

THIRD WORLD AMERICA

How our Politicians are Abandoning the Middle
Class and Betraying the American Dream

Arianna Huffington

A stylized sun graphic in shades of orange and yellow, positioned in the bottom right corner of the cover. It features a semi-circular arc at the bottom and several pointed rays extending upwards and to the right.

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HOW OUR POLITICIANS ARE ABANDONING THE MIDDLE CLASS
AND BETRAYING THE AMERICAN DREAM



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HUFFINGTON



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**For the millions of middle-class Americans fighting
to keep the American Dream alive**

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PREFACE

Growing up, I remember walking to school in Athens past a statue of President Truman. The statue was a daily reminder of the magnificent nation responsible for, among other things, the Marshall Plan.

Everyone in Greece either had a family member, or, like my family, a friend, who left to find a better life in America. That was the phrase everyone associated with America: “a better life.” America was a place you could go to work really hard, make a good living, and even send money back home—a better life.

I was sixteen when I first came to America as part of a program called the Experiment in International Living. I spent the summer in York, Pennsylvania, staying with four different families. I went back to Athens, and then soon went on to Cambridge and London. But part of me remained in America.

When I came back in 1980, I knew that this time it would be for good. Thirty years later there’s still no other place I’d rather live. Over that time, one of the characteristics I’ve come to love the most about my adopted country is its optimism. In fact, it melded perfectly with my own Greek temperament: Zorba the Greek meets the American spirit. The Italian journalist Luigi Barzini wrote that America “is alarmingly optimistic, compassionate, and incredibly generous ... It was a spiritual wind that drove Americans irresistibly ahead from the beginning.” The only downside of the optimistic spirit is that it can sometimes prevent us from seeing what is unfolding until it’s too late.

In recent years, as the evidence mounted about the road we’re on as a country—one that was sure would prove disastrous if we failed to course-correct in time—I was conflicted. I wanted to believe everything would turn out okay, as it has so often in the past. But the stubborn facts kept nagging at me as the warning signs became more and more numerous. I had to choose whether to sound like Cassandra or fall back on a double dose of the congenital optimism of both my native and adopted countries and assume it was all just another speed bump on the road to a “more perfect union.” It’s never fun being Cassandra. But remember, Cassandra ended up being right. And the Trojans, who remained blissfully blind to her warnings, ended up being very wrong and very dead.

So, yes, as I look around at our great, sprawling country, we are obviously not yet a Third World nation. But we are well on our way. This is the unspoken fear of so many out-of-work Americans and those still at work but anxious about their futures and the futures of their children. My goal for this book is to sound the alarm so that we never do become “Third World America.”

“America,” Winston Churchill reportedly said, “can always be counted on to do the right thing, after it has exhausted all other possibilities.” Well, we have exhausted a lot of possibilities, and for millions of the unemployed, the underemployed, the ones whose homes have been foreclosed, and the ones who’ve declared bankruptcy or can’t pay their credit card bills, the process has already been very painful. It’s time now to do the right things.

The book closes on an optimistic note. Part 5 is about many of those *right things* being done around the country. Because in the end, despite the acts of greed, cronyism, and disregard for

the public interest committed by both business and political leaders, I am ultimately heartened by the resilience, creativity, and largely unheralded acts of compassion and empathy that I see among Americans everywhere. Turning our country around will take the concerted effort of citizens all across America, standing up for themselves, their families, and their communities—both demanding change and embodying it—and keeping the promise of the American Dream alive for future generations.

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THIRD WORLD AMERICA

Third World America.”

“T It’s a jarring phrase, one that is deeply contrary to our national conviction that America is the greatest nation on Earth—as well as the richest, the most powerful, the most generous, and the most noble. It also doesn’t match our day-to-day experience of the country we live in—where it seems there is, if not a chicken in every pot, then a flat-screen TV on every wall. And we’re still the world’s only military superpower, right?

So what, exactly, does it mean—“Third World America”?

For me, it’s a warning: a shimmering foreshadowing of a possible future. It is the flip side of the American Dream—an American nightmare of our own making.

I use it to sum up the ugly facts we’d rather not know, to connect the uncomfortable dots we’d rather not connect, and to articulate one of our deepest fears as a people—that we are slipping as a nation. It’s a harbinger, a clanging alarm telling us that if we don’t correct our course, contrary to our history and to what has always seemed to be our destiny, we could indeed become a Third World nation—a place where there are only two classes: the rich ... and everyone else. Think Mexico or Brazil, where the wealthy live behind fortified gates, with machine-gun-toting guards protecting their children from kidnapping.

A place that failed to keep up with history. A place not taken down by a foreign enemy, but by the avarice of our corporate elite and the neglect of our elected leaders.

The warning lights on our national dashboard are flashing red: Our industrial base is vanishing, taking with it the kind of jobs that have formed the backbone of our economy for more than a century; our education system is in shambles, making it harder for tomorrow’s workforce to acquire the information and training it needs to land good twenty-first-century jobs; our infrastructure—our roads, our bridges, our sewage and water and transportation and electrical systems—is crumbling.

And America’s middle class, the driver of so much of our creative and economic success—the foundation of our democracy—is rapidly disappearing, taking with it a key component of the American Dream: the promise that, with hard work and discipline, our children will have the chance to do better than we did, just as we had the chance to do better than the generation before us.

Nothing better illustrates the ways in which we have begun to travel down this perilous road than the sorry state of America’s middle class. So long as our middle class is thriving, it would be impossible for America to become a Third World nation. But the facts show a different trajectory. It’s no longer an exaggeration to say that middle-class Americans are an endangered species.

“The middle class has been under assault for a long time,” President Obama said early in 2010 while announcing a series of modest proposals to bolster what he called “the class that made the twentieth century the American century.”

During the 2008 campaign, Barack Obama’s guiding principle was that he “would not forget the middle class.” Indeed, David Plouffe, Obama’s campaign manager, told me after the election, “We held that North Star in our sights at all times. We made many mistakes along the way, but we always remembered that we were running because, as Barack put it, the

dreams so many generations had fought for were slipping away.” Well, you’d need a pretty powerful telescope to see that North Star these days.

According to Plouffe, Obama and his team decided that he should make a run for the White House because “the core leadership had turned rotten” and “the people were getting hosed.” But the extent to which the people have continued to be hosed and the middle class assaulted becomes shockingly clear when the baby steps taken to bail out Main Street are compared to the all-hands-on-deck, no-expenses-spared bailout of Wall Street. In fact, the economic devastation of the middle class is a lot more threatening to the long-term stability of the country than the financial crisis that saw trillions of taxpayer dollars funneled—either directly or through government guarantees—to Wall Street.

The middle class is teetering on the brink of collapse just as surely as AIG was in the fall of 2009—only this time, it’s not just one giant insurance company (and its banking counterparties) facing disaster, it’s tens of millions of hardworking Americans who played by the rules. This country’s middle class is going the way of Lehman Brothers—disappearing in front of our eyes. A decline that began decades ago has now become a plummeting free fall.

Just how bad things have gotten was succinctly—and bracingly—summed up by Elizabeth Warren, chair of the Congressional Oversight Panel charged with monitoring the Troubled Asset Relief Program (TARP): “One in five Americans is unemployed, underemployed or just plain out of work. One in nine families can’t make the minimum payment on their credit cards. One in eight mortgages is in default or foreclosure. One in eight Americans is on food stamps. More than 120,000 families are filing for bankruptcy every month. The economic crisis has wiped more than \$5 trillion from pensions and savings.”

The Bush and Obama administrations bailed out America’s big banks because it suddenly became imaginable that the financial system might collapse. When we take a hard look at what’s happening to America’s middle class, its disappearance suddenly becomes not only imaginable but, unless drastic action is taken, inevitable.

SHORTING THE MIDDLE CLASS

In April 2010, the shot heard around the country—or at least around Wall Street and Capitol Hill—was the Securities and Exchange Commission suing Goldman Sachs for fraud. It was big news in itself, as Goldman Sachs has become the poster child for the deep disconnect between Wall Street and Main Street. But much more important than the Goldman case in particular was the light it shed on what the financial and political elite had been doing to America for the last thirty years: shorting the middle class.

The American people have been sold on the very American idea that working hard and playing by the rules would ensure some modicum of prosperity and stability, while at the same time Wall Street has been overseeing a massive transfer of wealth from the middle class to the richest Americans. Ordinary working Americans were seen as the counterparty in a zero-sum bet—in Wall Street parlance, the proverbial “dumb money” at the table.

The results have been devastating: a disappearing middle class, a precipitous drop in economic and social mobility, and, ultimately, the undermining of the foundation of our democracy.

The human toll of the shorting of the middle class is tallied every day on websites such as

Recessionwire.com, LayoffSupportNetwork.com, and HowIGotLaidOff.com, where the casualties of Wall Street's systemic scam share their personal stories. One tale in particular struck me as emblematic of the place America's middle class finds itself these days. It feels like a dark reboot of the American Dream. Think Horatio Alger rewritten by O. Henry—Rod Serling.

It's the story of Dean Blackburn of Alameda, California. The first part of his life was classic American success story. Raised in Minnesota by a single mom who worked as a teacher, he was "middle class by default." Through a combination of smarts and hard work he made his way to Yale, then, for seventeen years, he steadily progressed up the economic ladder, gaining skills as a project manager, analyst, and IT director.

Then came February 2009, when, at age thirty-five, he was laid off on the last day of the month. His boss chose that day because it meant the company would not have to pay for another month of his health coverage. "Looking back on it," he told me, "that hurt more than the layoff itself—just knowing that the president of the company was exactly that calculating and that unfeeling about my own and my family's well-being." The timing, Blackburn continued, "put those 'family days' and company picnics in a weird new light."

Fourteen months later, Blackburn was still looking for a new job. His wife, who had taken a year off work when their daughter, Robin, was born, was eager to return to a full-time job. They faced the double challenge of finding an affordable preschool for their two-year-old as well as the jobs that would pay for it. Meanwhile, they tried to maintain their sanity by participating in life as they once had, "but we look at the numbers constantly now, and worry about what will happen when our savings run out," Blackburn told me. "Not if, but when."

As Blackburn dealt with the immediate financial struggles his extended unemployment brought, he became acutely aware of the broader implications of the shorting of the middle class. "Ultimately," he says, "it's not about a dip in corporate profits, but a change in corporate attitude—a change that means no one's job is safe, and never will be, ever again."

It's one of the reasons he decided to start his own company, NaviDate, a data-driven twist on online dating sites: "It's no longer a trade-off between doing what you love and having stability. Stability is long gone, so you better do something you love!"

Achieving middle-class stability has always been a big part of the American Dream, but, Blackburn notes, mobility now is increasingly one way: "The plateaus of each step, which can be a great place to stop a bit and catch your breath, are gone. Now, it's climb, climb, climb or start sliding back down immediately." The result: "The odds are you're going to wind up at the bottom eventually, unless you get lucky."

Luck. That's what the American Dream now rests on. It used to be about education, hard work, and perseverance, but today the system is rigged to such an extent that the middle class life is the prize on a scratch-off lottery ticket. The revelation of the corruption behind the financial crisis has put the very idea of the middle class and the American Dream, Blackburn put it, "in a weird new light."

A lot of people at the top of the economic food chain have done very well shorting the middle class. But the losers in those bets weren't Goldman Sachs investors—they were millions of Americans whose sole crime was to optimistically buy into the American Dream only to find it had been replaced by a sophisticated scam.

In November 2008, as the initial aftershocks of the economic earthquake were being felt

New York Times columnist David Brooks predicted the rise of a new social class—"the formerly middle class"—made up of those who had just joined the middle class at the end of the boom, only to fall back when the recession began. "To them," he wrote, "the gap between where they are and where they used to be will seem wide and daunting." But, in the time since Brooks wrote this, the ranks of the formerly middle class have swelled far beyond those who joined at the tail end of the boom. And for millions of Americans, that "wide and daunting" gap is also beginning to look permanent.

The evidence that the middle class has been consistently shorted is so overwhelming—and the results so potentially damaging to our society—that even bastions of establishment thinking are on alert. In a 2010 strategy paper, the Hamilton Project—the economic think tank founded in 2006 by former U.S. Treasury secretary Robert Rubin (a big beneficiary of the shorting of the middle class)—argued "that the American tradition of expanding opportunity from one generation to the next is at risk because we are failing to make the necessary investments in human, physical, and environmental capital."

Of course, it's even worse than that. Beyond failing to make necessary investments for the future, we are actually cutting back on our current investment in people, with massive budget cuts in education, health care, and social services in state after state after state, all across America.

At least forty-five states have imposed budget cuts that hurt families and reduce vital services to their most vulnerable residents. Those affected include children, the elderly, the disabled, the sick, the homeless, and the mentally ill, as well as college students and faculty.

According to a report by the Center on Budget and Policy Priorities, at least twenty-nine states have made cuts to public health programs, twenty-four states have cut programs for the elderly and disabled, twenty-nine states have cut aid to K-12 education, and thirty-nine states have cut assistance to public colleges and universities.

America's states faced a cumulative budget gap of \$166 billion for fiscal 2010. Total shortfalls through fiscal 2011 are estimated at \$380 billion—and could be even higher depending on what happens to unemployment.

These are massive numbers. But when you remember that we spent \$182 billion to bail out AIG (\$12.9 billion of which went straight to Goldman Sachs), you realize that this amount alone would be more than enough to close the 2010 budget gap in every state in the Union. Toss in the \$45 billion we gave to now-making-a-profit Bank of America and the \$45 billion we gave to now-making-a-profit Citigroup, and we would be well on the way to ensuring that no state's vital services are cut through 2011.

But instead that money has gone to the banks without any fundamental reform of the system, without any strings attached or edicts about how much they have to lend to help the real economy recover—or, indeed, without even having to tell us what they did with our money.

All across the country, the fiscal ax is falling. The devastation is in the details:

- California is eliminating CalWORKS, a financial assistance program for families in need—a cut that will affect 1.4 million people, two-thirds of whom are children. This plan would also cut state subsidies for child care, affecting 142,000 children.
- Minnesota has eliminated a program that provides health care to 21,500 low-income

employed adults with no children.

- Rhode Island has cut health insurance for 1,000 low-income families.
- Maine has cut education grants and funding for homeless shelters.
- Utah has cut Medicaid for physical and occupational therapies, as well as for speech and hearing services.
- Michigan, Nevada, California, and Utah have eliminated coverage of dental and vision services for those receiving Medicaid.
- Alabama has canceled services that allow 1,100 seniors to stay in their own homes instead of being sent to nursing facilities.
- Georgia has cut \$112 million from an initiative designed to reduce the gap in funding between wealthy and poor school districts.
- Arizona has cut cash assistance grants for 38,500 low-income families.
- Virginia has decreased payments for people with mental retardation, mental health issues, and problems with substance abuse.
- Illinois has cut funding for child welfare and youth services programs.
- Connecticut has cut programs that help prevent child abuse and provide legal services for foster children.
- Massachusetts is making cuts in Head Start, universal pre-K programs, and services to prepare special-needs children for school.

Keep in mind, all these services are being cut at a time when more and more people are finding themselves in need of them. It's a perfect storm of middle-class suffering.

And yet the human consequences of the financial collapse are largely missing from our national debate. I'm referring especially to the people who had steady jobs; people with college degrees; people who were paying their bills, saving for retirement, doing the right thing—and who have, in many instances, lost everything. The daily miseries being visited upon them are unfolding across the country.

So why is there no sense of urgency coming out of Washington?

Perhaps the reason can be found in the stunning results of a study conducted by Northeastern University's Center for Labor Market Studies that broke down the unemployment rate by household income. Unemployment for those making \$150,000 a year, the study found, was only 3 percent in the last quarter of 2009. The rate for those in the middle income range was 9 percent—not far off the national average. The rate for those in the bottom 10 percent of income was a staggering 31 percent.

These numbers, according to the *Wall Street Journal's* Robert Frank, “raise questions about

the theory behind what is informally known as ‘trickle down’ economics, since full employment at the top doesn’t seem to be translating into more jobs below.”

In fact, these numbers do more than raise questions—they also supply the answers.

Does anyone believe that the sense of urgency coming out of Washington wouldn’t be wildly different if the unemployment rate for the top 10 percent of income earners was 3 percent? If one-third of television news producers, pundits, bankers, and lobbyists were unemployed, would the measures proposed by the White House and Congress still be anemic? Of course not—the sense of national emergency would be so great you’d hear air raid sirens howling.

Instead we get policy Band-Aids—timid moves that will do little to abate a crisis that threatens to change the very fabric of our society. For much of our history, America was known for its promise of upward mobility. That promise has been called into question over the past three decades, and an extended run of high unemployment could be its death knell.

“These are the kinds of jobless rates that push families already struggling on meager incomes into destitution,” wrote *New York Times* columnist Bob Herbert. “And such gruesome gaps in the condition of groups at the top and bottom of the economic ladder are unmistakable signs of impending societal instability. This is dangerous stuff.”

The lack of urgency we are seeing in Washington—and the lack of focus on real people—stunning considering that the consequences of our failed financial system are everywhere you look. Putting flesh and blood on the cold, hard statistics means putting the spotlight on the people whose lives were turned upside down as a result of our out-of-control financial system.

Ron Bednar and Mary McCurnin of Rancho Cordova, California, are a loving couple that got divorced last year, not because their relationship wasn’t working but because it was the only way to make ends meet. Due to unemployment and a bankruptcy caused by a prolonged illness, they found themselves with only \$300 in the bank. By getting divorced, McCurnin was able to collect Social Security widow’s benefits from her first husband, who died in 1988. “We literally live from week to week,” she says.

Kimberly Rios of North East, Maryland, sold her wedding ring on Craigslist so she could pay her utility bills. “This is no joke, please be a serious buyer,” her ad read. “It is too costly for us to be without electric and heat so if you have been looking consider my deal.” After selling her ring, she locked herself in her bathroom, pretending to take a shower, so she could cry without upsetting her family. “I just felt like it was the last piece of what little I had left,” she says. “I came out smiling as usual and tried to get my husband and daughter excited that this was a good thing.”

Faye Harris was laid off from her accounting job at Emory University Hospital in Atlanta last year. She had been diagnosed with cancer and was fighting it successfully. But as soon as the time off she was guaranteed by the Family and Medical Leave Act expired, she received a letter of termination and her health insurance was canceled. “Do I just lie down and die? Am I not worthy anymore?” she asked herself. “I’ve worked all my life. Put myself through school, raised four children, played by the rules, saved money, and this one illness has just wiped me out.”

Ricky Macoy of Quinlan, Texas, is a fifty-two-year-old electrician who found himself among the long-term unemployed. With little work since late 2008, he began pawning his

possessions, including his tools, and holding yard sales to get enough money to feed his family. “The thing that hurt the most was we had to hock my son’s PlayStation 3, his Wii, his electric guitar,” Macoy says. “We lived a good life. Middle-income America, man. I’m used to construction, the booms and the busts ... [but] I was not expecting to be laid off this long.”

Heather Tanner of Pacifica, California, put herself through law school, working during the day and attending classes at night—dreaming of one day being able to move her family out of their apartment and buy a house. In August, she was laid off from her \$100,000-a-year job as an attorney—and then struggled to find a new position. “I applied for jobs at Target, Macy’s as a camp counselor,” she says. “I’ve been on many interviews, but the comments I get on nonlegal jobs are, ‘Why do you need this kind of job?’ I mean, I have a family to support.” She and her husband cashed in their 401(k)s and used their savings to pay off bills. “The kids don’t understand,” she says, explaining that the thing that hurt the most was having to disappoint her children when it came to things such as birthday visits to Disneyland that the family could no longer afford. “I’d love to make their dreams come true, but right now we just have to focus on getting by.”

There are, sadly, millions of these stories. Stories crying out to be told. Stories that, if told often enough, will bring the human element to the fore of the debate—and grab the public imagination.

In the last chapter of Michael Herr’s *Dispatches*, he speaks of conventional journalism’s inability to “reveal” the Vietnam War: “The press got all the facts (more or less)... But they never found a way to report meaningfully about death, which of course was really what the war was all about.” And Tom Wolfe, in “The Birth of ‘The New Journalism’: Eyewitness Reporting,” discusses conventional journalism’s inability to capture the turbulence of the 1960s: “You can’t imagine what a positive word ‘understatement’ was among both journalists and literati ... The trouble was that by the early 1960s understatement had become an absolute pall over the world. Well, it’s happening again—we are failing to capture the turbulence of our times with the kind of narratives that allow the public, and force our leaders, to connect with the pain and suffering that should be fueling the fight to change direction while there’s still time.

WORKING-CLASS SUFFERING MEETS REALITY TV

Before becoming prime minister of England, Benjamin Disraeli wanted to issue a wake-up call about the horrible state of the British working class. So, in 1845, he wrote a novel, *Sybil*, which warned of the danger of England disintegrating into “two nations between whom there is no sympathy ... as if they were inhabitants of different planets.” The book became a sensation, and the outrage it provoked propelled fundamental social reforms.

In the nineteenth century, one of the most effective ways to convey the quiet desperation of the working class to a wide audience was via a realistic novel. In 2010, it’s through reality TV.

Now, I realize that most of what we are served up under that rubric is actually the farthest thing from reality. The exploits of Snooki, Jake the Bachelor, and all those Real Housewives hardly reflect life as most of America knows it and lives it.

The real America is hurting—not jetting off to an exotic location for “fantasy suite” canoodling. But no matter how sobering the statistics we are getting on a regular basis (and

I'll offer up some bracing ones in a moment), the hardships and suffering tens of millions of Americans are experiencing are almost entirely absent from our popular culture. This is a shame, because drama and narrative have the ability to move people's perceptions in a way that raw numbers never can.

Enter *Undercover Boss*, the CBS reality show in which corporate CEOs don disguises and spend a few days experiencing what it's like to be a low-level worker at their companies. It's the kind of popular entertainment that can start out as one thing—a fun, high-concept reality show—but morph into something that affects the zeitgeist by shining a spotlight on just how out of touch America's corporate chiefs are. And their cluelessness is not just about the jobs their workers do—it's about the lives their workers lead.

Ever since *Roseanne* went off the air, the stories of working-class Americans have been a part of our culture but invisible on network TV. But now, week in and week out, millions can see what downsizing and Wall Street's demands for ever-greater productivity and earnings margins do to the lives of so many Americans, even before the economic crisis.

The chasm between America's classes has reached Grand Canyon–esque proportions. For years ago, top executives at S&P 500 companies made an average of thirty times what their workers did—now they make three hundred times what their workers make. That's the kind of statistic a show like *Undercover Boss* can bring to life. Here are a few others:

- Between 2007 and 2008, more than 800,000 additional American households found themselves trying to make do on under \$25,000 a year, bringing the total to nearly 2 million.
- In 2005, households in the bottom 20 percent had an average income of \$10,655, while the top 20 percent made \$159,583—a disparity of 1,500 percent, the highest gap ever recorded.
- In 2007, the top 10 percent pocketed almost half of all the money earned in America—the highest percentage recorded since 1917 (including, as Business Insider editor Henry Blodget noted, in 1928, the peak of the stock market bubble in the “roaring 1920s”).
- Between 2000 and 2008, the poverty rate in the suburbs of the largest metro areas in the United States grew by 25 percent—making the suburbs home to the country's biggest and most rapidly expanding segment of the poor.

Making matters even worse is the fact that while the classes are moving farther apart—with the middle class in real danger of disappearing entirely—mobility across the classes has declined. The American Dream is defined by the promise of economic and social mobility—but the American Reality proves just how elusive that dream has become. Indeed, Canada, Germany, Denmark, Norway, Finland, Sweden, and even the often-reviled France have greater upward mobility than we do. Here are the numbers:

- Almost one hundred million Americans are in families that make less in real income than their parents did at the same age.
- The percentage of Americans born to parents in the bottom fifth of income who work

climb to the top fifth as adults is now only 7 percent.

- If you were born to wealthy parents but didn't go to college, you're more likely to be wealthy than if you did go to college but had poor parents.

In other words, as the middle class is squeezed and more and more people are being pushed down, it's becoming harder than ever to move up. In a study of economic mobility, Isabel Sawhill of the Brookings Institution and John E. Morton of the Pew Charitable Trusts wrote, "The inherent promise of America is undermined if economic status is—or is seen as—merely a game of chance, with some having the good fortune to live in the best of times and some the bad luck to live in the worst of times. That is not the America heralded in lore and experienced in reality by millions of our predecessors."

And yet it's certainly the reality being experienced now, and, at least in part, the reality being shown on *Undercover Boss*. Now, I'm not suggesting that the show is going to foment working-class rebellion or directly lead to a raft of social reforms. But it might lead to a conversation we, as a nation, desperately need to have—especially in Washington.

Maybe if our elected representatives went undercover for a little while and experienced the reality of millions of American families that are measurably worse off because of Washington's actions and inactions, we might get some real change.

MIDDLE-CLASS JOBS AND "THAT GIANT SUCKING SOUND"

Since the recession began in late 2007, we've lost more than 8.4 million jobs. Over 2 million of those were manufacturing jobs, the kind of jobs that have traditionally delivered American families into the middle class—and kept them there. We lost 1.2 million manufacturing jobs in 2009 alone. And while job numbers go up and down, the loss of these blue-collar jobs has been going on for decades.

In 1950, manufacturing accounted for more than 30 percent of nonfarm employment. As of last year, it's down to 10 percent. Indeed, one-third of all our manufacturing jobs have disappeared since 2000. This devastating downward trend has contributed greatly to the erosion of the middle class.

There have been a number of recessions over the past few decades, and our economy has rebounded after each one. But each time it has bounced back in a way that made it harder for those in the middle class to stay there—and even harder for those aspiring to become middle class to get there.

The way that the useful section of our economy is being replaced by the useless section of our economy is rarely talked about in Washington. But the numbers don't lie: The share of our economy devoted to making things of value is shrinking, while the share devoted to valuing made-up things (credit-swap derivatives, anyone?) is expanding. It's the financialization of our economy.

According to Thomas Philippon, professor at New York University's Stern School of Business, the financial industry made up 2.5 percent of America's GDP in 1947. By 1970, it had grown to 4 percent. By 2006, just before the meltdown, it was 8.3 percent.

The trend is even starker when you look at the financial sector's share of U.S. business

profits. As MIT professor Simon Johnson recounted in the *Atlantic*, between 1973 and 1980 the financial industry's share of domestic corporate profits topped out at 16 percent. In the 1990s, it spanned between 21 percent and 30 percent. Just before the financial crisis hit, it stood at 41 percent.

That's right—over 40 percent of the profits of the entire U.S. corporate sector went to the financial industry. James Kwak, coauthor of the Baseline Scenario, a leading blog on economics and public policy, explains why this is a problem: “Remember that financial services are an intermediate product—that is, we don't eat them, or live in them, or put them on in the morning. They are supposed to enable a more efficient allocation of capital, so that the nonfinancial economy is more productive. But what we saw since the 1980s was the unmooring of the financial sector from the rest of the economy.”

In other words—it's supposed to serve our economy, not *become* our economy.

The expansion of the financial industry has come at a significant cost to the rest of us. And those who have paid the highest price are the members—and former members—of America's middle class. According to *New York Times* columnist Paul Krugman, “A growing body of analysis suggests that an oversized financial industry is hurting the broader economy. Shrinking that oversized industry won't make Wall Street happy, but what's bad for Wall Street would be good for America.”

It's no wonder that Wall Street breathed a deep sigh of relief when the Senate passed the Restoring American Financial Stability Act in May 2010. It was considered mission accomplished for financial reform.

Unfortunately, it was more of a Bush 43 mission accomplished than an *Apollo 13* mission accomplished. That's because the bill passed by the Senate, like Bush's ship-deck ceremony, was more notable for what it left undone.

First, it didn't do enough to rein in Wall Street. It didn't end too-big-to-fail banks, didn't create a Glass-Steagall-style firewall between commercial and investment banking, kept taxpayers on the hook for future bailouts, and left open dangerous loopholes in the regulation of derivatives. In D.C., crafting a bill without loopholes would be like baking bread without yeast. Though you can't see them, they're what makes a Washington bill rise.

Despite its name, this bill will not be restoring financial stability to the tens of millions of Americans whose lives have been turned upside down by the economic crisis.

On nearly every front in the real economy—from jobs to consumer spending to foreclosures—we've made virtually no progress. While Washington and the media were consumed with the titanic debate over this reform bill, talk of the actual suffering by actual people in the actual economy was virtually a taboo subject, at least judging by how rarely it made the front pages or led the TV news.

But the data points are all around us. In a speech, Sandra Pianalto, president of the Cleveland Fed, surveyed the landscape and described an economy facing serious and long-term challenges, partly because of the huge loss of skills that is being suffered by the long-term unemployed. “Research ... tells us that workers lose valuable skills during long spells of unemployment, and that some jobs simply don't return,” she said. “Multiply this effect millions of times over, and it has the potential to dampen overall economic productivity for years.”

Her conclusion: “Many people are now just aiming for ‘financial security’ as their American

Dream.” In other words, the core idea of the American Dream—work hard and advance up the ladder—has been gutted. Now the American Dream is try to not fall, or do all you can to slow your rate of decline.

And forget about having enough in the bank to give your kids a leg up on doing better than you’ve done. It’s hard enough just to keep a job until you retire—if that’s even going to be an option. At a D.C. jobs fair for older workers in May 2010, more than 3,000 job seekers showed up for the event, entitled “Promoting Yourself at 50+.” Not surprising given that, at the time, the average jobless stint for those unemployed who are fifty-five and over was around forty-three weeks. (Quick note to struggling politicians out there: want a huge crowd at your campaign rally? Call it a “jobs fair” and you’ll have people lined up around the corner.)

Their children and grandchildren who recently graduated from college aren’t faring any better. According to *BusinessWeek*, the 1.6 million new grads hitting the job market with their expensive degrees are confronting a youth unemployment rate of almost 20 percent—the highest level since the Labor Department began tracking the data in 1948.”

And many workers who have managed to hold on to their jobs are increasingly doing so only by accepting less pay and taking on a higher share of their health-care costs. “My company didn’t eliminate my job, they just eliminated my salary,” said marketing director Mike Cheure. “I was back at work as a freelancer the next day working at one-fourth of the pay and no benefits.” The experience has made him very familiar with the new reality. “For us, the American Dream is gone,” he said. “Now it’s just getting by.”

Adding insult to injury, a growing number of working mothers are having to give up their jobs and rely on welfare because states are cutting back on child-care services that allowed them to keep working. And kids were left scrambling to find something to do this past summer when a number of states made deep cuts to summer school programs.

This spring saw a surge in consumer spending that spawned talk of “green shoots.” But it turned out the spending surge was economically imbalanced. As the *Los Angeles Times*'s David Lee put it, the “little-noticed reality” behind the “encouraging numbers” was that “much of the new spending [had] come not from America’s broad middle class but from a small slice of affluent people at the top.” In fact, according to the Labor Department, the richest 20 percent of American households accounted for 40 percent of all spending.

The news in consumer lending has been similarly dismal—especially among the banks that got the most help from taxpayers. According to the Federal Reserve, from June 2009 to June 2010, the largest banks cut business lending by over \$148 billion—yet more evidence of the schism between the Wall Street economy and the real economy. Of course, the two economies aren’t entirely separate—the Wall Street economy is happy to accept massive transfusions of cash from the fading middle class.

This isn’t to say that there were no provisions considered that would help Main Street as part of the Restoring American Financial Stability Act. There were plenty—it’s just that almost all of them were either voted down or taken out and never even put up for a vote. Even something as simple and sensible as putting a cap on credit card interest rates. Senator Sheldon Whitehouse’s amendment to do just that was voted down 60 to 35. So much for “financial stability.” Though I suppose it depends on whose financial stability you care about—the banks’ or the taxpayers’.

Or how about payday lending—the largely unregulated advances on a paycheck that carry interest rates in the triple digits? In Missouri, for example, rates can top 600 percent. Yes, you read that right. Not exactly a recipe for “financial stability.” North Carolina’s Kay Hagan offered an amendment that would have clamped down on the \$40 billion industry. It was killed without a vote.

Then there is the Merkley-Levin amendment that would have prohibited banks from making risky proprietary trades—a version of the Volcker Rule. It also never even made it to a vote. This wasn’t because it wouldn’t have passed. On the contrary, anger from those mire in the real economy had reached enough lawmakers that the amendment had a real shot. Which is why, as Simon Johnson put it, “the big banks were forced into overdrive to stop it.”

We’ve been told time and time again over the last two years that right after Washington deals with what’s on its plate, “jobs is next.” Well, it’s been “next” for quite some time now but it never seems to come to the floor. I often have a nightmare—a common sort—in which I’m stuck in a forest and I can’t find my way out. I have a friend whose version is that her feet are stuck to the ground and she can’t move. Not a bad description of our leadership approach to the massive suffering that’s going on across America.

A recent study by Duha Tore Altindag and Naci H. Mocan for the National Bureau of Economic Research found that the effects of unemployment can have troubling implications for a political system. The authors studied data from 130,000 people in 69 countries. The conclusion: “We find that personal joblessness experience translates into negative opinions about the effectiveness of democracy.”

No shock there. But it should frighten anyone genuinely concerned about our stability, financial and otherwise—especially since one out of every six blue-collar workers has lost his or her job in the latest recession, a number commensurate with what happened during the Great Depression. Andrew Sum, director of the Center for Labor Market Studies at Northeastern University in Boston, says, “Our ability to maintain a healthy middle class is very dependent on being able to get a lot of these individuals back into the workplace and back into jobs to keep the rest of the economy going.... There are very high multiplier effects from many manufacturing activities. So the loss of jobs spills over into the rest of the economy.”

But isn’t wringing our hands over the loss of manufacturing jobs the twenty-first-century equivalent to nineteenth-century concerns about America turning from an agrarian society into an industrial one? Isn’t America’s future to be found in newer, better, more modern service industry jobs?

Economist Jeff Madrick doesn’t think so—for a number of reasons.

For starters, it turns out that manufacturing jobs aren’t just more productive and valuable than jobs in the Wall Street casino—they’re also more valuable than service jobs: “Making goods is on balance—with exceptions—more productive than providing services, and rising productivity is the fundamental source of prosperity,” says Madrick. “A major nation must be able to maintain a balanced current account (and trade balance) over time, and goods are far more tradable than services. Without something to export, a nation will either become overindebted or forced to reduce its standard of living.”

In other words, in the absence of manufacturing, the only way to compete with Third World nations is to *become* a Third World nation, which is exactly what will happen if w

allow our middle class to disappear.

What's more, it's not just manufacturing and lower skilled service jobs that are disappearing. According to the Hackett Group, a business and technology consultancy, companies with revenues of \$5 billion and over are expected to take an estimated 350,000 jobs offshore in the next two years alone—nearly half in information technology, and the rest in finance, procurement, and human resources.

Linda Levine of the Congressional Research Service says that some see “perhaps a total of 3.4 million service sector jobs moving overseas by 2015 in a range of fairly well paid white collar occupations.” And in a 2006 study, consulting firm Booz Allen Hamilton found that white-collar outsourcing is no longer just about call center and credit card transactions. Now “companies are offshoring high-end work that has traditionally been considered ‘core’ to the business, including chip design, financial and legal research, clinical trials management, and book editing.”

Do you hear that? It's Ross Perot's giant sucking sound being cranked up to a deafening roar—and it's about a lot more than NAFTA. Accenture now employs more people in India than in America. IBM is headed in the same direction. And the horizon looks even darker. A June 2008 Harvard Business School study found that up to 42 percent of U.S. jobs—more than fifty million of them—are vulnerable to being sent offshore.

Even more troubling is the reason so many of these jobs are being sent overseas. It's not just about cost control. “What used to be a tactical labor cost-saving exercise,” the Booz Allen Hamilton study says, “is now a strategic imperative of competing for talent globally.” In other words, America's talent pool—especially when it comes to professions such as engineering and computer scientists—is drying up. At the same time the demand for these highly skilled workers is growing, the number of Americans earning master's degrees and PhDs in engineering has fallen.

We are continuing to feel the sting of our lack of investment in our people—particularly when it comes to education, the other primary pillar (along with a good job) of a healthy middle class.

This is what happens when a country is willing to spend trillions of dollars fighting unnecessary wars while allowing college tuition to rise out of the reach of so many of its citizens. And it's what happens when a country turns its economy over to the casino of Wall Street.

It's not too late to change course. The financialization of our economy didn't just happen. Decisions were made that made it possible—and decisions can be unmade. But first we need to decide, as a country, what kind of economy we want to have: one that's good for middle class families or one that's built to enrich Wall Street.

“The financial sector,” wrote Martin Wolf of the *Financial Times*, “seems to be a machine that transfers income and wealth from outsiders to insiders, while increasing the fragility of the economy as a whole.” When the chief economics commentator at the *Financial Times* is sounding like the second coming of Karl Marx, you know things have gotten way out of hand.

THE ECONOMIC CORONARY AROUND THE CORNER

Another potentially catastrophic problem headed our way is our mounting debt. And no, I'm

not joining forces with those who use the debt explosion as a backdoor way of cutting or killing Social Security or Medicare. But ceding this issue to such retro-thinkers makes it that much harder to seriously tackle the problem.

America is like a patient in danger of suffering a massive heart attack. We may be able to postpone things with a bit of outpatient surgery, but we won't be able to avoid it without some serious lifestyle changes. The economic coronary isn't quite here yet, but it's on the way. Here are just a couple of the symptoms of big-time trouble ahead:

By 2020, interest alone on the total U.S. debt will reach \$900 billion per year.

That same year, five segments of government spending—Medicare, Medicaid, Social Security, net interest, and defense spending—will account for an estimated 77 percent of all government expenditures. All other federal spending will have to come out of the remaining 23 percent.

A recent report by the Bank for International Settlements (BIS) shows that this is a worldwide phenomenon. Financial adviser John Mauldin distills the report's bottom line: "Everyone and their brother intuitively knows that the current government fiscal deficits in the developed world are unsustainable."

The numbers in the BIS study make this clear. For instance, in Greece, the problem child of the moment that everyone is looking at with horror, government debt could reach 133 percent of gross domestic product in 2011. But Greece is far from alone. In the United Kingdom, it is expected to hit 94 percent, jumping more than 10 percentage points in one year. And in the United States, we could approach nearly 100 percent. As a Greek American, I'm enthusiastic about all the shared traits of my two countries, but I'd prefer not to add crippling debt to the list.

"While fiscal problems need to be tackled soon," says the BIS report, "how to do this without seriously jeopardizing the incipient economic recovery is the current key challenge for fiscal authorities."

Exactly. And those fiscal authorities need to remember that there is more to tackling the deficit crisis than just cutting spending. We need to think bigger—we need to reorient our economy so that it's once more an engine for production and productivity, not a vehicle for gambling and speculation. As Mauldin says of the old—and still dominant—order on Wall Street: "Let's be very clear. This was purely gambling. No money was invested in mortgages or any productive enterprise. This was one group betting against another, and a *lot* of these deals were done all over New York and London."

Mauldin goes on to question why large institutional investors were even gambling on such things as synthetic collateralized debt obligations in the first place: "This is an investment that had no productive capital at work and no remotely socially redeeming value. It did not go to fund mortgages or buy capital equipment or build malls or office buildings."

Commenting on our looming debt crisis, Princeton economist Alan Blinder noted that "In 1980 [policymakers] knew about the year 2010 but that was really far away." Well, it's not anymore, and given that much of our deficit problem is about huge numbers of workers born decades ago now hitting retirement age, Blinder quipped, "The long run is now the short run and they're combining."

The needs of the past and the demands of the present exert a powerful pull on our attention, while the future doesn't have many advocates—it's always something we can get later. There once was a time when we could get away with pushing our problems down the road, secure that our reserves would always bail us out. There was a strong safety net to catch those who fell through the cracks. Well, those reserves are gone now and the safety net is frayed and full of holes.

PERVERTED PRIORITIES

Another warning sign that we are on the way to becoming a Third World nation is the trillions of dollars we continue to spend fighting unnecessary wars and building ever more powerful weaponry while our people here at home do without.

You want Third World thinking? How about North Korea joining the nuclear club while its people starve? Since the fall of the Roman Empire, one of the hallmarks of nations in decline has been increased military spending at the expense of other essential priorities. Think of the Soviets trying to match America, nuclear warhead for nuclear warhead.

Historian Arnold Toynbee believed that civilizations almost always die from suicide, not from murder. That is, our future is dependent on the choices we make and the things we decide to value.

Partisanship pop quiz time. See if you can identify the bleeding-heart liberal who said this: "Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children."

Noam Chomsky? Michael Moore? Bernie Sanders?

No, it was that unrepentant lefty five-star general Dwight Eisenhower, in 1953, just a few months after taking office—a time when the economy was booming and unemployment was at 2.7 percent. Yet today, while America's economy sputters down the road to recovery and the middle class struggles to make ends meet—with more than twenty-six million people unemployed or underemployed and record numbers of homes being lost to foreclosure—the "guns versus butter" argument isn't even part of the national debate. Of course, today, the argument might be more accurately framed as "ICBM nukes, predator drones, and missile defense shields versus jobs, affordable college, decent schools, foreclosure prevention, and fixing the gaping holes in our social safety net."

We hear endless talk in Washington about belt tightening and deficit reduction, but hardly a word about whether the \$161 billion being spent in 2010 alone to fight wars of choice in Afghanistan and Iraq might be better spent helping embattled Americans here at home.

Indeed, during his State of the Union speech in January 2010, President Obama proposed freezing all discretionary government spending for three years—but exempted military spending, even though the defense budget has ballooned over the last ten years. According to defense analyst Lawrence Korb, who served as assistant secretary of defense in the Reagan administration, the baseline defense budget has increased by 50 percent since 2000. Over the same period, nondefense discretionary spending increased less than half that much.

In fact, as Katherine McIntire Peters reported on GovernmentExecutive.com, President

Obama is “on track to spend more on defense, in real dollars, than any other president has in one term of office since World War II.” In that time we’ve had Korea, Vietnam, the massive military buildup under Reagan, and Bush’s funded-by-tax-cuts invasions of Afghanistan and Iraq, but in the most trying economic times since the Great Depression, Obama’s outgunning them all.

This is not about ignoring the threats to our national security. And it’s certainly not about pacifism. To quote then Illinois state senator Barack Obama in 2002, “I don’t oppose all wars ... What I am opposed to is a dumb war.” Iraq was never about making us safer. And the original rationale for going to war in Afghanistan—taking on al-Qaeda—has been accomplished, with fewer than one hundred members of the group still operating in the country. The irrationality of continuing to spend precious resources on wars we shouldn’t be fighting is all the more galling when juxtaposed with our urgent and growing needs at home.

According to the *Los Angeles Times*, before the summer 2010 surge in Kandahar (cost: \$3 billion)—a surge the military claimed was as important to Afghanistan as securing Baghdad was to Iraq—Joint Chiefs of Staff chairman Admiral Michael Mullen told an Afghan leader that the goals of the surge, as well as defeating the Taliban, included, in the words of the *Times*, “reducing corruption, making local government work and, eventually, providing jobs.” Talk about “mission creep”!

Is that why we are still fighting a war there nine years later, spending American blood and treasure—to provide jobs for the people of Kandahar? It’s like a very bad joke: “The good news is, the Obama administration is ramping up a multibillion-dollar program that will create a host of new jobs. The bad news is, you have to move to Kandahar to apply.”

The Bush-era rationale for these overseas misadventures was always “We’ll fight ‘em over there, so we don’t have to fight ‘em over here.” Today, it seems, we’re fighting to create jobs for ‘em over there, while we don’t have enough jobs for our people over here. At a time when so many middle-class families are reeling from the economic crisis—and our country is facing the harsh one-two punch of more people in need at the exact moment social services are being slashed to the bone—that seems like the most perverted of priorities.

Berkeley professor Ananya Roy defines the troubled state of America not so much as a fiscal crisis as “a crisis of priorities.” And Representative Barney Frank, who has been one of the few in Washington arguing for the need to cut military spending, says that our military overcommitments have “devastated our ability to improve our quality of life through government programs.” Looking at the money we’ve spent on Iraq and Afghanistan, Frank says, “We would have had \$1 trillion now to help fix the economy and do the things for our people that they deserve.”

The National Priorities Project (NPP) provides a useful online tool that brings this budget trade-off to life by showing—specifically—all the things that could have been done with the money spent on Afghanistan and Iraq. For example, according to the NPP, since 2003, more than \$747 billion of taxpayer money has been spent in Iraq. That could have provided:

- 115 million people with low-income health care for a year;
- or 98 million places in a Head Start program;
- or funding for more than 11 million elementary school teachers;

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