly not healthy to be building up a large debt if it is unproductive and too burdensome. The question is: how do you reduce the debt?

Let's go back to the personal experience of a middle-class home. If your family faced a suddenly heavy credit card debt, you would face different options. You could yank your child out of college and toss granny out of a nursing home. Or you could, alternatively, reduce spending on items you can live without (maybe pass on buying a new car, keeping the current car a year or two more). Most people would choose the second option.

So, too, with the government. If we think of society as whole as a family, the question is how are choices balanced. Should the deficit be reduced by cutting spending that benefits many people (such as building roads we all drive on, funding education enriching the minds of the younger generation or keeping the environment safe for entire communities)? Should corporations and the richest among us be asked to pay a fairer share of taxes (see Chapter 3)? Or should we get rid of the deficit by attacking the elderly by cutting Medicare benefits?

**MYTH:** The deficit and debt are terrible things for the economy..

**REALITY:** While huge deficits and debt may sometimes be bad for most of us, the most important question is: what are we spending our money on?

## Chapter Two

# GREED CUTS JOBS

In the 1980s and 1990s, everyone has become used to seeing the headlines describing a company slashing the number of jobs: AT&T (40,000 jobs cut); IBM (60,000); Boeing (30,000); Sears Roebuck (50,000); General Motors (75,000); and dozens of other companies eliminating thousands of jobs. While many families were torn apart by the layoffs and communities suffered, Wall Street rejoiced, sending the stock of job-cutting companies to new heights. Why?

One of the myths many people have adopted is that these job losses are necessary for companies to either remain profitable or compete in the global economy or both. Amazingly, we even sometimes believe those reasons when our jobs disappear. When you here those myths consider the following:

The profitability myth. Corporate profits in the 1990s were generally soaring, including for those companies announcing layoffs. One estimate by Wall Street insiders holds that a single layoff is worth \$60,000 to bottom-line earnings in the future. Got it?

· The we-have-to-be-competitive myth. The huge layoffs in the 1990s were happening at a time when: the growth in what the average production worker was being paid—typically a key statistic used to compare whether one country has higher costs relative to another—in Japan, Germany, Canada and the Netherlands were all higher than in the U.S.; the value of the dollar was dropping (making U.S. goods cheaper and more competitive abroad); and productivity in the U.S. equaled or exceeded the levels found in other countries (that means we were working harder to turn out the same goods and services but our cost—what we were being paid for our labor—was not going up). So, the “we-need-to-downsize-to-compete-in-the-global-economy” argument simply does not jibe with what has been happening.

The great corporate money raid. The top executives of corporations got millions of dollars in stock options as part of their outrageously high paychecks—stocks that often increased in value after layoffs.

We sometimes are so taken in by the words used to explain bigger trends (and the “global economy” has been the most repeated slogan) that we forget a far more obvious powerful factor: greed. Once again, a few people are enriching themselves at the expense of the many. It’s actually so simple to see.

Mobil Oil, on a pace to record profits in 1995, announced a layoff of 4,700 workers (about 9.2 percent of its total workforce). The next day, its stock rose 4.1 percent. Mobil’s CEO Lucio Noto’s net wealth went up more than \$800,000 in just 24 hours because of his stock holdings in the company.

The merger between Chemical Bank and Chase Manhattan—two profitable banks— included laying off 12,000 people. Stocks of the two banks went up double-digits after the combination merger-layoffs was unveiled. Chase CEO Thomas Labrecque made a cool \$3.6 million in one day; his counterpart at Chemical, Walter Shipley, wasn't quite as fortunate—his wealth went up by only \$3.1 million. Overall, the CEOs of the 22 companies announcing the most job cuts in 1995 saw their stock options rise by a combined total of \$37 million.

The other buzzword we hear all the time is outsourcing. It is another piece of the downsizing puzzle. When companies “outsource,” work once performed by a company's workers is moved to another company; eventually, this causes job losses at the original company because there is less work. So, for example, if General Motors decides it is too expensive to have its own workers make brakes, it moves the work to another company where wages are much lower. In straight language, this means that it's time to take more out of the paychecks of most workers because the company wants to continue to pay high CEO salaries and satisfy Wall Street.

Outsourcing is also a back-door way to weaken or break unions. Usually, when work is moved from a place where wages are higher to a factory paying lower wages, the jobs are being shifted from a unionized workplace to one where there isn't a union.

By the way, some business analysts have recently begun arguing, in the pages of the leading business journals, that the downsizing and outsourcing rage has gone too far. They've discovered that cutting corporations to the bone to boost profits has negative consequences. Without a stable, healthy in-house workforce, productivity declines because people feel less loyal to the company. So, in fact, corporations can be profitable and maintain workers' jobs—as long as executives are willing to choose jobs over greed.

Ripping away huge numbers of workers from their livelihood is just another reason we should be worried about the globalization of corporations. As companies are less connected to local communities, the executives in charge don't feel any pressure or criticism when they cut jobs because they might live across the country or even in another part of the world.

**MYTH:** U.S. corporations have eliminated massive numbers of jobs to cut away the “fat”, make themselves more competitive and improve overall economic activity which will make everyone's life better eventually..

**REALITY:** With no community or national loyalty, large corporations throw away thousands of workers in order to satisfy Wall Street and boost profits from operations that have no national borders.

## Chapter Three

# THE GREAT TREASURY RAID

During the debate over the 1993 budget, one senator after another rose to stick up for the benighted people they saw being unfairly treated. “I do not know how long we can continue that kind of class warfare,” fretted Bob Dole, the Senate’s majority leader at the time. Slade Gorton (R-WA) said simply, “I object to these higher taxes.”

Were they worried about the hard-working person? No, they were worried about the burden of telling those people making more than \$250,000 per year that their tax rate would go up to a rate still lower than at any time in the past sixty years.

During the 1980s, the income tax system has become less progressive, meaning that the burden of sharing society’s responsibilities (building bridges and roads, caring for the elderly, maintaining a healthy environment) has shifted away from the rich and on to the backs of people who depend on a weekly paycheck to pay the bills. So, it’s understandable that no issue has gotten people more riled up and angry at the “government” than taxes. When anyone talks about changes in taxes, we reach back to protect our wallets because we feel that any changes in the tax code always hurt average people. And we have a right to be angry at both parties for the slow but methodical destruction of a fair tax system in the U.S.

Here are some handy facts for you to remember that might make you question any promises of “tax relief”:

From 1987 to 1991, \$150 billion in tax cuts—made possible by the 1986 Tax Reform Bill supported overwhelmingly by both parties—went back into the pockets of the top one-fifth of one percent of all taxpayers.

In the 1980s, changes in the tax code—engineered by the army of lobbyists we all know blanket our elected officials with large campaign contributions—shifted \$1.1 trillion from the poor to the rich. In the 1990s, the shift to the pockets of the wealthy will total two trillion dollars. Any tax increases on the wealthy are attacked as “class warfare” while tax cuts for the rich are always sold to us as sensible “tax reform.”

Corporate tax breaks: the real cause of the deficit. Corporations get away with many unbelievable tax breaks. If they keep money earned outside the U.S. (from operations started after closing down factories here), they don’t pay taxes on those profits. Let’s say one corporation buys up another one with a familiar brand name (like “Doritos” or “Frosted Flakes”). Amazingly, the new corporate entity can write-off the brand name for 15 years as a depreciated cost (like a piece of equipment that’s getting old). This clever break costs taxpayers tens of billions of dollars every year.

So, want to know where the government's deficit is coming from? Check these two facts out. The U.S. General Accounting Office found that 1,555 companies controlled by U.S. shareholders with assets of \$250 million or more paid zero—none, zilch, nada—federal taxes. To make matters worse, one study estimated that, from 1995 to 2000, corporate tax breaks will cost the government \$730 billion—money that average people have to foot the bill for.

The Capital Gains Sham. One of the biggest falsehoods we hear involves the so-called “capital gains tax.” You know the song: just cut the capital gains tax and investors (rich people) will pour more money into the economy, creating thousands of new jobs and investment. It would be great—except there is not one single shred of proof that cutting the capital gains tax has any positive effect other than for those wealthy people who then pocket even more money.

Most of us haven't been lucky enough to struggle with this problem on our tax bills so what is a capital gain and how is it taxed? Let's say you buy 100 shares of a stock at \$10 a piece in March; together, the stocks are worth \$1,000. In June, you sell the 100 shares for \$30 a piece; together, they were then worth a total of \$3,000. The difference between the original price in March and what they sold for in June—\$2,000—is the capital gain. That “gain” is then taxed at a particular rate.

So, a logical minded person might suggest that one way of measuring how much benefit we get when the capital gains tax is reduced is to look at the overall effect on the economy. If there is all this new money pouring in from investors when they pay a lower capital gains tax, the economy should show an improvement, right? “That case is astonishingly weak,” according to Citizens for Tax Justice (CTJ), a non-partisan organization devoted to analyzing tax issues.

CTJ looked at two past instances—in 1978 and in 1981—when the capital gains tax rate was cut. Both times, the economy did worse in the two years after the cuts. As for job creation, the unemployment rate rose sharply after the cuts in both cases. So, clearly giving more money to investors had very little positive effect for most people. Ironically, CTJ also found that the unemployment level fell in 1976 and 1986—after Congress passed hikes in the capital gains taxes.

What do capital gains tax cuts do? Walk into your favorite big-city downtown area. See all the empty office space? Or stroll over to the local yacht club and look (from behind the fence, of course) at the huge boats bobbing in the seas. Point is, awash in cash from capital gains tax cuts, the rich will (based on real-life experience) invest in high-risk, often-disastrous speculative projects (real estate) or in luxury items, neither of which have proven to spark a great economic boom or even follow good business sense.

The Flat Tax Sham. Sure, it's real simple to think: everyone's tax will be the same, count me in. Problem is, once again, most of us would be hurt. The savings you think will end up in your bank account will drop out a new hole in your pocket. Homeowners would end up with less money because they wouldn't be able to deduct interest on their mortgage.

Many workers would end up with either higher taxes or no benefits left because businesses, without being able to deduct costs like health coverage, would either drop the benefit or shift it to the worker's paycheck—which would be taxed. On top of that, the U.S. government would lose billions, triggering another big round of spending cuts. Great, you say. Think again. Who's worse off, you or the rich, when there's no money for Medicare, student loans, keeping the air clean or maintaining our infrastructure?

So, let's think real hard—who does a flat tax benefit? Time's up: the rich. The wealthiest people would see their individual tax rate drop dramatically. Under a flat tax, capital gains would be exempt, putting billions more in the hands of the richest people.

But, hey, it will all be great because the economy will grow faster because the rich have more money to spend. Hmmmm. Where did we hear that one before? When Ronald Reagan promised that cutting the taxes of the rich would give us a great booming economic party—but instead it gave us a bad hangover, creating \$3 trillion of debt between 1981 and 1992.

**MYTH:** Out-of control government “social” spending is the reason we are paying more in taxes.

**REALITY:** We are shouldering more in tax burdens because of huge tax cuts for the wealthy and corporations. Indeed, two-thirds of the deficit would disappear overnight if corporations paid the same ratio of taxes they paid in the 1950s when the U.S. was booming.

## Chapter Four

# WHERE HAVE ALL THE GOOD JOBS GONE?

You know the joke: there have been millions of new jobs created in the past 15 years—and I've got three of them.

These days, even when the official unemployment level drops and we are told millions of new jobs are being created, many people treat such news with less enthusiasm than used to greet past hints of improving job markets. It's not because the public is in a "funk" or has some weird, misplaced anxiety that can simply be washed away with reassuring words. We just know what it's really like out there and it's not a pretty picture.

The whole way we look at jobs has changed dramatically in the past two decades. Most people used to think of a good job providing a decent wage so that they could pay basic bills; put a roof over their family's heads; provide health care and education for their children; have a car and maybe even build a small nest egg for retirement. In a relatively short time, probably just 20 years, this list has gone from the expected minimum to a dream that, for most workers, will never come true.

Real wages have dropped 12 percent since 1979. Since the 1980s, few new jobs offer any kind of comprehensive benefits. No pension. No health care (or coverage so scanty that most people can't afford to be sick). So, all job creation cannot be hailed as "improving" the lives of most workers.

The key question to ask is: what do the new jobs pay? With that criteria in mind, the picture looks quite different. Nine out of the ten fastest growing jobs in the U.S. are in occupations such as janitor, nursing aide and retail clerk, according to the U.S. Department of Labor. If you open up your newspaper to these kinds of jobs, you will often find hourly wages in the single digits with no benefits—a level of pay lower than what people earned when they worked in many industrial-type jobs that have been lost since the 1980s.

Another reason pay is dropping is the corporate attack against unions. Wages have fallen as unions have become weaker; unions always kept the wage level higher for all workers. So, obviously, corporations seeking to slash wages over all want to keep unions from representing workers.

The minimum wage. Here's a popular myth: most minimum wage jobs are held by teenagers working after, or instead of, school and that raising the minimum wage would cost those people their jobs.

This is not true. The overwhelming number of people employed in minimum wage jobs—such as janitors and retail clerks—are over twenty years old; many of them are trying to raise families on minimum-wage jobs.

Traditionally, the minimum wage, usually set at about half of what the average hourly wage was for private sector workers, acted as a buffer against poverty. No longer. Anyone working full-time at the \$4.25 minimum wage in 1996 fell below the poverty level by about 30 percent. If we used history as a guide, the minimum wage should be set around \$5.68—about half of the average hourly wage. In 1996, Congressional Democrats proposed a 90-cent increase in the minimum wage—to set it at \$5.15, which would benefit more than 12 million workers—but Republican leaders fought the bill every step of the way. It eventually passed in part because polls showed hiking the minimum wage had huge public support—75 percent of the public favored boosting the level.

The Field of Dreams Jobs Theory. Ahhh, but there is a magic solution for the jobs problem: get smarter. Or, as the Field of Dreams Jobs theory puts it, “train the workers and the jobs will come.” Over the past few years, workers have been lectured, by liberals and conservatives, that our problem is not falling wages but our lack of education. If we just had “higher skills,” we would get better jobs and would be better equipped to “compete” in the global economy.

The problem is that there are very few great jobs at the end of this education cycle. Demand for higher skills is barely increasing and the long-term forecast into the next century shows the need for these high skills will be even slightly less than in the 1980s.

On top of that, there is a big problem: there will be a lot more workers needing jobs in the future than the total number of jobs, high-skilled or otherwise, anyone is predicting will materialize in the next decade.

We’re in global economy, right? Well, why doesn’t anyone want to tell us this fact—twenty years from now, 750 million more people will be added to the underdeveloped world where 700 million people are already unemployed or underemployed. So, down the road, we’re facing a huge crisis: not enough jobs that offer a decent paycheck.

There is no easy solution but it’s clear that pointing fingers at the weakest people in society—immigrants, poor women and children on welfare—will not solve the problem.

**MYTH:** We should not worry about the job market because millions of new jobs are being created. Our falling incomes and worsening job quality are easily corrected by becoming better educated workers with higher skills.

**REALITY:** Most jobs created today will not pay a traditional middle-class standard. Declines in income are a consequence of explicit corporate policy to lower wages and boost profits to make shareholders happy. Gaining more skills will only help a small number of workers, many of whom, if they find jobs, will be paid far less than promised.

## Chapter Five

# TWO TEAMS: THE RICH AND THE REST OF US

For so many people raised on the ideal that the United States was a beacon of fairness and equality, it is a sad fact that this country is rapidly becoming a country divided into two classes: the very rich and everyone else. The Organization for Economic Cooperation and Development, an international group, recently reported that “by any measure, the United States has the most unequal distribution of income of any industrialized country [emphasis added](#).” In 1992, the concentration of wealth in the hands of the richest people in the U.S. reached a postwar high.

Let’s talk mostly about income and wealth. These are two different concepts. Income is the amount of money you earn each year. Wealth is the total amount of assets you own on top of whatever income you earn each year. Some raw facts paint the picture:

From 1979 to 1989, the portion of this country’s overall wealth (income plus assets) held by the top one percent of the population jumped from 22 percent (an amazing number) to 39 percent (a staggering figure). Compare that to the share of wealth controlled by the top one percent in Canada (25 percent) or Sweden (16 percent).

The top five percent of wealth holders in the U.S. control assets worth more than 14 trillion dollars.

The total net assets of the richest half million households (that’s actually one half-percent of all households) went from \$2.46 trillion in 1983 to 4.94 trillion in 1989. Wondering how we can eliminate the federal debt we wring our hands about? Asking that top elite to pay off the federal debt in 1989—then, only 2.19 trillion—would have still left this tiny number of people with an increase of ten percent in their net worth from 1983, plenty to pay for the grocery bills and a few yachts.

In 1993, the top twenty percent of the population earned almost half (46 percent) of the national income. The top ten percent of the U.S. population brings in approximately six times as much annual income as the bottom ten percent.

Think about it. How do you measure your wealth? Most Americans count wealth in what they happen to have in their checking accounts, if they are lucky a small nest egg in a savings account and, with less frequency, the value of the home they own. In fact, according to economist Edward Wolff, the homes of middle-class families still account for more than two-thirds of their wealth. And, not surprisingly, most American families suffer from a very high debt burden compared to assets.

The rich, on the other hand, build up their wealth by putting their income in vast stock portfolios, investments in financial securities or ownership of large real estate properties. These investments turn into a stream of dollars that piles up the overall wealth controlled by the rich—and give them even more money to reinvest to buy more assets.

And the assault on our income has increased. The collective corporate public relations machine has come up with a now-familiar chorus: to remain “competitive” in the global economy against major foreign corporate adversaries, “generous” wages and benefits in the U.S. have to be cut.

Here’s the truth. The pay and benefits of U.S. workers, on average, ranks far below workers in other countries widely considered to be the major economic competitors.

Let’s start with pay. Between 1979 and 1992, hourly compensation in manufacturing in the U.S. dropped by six percent overall. Our paychecks tell us that. By comparison, in that same time period, overall compensation in rose in three major industrial countries: by 26 percent in Japan and France; by 35 percent in Germany.

Thinking about our income we have to look at other factors besides our wages. We’re all pretty familiar with the terrible U.S. healthcare crisis, how our costs are going up and millions of people can’t even get health insurance. It looks even worse when you look around the world. A fact to remember: among industrialized countries, only the U.S. and South Africa do not provide some form of national health insurance. That costs us money and reduces our income.

How did all this happen? Four major reasons:

Economic policy. Institutions like the Federal Reserve Board and Congress have pushed policies—such as keeping interest rates too high, passing trade agreements allowing corporations to have an even easier time to do as they please—that put more power and money in the hands of a few (see Chapters 6 and 11).

Globalization. The easy way companies can move money and jobs around the world scares the average person so much that most workers won’t demand increase in wages so the average income continues to stagnate or drop.

Taxes. The destruction of a fair tax system has allowed the rich to keep more money and put more of the burden of running society on the backs of the rest of us. (see Chapter 3)

Our corrupted campaign system. Our legislators pass laws—sometimes in the late night hours—that reward their biggest campaign contributors. Indeed, the out-of-control buying of influence in government has had direct impact on the huge gap between the very rich and the rest of us.

Decline of union power. Companies make profits off of the extra time everyone one of us puts into our job after we’ve made enough of a product or provided services to cover the

costs of our own wages. Wages usually rise when productivity goes up. So, why have wages gone down while productivity continues to rise? Corporations do not just hand over money to workers because we ask nicely; we get pay hikes when companies feel they have no choice if they want to keep workers on the job. Fewer unions means lower wages—and less income going to most of us. And, by the way, this is true for all workers, not just union members. When union wages rise, the wages for everyone also goes up.

**MYTH:** The U.S. is the land of opportunity where anyone can make a buck and become rich if they just work hard enough.

**REALITY:** Most income and wealth is controlled by a small elite that does not change, with almost everyone else concentrated in the struggling majority with no hope of ever becoming wealthy.

## Chapter Six

# INTEREST RATES: THE RICH ALWAYS WIN

The most important political figure in your life may not be the president of the United States or the chief justice of the Supreme Court. It's probably Alan Greenspan, the head of the Federal Reserve Board. Greenspan is the person most responsible for setting the level of interest rates. Since we all need to borrow money from time to time, Greenspan is almost always inside our pocket book, deciding whether we can afford to send our kids to college, buy a house or a car, or pay off our credit card debt.

What is an "interest rate?" It is essentially the price of money. Interest rates rise and fall because of perceptions and guesses about the political and economic trends today and in the future. Interest rates are the way the Federal Reserve Board, also known as the Fed, controls the economy. The Fed doesn't set all interest rates but it has control over the most important rate: short-term interest rates. This is essentially the price the Fed charges for money it lends banks. Like a boy throwing a stone into the middle of a still pond, when Alan Greenspan (with the consent of the Fed's other seven board members) sets short-term rates, the rate ripples through the economy. Banks, in turn, charge us and businesses enough interest to make a profit over what it has to pay the Fed. When Alan raises his rates, long-term mortgages for homes become more expensive; businesses have to pay more to borrow money to finance equipment or other business plans so they may cut back or produce less—that means fewer jobs.

If the Fed wants the economy to grow faster (in other words, for more jobs to be created and for people to have more money to spend), it forces rates down (or, in economic lingo, it "loosens" monetary policy). When the Fed wants the economy to slow down, it raises short-term rates (or, "tightens" monetary policy).

Of course, this raises a logical question: why would the Fed want to slow the economy down, making it harder for people to find jobs and have money to spend? The answer tells us a lot about how our economy works.

It starts from looking at who actually runs the Fed. Not average people from the community but people who represent the top officials from the largest banks in the country—the very people who make money by charging people interest for the use of their money. And even though the law that created the Fed says this little elite group is supposed to make sure there are enough jobs in the economy, it doesn't work that way in reality. As these unelected, decision-makers meet in secret, they have one main concern: inflation.

The rate of inflation rises when the economy is growing fast enough that it creates shortages; companies, then, compete with each other for a smaller pool of raw materials and workers. As a result, prices can go up for goods and workers and, in turn, companies often charge higher prices for their goods and services.

Most workers are pretty happy when employment is up and their wages are rising. And, if that comes with a small amount of inflation, it's a small price to pay. In fact, since the 1980s, for most of us, inflation has been no big deal. As long as inflation doesn't roar out of control (as it did in the 1970s because of skyrocketing oil prices, not high employment), we're not hurt. It's high interest rates that make our lives more difficult.

But, there are a group of people who wake up in cold sweats at night thinking about inflation: the rich. When inflation is higher than the market interest rates, the people giving out money—rich people and banks—in the form of loans are getting paid back in dollars that are worth less. They don't like that. So, the Fed, playing the guardian of the rich, keeps those interest rates high enough to make sure the banks make big profits.

One of the Fed's most important audiences is the bond market. Inflation of a point or two does not make much of a difference to the average person. It is earthshaking to a bondholder who, with every fraction of an increase in inflation, will see the value of his bonds decline, potentially losing, on paper, millions of dollars. So, to keep both the banks and bondholders happy, the Fed pushes rates up when unemployment drops—in other words, when more average people are working and therefore better off—to choke off any “threat” of inflation. Conversely, the Fed reduces rates when unemployment goes up because bond holders are feeling pretty good about inflation—when millions of people aren't working. In other words, bondholders like high unemployment and low wages—the very things most of us fear.

The Fed's influence creeps into other policy areas. Take for example, the question of the debate over government deficits. Remember, when there are large deficits, the government has to borrow money to pay its bills. That means the government competes for a pool of money with everyone else trying to borrow—so money gets more “expensive” because it's in demand. When powerful financial players say that deficits will hurt the economy because they can't get cheaper money, the (unelected) Fed pushes rates up to pressure the elected legislators to do the Fed's bidding. But this is a highly political decision: there is no direct connection between government deficits and the need to increase interest rates. In 1994, for example, the deficit was falling yet the Fed raised interest rates.

Remember this fact: whether interest rates go up or down, the way the rules are set up the rich always benefit, either today or in the future, and the middle-class is hurt. Think about it. When interest rates go up—on your credit cards, for example—more of your income goes to paying higher interest costs. That's true of the rich too—but they have so much more they barely feel it and they will eventually recover any loss down the road.

More important, over the long term, the rich get richer because they own more assets that make money off of interest—bonds and real estate, for example. And changes in interest rates makes the gap between the rich and the rest of us even bigger, a factor the media rarely talks about. How? The wealthiest seven percent of households own 60 percent of the country’s bonds and 31 percent of all other assets that generate income from interest. Those taxpayers collect almost 40 percent of all interest income. So, higher rates puts more money in the hands of the richest people in the country.

Most of us are in a very different situation. Let’s say interest rates go up and you have a certain amount of credit card debt but you also own a house. Sure, your house may be worth more (if you’re lucky enough to own one) but you can’t sell it (and profit from a higher interest rate) and move somewhere else; it would be too expensive when interest rates are higher to buy a new home of equal size. That credit card debt, though, is something you have to pay off—or face falling even further into debt.

So, it’s clear that without major changes in the Fed’s policies, and in the way those policies are made, real economic progress for working people will be nearly impossible to achieve.

**MYTH:** Interest rates rise and fall in response to natural conditions in the economy. The level of interest rates is set so that everyone in society benefits.

**REALITY:** The Federal Reserve Board sets interest rate levels so that the economy will move in a certain direction. That policy always benefits the rich and is often hurtful to the average worker.

## THE MARKETS RULE

For most people, it’s hard to understand why the stock of a company rises right after it announces a large layoff of workers. Logically, we want to believe that our individual welfare—having a job—is tied to the overall health of the company. After all, don’t workers make the company thrive? So, why do financial markets often drop when employment goes up?

Perhaps more than ever before, the interests of people who buy, sell and trade stocks and bonds is counter to the interests of the vast majority of people in the country. The key fact to remember is that a relatively small number of people around the world truly control the markets. The market works on one principle only: get the highest return on your investment. So, what benefits the owners of stocks and bonds may often mean bad things for workers.

First, a couple of definitions. When you purchase a share of stock, it means you “own” a piece of the company (though ownership does not usually equal influence or control); you might make money on this stock either by selling it at a later date at a higher price. Or you might hold on to it and get payouts (called dividends) from the company.

A bond is a piece of paper (or, in today's world, a record of a deal that is listed in a computer) that represents a deal where someone says, "I will loan you money and you will repay it back to me, with interest, on a certain date." If you hold the bond, you're the one who loaned the money out.

Stocks and bonds are always changing hands and their prices rise and fall—sometimes because of specific economic changes, sometimes due to expectations of economic changes. If that sounds like part guess, part gamble, well, it is. And thinking of the markets as a large, worldwide casino is not a bad picture.

With that background, let's look inside the corporate psychology. Company executives spend many days trying to figure out ways to convince major stock holders and traders on Wall Street that a stock should be traded at a higher price. Why? When the stock goes up, the company is worth more, stockholders are happy—and top company executives get much richer because, increasingly, they are paid in the form of stock whose worth can climb by millions of dollars overnight with a modest increase in a company's stock price.

Obviously, one way to send your stock up is by actually doing well—selling lots of your products or services and showing a profit at the same time. But, even if a corporate executive shows results, if the market expected the company to do well, the stock might not budge much—and your stock options won't increase in value and make you richer.

So, how does a company exceed expectations? Here's where the Las Vegas casino mentality kicks in: often by taking chances or making choices that don't appear exactly smart but match the wisdom floating around Wall Street. If a company is widely considered by traders to be trailing behind its competitors, it might make a bold (stupid, to most of us) move by launching a takeover of another rival—even if it means borrowing a lot of money it can't hope to pay back fast enough (think of agreeing to buy a Rolls Royce on credit when you're working at a minimum wage job).

Here's where layoffs enter the picture. Labor costs (that's your paycheck) effect the bottom line (profits) of a company. Stock gurus might start circulating a common message that a particular company's stock is low, in part, because it is not "efficient"—usually a code word for having too many workers. And, surprise, within a short time after the conventional wisdom circulates, a company will cut its workforce and, then, presto, the stock market will signal its happiness, sending the company's stock up as a sign the company is now positioned for greater profits.

Bonds work on psychology and perceptions but sometimes not in the same way as stocks. People who own bonds have one main concern: interest rates. When interest rates go up, bonds decrease in value. For that reason, the bond market likes job cuts.

Here's why. The Federal Reserve Board pushes interest rates up when there is a perception that inflation is rising. Inflation, so says the common wisdom, is likely to go higher when the economy is active, usually when people have money to buy goods (because consumer spending is the biggest part of the economy). When do people spend

money? When they have jobs. So, to put it simply, the bond market likes higher unemployment because people don't spend money when they aren't working and, therefore, interest rates are lower—and bonds worth more.

But, don't worry, we are often told, most workers are part of this action because pension funds—a big pot of money built up from wage earners that we hope will get us through our retirement years—own 25 percent of stocks and 40 percent of bonds traded. It is true that the paychecks of the majority of people working for a living are the source of pension fund money. But, actually, the people who own stocks and bonds are the select few: the top ten percent of the wealthiest families own 90 percent of the stocks so “middle-class households benefit little, if at all, from a rise in the Dow Jones average.”

But the real issue is: does the rise and fall of the markets benefit the very people (working Americans) who supply the money for pension funds? Not overall. Of the five trillion dollars held in pension funds, eighty percent sits in “defined contribution” plans. That means, no matter how much the stock or bond increase in value, you still get the same amount paid out. And that happens only when you're retired. Problem is, the pension funds are run by managers whose ears are more attuned and accessible to the whispers of a handful of powers on Wall Street than the unorganized voice of millions on Main Street.

So, for the average wage earner, the choice can often boil down to having a decent-paying job for thirty years versus an increase in stock value that maintains a benefit for retirement but comes at a cost of losing a job that was supposed to carry someone until retirement. Not much of a choice at all.

**MYTH:** Since a large percentage of bonds and stocks are owned by pension funds, the markets encourage actions that benefit a broad section of society.

**REALITY:** The markets are controlled and influenced by a small group of people (financiers, corporate executives) who advocate policies that will increase the value of their stocks and bonds—even if those policies (layoffs, higher interest rates) mean millions of other people are left without a job or are pushed further into economic distress.

## Chapter Seven

# DAN RATHER FEELS GREAT, SO WHY DON'T WE?

It's a common picture we see on television just about every month. There's good 'ole Dan Rather reporting on the CBS Evening News (as do his counterparts on other networks), the unemployment numbers, the new figures on the Gross Domestic Product (GDP) or the "index of leading economic indicators." And, often, Dan has got a big smile on his face, especially when the GDP and Index go up. The message he is giving to his audience is: the economic outlook is bright, recovery is on its way so you should feel good.

So, why, too often in recent years, do most people not rejoice? Because the economic news, as reported to us in the press, often doesn't coincide with what we experience in our daily lives. The press reports statistics tossed out about work by government agencies, politicians and pundits but numbers don't translate into a complete picture for workers who are reading the want-ads in the newspapers or are out pounding the streets looking for decent jobs that do not exist.

**THE INVISIBLE UNEMPLOYED:** If you belong to the "uncounted" invisible army of the unemployed, you have good reasons to be perplexed, confused and suspicious.

Every month, the Department of Labor's Bureau of Labor Statistics (BLS) releases all sorts of data about our working lives. But usually the only thing we ever hear about is the "official" unemployment figure. This number is used widely as the stated basis for major policy decisions including whether the Federal Reserve Board raises or lowers interest rates (see Chapter 6 for the role the Fed plays in our daily lives). During the past several years, the "official" unemployment rate has hovered around 5-6 percent. Every time the rate drops slightly, say two-tenths of a percent, the White House crows and everyone in the political world rushes to claim credit for brilliant economic policies that ushered in such good news.

Unfortunately, there is a stunning flaw in the unemployment figures—it masks the real economic hardships faced by millions of people. Check this out: anyone working just one hour a week is considered employed in America and, therefore, not counted in the official unemployment rate.

So, you know who that number forgets to count? Workers who quit looking for a new job because they became discouraged pounding the pavement for employment that did not pan out. People who have part-time work but who are looking for full-time stable employment because they can't pay the bills on the scant paycheck generated by a less than 40-hour workweek. And, finally, people who cannot work because of illness,

disability, problems with transportation or lack of child care. After initially ending the publication of such figures in 1994, the BLS started issuing the numbers again in 1996, though they are not promoted by the government nor covered by the media.

If you added in all those people—hard-working individuals who are one step from bankruptcy—you would come up with a number ranging between 10-18 percent of the workforce, depending on the economic conditions; in other words, a number as much as triple the official unemployment rate and a far more accurate index of the misery faced by people seeking to make a living. In fact, let's call it the "misery index." In April 1996, for example, that number was about 10.3 percent, almost double the rate being reported and debated at the time.

Take that rough calculation one step further. Let's say you threw in all the people working today but whose take-home pay still puts them below the poverty level—about 23 million people. The "misery index" would almost double, covering almost one-third of the working people in America.

The official unemployment rate also buries another story about our economy: things are even worse for some people more than others. The official unemployment rate of 5.6 percent in March 1996, for example, does not tell us that more than 11 percent of blacks, 10 percent of Hispanics and 17.5 percent of teen-agers can't find a job. And, of course, we know now that those official rates understate the real picture.

So, why don't we use a figure that give us all a better picture of the daily conditions endured by so many people? Doing so would spark a huge uproar in America because we would have to confront fundamental questions about economic policy, income distribution and race.

For example, talking about a "misery index" of 18 percent would: call into question policies of the Federal Reserve Board which slow the economy down so the "unemployment rate" doesn't fall so low that it ignites that awful inflation (see Chapter 6); strengthen the argument for significant raises in the minimum wage (see Chapter 4); and sharpen our attention to who is truly paying taxes in the U.S. (see Chapter 3).

What's the solution? Whenever you hear about a government report, ask yourself the following questions:

What factors go into putting together the report?

Who supplies the information and who is the audience? Does most of the information come from independent sources or from business?

How does the information fit with your personal experience? If the official unemployment rate falls but you and dozens of other people are out of work or struggling to make ends meet on a minimum-wage job, the statistics are meaningless to your daily life.

**MYTH:** Government statistics about work are neutral and accurately give us a picture of how most people live. When we hear news that says positive things about the economy based on upbeat statistics, we should act happy.

**REALITY:** Government statistics about work only tell a very narrow part of the story and downplay, with the assistance of most media outlets, the depth of economic despair in the country. The true measure of economic well-being should include an analysis of whether people have decent jobs, income is fairly distributed and society's overall resources are being used for the benefit of all its members.

## Chapter Eight

# THE CIVIL WAR IN OUR BACKYARDS

Everyone of us is a victim of an ugly war underway every day. It's not the "war on drugs" or the "war on crime" or the "war on teenage pregnancy"—all topics our media love to devote endless time to. It's the new economic civil war, a battle pitting one community against another—with corporations pulling the strings of desperation and coming out the only clear victors.

In the 1970s and 1980s, corporations gave mayors and governors a choice: if you want to see new jobs come to your communities or keep the old ones you have now, give us tax breaks and subsidies to make it more profitable. It wasn't uncommon for such deals to give corporations deals that totaled \$50,000 for each job executives said they would keep or create in our communities. Eleven states gave away \$6.3 billion in corporate income tax breaks in 1992, with no evidence that the give-aways promoted economic activity or created new jobs. There's only one term to describe this pressure: economic blackmail.

Here's what happened when a community like yours bent over backwards to please a company:

To keep 6,000 jobs in Chicago from leaving the state, Illinois gave Sears a \$240 million subsidy deal in 1989, that included free land and tax breaks. Soon after the company got the deal and announced it would move the jobs to the Illinois suburbs (by the way, hurting the city of Chicago where the jobs would come from), Sears reversed course, saying it would restructure—and layoff Illinois workers.

In 1992, General Motors pitted two communities against each other—Ypsilanti, Michigan, home of the Willow Run assembly plant, and Arlington, Texas, where GM threatened to move jobs from the Willow Run plant. Ypsilanti had already given GM 11 property tax abatements since 1975, worth \$1.6 billion. Nonetheless, offered a better deal in Arlington, GM abandoned Ypsilanti.

In 1992, tax benefits packages to corporations cost Nebraska tens of millions of dollars. It all started when ConAgra said it would move its corporate headquarters out of Omaha, sparking a panic. The state immediately changed the tax codes to lower corporate property and other taxes. The cost: \$66 million in 1992, rising every year as other companies rushed to the feeding trough. Oh, yeah, it didn't help Nebraska much: ConAgra announced in May 1996 that it would lay off 6,500 workers and close 29 production plants in order to become "more profitable."

In return for a promise to keep existing jobs and create new ones, Duluth helped put together a \$10 million low-interest bond deal for a company acquiring a local business. Six years later, the company had cut back employment and was ready to close down the plant.

Rio Rancho, a suburb of Albuquerque, New Mexico can't afford to maintain its elementary schools because it gave tax breaks to Intel Corp.

Expecting 2,000 new jobs, Minnesota rolled out the red carpet for Northwest Airlines in 1992, giving it \$400 million in state and local funds as well as a \$270 million low-interest loan. Since then the company has changed its mind—less than 1,000 people will get much less desirable jobs.

Get the picture? So, when we blame everyone in sight for deficits and higher taxes, we have to understand that a piece of our problem is that large corporations are forcing us to mortgage part of our economic future by making them more profitable today. We pay higher local and state taxes to cover the costs of giving tax breaks to corporations, many of which are multi-national operations with no ties to our local communities. The economic civil war angers many small businesses, the creators of many new jobs in our communities, because they are often left out of these deals.

Does it have to be that way? No. This is not the way the economy has to work. There are alternatives:

A cease-fire. People in communities can demand that their politicians not pit one community against another one in a race to the bottom to give away the store to corporations on the hunt for deals to fatten their profits. Already, 29 states have new laws to protect taxpayers if deals fall through or don't live up to promises.

Working people, through their unions and other organizations, can demand that any subsidy be given with strings attached. If a company makes a promise it doesn't keep, boom, we get our money back—with interest.

Change the language of the debate. Creating a good “business climate” should not be the basis of economic policy. Creating a “healthy and sustainable community” should be the goal which would help us look at the pros and cons of how and whether it makes sense to offer incentives for investment.

**MYTH:** To make businesses competitive, workers and their communities have to give corporations whatever they want even if that means one town has to beat out another town.

**REALITY:** If all communities stop giving away the store to corporations and see that corporations use our fear to fatten their pockets, we will all benefit because we can negotiate on fairer terms with companies wanting to use our communities as a place of business.

## Chapter Nine

# WHO REALLY TOOK OUR JOBS AWAY?

Here's the biggest hustle around: it's not the big corporations and their CEOs with multi-millions paychecks who are shutting down factories who are responsible for you not having a job. Nope, let's blame someone else— your neighbor, whether it be a woman, a black or Hispanic.

That's what the attack on affirmative action is all about. Some of the same people who say give more tax cuts to the rich and to corporations or who are telling us “hey, dumb worker without a job, get some more skills if you wanna work,” they are also the ones saying “look over there and get mad, some unqualified person is getting your job because of some quota.”

And, the facts say it's simply wrong. So, when you want to debate affirmative action, make sure you know how it works in the economy:

Affirmative action is not quotas. Brand this into your brain: quotas are illegal. One more time now: quotas are illegal. If you personally know someone using quotas, take a quarter and dial the feds because, Sherlock Holmes, you've uncovered someone breaking the law. Whew, okay, we got that straight.

Maybe it makes us feel better, when we're out of a job and hard up financially, to say that an unqualified person got a job because of affirmative action but it's not so. Affirmative action makes sure that race, gender and national origin are among the factors considered when hiring someone. It is illegal to ignore job or educational qualifications when hiring someone. So-called reverse discrimination—where someone was denied a job because another unqualified person received it instead—is only a factor in three percent of the 91,000 cases before the Equal Employment Opportunities Commission, the government agency that investigates employment discrimination cases.

· Any union member who says certain kinds of remedies shouldn't be used to correct discrimination better think again. Having a union at work is just one way we try to correct discrimination in our life. Moreover, the whole concept of seniority was fought for so that managers at work couldn't play favorites and promote one person over another for reasons having nothing to do with work performance—in other words, seniority prevents discrimination.

People get preferences in society all the time, without much comment. Military veterans get special access and treatment because of their service to the country. In selecting their student body, colleges and universities make choices that having nothing to do with race,

gender or national origin: they often, for example, open the door to athletes to build their sports teams or give special value to people living in different parts of the country so the campus has a varied group of students.

Actually, the people using our fear to turn us against our neighbors are the most extreme elements in society. Polls show that the public overall supports affirmative action; a July 1995 Gallup/CNN/USA Today poll found that 69 percent of the people surveyed supported or wanted to improve affirmative action programs while only 22 percent felt the programs should be eliminated.

Even many businesses are not opposed to affirmative action because they view it as good for the economy. Businesses even report better productivity from having a more diverse workforce because ideas bubble up from a broader range of people with different experiences, which helps with product development, marketing and customer relations. In 1993, the loss to the economy just from discrimination against blacks—who did not get into college, were turned away from jobs and, therefore, were earning less and spending less—was about \$240 billion.

Even our own experience shows the benefits of affirmative action. As real wages have declined, more families no longer can survive on one paycheck, forcing many more women to look for jobs; many women today are now the sole support for their families. Without affirmative action opening up jobs and educational opportunities for women and giving them the equal pay for a job, women would not be able to help their families make ends meet.

Here's how the economy of affirmative action works to our benefit in small ways that we don't see. Follow this chain:

1. More women get hired as police officers.
2. They are trained to handle domestic violence cases.
3. They are able to educate and help battered women seek help, preventing further repeat abuse which makes for a healthier family.
4. Costs associated with medical treatment of domestic violence are reduced.
5. Society is better off, socially and economically.

**MYTH:** Affirmative action is a central reason for job difficulties faced by many workers, particularly white men, who have been denied jobs because of "quotas" that give jobs to unqualified people.

**REALITY:** Many people feel angry and insecure about job prospects but affirmative action is not a reason for the decline in job opportunities. Affirmative action has made

our society less discriminatory by opening up opportunities to qualified people who have been shut out of jobs in the past. And, heck, it's even been a good thing for the economy.

## Chapter Ten

# TRADE: IT DOESN'T JUST HAPPEN

How do we view trade? A New Yorker magazine cartoon during the NAFTA debate showed a portly white man, wearing a hard-hat and holding a large wrench, speaking on a pay phone outside a watering hole labeled “Cantina.” The place is obviously supposed to be somewhere in Mexico. The caption reads: “I don’t know what the hell happened—one minute I’m at work in Flint, Michigan, then there’s a giant sucking sound and suddenly here I am in Mexico.”

The underlying message is that overnight natural forces that we have no control over reshaped the world; one day everything is just fine and, then, the very next day the world changed on its own. But trade doesn’t just happen. Specific rules are made dictating how trading takes place. When you hear that trade deals make for fairer “competition,” ask yourself who is benefiting: corporations that make more profits from seeking out the lowest-cost workers around the world or individual people and the communities they live in?

Let’s just look at two concepts: balance of trade and free trade.

Balance of trade. Every month, some smart person totals up all the products and services we send (or “export”) to other countries and all the products and services we receive (or “import”) into the U.S. The difference between imports and exports gives us the balance of trade. In 1995, the U.S. had a trade deficit of \$174 billion. That meant that we imported into the country far more goods and services than we sent to other countries.

Why does this matter? When we don’t produce the goods and services here, that means fewer jobs because companies don’t need to hire as many people in the U.S. If everyone was employed at decent paying jobs, we might not care about a minor trade deficit. But when so many people are barely surviving and have no work, a large trade deficit is something to worry about because it represents lost jobs.

Why would a company want to make a product in another country that it will eventually sell in the U.S.? Money. The way trade rules have been set up, there is no penalty to companies to run around the world, looking for the weakest people to exploit for the lowest wages in countries where companies can pollute the environment with no restrictions. That turns into larger profits for companies.

In fact, worries over the trade deficit often hides a key question: who is the “we”? Many multi-national corporations do not care, despite what corporate public relations departments say, about the nation’s trade deficit because global trading makes physical

borders less important. In fact, much of the trade in the world—fully 40 percent—occurs between companies, not nations; when a car company like Ford decides to invest its money in a brake factory in Mexico or its gets some of its engines made in Taiwan which are then shipped to Michigan, all that movement of parts and money across borders between Ford’s operations is counted as trade activity.

Or, remember all that hoopla over the opening up of the Japanese market to semi-conductors “made” by U.S. companies? Well, it turned out that a large percentage of those semiconductors were manufactured by U.S.-owned companies—but the products were made in factories outside the U.S., using cheaper labor. Some of these jobs were specifically moved away from facilities in the U.S. where wages were higher.

Free Trade. Free trade is quite seductive. When we were kids, some of us exchanged baseball cards in the simplest form of trade; you would give up one Mickey Mantle as the price for obtaining twenty other cards of lesser, individual value. Later in life, anybody who went to college and enrolled in an introductory economics class was taught that “protectionism” caused the Depression and that the magical benefits of free trade were the sought-after Holy Grail on the way to economic paradise.

How can one say it anymore directly: there is no such thing as free trade. It may have never existed in its pure theoretical form as envisioned by its main proponent, the 18th Century British economist David Ricardo. Certainly today Ricardo-like free trade—he said that you had to have a world where money cannot move across borders—is a mirage. More than an economic concept, free trade is a marketing phrase, implanted in the political discourse to give the impression that you can give or receive something for free and that free trade benefits everyone. Isn’t that nice? If you are in favor of “free trade,” you are forward-looking. If you oppose certain trade agreements you are branded a “protectionist,” the implication being that you are a backward thinker who is afraid of the future and wants to erect walls around the country.

The North American Free Trade Agreement (NAFTA) is a perfect example. If you wanted to write up the NAFTA as a so-called free trade agreement, you could do so in about twenty pages. Instead, only the truly strong can carry the 2,000 page detailed trading and investment agreement for more than a few minutes. If you carefully read the document, you find a whole set of exceptions and protections for certain industries. For example, intellectual property rights were carefully protected from “free trade” so drug companies, for example, could keep a tight hold on their patents (a legal monopoly to control their drugs so they can set the prices).

The way to think about any current trade deals is as a set of rules of engagement across borders, rules that do not benefit most people. NAFTA and GATT (the trade agreement that covers almost every country in the world) have the worst trait of unrestrained trade: the deals encourage companies to locate operations in countries where people earn the least money and work under the most hazardous working conditions.

**MYTH:** Trade benefits every country and free trade is the natural course of future economic activity for the benefit of all.

**REALITY:** Free trade does not exist and we must look at all trade arrangements and ask “what do these rules really mean, who wrote them and who do they benefit?”

## Chapter Eleven

# LAI D OFF OR POISONED? IT'S YOUR ONLY CHOICE?

Okay, here's a choice our corporate leaders have put before us. You can have a decent-paying job at the factory or office in your town or you can have clean air, clean water and a community relatively free of hazardous waste. But, we're told by many of our political leaders and the media, in order for companies to remain competitive and viable, we can't have both a job and a clean environment.

Indeed, a tough choice—but one that, economically speaking, we don't really have to make. How did we get shoved into that narrow corner of choices? Pretty simple. Corporations have successfully portrayed environmental protection as extreme, anti-business and bad for the economy. The spotted-owl-is-taking-Oregon-loggers-jobs story is one we constantly hear on the news. Since most of us have never seen a spotted owl and don't live in Oregon, we feel this little creature is far removed from our daily lives. So, with many of us living on the edge economically, it would be easy to think, "hey, I wouldn't want some bird to take my job."

What's the real story? According to Resources For the Future, a non-partisan research group, serious economic analysis shows that environmental protection has had no negative effect on jobs. So, whenever we hear the loud cries from business claiming jobs are lost because we clean up and protect our environment, remember it isn't so.

In fact, according to a study by the Economic Policy Institute, in the late 1980s, the shutdowns of plants because of environmental or safety regulation amounted to about one-tenth of one percent of all large-scale job losses. The truth is that most job losses from environmental regulation are "in contrast to the notoriety they have received, extraordinarily small," the EPI study notes.

Not that the spotted owl isn't important, but most environmental protection changes our world right outside our window. No one with any credibility can challenge the fact that the air we and our children breathe is cleaner than twenty years ago after the Clean Air Act was passed—even though at the time business executives like Lee Iaccoca said the law would badly damage the U.S. economy which it did not. Or that water—where we swim and fish— is much safer and cleaner.

But what we rarely think about is how important environmental protection is to our economic lives. Tens of billions of dollars are saved every year because we don't need to see a doctor or go to a hospital because we've been made sick by dirty air and water. That's money saved for other things. And, of course, when we're not sick, we don't miss work.

The story gets even better: environmental regulation is good for business. Huh? Sounds like extremist environmentalist rhetoric, right? Sorry, this comes straight from the Harvard Business Review. Michael Porter, a leading professor at the Harvard Business School, writes (along with co-author, Claas van der Linde of the International Management Research Institute in Switzerland) that environmental standards can lower the cost of a product and improve its value. Why? He argues all that polluting waste is a sign of bad management using resources in the wrong way.

It gets even wilder. These two guys think that we need tougher regulations, not more relaxed ones. Why? Weak regulations do not force companies to innovate and save money fast enough. In industries from electronics to paper to refrigerators, in the U.S. and abroad, billions of dollars are saved by companies that jump at the chance to clean-up their production processes.

There's even some evidence, though it's a hotly debated, that environmental protection creates jobs. In California, for example, a company called West Coast Samples, which makes swatch and sample books for home-decorating stores, used a new technology to reduce its emissions of certain chemicals. According to a state report, the company's profits grew 25 percent and its employment jumped from 90 to 220 workers because the new technology doubled production speeds.

Here's how the global economy hits really close to home and endangers our environment. As more large corporations, many of which are international conglomerates, dominate our towns and cities, we work for top executives who don't even live near us; many haven't even been to our neighborhoods. They don't have to breathe the same air or drink the same water. So, it's easy for them to say fatten up the profits at the expense of the environment. The only conclusion is that the real issue we face is how to get the greedy, dumb corporate executives, who want quick profits, from running their companies into the ground because they don't come up with a sound environmental program that is economically good for the company.

**MYTH:** We can have either a clean environment or a good job. We can't have both.

**REALITY:** We can have both. The political question is really shouldn't corporate profits be lower, in part, to finance environmental protection?

## Chapter Twelve

# THE EARTH: WILD WEST OR SPACESHIP?

Okay, so now we kind of have an idea of how certain parts of the economy work today. What about twenty or thirty years from now?

We could look at our economic future using two very different pictures. One picture paints a terrain of undiscovered territories and unspoiled lands that is part of the enduring American ethos of exploration and adventure. That picture tells us we have unlimited growth and expansion options. The second picture might view the earth more as a spaceship where resources are limited, space is at a premium and where what each person does dramatically alters the living conditions of all others.

Human desire and our own social experience makes us want to believe that the first picture is possible: we want to earn more so we can consume more and live a better life. But, increasingly, our gut tells us the second picture is the more likely scenario in the future. Our problem is that we are stuck in between the two, trying desperately and, increasingly unsuccessfully, to keep pace to live in the first picture but not changing our personal and political actions to accept the second.

In economic terms, here's how the issue comes up. Once a month, we hear whether the Gross Domestic Product (GDP) has gone up or down. When it goes up, we are told the economy is "growing" and, therefore, we are in good shape (see Chapter 8). The GDP measures the value of all the goods and services produced in our economy and sold on the market: all the retail sales generated in stores, construction, machinery, etc.

Believe it or not, GDP also registers—though it is rarely discussed—as positive to the economy events we all would consider bad. If someone you care about is in a horrible traffic accident and needs to go to a hospital, GDP counts that as increased economic activity: bills are incurred that have to be paid, a car needs to be repaired or towed; disability insurance might have to be paid—all of which involves money changing hands and people being employed. The same is true of generating toxic waste: carting, burning or burying the waste all counts as economic activity, whether or not land is being used up or the environment polluted.

The message we get then is that the way to improve our well-being is to grow, to keep pumping out as much stuff as possible no matter what the consequences are. That's certainly the way many of us were brought up and maybe that's still the way to go but...

Some people are beginning to look around the world and say, "hold on a second, where are we going to grow without messing things up?" When our grandparents were children

at the start of the 20th Century, there were fewer people and a lot of land. But we all know that, as the 21st Century comes closer, there are already five billion people in the world (and tens of millions more added every year), a couple of billion of them have either no work, too little food or both, and the earth is starting to groan over all the pollution we've caused. It's no surprise that all this is happening as the rich are getting even more wealthy.

What do we do?

We could start by looking at growth in a slightly different way. One alternative measure to the GDP has been developed called the Genuine Progress Indicator (GPI). It takes into account a list of social and environmental factors that give a more accurate picture of the costs and benefits of our economic activity. For example, when income distribution becomes more unfair (in other words, when the rich get richer, the poor get poorer and the middle disappears), the GPI declines. It also treats environmental damage like toxic waste as a cost, acting as a counter-weight to the idea that pollution is positive because it adds to economic activity and to the GDP.

Not surprisingly, the traditional measure of GDP (used by the government and corporations) will tell us that, with a few bumps in the road, since the 1970s our economic well-being has risen. The GPI, on the other hand, shows a slowly declining standard of living which matches the more gut feeling we have that something is not right in our communities and personal lives.

Part of the decline of our standard of living has come because we work more hours than ever before. We work harder to earn more so we can spend more on things we want. Maybe what we will need is a transformation in the economy so we work fewer hours (in other words, we are not spending as much time making sure the economy is "growing"), have more leisure time that is valued by society and consume products in a way that is not wasteful.

**MYTH:** We can grow forever, creating more and more jobs and expanding out of any economic problems. All it takes is the will and the right policy.

**REALITY:** Our own self-interest may mean we have to change our world view of economic comfort so we find ways to better use the world's resources in a fair and equitable fashion.

## Chapter Thirteen

# A CORPORATE DREAM: NO MORE GOVERNMENT

Why do our children not work in slave-like conditions that were common in the beginning of the century in the U.S.? Why are corporations required to pay at least a minimal wage for our work when some would like to pay less to fatten profits? Why are Chernobyl-like nuclear power plants not exploding and spewing radioactive waste next to our homes? The answer: government regulation.

Think of a football game: the game only works because a few referees oversee a set of rules preventing all the big guys from doing whatever they want. You can't have a rule for everything—that would make the game impossible to play. But pure anarchy wouldn't be fun, either.

In the same way, nobody wants to have a government that is too big, wastes money and makes dumb rules. But we also don't want to let corporations do whatever they choose, reaping millions of dollars in profit that go to pay for huge executive salaries and stock options—all funded by trampling on our personal lives. People who say we don't need any rules are already powerful. Government regulation is there for those of us—the majority—who don't own large corporations or television stations.

The cost sham. It's almost (but not quite) a sad scene, watching grown men just about cry about the huge costs their companies will suffer from terrible government regulation and be less competitive. When you see that, don't believe it because most cost estimates turn out to be exaggerated. Remember, their self-interest is to maintain the highest profits possible at our expense.

Once a regulation is proposed, many government agencies still depend on industry data to estimate the cost of compliance—and, this should not surprise us, companies usually exaggerate the problem. According to one analysis, the real cost of regulations is often lower than what companies claim. Take one example: when OSHA proposed a regulation on highly toxic polyvinyl chloride, the industry screamed that it would cost one million jobs. The truth? The actual cost "...was only seven percent of what industry sources had predicted and...the industry was competitively far stronger afterward than before." [emphasis added] According to Resources For the Future, a non-partisan research group, serious economic analysis shows that environmental regulations has not had a negative effect on employment.

The other way that government regulation works is by reducing costs through what one could call "preventive medicine." Example number one: we are all paying, through our taxes, for the cost of the savings and loan bailout begun in the 1980s. A few people were

able to make themselves rich by pirating and plundering the savings accounts of many hard-working people because the industry had been deregulated. That is, there were no rules to guard against the thieves. Government regulation of the industry would have saved us a lot of money.

Example number two: How many of us think airline travel in recent years has been pleasurable or affordable? Thank deregulation of the airline industry. Since the industry has gotten the government “off its back,” ticket costs have gone up for many of us, the crazy maze of travel restrictions have gotten worse, service has declined and we even have good evidence that the system is less safe.

The crazy government regulation sham. Over the past several years, we keep hearing examples of regulations that sound really dumb. And, they would be dumb—if the stories were true. Instead, corporate-sponsored think-tanks keep flooding Congress with half-truths and outright false stories that get repeated and enter into our daily consciousness almost overnight. You’ve probably heard some of the following :

**MYTH:** The U.S. Environmental Protection Agency required the owner of a toxic waste site to spend \$9 million cleaning up an area so that children could safely eat dirt 245 days a year.

**REALITY:** The EPA demanded that the owner clean up the site, located in a populated area, in such a way that children who accidentally ate dirt would not be harmed. Most parents would probably be grateful.

**MYTH:** The federal government wants to eliminate the tooth fairy. The story of a child whose dentist would not give her a pulled tooth because of a governmental regulation became the tale of the Occupational Safety and Health Administration gone mad.

**REALITY:** The OSHA regulation was established to protect health care workers from bloodborne diseases like AIDS and Hepatitis B. Under the rule, dentists are not prevented from giving anyone a tooth and can use their own discretion how to safely return a tooth to a child.

**MYTH:** A federal regulation to keep a dangerous chemical below a certain cancer-causing level is absurd because, according to one member of Congress, you would have to drink 38 bathtubs full of water every day to be at risk.

**REALITY:** Drinking just a bit over a gallon of water contaminated with the chemical, atrazine, would result in high cancer risk. Far from strict, the U.S. level of atrazine is much weaker than a standard used in Europe, where the chemical has been banned or limited in 12 countries.

The list goes on and on. So, why is this happening? In short, greed and lots of money. Lobbyists blanket Congress every day with demands—smoothed along by campaign contributions—to unleash companies to do whatever they please. Companies want to make

huge profits at the expense of average people. Most people who actually benefit from the good government regulation do not have their own personal lobbying army.

**MYTH:** Government regulation costs too much, is often too stupid and a big burden on business.

**REALITY:** Smart government regulation protects most people from the rich and powerful interest in the country who don't want to pay their fair share to protect the environment and provide for safe workplaces. There is no independent evidence to back up claims that effective government regulation hurts jobs.

## Chapter Fourteen

# KEEPING THE OLD AND POOR HEALTHY

So, let's see if we can get the Medicare-Medicaid story straight. We're supposed to support more tax cuts for the richest people in the country (meaning the government would get less money from them) while, at the same time, cut two programs serving fifty to sixty million people because there's not enough money—because we're going to give tax cuts to the corporations and the rich, who aren't paying their fair share anyway.

Everytime you react to stories about your taxes funding all those people “benefiting” from Medicare and Medicaid, remember that the two programs suffer from the same disease: skyrocketing health care costs. We wouldn't even be having a debate on the two programs if not for one fact—powerful companies in the health insurance industry have spent millions of dollars to prevent any serious healthcare reform because they make billions of dollars charging us for the basic human right to stay healthy.

How do you tell the difference between Medicare and Medicaid? Medicare is the health insurance part of Social Security; Medicaid funds health services for the poor.

Medicare: Who are the people who use Medicare? They are retired people over 65 years old and disabled workers. About 38 million people were eligible for Medicare in 1995, according to the AARP. Medicare is split into two parts: Part A covers part of inpatient hospital care, some care in nursing homes and home health care; Part B covers part of a person's doctors' costs, outpatient hospital care and lab services.

We hold on to the myth that Medicare is the Cadillac of all health plans. In fact, it only covers about half of the costs with elderly people picking up the rest when they pay premiums, deductibles and for prescription drugs. It does not cover long-term nursing care. Without Medicare, many elderly people would go bankrupt.

How is Medicare paid for? Part A is financed out of payroll taxes; Part B is paid for by premiums (by the people who use the program; they pay 25 percent of the total costs) and tax dollars (75 percent).

So, is Medicare in financial trouble? The official people who watch the program—they're known as the trustees of Medicare—say Medicare will be broke by the year 2001 or 2002—if nothing is done today or over the next few years. The question is: do you fix Medicare by drastically reducing benefits for people or do you try to take a more long-term, less drastic approach?

The answer depends on your world view. Some people—who opposed Medicare and Medicaid for years—say reduce peoples’ benefits with vicious changes and let the free market take care of the problem. Another approach is a two-step process advocated by the AARP: step one is making smaller changes to guarantee the plan stays in the black for the next ten years; step two calls for making more structural changes in Medicare during that ten-year time.

**Medicaid:** Who are the people who use Medicaid? Workers who have low-wage jobs that normally do not provide health insurance, people who are too poor to afford private health care including families who are receiving Aid to Families With Dependent Children (AFDC) and some of the poorest elderly people who are disabled but not yet eligible for Medicare.

Because Medicaid makes sure that the poorest people in society receive basic health care, it is often the easiest target for rhetorical attacks. Poorer people have less political influence; they can’t afford large campaign contributions to buy support.

Medicaid gets sucked into the general attack on “welfare,” and the stereotype many people believe is that tax dollars are going to help lazy, worthless people. It’s easy to talk in abstract, faceless terms but here are the majority of the real-live people who depend on Medicaid: 3.8 million elderly Americans over the age of 65, who worked all their lives but who are so poor Medicare doesn’t give them enough coverage; 5.4 million disabled or blind people; and 17 million children, half of whom, in 1992, lived in low and moderate-income households in which at least one parent worked, usually at a job without health coverage.

The big new invention is the block grant. That means the federal government will have one big chunk of money to give out to all the states; right now, each state gets reimbursed by the feds for whatever number of people its serves. Each state will then have a pool of money to spend on Medicaid. If that money runs out, everyone needing Medicaid is out of luck unless the state wants to spend its own money to make up the shortage.

Sure, there is fraud and waste in Medicaid but it’s not the big problem the media blows out of proportion. What’s dumb about cutting Medicaid is it comes back to hurt us just from a pure business standpoint. Medicaid encourages people to look for medical help early so they don’t get real sick. If more people are sicker, they miss more work, they have less money to spend—and the economy suffers.

**MYTH:** Medicare and Medicaid are wasteful programs, they help only wealthy retired people or poor, lazy people and they are the main cause of the federal deficit.

**REALITY:** Medicare and Medicaid costs are rising because of rising health care costs, not because of some misuse of the programs by its beneficiaries. The federal deficit comes to us thanks to a policy in the 1980s to cut taxes for the rich and dramatically increase defense spending—and the interest on the overall debt we now pay because of that policy.

## Chapter Fifteen

# CHICKEN LITTLE CRIES AGAIN!!!

If Chicken Little were recreated today, her (guys, remember the difference between the chickens and hens...) favorite cry would ignore the big blue sky for a more updated theme: “Social Security is broke! Social Security is broke!”

It just isn't so. Without any changes today, the Social Security system would still have enough money to pay full benefits until the year 2030 without increasing taxes at all; after that, projections today say that it will have less money as the so-called Baby Boomers (people born between 1946 and 1964) begin retiring. But tinkering with the system here and there for the next several decades can keep it in the black.

How does Social Security work? We sort of have a gut feeling how it operates because we see our regular paycheck stubs have a deduction for “FICA”—that’s the money going into the Social Security system. If you are an employee for a firm, the company matches what you pay into the system. If you’re an independent worker (like a lowly freelance writer), you pay both halves.

The money then goes towards paying for the benefits of people who are retired today and for administration (at a bargain-basement price of less than one percent of the entire system’s costs ). So, it’s kind of a giant transfer of money. Those of us working today pay for the benefits of those people who worked before us. In the future, people not even old enough to walk or who aren’t even born today will be paying for those people now in the prime of their working lives. It’s a way that we all share some responsibility for each other’s well-being.

The money leftover after all current costs are paid goes into a “trust fund.” That means that some person in the Social Security Administration calls up a person at the Treasury Department and says, “Okay, Mac, let’s put \$10 billion more in those government securities.” And so that money sits and waits—collecting interest—ready to be paid out down the road when new people enter the Social Security system.

So, then, what’s all the commotion about? It falls into the category we keep seeing of undermining, for the sake of extreme ideology, everything the government does, even when it’s done for almost no cost and for something millions of our parents and other family member get. [Social Security: Welfare for the Wealthy?](#)

Oh, please. Where did this crazy idea come from that all these people on Social Security are boating in yachts or drinking expensive champagne every night? Here are the facts:

Without Social Security, the poverty rate among the elderly would skyrocket from 12.2 percent (already an immoral level) to about 50 percent, according to the American Association for Retired Persons (AARP).

The AARP reports that more than 60 percent of older Americans have incomes under \$25,000.

In that group, more than 9 million live below a level of twice the poverty line, or \$17,500 for a couple. We're not talking the high-life here.

“Casino” Social Security: Now, here's a really nutty idea that's floating around. Let everyone keep the payroll taxes, roll the dice and invest on their own; in other words, privatize the system. Well, that might be fine for people who are very rich and any of the few people who have time to watch the stock market. But, imagine for a second that you had taken the only money you would have for your golden years and slapped it down for stock in PanAm Airlines or a savings and loan that went bust. Or, worse, you invested it in a number of stocks and the stock market crashed overall. You'd be out of luck.

In the current system, no matter what happens in the stock market, you get the same benefits. In fact, there's just no way you could buy the same benefits on your own. This idea also shows how dumb the knee-jerk worship of the free-market ideology can get: privatizing Social Security would raise everyone's taxes because we would still have to pay for the benefits—about \$350 billion per year—of the people now retired. Putting the system in private hands could cost society trillions of dollars, requiring a national sales tax to pay for it.

So, Social Security is a bargain: if not for the system, each younger person would pay much higher taxes and social costs to house and take care of a huge poverty-stricken elderly population. And, if you had to buy similar insurance elsewhere, you would be paying for administrative costs in the private sector that are, on average, 40 times higher than the government's costs.

What is there to be angry about? There is something to be angry about with Social Security—once again the rich are soaking us. Income is only taxed for the Social Security system up to about \$60,000. So, the business executive making millions of dollars a year pays only up to the top level of \$60,000, a tiny percentage of his income compared to most of us. Why should Donald Trump or other zillionaires get Social Security benefits equal to people who lived on a much smaller, fixed income all their lives, especially when Trump and his cronies pay relatively nothing in Social Security taxes? This is just another way the rich get off scott free in our society and put the burden on the backs of working people.

Sure, there are challenges to the Social Security system. But, as Bernard Wasow and David Smith say, Social Security was a true “Contract with America” long before the slogan became a public relations gimmick. “Under this contract's terms, working

Americans agree to do with less so that retired Americans can avoid indignity and poverty, knowing that they will get the same help when their working lives end.”

**MYTH:** Since Social Security is broke and is just welfare for the wealthy, we should just privatize it.

**REALITY:** Social Security is financially sound for the next 35 years, it can be there for all of us with some changes we make over time (mainly reducing the costs of health care with a sane national plan) and is a great buy for us as individuals and society as a whole..!

## Chapter Sixteen

# GREASING THE GLOBAL ECONOMY

The twin towers most important to you are not the World Trade buildings in New York City nor any famous combination of tall basketball players. Far from the public eye, often in secret, two global institutions—the World Bank and the International Monetary Fund—oil the machinery of the global economy, spreading around billions of dollars every year. Without public debate in the U.S. and using U.S. taxpayer money, unelected bureaucrats at the Bank and the Fund push policies in other countries that end up influencing jobs and the economy in the U.S.

The Bank and the Fund, as they are affectionately known, are located in Washington, D.C. Traditionally, the Bank is run by a U.S. representative; the Fund by a non-U.S. person. They were both started right after World War II as part of a post-war effort to rebuild the world economy by setting up a system of controls on national economies and their currencies. Although U.S. taxpayers bankroll the Bank and the Fund to the tune of many billions of dollars, much of what they do goes on without much attention; in fact, Fund board meetings are closed, annual reviews of countries are sealed and only an inner circle knows how much money is available for loans.

The world view of the Bank and the Fund is simple. The economies of the underdeveloped world (also known to us as the “Third World”) must be “modernized,” made more efficient, open, hospitable and inviting for global commerce. How is that accomplished? By pouring billions of dollars, for example, into building a dam in India (or financing many other construction projects in dozens of countries) or extending an \$18 billion loan to Mexico to stabilize its currency (or lending other countries large sums to spark changes in the overall economy). The two institutions say that these changes will benefit local residents as well as the international business community.

Of course, this money is not given freely. In fact, Bank and Fund money comes with many strings attached. In return for loans, countries must undergo “structural adjustment.” This means government spending must be severely cut (leading to cuts in jobs and higher prices on basic necessities like milk and corn as government price supports decline); imports must be replaced with an export-oriented economy; wages are frozen; and many public enterprises are privatized. Obviously, this hurts hundreds of millions of citizens around the world. These severe austerity measures have caused massive unrest such as the 1987 bread riots in Zambia.

Why Should We Care? What is far less known is the ripple effect these policies have inside the U.S. Indeed, the Bank and Fund indirectly encourage job-loss and wage cuts in the U.S. How? To meet the loan conditions imposed by the Bank and Fund, countries in

the underdeveloped world are forced to set-up export processing zones where factories employ people who labor for extremely low wages. They make stuff that is sent to the U.S. and bought by consumers. These very low labor costs are like a beacon to multi-national companies who pull up stakes in the U.S., shift production to offshore locations.

On top of that, the Bank and Fund—to reiterate, run partly with U.S. money—also cost jobs in the U.S. because the two organizations damage U.S. efforts to increase exports. Here's how that works. Take a less developed country that just received money from the Fund. The Fund demands that workers' wages in the country be frozen and that the government stop spending money on imports. Of course, this makes the country very unattractive market for U.S. products because nobody has any money to buy U.S. goods. As a result, one study found that after Bank/Fund loans to 54 countries, U.S. exports declined in 33 of those nations. The same study estimates that in the 1980s more than 20,000 U.S. jobs annually were lost because of the Bank and Fund policies that made corporations move jobs to other countries or forced other countries to stop buying products made in the U.S. A fine way to use your tax dollars, huh?

One of the best examples of the Fund's actions came during the collapse of the Mexican economy in 1994. All of us remember how Mexico was being promoted as an economic miracle about to happen if only Congress would be smart and pass the North American Free Trade Agreement, right? Oooppss. Bad bet. When the peso dropped like a rock, the U.S. and the Fund stepped in with a \$40 billion bailout, about \$20 billion coming from the U.S. treasury and the rest from the Fund—also coming from the pockets of U.S. taxpayers.

But it wasn't to help the tens of millions of Mexican workers whose earnings were slashed 40 percent overnight by the drop in the peso's worth. No, it was to pay back the big banks and bond holders on Wall Street, and wealthy Mexicans, all of whom were in danger of losing a lot of money because of the peso crisis.

**MYTH:** The World Bank and International Monetary Fund promote global prosperity and development in poorer countries.

**REALITY:** The Bank and Fund are unaccountable institutions who operate mainly in response and at the direction of the financial and business community, not the citizens of the countries who must shoulder the burden of the two institutions' policies.