

# ECONOMY

## 3

CHAPTER

IN THIS ERA OF GROWING INEQUALITY, THE DISCONNECT BETWEEN INDICATORS AND MANY PEOPLE'S REALITY IS STARK, AND HAS HELPED ROIL POLITICS IN THE UNITED STATES AND ABROAD. PEOPLE ON THE LEFT AND RIGHT, INCLUDING TRUMP SUPPORTERS, INCREASINGLY AGREE ON THIS DIAGNOSIS, ALTHOUGH THEY DISAGREE ON THE TREATMENT.

"[The] stock market goes up and down, up and down, up and down. Well, that's truly not an indicator of what's affecting you and me. Do I have a million dollars in stock? Gosh I wish I did," reflects Hank, of Huntsville, Alabama. While economists and government officials use GDP, stock market indices or even interest rates to measure the health of an economy, most Americans are like Hank, fretting over more immediate indicators such as their bank accounts, jobs and the cost of living.

### THE DIVIDE

Key macro indicators show the U.S. economy rebounding nicely from the 2008 recession, but not everyone has shared in the recovery, as the gap between rich and poor continues to widen. With income inequality at

perhaps its highest point in U.S. history,<sup>1</sup> approximately 41.8 percent of the country's wealth is owned by the wealthiest 1 percent of Americans.<sup>2</sup> The top 10 percent own 77.2 percent of the wealth. By comparison, Germany's wealthiest 1 percent hold 24.5 percent of that country's wealth, and the top 10 percent hold 59.2 percent. Belgium's wealthiest own 12.6 and 44.1 percent, respectively.<sup>3</sup>

Lindsay Reid, a retired educator from Bellingham, Washington, is one of many who are deeply concerned about the "big gap between the CEOs and the billionaires that can just invest their money and get bigger and bigger ... and the working class that gets nothing." Reid's criticism echoes a frequent liberal complaint that the rich's





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—— Mike

already huge earnings are supplemented by a tax code that levies lower rates on investment income than on earned income, privileging investment over work.

“This is the richest country in the world, and why people starve in this country is inexcusable,” says Mike, a retired physicist from Huntsville, Alabama. He says when he started his career at the McDonnell Aircraft Corporation – later to become aerospace giant McDonnell Douglas – company founder James McDonnell “bragged that his salary was no more than 10 times that of the guy that swept the floor. That’s all gone away. I mean people that make hundreds of millions of dollars a year, while other people are barely scraping by and don’t have enough to live on. I think [that] is inexcusable in this country.”

As the gulf between the rich and poor widens, the middle class in between is also shrinking. “From 2000 to 2014 the share of adults living in middle-income households fell in 203 of the 229 U.S. metropolitan areas,” according to a 2016 Pew Research Center study that defined middle income as two-thirds to double the national median, adjusted for household size.<sup>4</sup> For 2014, the study put the national middle-income range at roughly \$42,000 to \$125,000 annually for a household of three.<sup>5</sup>



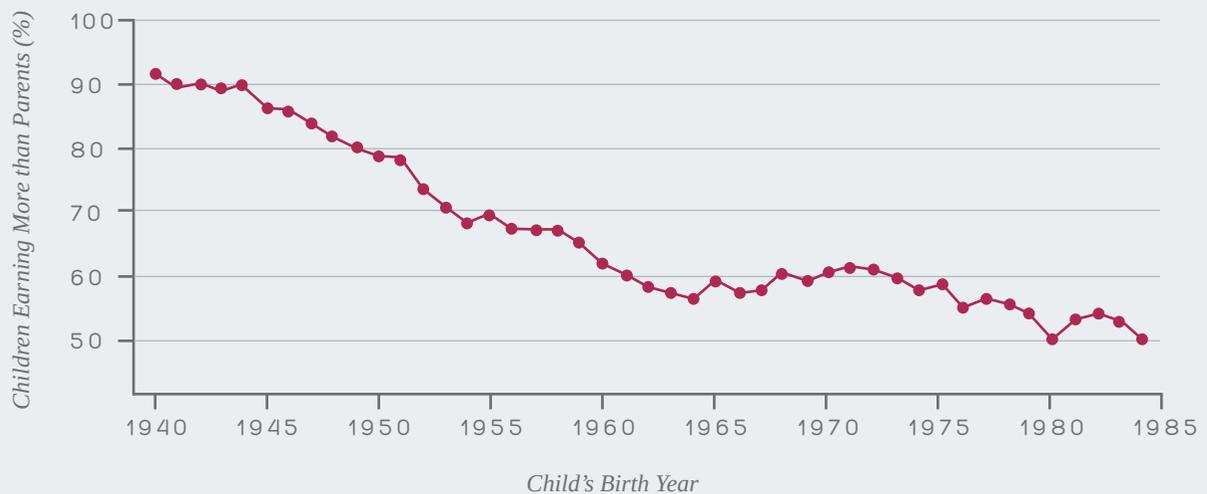
 Mike, Huntsville, Alabama

### FACTS AND FIGURES

- » The wealthiest 1 percent of Americans hold 41.8 percent of the country’s wealth
- » U.S. national debt is \$19 trillion and climbing
- » 50 percent of young adults earn more than their parents did at their age

“The middle class is disappearing. It’s going to the point where everybody is struggling, and yet there’s people that are making millions and millions and millions of dollars,” says Martha Thompson, a retiree from El Paso, Texas. “I don’t know if it’s legal ... or they play the system.”

## AMERICA'S FADING DREAM



Gallup

### GROWTH / COST OF LIVING

Adding to the squeeze on the working and middle classes is a spiraling cost of living, particularly in booming cities like Denver, Seattle and San Francisco. Between 2000 and 2015, the San Francisco area experienced a 78.4 percent Consumer Price Index increase, which measures the cost of living.<sup>6</sup> Education and health care expenses, too, can leave Americans in crippling debt, as discussed in chapters 6 and 7.

Housing is a major culprit. In Boulder, for instance, “Housing prices have been skyrocketing for the better part of a decade. And it’s become a very unaffordable place for many people,” says Greg Guibert, a top administrator in the city government. Guibert says many people have been forced out of the city, requiring them to make long commutes to work. “And then you have this unfortunate stratification around service provision from the outside and then people here [in Boulder] with a lot of money who are completely reliant on people who have to travel great distances to support their lifestyle.” City Hall has tried to address the issue by requiring developers to build affordable housing, he says.

In Seattle, Washington, it’s a similar story for the construction workers building the city’s glass high-rises. “You want to talk about the concern with our [union] members? It’s the commute,” says Dale Bright, an official with the Local 242 construction union. Bright him-

self spends an hour each way on the 30-mile drive to the city because he cannot afford to live in Seattle.

Julie Patiño, a program director at the Denver Foundation, says Denver’s economic boom has put housing out of reach not only for the city’s poorest but also for the middle class. “People who have your average medium-type jobs, there’s a paucity of housing there. Homeownership? Forget about it. ... So that issue is just endemic, even if you talk to someone who’s middle class here, all the way to someone [living] on the street,” Patiño says.

For many Americans, a central promise of the American Dream, that each generation can do better than the previous one, has become increasingly hollow. Over 90 percent of Americans born in 1940 earned more at age 30 than their parents did at the same age, compared with 50 percent of those born in 1980.<sup>7</sup> These direct contrasts can be particularly painful and disappointing as young people cannot give their children the same quality of life they enjoyed growing up.

### WHAT CAN THE GOVERNMENT DO FOR ME?

Amid this increasing stratification and backsliding, many Americans are asking what the government can do to help. Opinions vary wildly across the political spectrum, ranging from expanding welfare programs to cutting regulations.

## GOVERNMENT SPENDING

“The Republicans want to spend less money, the Democrats want to spend more money,” says Ken Isaksson, who works at a fish hatchery in Aberdeen, Washington. Isaksson says he sees this divide clearly in Olympia, Washington state’s capital, where he frequently talks with local lawmakers about fishing regulations.

Republicans often campaign on promises to curtail government waste, vowing to cut unnecessary programs and reduce the size of the bureaucracy. Although many economists question whether or not Republicans in Congress or the White House do actually reduce federal spending, even on the social programs they criticize,<sup>8</sup> most Americans believe the Republicans are the party of fiscal conservatism.

*“Our government is bigger than we can afford.”*

————— John

That is especially important to those who want to see the budget balanced. The United States has a national debt of over \$19 trillion,<sup>9</sup> which some argue is not sustainable. John, a physicist in Huntsville, Alabama, is a social liberal, but he says he worries about “the financial solvency of our government. ... Our government is bigger than we can afford.”

Kathy Dobash, a member of the Luzerne County Council in Pennsylvania, says, “I’m hoping that this new president [will] freeze hiring [and] track the waste. Citizens’ hard-working tax dollars should be ... scrutinized on how [they are] spent. .... We have an overspending problem in this country, and we need to get a handle on it.”

Other Americans, even conservatives, are more wary of the consequences of budget cuts. Sarah Emerson, an active Republican and law student in Birmingham, Alabama, voted for Donald Trump and is excited about his focus on employment, but she worries about his plans to reduce the size of the federal government. Emerson explains that in addition to her studies, she “works for a federal agency that has been hit. They can’t hire new people to come in for the people who’ve left.”

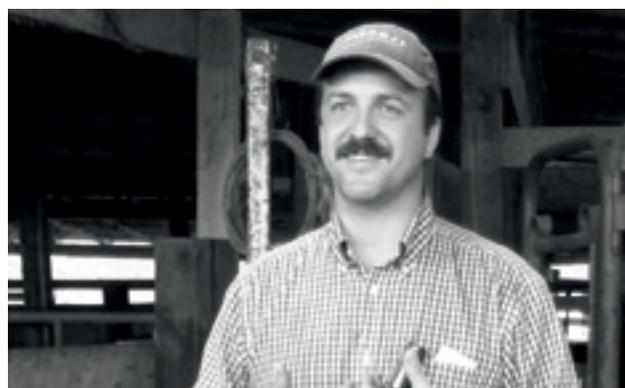
## REGULATION

Contemporary American capitalism has a strong libertarian streak, and basic arguments over regulations, such as protection and stability for the many versus freedom for entrepreneurs, rage fiercely in the United States.

Thompson of El Paso, Texas, says regulations helped rein in some of the excesses of the 2000s that led to the financial crash:

“When George [W.] Bush left the White House, eight years before Obama, the auto industry was fixing to go under. There were banks that were going under. Unemployment was out of this world. And slowly ... putting financial regulations in place, they were able to curb some of the abuses that were taking place in the financial [sector].”

After the collapse of major financial institutions such as Lehman Brothers and Bear Stearns, taxpayer-funded bailouts of failing banks and a reckoning with widespread subprime lending across the country, the government moved to regulate the industry. The Dodd-Frank landmark legislation stepped up oversight of financial institutions, cracked down on some practices by financial advisers and implemented new consumer protection measures. Although some on the left argue that the 2010 law did not go far enough, the Republican-controlled House and Senate are in the midst of rolling back its provisions.



 Ben Haynes, Cullman, Alabama

*“There’s just a lot of regulations that affect our ability to do business day-to-day that never seem to back up.”*

————— Ben Haynes

Regulation can prevent banking or even environmental catastrophes, but many Americans, particularly on the right, say much of it amounts to red tape tying up the economy. Ben Haynes, a cattle farmer in Cullman, Alabama, feels hamstrung:

“I think the ones that most often come to mind are maybe environmentally tied, but also economically and tax regulations and burdens. ... There’s just a lot of regulations that affect our ability to do business day-to-day that never seem to back up. They always just seem to accrue more and more and more. And those things add to the difficulty of doing business, add to the cost of doing business, and quite often those regulations are not shared by all of our competitors, globally.”

Regulations’ effects on small businesses are a particularly sore spot for many. Sandra, a conservative retiree from Huntsville, Alabama, says they are a drag on her son’s construction business. “The regulations that are increasing on him have been ridiculous. ... It takes him twice as long to get a job done,” she complains.



 Paul Beveridge, Seattle, Washington

And Paul Beveridge, owner of Wilridge Winery in Washington state, says they give an unfair advantage to his larger and more established competitors, who can better afford them. For example, he says, one rule that requires wineries to work with outside distributors – prohibiting them from selling directly to retailers – imposes a huge cost on small operators. The “folks that are happy with the system” are “making money,” he says, so why “would they lower down the drawbridge and let anyone else compete with them?”

## TRADE

Traditionally, Republicans have championed free trade, while Democrats worry over its effects on the environ-

ment, labor standards and employment. Trump’s populist, anti-globalist campaign, however, scrambled that equation, at least temporarily. He took particular aim at the Trans-Pacific Partnership, which Hillary Clinton also came to oppose, even though she had praised it as secretary of state.

In their first debate, Trump argued, “You go to New England, Ohio, Pennsylvania, you go anywhere you want ... and you will see devastation where manufacturing is down 30, 40, sometimes 50 percent. NAFTA is the worst trade deal maybe ever signed anywhere but certainly ever signed in this country.”<sup>10</sup> Actual losses in the manufacturing sector due to the North American Free Trade Agreement, signed by President Bill Clinton, are estimated to be closer to 1 to 2 percent,<sup>11</sup> but Trump’s criticism tapped into anxiety about losing jobs to overseas competitors, which will be explored in Chapter 5.

Trump is not against major trade deals because of some broader ideological belief. He is critical of these specific deals because he believes that he is a superior negotiator to his opponents, Hillary Clinton (and her husband President Bill Clinton) and President Barack Obama, who oversaw the TTIP and TPP negotiations. Trump’s business acumen, he argues, makes him a much better deal maker as president. Trump argues that past deals have lost Americans jobs, and promises to bring them back.

For most Americans, trade is an abstract concept. Certainly, they consume imports and are affected by the costs of those goods. Further, 41 million Americans have jobs that depend on trade.<sup>12</sup> But it’s difficult for most officials, let alone ordinary Americans, to assess the potential effects of trade deals on their lives. Trump’s focus on employment is powerful because it puts these agreements in terms that are personal and relevant to many Americans.

“I think that we had gotten a little too loose in our trade deals. I know that it’s kind of a world economy, you can’t necessarily change that, but I think we had [become] too loose with our policies and we just let too many jobs go,” says Woody Jacobs, mayor of Cullman, Alabama.

Others see Trump’s “America First” rhetoric as naive and counterproductive. “That’s one of the big problems ... that I have with this administration, is this talk about nationalism, and it’s all about us and to heck with the

rest of the world,” says Hank, a Huntsville, Alabama, resident. “It frustrates me to no end that any of us [thinks] that we can do this by ourselves and not accept the fact that we are very much a global economy, and this is happening fast for everyone.”



 Ruben Vogt, El Paso, Texas

*“What a lot of people might not think about, because they don’t live on the border, is how intertwined our two communities are.”*

————— *Ruben Vogt*

Living in El Paso, Texas, Ruben Vogt sees the daily back-and-forth of trade and traffic with the bustling Mexican city of Ciudad Juarez, just across the border:

“What a lot of people might not think about, because they don’t live on the border, is how intertwined our two communities are. Not only our families, but economically, how important it is that we have folks from Juarez

and all over Chihuahua come into El Paso and spend their money here. It really helps boost our economy, the state’s economy and the U.S. economy. ... What we have seen is that trade that comes in from Mexico helps provide jobs across the entire United States. So the relationship that we have with Mexico is critical to border communities, but I don’t know that people really understand how critical it is to the rest of the United States.”

In Alabama, Hilda Lockhart, director of the state Commerce Department’s international trade division, says trade with Mexico and Canada has been a huge boon to the local economy there as well. She would just like to “make it fair trade and make sure that everybody’s playing by the rules.”

## THE GROWING DIVIDE

To gauge Americans’ views on the economy takes a bit of amateur psychology and an ability to read past the latest financial bulletins. As politicians have long known, rising GDPs or stock markets do not necessarily ease people’s fears that they are losing ground, whether to imagined job losses overseas or to very real income stagnation.

In this era of growing inequality, that disconnect – between indicators and many people’s reality – is stark, and has helped roil politics in the United States and abroad. It seems as if left and right, including Trump supporters, increasingly agree on this diagnosis, although they disagree on the treatment. The economy is an arena in which national and local policymakers have a part to play, but if they cannot tackle immediate concerns, including the growing divide between rich and poor and the rising cost of living in many urban areas, it is difficult to imagine the waters being calmed anytime soon.

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