THIRD WORLD AMERICA

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

Arianna Huffington

THIRD WORLD AMERICA

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

★

ARIANNA
HUFFINGTON

CROWN PUBLISHERS ★ NEW YORK

Published in the United States by Crown Publishers, an imprint of
the Crown Publishing Group, a division of
Random House, Inc., New York.
www.crownpublishing.com

Library of Congress Cataloging-in-Publication Data
Huffington, Arianna Stassinopoulos
Third World America/Arianna Huffington.—1st ed.
p. cm.
1. United States—Economic policy—2009– 2. United
States—Economic conditions—2009– 3. United States—Social
policy—1993– 4. United States—Politics and government—
2009–I. Title.
HC106.84.H84 2010
330.973—dc22 2010026871

eISBN: 978-0-307-71997-3

v3.1_r1

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

CONTENTS

PREFACE

Growing up, I remember walking to school in Athens past a statue of President Truma The statue was a daily reminder of the magnificent nation responsible for, amor 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 Americ "a better life." America was a place you could go to work really hard, make a good livin 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 International Living. I spent the summer in York, Pennsylvania, staying with four differe families. I went back to Athens, and then soon went on to Cambridge and London. But part me remained in America.

When I came back in 1980, I knew that this time it would be for good. Thirty years late there's still no other place I'd rather live. Over that time, one of the characteristics I've com to love the most about my adopted country is its optimism. In fact, it melded perfectly wi my own Greek temperament: Zorba the Greek meets the American spirit. The Itali journalist Luigi Barzini wrote that America "is alarmingly optimistic, compassionat incredibly generous … It was a spiritual wind that drove Americans irresistibly ahead fro the beginning." The only downside of the optimistic spirit is that it can sometimes prevent 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. wanted to believe everything would turn out okay, as it has so often in the past. But th stubborn facts kept nagging at me as the warning signs became more and more numerous. had to choose whether to sound like Cassandra or fall back on a double dose of the congenit optimism of both my native and adopted countries and assume it was all just another spee bump on the road to a "more perfect union." It's never fun being Cassandra. But remembe Cassandra ended up being right. And the Trojans, who remained blissfully blind to h 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 Thi World nation. But we are well on our way. This is the unspoken fear of so many out-of-wor Americans and those still at work but anxious about their futures and the futures of the children. My goal for this book is to sound the alarm so that we never do become "Thi World America."

"America," Winston Churchill reportedly said, "can always be counted on to do the rig thing, after it has exhausted all other possibilities." Well, we have exhausted a lot possibilities, and for millions of the unemployed, the underemployed, the ones whose hom have been foreclosed, and the ones who've declared bankruptcy or can't pay their credit ca 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 do around the country. Because in the end, despite the acts of greed, cronyism, and disregard f the public interest committed by both business and political leaders, I am ultimate heartened by the resilience, creativity, and largely unheralded acts of compassion an empathy that I see among Americans everywhere. Turning our country around will take th concerted effort of citizens all across America, standing up for themselves, their families, an their communities—both demanding change and embodying it—and keeping the promise the American Dream alive for future generations.

1

THIRD WORLD AMERICA

* * *

“Third World America.” It’s a jarring phrase, one that is deeply contrary to our national conviction th America is the greatest nation on Earth—as well as the richest, the most powerful, th most generous, and the most noble. It also doesn’t match our day-today experience the country we live in—where it seems there is, if not a chicken in every pot, then a fla 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 sic 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 do we’d rather not connect, and to articulate one of our deepest fears as a people—that we a slipping as a nation. It’s a harbinger, a clanging alarm telling us that if we don’t correct ou course, contrary to our history and to what has always seemed to be our destiny, we cou indeed become a Third World nation—a place where there are only two classes: th rich … and everyone else. Think Mexico or Brazil, where the wealthy live behind fortifie 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 enem 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 vanishing, taking with it the kind of jobs that have formed the backbone of our economy fo more than a century; our education system is in shambles, making it harder for tomorrow workforce to acquire the information and training it needs to land good twenty-first-centur jobs; our infrastructure—our roads, our bridges, our sewage and water and transportation an 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 the American Dream: the promise that, with hard work and discipline, our children will hav the chance to do better than we did, just as we had the chance to do better than th generation before us.

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

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

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

dreams so many generations had fought for were slipping away." Well, you'd need a prett
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 Whi 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 assaulte becomes shockingly clear when the baby steps taken to bail out Main Street are compared t the all-hands-on-deck, no-expenses-spared bailout of Wall Street. In fact, the econom devastation of the middle class is a lot more threatening to the long-term stability of th country than the financial crisis that saw trillions of taxpayer dollars funneled—eith 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 2009—only this time, it's not just one giant insurance company (and its bankin counterparties) facing disaster, it's tens of millions of hardworking Americans who played b the rules. This country's middle class is going the way of Lehman Brothers—disappearing 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 Elizabet Warren, chair of the Congressional Oversight Panel charged with monitoring the Trouble Asset Relief Program (TARP): "One in five Americans is unemployed, underemployed or ju plain out of work. One in nine families can't make the minimum payment on their cred cards. One in eight mortgages is in default or foreclosure. One in eight Americans is on foo stamps. More than 120,000 families are filing for bankruptcy every month. The econom crisis has wiped more than $5 trillion from pensions and savings."

The Bush and Obama administrations bailed out America's big banks because it sudden became imaginable that the financial system might collapse. When we take a hard look what's happening to America's middle class, its disappearance suddenly becomes not on 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 Capit Hill—was the Securities and Exchange Commission suing Goldman Sachs for fraud. It was b news in itself, as Goldman Sachs has become the poster child for the deep disconnect betwee Wall Street and Main Street. But much more important than the Goldman case in particula was the light it shed on what the financial and political elite had been doing to America fo the last thirty years: shorting the middle class.

The American people have been sold on the very American idea that working hard an playing by the rules would ensure some modicum of prosperity and stability, while at th same time Wall Street has been overseeing a massive transfer of wealth from the middle cla to the richest Americans. Ordinary working Americans were seen as the counterparty in 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 economic and social mobility, and, ultimately, the undermining of the foundation of ou democracy.

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

Recessionwire.com, LayoffSupportNetwork.com, and HowIGotLaidOff.com, where th casualties of Wall Street's systemic scam share their personal stories. One tale in particula struck me as emblematic of the place America's middle class finds itself these days. It fee like a dark reboot of the American Dream. Think Horatio Alger rewritten by O. Henry—o 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 teacher, he was "middle class by default." Through a combination of smarts and hard wor he made his way to Yale, then, for seventeen years, he steadily progressed up the econom 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 th month. His boss chose that day because it meant the company would not have to pay fo another month of his health coverage. "Looking back on it," he told me, "that hurt more tha the layoff itself—just knowing that the president of the company was exactly that calculatin and that unfeeling about my own and my family's well-being." The timing, Blackbur 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 take a year off work when their daughter, Robin, was born, was eager to return to a full-time jo They faced the double challenge of finding an affordable preschool for their two-year-old a well as the jobs that would pay for it. Meanwhile, they tried to maintain their sanity b participating in life as they once had, "but we look at the numbers constantly now, and worr 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 unemployme brought, he became acutely aware of the broader implications of the shorting of the midd class. "Ultimately," he says, "it's not about a dip in corporate profits, but a change 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 twi on online dating sites: "It's no longer a trade-off between doing what you love and havin 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, a Blackburn notes, mobility now is increasingly one way: "The plateaus of each step, which ca 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 the bottom eventually, unless you get lucky."

Luck. That's what the American Dream now rests on. It used to be about education, har work, and perseverance, but today the system is rigged to such an extent that the middl class life is the prize on a scratch-off lottery ticket. The revelation of the corruption behin the financial crisis has put the very idea of the middle class and the American Dream, a 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 th middle class. But the losers in those bets weren't Goldman Sachs investors—they wer millions of Americans whose sole crime was to optimistically buy into the American Drea only to find it had been replaced by a sophisticated scam.

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

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

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

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

At least forty-five states have imposed budget cuts that hurt families and reduce vit services to their most vulnerable residents. Those affected include children, the elderly, th 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-nin states have made cuts to public health programs, twenty-four states have cut programs for th elderly and disabled, twenty-nine states have cut aid to K–12 education, and thirty-nine stat have cut assistance to public colleges and universities.

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

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

But instead that money has gone to the banks without any fundamental reform of th system, without any strings attached or edicts about how much they have to lend to help th real economy recover—or, indeed, without even having to tell us what they did with ou 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 nee a cut that will affect 1.4 million people, two-thirds of whom are children. This pla 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-incom 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 ar hearing services.
- Michigan, Nevada, California, and Utah have eliminated coverage of dental and visio services for those receiving Medicaid.
- Alabama has canceled services that allow 1,100 seniors to stay in their own home instead of being sent to nursing facilities.
- Georgia has cut $112 million from an initiative designed to reduce the gap in fundin 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 healt 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 fo foster children.
- Massachusetts is making cuts in Head Start, universal pre-K programs, and services t prepare special-needs children for school.

Keep in mind, all these services are being cut at a time when more and more people ar 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 ou national debate. I'm referring especially to the people who had steady jobs; people wi college degrees; people who were paying their bills, saving for retirement, doing the rig thing—and who have, in many instances, lost everything. The daily miseries being visite 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 b Northeastern University's Center for Labor Market Studies that broke down th unemployment rate by household income. Unemployment for those making $150,000 a yea the study found, was only 3 percent in the last quarter of 2009. The rate for those in th middle income range was 9 percent—not far off the national average. The rate for those i the bottom 10 percent of income was a staggering 31 percent.

These numbers, according to the *Wall Street Journal*'s Robert Frank, "raise questions abo the theory behind what is informally known as ‘trickle down’ economics, since fu 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 b 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 we unemployed, would the measures proposed by the White House and Congress still be a anemic? Of course not—the sense of national emergency would be so great you’d hear ai raid sirens howling.

Instead we get policy Band-Aids—timid moves that will do little to abate a crisis th threatens to change the very fabric of our society. For much of our history, America wa known for its promise of upward mobility. That promise has been called into question ov 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 meag incomes into destitution,” wrote *New York Times* columnist Bob Herbert. “And such grueson gaps in the condition of groups at the top and bottom of the economic ladder a 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 yo look. Putting flesh and blood on the cold, hard statistics means putting the spotlight on th people whose lives were turned upside down as a result of our out-of-control financi system.

Ron Bednar and Mary McCurnin of Rancho Cordova, California, are a loving couple th got divorced last year, not because their relationship wasn’t working but because it was th only way to make ends meet. Due to unemployment and a bankruptcy caused by a prolonge illness, they found themselves with only $300 in the bank. By getting divorced, McCurn was able to collect Social Security widow’s benefits from her first husband, who died in 198 “We literally live from week to week,” she says.

Kimberly Rios of North East, Maryland, sold her wedding ring on Craigslist so she cou pay her utility bills. “This is no joke, please be a serious buyer,” her ad read. “It is too co for us to be without electric and heat so if you have been looking consider my deal.” Aft selling her ring, she locked herself in her bathroom, pretending to take a shower, so she cou 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 th this was a good thing.”

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

Ricky Macoy of Quinlan, Texas, is a fifty-two-year-old electrician who found himse among the long-term unemployed. With little work since late 2008, he began pawning h possessions, including his tools, and holding yard sales to get enough money to feed h family. “The thing that hurt the most was we had to hock my son’s PlayStation 3, his Wii, h electric guitar,” Macoy says. “We lived a good life. Middle-income America, man. I’m used t 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 th day and attending classes at night—dreaming of one day being able to move her family out o their apartment and buy a house. In August, she was laid off from her $100,000-a-year job a an attorney—and then struggled to find a new position. “I applied for jobs at Target, Macy’ as a camp counselor,” she says. “I’ve been on many interviews, but the comments I get 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 kid don’t understand,” she says, explaining that the thing that hurt the most was having t disappoint her children when it came to things such as birthday visits to Disneyland th family could no longer afford. “I’d love to make their dreams come true, but right now w just have to focus on getting by.”

There are, sadly, millions of these stories. Stories crying out to be told. Stories that, if tol 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 inability to “reveal” the Vietnam War: “The press got all the facts (more or less)…. But never found a way to report meaningfully about death, which of course was really what was all about.” And Tom Wolfe, in “The Birth of ‘The New Journalism’: Eyewitness Report discusses conventional journalism’s inability to capture the turbulence of the 1960s: “Yo can’t imagine what a positive word ‘understatement’ was among both journalists and literat … The trouble was that by the early 1960s understatement had become an absolute pall Well, it’s happening again—we are failing to capture the turbulence of our times wi narratives that allow the public, and force our leaders, to connect with the pain and sufferin 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 ca about the horrible state of the British working class. So, in 1845, he wrote a novel, *Syb* which warned of the danger of England disintegrating into “two nations between whom ther is no sympathy … as if they were inhabitants of different planets.” The book became sensation, and the outrage it provoked propelled fundamental social reforms.

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

Now, I realize that most of what we are served up under that rubric is actually the farthe thing from reality. The exploits of Snooki, Jake the Bachelor, and all those Real Housewiv 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 (an

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

Enter *Undercover Boss*, the CBS reality show in which corporate CEOs don disguises ar spend a few days experiencing what it's like to be a low-level worker at their companies. It the kind of popular entertainment that can start out as one thing—a fun, high-concept reali show—but morph into something that affects the zeitgeist by shining a spotlight on just ho out of touch America's corporate chiefs are. And their cluelessness is not just about the jol 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 but invisible on network TV. But now, week in and week out, millions can see wh downsizing and Wall Street's demands for ever-greater productivity and earnings margins d 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 the workers did—now they make three hundred times what their workers make. That's the kir 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 four 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, whi the top 20 percent made $159,583—a disparity of 1,500 percent, the highest gap eve 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 Henr 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 th United States grew by 25 percent—making the suburbs home to the country's biggest ar 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 ha 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, Canad Germany, Denmark, Norway, Finland, Sweden, and even the often-reviled France hav greater upward mobility than we do. Here are the numbers:

- Almost one hundred million Americans are in families that make less in real income tha their parents did at the same age.

- The percentage of Americans born to parents in the bottom fifth of income who wi 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 b 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 pushe down, it's becoming harder than ever to move up. In a study of economic mobility, Isab Sawhill of the Brookings Institution and John E. Morton of the Pew Charitable Trusts wrot "The inherent promise of America is undermined if economic status is—or is seen as—mere a game of chance, with some having the good fortune to live in the best of times and som the bad luck to live in the worst of times. That is not the America heralded in lore ar experienced in reality by millions of our predecessors."

And yet it's certainly the reality being experienced now, and, at least in part, the realit 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 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 th reality of millions of American families that are measurably worse off because c 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 millio of those were manufacturing jobs, the kind of jobs that have traditionally delivered America families into the middle class—and kept them there. We lost 1.2 million manufacturing jol in 2009 alone. And while job numbers go up and down, the loss of these blue-collar jobs ha been going on for decades.

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

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

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

According to Thomas Philippon, professor at New York University's Stern School c Business, the financial industry made up 2.5 percent of America's GDP in 1947. By 1970, 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. busine profits. As MIT professor Simon Johnson recounted in the *Atlantic*, between 1973 and 198 the financial industry's share of domestic corporate profits topped out at 16 percent. In th 1990s, it spanned between 21 percent and 30 percent. Just before the financial crisis hit, stood at 41 percent.

That's right—over 40 percent of the profits of the entire U.S. corporate sector went to th financial industry. James Kwak, coauthor of the Baseline Scenario, a leading blog o economics and public policy, explains why this is a problem: "Remember that financi services are an intermediate product—that is, we don't eat them, or live in them, or put the on in the morning. They are supposed to enable a more efficient allocation of capital, so th the nonfinancial economy is more productive. But what we saw since the 1980s was th 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. An those who have paid the highest price are the members—and former members—of America middle class. According to *New York Times* columnist Paul Krugman, "A growing body o analysis suggests that an oversized financial industry is hurting the broader econom Shrinking that oversized industry won't make Wall Street happy, but what's bad for Wa Street would be good for America."

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

Unfortunately, it was more of a Bush 43 mission accomplished than an *Apollo 13* missio accomplished. That's because the bill passed by the Senate, like Bush's ship-deck ceremon 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 create a Glass-Steagall-style firewall between commercial and investment banking, ke taxpayers on the hook for future bailouts, and left open dangerous loopholes in the regulatio of derivatives. In D.C., crafting a bill without loopholes would be like baking bread witho 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 o 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 t foreclosures—we've made virtually no progress. While Washington and the media we consumed with the titanic debate over this reform bill, talk of the actual suffering by actu people in the actual economy was virtually a taboo subject, at least judging by how rarely made the front pages or led the TV news.

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

Her conclusion: "Many people are now just aiming for 'financial security' as their America

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

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

Their children and grandchildren who recently graduated from college aren’t faring an better. According to *BusinessWeek*, the 1.6 million new grads hitting the job market with the expensive degrees are confronting a youth unemployment rate of almost 20 percent—“th 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 s only by accepting less pay and taking on a higher share of their health-care costs. “M company didn’t eliminate my job, they just eliminated my salary,” said marketing directo Mike Cheaure. “I was back at work as a freelancer the next day working at one-fourth of th pay and no benefits.” The experience has made him very familiar with the new reality. “Fo 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 the jobs and rely on welfare because states are cutting back on child-care services that allowe them to keep working. And kids were left scrambling to find something to do this pa 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 turned out the spending surge was economically imbalanced. As the *Los Angeles Times*'s Do Lee put it, the “little-noticed reality” behind the “encouraging numbers” was that “much the new spending [had] come not from America’s broad middle class but from a small slice affluent people at the top.” In fact, according to the Labor Department, the richest 20 percen of American households accounted for 40 percent of all spending.

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

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

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

Then there is the Merkley-Levin amendment that would have prohibited banks fro making risky proprietary trades—a version of the Volcker Rule. It also never even made it 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 sho 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 Washingto 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 whic I'm stuck in a forest and I can't find my way out. I have a friend whose version is that h feet are stuck to the ground and she can't move. Not a bad description of our leade 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 Economic Research found that the effects of unemployment can have troubling implicatio 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 opinio about the effectiveness of democracy."

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

But isn't wringing our hands over the loss of manufacturing jobs the twenty-first-centur equivalent to nineteenth-century concerns about America turning from an agrarian socie into an industrial one? Isn't America's future to be found in newer, better, more mode 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 valuab than jobs in the Wall Street casino—they're also more valuable than service jobs: "Makin goods is on balance—with exceptions—more productive than providing services, and risin productivity is the fundamental source of prosperity," says Madrick. "A major nation must b able to maintain a balanced current account (and trade balance) over time, and goods are f more tradable than services. Without something to export, a nation will either become ove indebted or forced to reduce its standard of living."

In other words, in the absence of manufacturing, the only way to compete with Thi 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 ar disappearing. According to the Hackett Group, a business and technology consultanc companies with revenues of $5 billion and over are expected to take an estimated 350,00 jobs offshore in the next two years alone—nearly half in information technology, and the re in finance, procurement, and human resources.

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

Do you hear that? It's Ross Perot's giant sucking sound being cranked up to a deafenin roar—and it's about a lot more than NAFTA. Accenture now employs more people in Ind than in America. IBM is headed in the same direction. And the horizon looks even darker. June 2008 Harvard Business School study found that up to 42 percent of U.S. jobs—mor 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 no just about cost control. "What used to be a tactical labor cost-saving exercise," the Booz Alle Hamilton study says, "is now a strategic imperative of competing for talent globally." I other words, America's talent pool—especially when it comes to professions such as enginee and computer scientists—is drying up. At the same time the demand for these highly skille workers is growing, the number of Americans earning master's degrees and PhDs i engineering has fallen.

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

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

It's not too late to change course. The financialization of our economy didn't just happe Decisions were made that made it possible—and decisions can be unmade. But first we nee to decide, as a country, what kind of economy we want to have: one that's good for middl 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 t transfer income and wealth from outsiders to insiders, while increasing the fragility of th economy as a whole." When the chief economics commentator at the *Financial Times* i sounding like the second coming of Karl Marx, you know things have gotten way out of hanc

THE ECONOMIC CORONARY AROUND THE CORNER

Another potentially catastrophic problem headed our way is our mounting debt. And no, I' 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 13[illegible] 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 ou attention, while the future doesn't have many advocates—it's always something we can get t later. There once was a time when we could get away with pushing our problems down th road, secure that our reserves would always bail us out. There was a strong safety net t catch those who fell through the cracks. Well, those reserves are gone now and the safety n is frayed and full of holes.

PERVERTED PRIORITIES

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

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

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

Partisanship pop quiz time. See if you can identify the bleeding-heart liberal who said thi "Every gun that is made, every warship launched, every rocket fired signifies, in the fin sense, a theft from those who hunger and are not fed, those who are cold and not clothe This world in arms is not spending money alone. It is spending the sweat of its laborers, th 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 fe months after taking office—a time when the economy was booming and unemployment wa at 2.7 percent. Yet today, while America's economy sputters down the road to recovery an the middle class struggles to make ends meet—with more than twenty-six million peop unemployed or underemployed and record numbers of homes being lost to foreclosure—th "guns versus butter" argument isn't even part of the national debate. Of course, today, th argument might be more accurately framed as "ICBM nukes, predator drones, and missil defense shields versus jobs, affordable college, decent schools, foreclosure prevention, an fixing the gaping holes in our social safety net."

We hear endless talk in Washington about belt tightening and deficit reduction, but hard a word about whether the $161 billion being spent in 2010 alone to fight wars of choice 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 propose freezing all discretionary government spending for three years—but exempted militar spending, even though the defense budget has ballooned over the last ten years. According t defense analyst Lawrence Korb, who served as assistant secretary of defense in the Reaga administration, the baseline defense budget has increased by 50 percent since 2000. Over th same period, nondefense discretionary spending increased less than half that much.

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

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

This is not about ignoring the threats to our national security. And it's certainly not abo pacifism. To quote then Illinois state senator Barack Obama in 2002, "I don't oppose all war … What I am opposed to is a dumb war." Iraq was never about making us safer. And th original rationale for going to war in Afghanistan—taking on al-Qaeda—has bee accomplished, with fewer than one hundred members of the group still operating in th country. The irrationality of continuing to spend precious resources on wars we shouldn't b 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 Baghda was to Iraq—Joint Chiefs of Staff chairman Admiral Michael Mullen told an Afghan lead that the goals of the surge, as well as defeating the Taliban, included, in the words of th *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 ar treasure—to provide jobs for the people of Kandahar? It's like a very bad joke: "The goo news is, the Obama administration is ramping up a multibillion-dollar program that wi 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 ove there, so we don't have to fight 'em over here." Today, it seems, we're fighting to create jol for 'em over there, while we don't have enough jobs for our people over here. At a tim when so many middle-class families are reeling from the economic crisis—and our country facing the harsh one-two punch of more people in need at the exact moment social servic 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 fiscal crisis as "a crisis of priorities." And Representative Barney Frank, who has been one the few in Washington arguing for the need to cut military spending, says that our milita overcommitments have "devastated our ability to improve our quality of life throug government programs." Looking at the money we've spent on Iraq and Afghanistan, Fran says, "We would have had $1 trillion now to help fix the economy and do the things for ou people that they deserve."

The National Priorities Project (NPP) provides a useful online tool that brings this budg trade-off to life by showing—specifically—all the things that could have been done with th money spent on Afghanistan and Iraq. For example, according to the NPP, since 2003, mo 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;