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what's wrong with the economy

The Challenge

Our economy is in trouble. Most economists now believe we're headed into a recession, and most Americans think we've been in one for years. The reasons are simple: even when it was growing, this economy wasn't working for working families. Real wages are flat, benefits are shrinking and good jobs are scarce. Basic household costs – milk, gas, heat and health care – have continued to rise. The costs of both gas and home heating oil have more than doubled since Bush took office. It now costs the average family roughly \$4,000, more a year in fuel and heating costs than in 2000. Since that year, too, public college tuitions are up 39% in real dollars, and family health care premiums are up 57%.

The basics of the American Dream – a good job that can support a family, affordable health care, opportunity for one's children, a secure retirement – are harder to achieve. Americans are getting squeezed. They're working longer, harder and more productively than ever, but still struggling to make ends meet. Americans' savings rate is now lower than it's been since the Great Depression. They've run up record levels of debt and taken equity out of their homes. Eight out of ten say they are falling behind. Four out of ten say they expect their children to be worse off than they are.

The bursting of the housing bubble brings these pressures to a head. Over 2.2 million mortgages are in foreclosure. Those who dodge that bullet witness their homes losing value as prices plunge. Their key investment – and what they thought they could borrow from to help pay for college or retirement – is shrinking in value. At least \$2 trillion in home equity has disappeared, and it may reach \$4 trillion. An estimated 8 million homes are under water, and are worth less than their mortgages. State and local governments – and particularly school budgets – are already grappling with declining tax revenues.

We're in trouble; it will get worse before it gets better; and it is likely to take a long time to recover.

The trouble reaches beyond families to the nation as a whole. The recovery from the 2001 recession – in part triggered by the bursting of the dot.com bubble – was the slowest on

record, despite repeated tax cuts, large increases in spending, and interest rates at lowest levels in memory. Our manufacturing core has been hollowed out. More than one out of every five manufacturing jobs has been lost since Bush took office, a total of 3.7 million jobs – and that’s when the economy was *growing*.

Globally, America is digging itself deeper in a hole. We’re the world’s largest debtor, running up unsustainable deficits. We run a trade deficit with China – not just in cheap goods, but in advanced technology products. To cover our global deficits, we must borrow or sell off assets at the rate of \$2 billion a day. Half of our public debt – \$4.5 trillion – is owned by foreign governments, companies and individuals. We’re spending about \$10 billion a month on the war in Iraq, while starving vital investments here at home.

Under Bush, we’ve gone from budget surplus to record deficits. The national debt has increased by \$3.4 trillion under Bush, with the money squandered on war abroad and tax cuts largely for the wealthy at home. Vital investments in our future – in modern schools and training, in bridges, levees and trains, in everything from basic sewage systems to high speed broadband – have been starved.

Instead of balanced growth, we have built a casino economy, running on speculation and debt. Growth in the 1990s was fueled by the dot.com bubble; growth in the last decade by the housing bubble. The latter is much more destructive, as Americans took equity out of their homes, or assumed mortgages they couldn’t afford. Unregulated brokers and banks invented exotic securities that spread the risk across the financial sector. Now credit markets are frozen, homes are losing value, and the shocks convulse the student loan market, municipal finance, the credit card market, with more to come.

The winners in this economy are the people already on top. Corporate executives and their friends in Washington have rigged the game. Billionaire hedge fund managers pay taxes at lower rates than their receptionists. Under the Bush tax cuts, millionaires pocket an average annual break of \$118,000; middle income families about \$740.¹ In 1980, CEO salaries were 40 times that of the average worker; last year, they reached 364 times.² The richest 1% now take over 20% of the nation’s income, double their share in 1980. Income inequality has reached levels not seen since 1928 on the eve of the Great Depression.

This reality is not an act of nature. It is not due to technology or globalization. Technology increases productivity; it doesn’t determine who benefits from the increase. Globalization expands markets; it doesn’t determine our strategy in a global market. The European countries are part of the same global market we are, but they have chosen not to allow the rising inequality we have witnessed. This isn’t about fate. It is about public policies that have failed most Americans. It isn’t about markets. It is about power that is determining who benefits and who loses.

We've witnessed this before. When America industrialized at the turn of the last century, robber barons grew rich on the backs of factory workers paid starvation wages. But led by progressive movements and leaders, Americans came together and created new rules. New laws helped workers organize unions and win a fairer share of the profits they helped generate. We passed other laws – the minimum wage, the 40 hour week, the eight hour day, workplace health and safety – that made the economy work for working families. After World War II, unions helped win family wages, health and pension benefits that created the broad American middle class. Government helped with the GI Bill that educated a generation and housing assistance that created the suburbs. For three decades, we all grew together – with workers and the wealthy sharing in the prosperity.

Now that middle class is being squeezed. In the 1970s, with the economy staggered by the cost of the Vietnam War, OPEC and the oil shocks and stagflation, Reagan set the country on a different course. He slashed taxes on the wealthy, doubled the military budget in peacetime, cut housing and other safety net programs, opened up a corporate assault on unions, and championed a global strategy by, for, and of the multinational corporations.

Working families find themselves in a box. Global corporations define our global policies, giving companies a club to drive down wages, regulation and taxes at home. Global competition provides the excuse for breaking the promises made to workers – family wages, health care, pensions, paid vacations, paid sick leave – shredding the basic social contract we chose to provide through the corporations. Three in four employers hire consultants or union busters to help them avoid union organizing. Laws protecting bargaining rights have been gutted. Today union membership in the private sector is a quarter of its level after WWII, and living standards reflect the drop. A minimum wage job barely keeps a single person out of poverty, and won't support a family. Top-end tax cuts and neglect of domestic investments leave us with an infrastructure that is less competitive, a savagely unequal education system, college that is being priced out of reach of more and more families. Privatization and deregulation foster a crony capitalism of wasteful corruption, and a casino economy that has generated booms and busts of increasing frequency and ferocity.

The Bush administration and the Republican Congress took this to extremes. Bush slashed taxes on the wealthy, increased spending on war and the military, intensified the corporate war on workers, ignored basic domestic investments, exalted a corrupt corporate cronyism from Halliburton to Big Oil to big PhRMA. The result – even when the economy was growing – is to weaken the middle class, drive the country into ever greater foreign debt, and ship good jobs abroad while putting pressure on wages and benefits here.

We must come together again to create new rules that balance the scales and prolong the shared prosperity that makes America great.

Key Facts

America's working families are getting squeezed. The American Dream is increasingly hard to secure.³

- ◆ **Wages are stagnant or dropping; insecurity is high and rising. Americans earn less now than they did before the last recession, even adjusted for inflation.**
 - ◆ Real median household income dropped nearly \$1000 from 2000 to 2006.⁴
 - ◆ 47 million Americans lack health insurance, up from 38 million in 2000.⁵
 - ◆ The subprime fiasco is costing homeowners \$2 to \$4 trillion in home equity.⁶

- ◆ **Costs are soaring. Since 2000...**
 - ◆ The price of gas more than doubled. Families now spend an average of \$2,327 a year more just to keep driving.⁷ In Jan 2001 the average price of gas was \$1.78 per gallon; in May 2008 it hit a high of \$3.76 per gallon.⁸
 - ◆ The price of home heating oil has also more than doubled. A typical family is paying \$3,326 to stay warm this winter, an increase of \$1,702 since Bush took office.⁹
 - ◆ A 2000 gallon of milk cost \$3, now it costs \$4.¹⁰
 - ◆ Health insurance costs families an average of \$1,000 more each year, with fewer and fewer able to afford adequate insurance.¹¹
 - ◆ The cost of tuition at public college rose 39%.¹²

- ◆ **Americans are working harder and longer, and racking up more debt just to stay even.**
 - ◆ A middle class family today has to work three weeks longer to pay for basics (health care, housing, college and transportation) than their parents did.¹³
 - ◆ Since Bush took office, U.S. household debt has almost doubled to a total of \$14.4 trillion.¹⁴

Our national economy is in trouble.¹⁵

◆ **Our infrastructure is crumbling.**

- ◆ Levees failed in New Orleans.
- ◆ A major bridge collapsed in Minneapolis.
- ◆ A burst steam pipe shut down Manhattan.
- ◆ One out of every four bridges is “structurally deficient or functionally obsolete.”¹⁶
- ◆ \$1.6 trillion is needed over a five-year period simply to bring the nation’s infrastructure to decent condition.¹⁷

◆ **We’ve gone from surplus to deficit without making investments in the future.**

- ◆ Bush took the federal budget from \$256 billion surplus to a projected \$400 billion deficit for 2009, racking up \$3.4 trillion in debt in seven years.¹⁸

◆ **Our manufacturing core has been decimated.**

- ◆ Every day, we buy \$2 billion more than we sell.¹⁹
- ◆ Between 2000 and 2007, America lost more than one out of every five manufacturing jobs – a loss of 3.7 million jobs.²⁰
- ◆ We have lost our historical lead in advanced technology products. We now import more than we sell.²¹

◆ **Government has gone from watchdog to lapdog.**

- ◆ Deregulation of electricity led to Enron scandals.
- ◆ Cuts in consumer protection agencies put 20 million imported toys with excess levels of lead into our stores.
- ◆ Deregulation of banks contributed directly to the housing bubble and the subprime collapse.

We are dividing into two Americas, separate and unequal.

◆ **The rich get richer.**

- ◆ In 1980, a CEO made 40 times what the average worker made. Now a CEO makes on average 364 times as much as a worker.²²
- ◆ A CEO works 6½ hours to make as much as a typical household earns in a whole year.
- ◆ Wall Street's five biggest investment banks paid a record \$39 billion in bonuses alone for 2007, a year when three of the companies reported the worst quarterly losses in their history and shareholders lost more than \$80 billion.²³

◆ **But the prosperity is not shared.**

- ◆ Billionaire hedge fund managers pay taxes at lower rates than their receptionists.²⁴
- ◆ The top 1% takes in 22% of all income – more than double their share in 1980.²⁵
- ◆ During the Bush years, the economy grew by more than a third but real household incomes dropped 2%.²⁶

◆ **Workers can't bargain collectively for better wages and benefits anymore.**

- ◆ Unions work. Union members have higher wages and better benefits. They are more likely to have employer provided health coverage and some kind of pension plan at work.
- ◆ Union membership in the private sector is a quarter of its rate after World War II.
- ◆ Three out of four employers hire consultants or union busters to fight union organizing drives.²⁷
- ◆ A majority non-union, non-managerial workers would vote to join a union if they could (53% v. 42%)²⁸

The Solution

Americans are frustrated by what they see as distorted priorities and failed politics. They are looking for a new direction, even as they remain skeptical that our political leaders will provide it. A new direction must be founded on a clear set of values.

We should be measuring the economy by the basics – whether the American Dream is in reach of those who work hard and play by the rules. That would include a job that pays enough to support a family, affordable and secure health care, high quality education so children can do better, retirement with dignity and security.

How do we begin to get out of the hole we are in?

We need a dramatic change of course. We need a global strategy for the nation, not one for the multinationals. We need a full employment strategy built on real investment, not speculation and debt. We have to empower workers, give them a voice at work and make work pay. We need a public watchdog to protect consumers, small investors, small business, and the environment. And we must begin the transition to a sustainable economy in a world where catastrophic climate changes are a clear and present danger.

What are the elements of that new direction?

New Energy for America

We should launch a concerted drive for energy independence. Mobilize public and private investment in renewable energy and conservation, grow and build our own energy here to counter rising oil prices and the economic cost of climate change remedies. Excite the imaginations of the young, engage our science and technology to build new appliances and re-engineered energy sources, helping to lead in the growing green markets of the future. We can drive a new American economic strategy and generate good jobs here, while reducing our dependence on foreign oil, lowering our trade deficits, increasing our security, creating technology we can market to the world, and beginning to address global warming. This must be a top priority of the new administration and Congress.

Health care for All

We need to revive the American Dream, and help working families with the basics. Rising health care costs threaten to bankrupt businesses, governments and families, while undermining our global competitiveness. We should start with health care reform, providing a guaranteed choice of health care for all like members of Congress have. Provide every business and individual with the option to buy into a high quality public plan. If they like their current insurance, they can keep it. Then we can lower costs by moving rapidly to electronic records, by investing in preventive health, by eliminating costly and unnecessary emergency

room visits by the poor, and by empowering Medicare to negotiate lower prices for prescription drugs like every other industrial nation does.

Invest in people and basics that work

We need to ensure our children have access to the best education in the world: universal pre-K, smaller classes in earlier grades, challenging after-school programs, and affordable college or advanced training. Invest in repairing roads and bridges, sewage systems and school buildings – ensuring that the jobs created are good jobs. If we are to remain competitive in a global economy, these are investments we cannot scrimp on.

A National Strategy in the Global Economy

We need a clear strategy for our nation in the global economy. The first step out of the hole we are in is to stop digging. No more NAFTAs, no more trade accords written by and for multinational corporations and banks. Require that the new global trading rules include protections for core worker rights, and for consumer and environmental protection. Revoke the tax breaks that reward companies for taking jobs abroad, and reward those who create jobs and value here at home. Provide global corporations with incentives to manufacture in the U.S. Invest in research and development to ensure we remain at the cutting edge of invention.

Sharing Prosperity

We need to correct the imbalance between the top floor and the shop floor to ensure that profits and productivity are widely shared. Raise the floor – increase the minimum wage, guarantee workers paid sick days and family leave. Empower workers to organize, pass the Employee Free Choice Act, turn the NLRB back into a watchdog for workers. Pass comprehensive immigration reform, gain control of our borders and enforce fair labor standards so employers can't exploit undocumented workers.

Hold Corporations Accountable.

We have to rebuild the public cop on the corporate beat. Deregulation and privatization have become dangerously extreme, turning the public watchdog into a lapdog. The result has been a corporate wilding: Enron gaming energy prices, Halliburton and no-bid contracts, Countrywide and predatory lending, Mattel and toxic toys. Consumers, workers and small investors have paid the price.

Message Box

Us on Us	Them on Us
<p>We need an economy that works for working families. The American Dream should be in reach of those who work hard and play by the rules.</p> <p>That requires a fundamental change in strategy: fair trade, fair taxes, investment in people, empowering workers, holding corporations accountable. Only if we turn America around can we safeguard the future for our children.</p>	<p>They will destroy this economy with more taxes and more spending. They'll build walls in the global economy, burden entrepreneurs with red tape. This is a recipe for recession.</p>
Us on Them	Them on Them
<p>Their policies have driven us into a hole: wages down, costs up; good jobs shipped abroad, vital investments starved, cronyism and corruption rampant. Their policies serve only those at the top.</p>	<p>We know the way to make this economy work: lower taxes, less government, less regulation, free trade, privatization.</p>

Endnotes

¹ "Tax Cuts: Myths and Realities," Center on Budget and Policy Priorities, 16 November 2007, according to estimates by the Urban Institute-Brookings Institution Tax Policy Center. <http://www.cbpp.org/9-27-06tax.htm>.

² Sarah Anderson, John Cavanagh, Chuck Collins, et al, "Executive Excess 2007," The Institute for Policy Studies and United for a Fair Economy. 29 August 2007. <http://www.ips-dc.org/reports/070829-executiveexcess.pdf>

³ Facts at a glance:

	2000	Most Recent	Change \$	Change %
Median Household Income	\$49,163	\$48,201	-\$962	-2%
Gasoline (gal., Jan. 2001)	\$1.78	\$3.76	\$1.98	111%
Home-heating Oil (gal.)	\$1.88	\$3.85	\$1.97	105%
Public College Tuition	\$4,099	\$5,685	\$1,586	39%
Health Insurance, Full	\$7,435	\$12,106	\$4,671	63%
Health Insurance, Family Premium	\$1,896	\$2,876	\$1080	57%

(Sources in other sections).

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- ⁴ Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica Smith. "Income, Poverty, and Health Insurance Coverage in the United States: 2006," United States Census Bureau. August 2007. Available from: <http://www.census.gov/prod/2007pubs/p60-233.pdf>
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- ⁶ Vikas Bajaj and Edmund Andrews, "Reports Suggest Broader Losses From Mortgages," *New York Times*, 25 October 2007. <http://www.nytimes.com/2007/10/25/business/25mortgage.html?pagewanted=print>
- ⁷ Estimate based on current total cost of auto fuel, from the AAA report of the Oil Price Information Service, May 8, 2008, <http://www.fuelgaugereport.com/index.asp>. Average number of vehicles per household from Energy Information Administration Transportation Energy Consumption Surveys, <http://www.eia.doe.gov/emeu/rtecs/contents.html>. And gallons per vehicle from Federal Highway Administration, <http://www.fhwa.dot.gov/policy/ohpi/hss/hsspubs.htm>.
- ⁸ Data compiled by Oil Price Information Service in cooperation with Wright Express, "Daily Fuel Gauge Report," AAA <http://www.fuelgaugereport.com/sbsavg.asp>. Data from January 2001 through May 2008.
- ⁹ Rise in home heating oil costs derived from average home usage of home heating oil [864 gallons a year according to The Consumer Energy Council of America: See Save on Home Heating Oil, Smart Money, 2 November 2005. <http://www.smartmoney.com/dealoftheday/index.cfm?story=20051102>], and average price of home heating oil \$1.88/gallon in January 2001 (adjusted for inflation) and \$3.85/gallon March 2008. See: United States Energy Information Administration, "Weekly Heating Oil and Propane Prices." 17 March 2008. http://tonto.eia.doe.gov/dnav/pet/pet_pri_wfr_a_EPD2F_PRS_cpgal_w.htm
- ¹⁰ U.S. Department of Agriculture, Agricultural Marketing Service http://www.ams.usda.gov/dyfmos/mib/rtl_milk_prices.htm
- ¹¹ "Health Care Insurance Cost," National Coalition on Health Care. Available from: <http://www.nchc.org/facts/cost.shtml>
- ¹² United States Department of Education, National Center for Education Statistics. *Digest of Education Statistics, 2007*. http://nces.ed.gov/programs/digest/d06/tables/dt06_319.asp. (Adjusted for 2007 dollars)
- ¹³ Christian Weller and Eli Staub, "Middle-Class in Turmoil: Economic Risks Up Sharply for Most Families Since 2001," Center for American Progress, 28 September 2006. Available from: <http://www.americanprogress.org/issues/2006/09/MidClassReport.pdf>
- ¹⁴ Charles McMillion, "The Economic State of the Union- 2008," *Manufacturing and Technology News*, v. 15. no. 2, 24 January 2008. Available from: <http://www.manufacturingnews.com/news/08/0124/art1.html>
- ¹⁵ Facts at a glance:

	2000	Latest	Change \$	Change %
Federal Budget Balance	+\$236 billion	-\$354 billion ¹⁵	\$590 billion	250%
Annual Trade Balance	-\$380 billion	-\$759 billion ¹⁵	\$379 billion	99%
National Debt	\$5.8 trillion	\$9.2 trillion ¹⁵	\$3.4 trillion	57%
Price of 1 Euro, in dollars	\$0.97	\$1.48	\$0.51	53%

Sources in other sections.

- ¹⁶ "Report Card for America's Infrastructure: Bridges [C]," American Society of Civil Engineers. Available from: <http://www.asce.org/reportcard/2005/page.cfm?id=22>.

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- ¹⁷ "Report Card for America's Infrastructure: Bridges [C]," American Society of Civil Engineers. Available from: <http://www.asce.org/reportcard/2005/index.cfm>
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- ²¹ <http://www.manufacturingnews.com/news/08/0124/art1.html>
- ²² Sarah Anderson, John Cavanagh, Chuck Collins, et al, "Executive Excess 2007," The Institute for Policy Studies and United for a Fair Economy. 29 August 2007. <http://www.ipsdc.org/reports/070829-executiveexcess.pdf>
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- ²⁷ AFL-CIO. *Employer Interference by the Numbers*. 2006. <http://www.aflcio.org/joinaunion/how/upload/employerinterference.pdf>
- ²⁸ Peter Hart for AFL-CIO in the campaign for the Employee Free Choice Act. December 2006