


JARED BERNSTEIN

All Together Now

Common Sense for a Fair Economy



Jared Bernstein provides a smart look at the American economy, one deeply rooted in American values. *All Together Now* explains the importance of having an economy that puts people first and ensures a fair shake for all.

— SENATOR JOHN EDWARDS

An Excerpt From

***All Together Now:
Common Sense for a Fair Economy***

by Jared Bernstein
Published by Berrett-Koehler Publishers

CONTENTS

Acknowledgments ix

INTRODUCTION

Ready or Not, You're on Your Own 3

CHAPTER ONE

Risk Shifting, from Coolidge to Katrina 13

CHAPTER TWO

The Economist behind the Curtain 37

CHAPTER THREE

The "All Together Now" Plan 60

CHAPTER FOUR

How to Talk to a YOYO 95

CONCLUSION

It Takes a Movement 117

APPENDIX

Do YOYO Policies Yield Better Economic Outcomes? 131

Index 145

About the Author 155

Risk Shifting, from Coolidge to Katrina

ON AUGUST 29, 2005, the powerful hurricane Katrina hit the U.S. Gulf Coast, flooding 80 percent of New Orleans. An estimated one million people were evacuated from the area, though many of the poor, old, and ill were unable to leave and seek higher ground. Moreover, those left behind were overwhelmingly African American. The nation watched in horror as death and destruction flashed across our TV screens. We were inured to seeing such events unfold in third-world countries. How could they possibly occur in a major American city?

Equally unbelievable, the government response at all levels was late, insufficient, and widely considered by all sides to have been lethally bungled. President Bush, on vacation at the time, appeared not to grasp the magnitude of what was occurring until a day or two later. Even then, he was uncharacteristically off-key in his response. His initial comments that “America will be a stronger place” for going through the disaster seemed like spin, especially given the inadequate federal response.

As the tragedy wore on, the feds and local politicians started blaming each other. The Federal Emergency Management Agency, though created to react to such emergencies, was particularly inept.

As reported by *Los Angeles Times* journalist Peter Gosselin, FEMA underwent a renaissance under Clinton, “speedily responding to the 1993 Mississippi flood, the 1994 Northridge earthquake, and other disasters.” When George W. Bush was elected, he gave the job of heading FEMA to his campaign manager, Joe Allbaugh, who criticized his new charge as “an oversized entitlement program,” suggesting that states and cities would be better off relying on “faith-based organizations.”¹

Much of the public became transfixed by the disaster and its aftermath. For the media, it was all Katrina, all the time. As an economist who often comments on government data releases, I was asked in every interview about the economic impact of Katrina for weeks after the storm. As the days wore on, we learned to our disbelief about victims dying in homes, in hospitals, and on the flooded streets of their cities, especially New Orleans. It seemed incomprehensible that we as a nation would be unprepared for such an emergency, especially after the terrorist attacks of 9/11.

Right underneath the surface of all this anxiety could be felt the pulse of a critically important national discussion about the role of government. A critique of the political and social philosophy I’m calling YOYO (“You’re on your own”) coalesced amid the storm’s wreckage. To be sure, there were those who dismissed the significance of FEMA’s performance as just another example of governmental failure, but these were largely anti-government ideologues whose views appeared to be out of step with the mainstream. Few took seriously the notion that less government was necessary, before or after the event. To the contrary, the conservative majority in the federal government immediately began spending billions (over \$60 billion in the first week, with billions more to follow, the most ever in response to a natural disaster) to redress the damage.

A conversation broke out on the op-ed pages, in blogs, in letters to the editor, wherein citizens actively wondered if we’d gone too far down the YOYO path. Liberal columnists like Paul Krugman

lambasted the administration, connecting the dots between its ideology of individualism and its failure to rise to an occasion of such dire need. In an op-ed entitled “Killed by Contempt,” he wrote:

The federal government’s lethal ineptitude wasn’t just a consequence of Mr. Bush’s personal inadequacy; it was a consequence of ideological hostility to the very idea of using government to serve the public good. For 25 years the right has been denigrating the public sector, telling us that government is always the problem, not the solution. Why should we be surprised that when we needed a government solution, it wasn’t forthcoming?²

Letters to the editor during this period express with crystal clarity the stakes invoked by hyper-individualism. One letter argued that this breakdown of the social contract was directly related to the “starve the beast” mentality of those who would cripple the government by cutting off its revenue stream. The writer went on to assert that, contrary to the belief of those in charge, “‘the beast’ is not government. It is the insolence of those who believe that helping one’s fellow citizens is not a duty, but an option.”³

Another letter writer summed it up this way:

We have a president . . . and a Congress whose agenda is to privatize risk by reducing public financing and dismantling public safeguards, including bankruptcy, Social Security, health insurance, and environmental and disaster protections.

The level of the government’s response to Katrina was as predictable as the hurricane itself. You get what you pay for.

This is what an ownership society looks like. This is what an ownership society means: we are each of us on our own.⁴

Even conservative columnists such as David Brooks talked about the hurricane’s aftermath as a unique opportunity to use the tools of government to address the deep economic and social inequities that remained so stark even as the floodwaters receded.⁵

I’m not citing those letters and opinion pieces because I think

they're right. I do, but what of it? There are surely letters and op-eds saying just the opposite. I'm citing them because they so precisely capture my point. Even before Katrina, many of us shared a sense that something was wrong with the extent to which we were shifting economic and social risks from shared sources to individuals. The privatization efforts by the government, the defunding of safety nets, the decision of businesses to drop worker pensions, changes in corporate norms that in earlier times protected jobs but now made workers more disposable—all of these ongoing risk shifts were already leading to a heightened sense of YOYO-induced insecurity. But the storm, and particularly its aftermath, shoved these concerns to the front burner for a growing number of citizens.

AFTER THE STORM:

A POTENTIALLY TRANSFORMATIVE MOMENT

Eventually stories of the flood receded from the front page, but the sentiments remained. As I mentioned, part of my job is to debate national economic policy, and I'm well aware that two economists hammering it out on CNBC as to whether the Bush tax cuts really created jobs, or whether the Federal Reserve should raise interest rates, seems more like weird entertainment than something that might yield useful insights. Yet, in the post-Katrina world, the discussion felt a lot more urgent. Suddenly, something important seemed to be riding on whether we could blithely add more than \$100 billion to the deficit for rebuilding hurricane-damaged areas while engaging in further tax cuts for the wealthy. All of a sudden, we stumbled upon a potentially transformative moment in history and politics.

After the storm, at least for a while, there was a sense that it matters how we as a nation handle the responsibility of economic policy (and by *we* I mean the electorate, a bunch of people who collectively decide whom we appoint to set the nation's agenda). It mat-

ters how we approach the big problems of the day: globalization, national health care, taxes, our stagnating and ever more unequal incomes. But it also matters how we approach the problems in our everyday lives.

The incredibly uneven quality of our public schools, the eroding quality and cost shifting of employer-provided health care and pensions, the increasing insecurity of all jobs, not just those in manufacturing—all these problems link back to an ongoing shift in the way we view the role of government in our lives. That view has evolved from a mind-set that dates back to the Depression. Under that mind-set, which persisted until about a generation ago, more of us had a greater sense that we're all in this together and that it is our right and our privilege as a society to take the needed steps to ensure our economic security.

We've lost that sense. With the ascendancy of YOYO philosophy, we've lost the ability to come together and create the government we need to meet the economic and social challenges we face at every level. Under YOYO, we can neither shape the way globalization plays out in our lives, nor invest in quality education in our neighborhoods.

It is of course not the only important shift that's occurred. Obviously, our electorate is closely divided along various lines, and I discuss this aspect of the problem in chapter 4 (how can we come together when our views and values seem so different?). But tragedy has a way of pushing our differences into the background. Red stater or blue stater, any one of us could have been caught in that storm, just as any of us could be caught in the sights of terrorists. In Katrina's aftermath, there existed, at least for a few weeks, an uneasy sense that the path down which YOYO politics has been taking us is as dangerous as it is unsustainable. And of course, many of us felt this long before the New Orleans levees gave way.

In this regard, when he asserted that America may well be a stronger place once we recover from this devastating blow, the

president may have been right. But ironically, it will be because we once again see the danger in the type of government that his administration, with the help of the Congress, has so aggressively been pursuing. The Katrina debacle was a terrible wake-up call, reminding us of the costs of losing sight of our connections to each other.

**THE ATTEMPT TO PRIVATIZE SOCIAL SECURITY:
A YOYO CASE STUDY**

So that is where we are.

Our response to Katrina exposed the underbelly of the opportunity society and in that sense makes the task of this chapter—to present the drawbacks of such a society—easier. But before we go back in time to explore the roots of hyper-individualism, let's develop a better understanding of the problem by examining a present-day example of YOYO in action: the attempt by the Bush administration to change Social Security from a program that guarantees a benefit to a program that draws at least part of the benefit from a privately held account invested in the stock market.

The plan to partially privatize Social Security by giving individuals the opportunity to invest a portion of their Social Security payroll taxes in financial markets is, or really was, the major economic initiative of President Bush's second term. Under this plan, the government would no longer guarantee a pension; instead, a pension would partially be a function of how well an individual did in the stock market during his or her working years.

In this chapter, the goal is less to critique this idea, and others like it, than to deconstruct it. What characterizes these initiatives and what do they tell us about where their advocates are coming from? Where are these ideas taking us?

As its second term got under way, the administration of President Bush was working tirelessly on selling Social Security reform.

Like a pop star promoting a new CD, the president toured sixty cities to make his case. But other than the handpicked fans that came to the “concerts,” the dominant consensus seemed to be that the new tunes weren’t very catchy.

Which raises the question: why, after a seemingly endless campaign yielded another narrow victory, did the newly reelected administration turn to a major restructuring of a program so popular with the electorate that it has been called a third rail, “killing” any politician reckless enough to touch it?

The Stated Objections

The “reformers” claimed to be motivated by concerns that Social Security would be unable to meet its financial obligations. But there were two pretty big problems with making this case. First, the program is not in nearly as bad a shape fiscally as its opponents have claimed. It’s sound for about forty more years and may require relatively small tweaks thereafter. And second, private accounts don’t change the fiscal outlook one bit. It’s simple arithmetic: we can address a fiscal shortfall by raising taxes or cutting benefits, and both were off the table.

In fact, the administration never had the chutzpah to put forth a plan. Some administration officials did say they liked a few ideas, including most recently, one that reduces benefits for recipients with higher family incomes. Needless to say, that didn’t get very far. One of the treasured aspects of Social Security is its universal application: it’s not a “means tested” poverty program. This is an important distinction, because programs for the poor end up being underfunded and politically unpopular. Thus, introducing an income test to Social Security was widely regarded as a back-door attempt to weaken it.

The case against Social Security was also overshadowed by a real wolf at the door: the American health care system. The

nonpartisan Congressional Budget Office has made this clear time and again, showing that the combination of an aging society and fast-rising health care costs means that health care spending is slated to sop up much, much more of our future resources than Social Security. (For the record, health care costs are by no means a burden only for the public sector; they are an equally serious problem in the private sector.) And let's face it, whatever you believe about Social Security's finances, the tax-and-spend policies of the Bush administration do not reveal much concern for fiscal sanity. Why, then, should its officials come out swinging so hard against Social Security?

The fact is that Social Security has long been in the YOYOs' sights. While federal health care spending will grow much faster than Social Security in the coming years, Social Security has characteristics that keep hyper-individualists up at night.

The Real Objections

First, it's a big government program on which many people depend. We spent about half a trillion bucks on Social Security in 2004, accounting for more than 20 percent of government expenditures that year. Social Security is the main source of income for two-thirds of the elderly. For YOYOs seeking to eviscerate the government, such a huge program, no matter how popular, is too important a target to ignore.

But it's the very idea of Social Security that really goads them. Social Security takes a universal challenge—the need to protect the vulnerable (the program officially insures against old age, disability, and the loss of a spouse, but for brevity, I'll just refer to the old-age component)—and shares the responsibility of meeting it among members of the working generation, whose income supports the aged.

Though I grant you that we rarely discuss it in these terms, Social

Security creates a strong link between the aged and the working-age population. The idea behind the program is that today's workers create the capital, the technology, and the wealth that will support tomorrow's generation. Embedded in its mind-numbing formulas is the notion that those of us who came before, whether they were teachers, accountants, homemakers, mail carriers, barbers, cashiers, or lawyers, have built up the productive capacity of our nation. When the children of these workers come of age (along with new immigrants), they will earn their living from this infrastructure while also making their own contributions. As they do so, we will peel off some portion of their earnings to provide pensions for their forebears, just as those forebears did for their own predecessors. If this were a Disney movie, music about the "Circle of Life" would swell up here, but suffice it to say, Social Security is an elegant collaborative solution to a universal challenge.

The YOYOs want to put a stop to all this cozy intergenerational sharing. Instead of using today's earnings to pay for today's retirees, they want you to be able to invest a portion of your Social Security payroll taxes into a go-it-alone "individual account."⁶ Thus, Social Security stands as a testament to the benefits of collective action, of pooling the risks associated with becoming too old to work, or losing a spouse, or becoming disabled. Private accounts, conversely, are a great example of the "You're on your own" approach to these causes of income loss. Some people would come out ahead under such a scheme, but many would not, and those with the lowest incomes and the least investment acumen (or the least time and the fewest resources to develop such acumen) would be least likely to benefit.

Moreover, according to the work of economist Robert Shiller, it's likely that the majority of retirees would end up with a less economically secure pension than they have under the current system.⁷ It's not that the stock market is always a worse bet than the reliable, albeit boring, Social Security investment in government

bonds, the safest vehicle on the road. It's really more a tortoise-and-hare situation.

For most people, the slow and steady investment in government bonds under the current system yields higher returns at retirement than the stock market would. One reason is that the need for a pension grows with the age of the worker. Thus, if the employee/investor is unlucky enough to hit retirement age during a down market, too bad. Sure, it might be possible to keep working and investing, but down markets can last years. The bottom line: most people don't want to gamble with their pensions, which is why the private-account campaign has been such a bust for the YOYOs.

One researcher, for example, examined the hypothetical case of someone who retired at age sixty-five in 2000 (when financial markets were booming) versus another who retired in 2003 (when they were tanking). After forty years of investing 6 percent of his salary in a 401(k)-type plan and retiring in 2000, Happy Joe Boom could have bought an annuity that would give him 134 percent of his pre-retirement income per month for the rest of his life. But Sad John Bust, who made the same investments but retired three years later, would receive only 57 percent.⁸

In this same spirit of risk aversion, it's also worth noting that Social Security as currently structured provides benefits until death. You can outlive the returns from a private account.

Now, I wasn't there when the administration officials came up with the idea of selling privatized Social Security. But I'll bet the possibility that private accounts could underperform the current universal "We're in this together" system, with its publicly held assets, never occurred to them. The YOYO ideology led these officials to assume that you're always better off when you're out for yourself. The idea of dismantling the "third rail"—to create millions of independent investors while surgically removing the collectivist heart of a policy that connects Americans across

generations—also had appeal. YOYOs are unsettled by a system wherein the retirement of today’s older generation is financed by a new immigrant working a construction site as well as a young urban professional beginning a career in finance.

It’s revealing that this latter point has not been the line of defense for keeping the program intact. Instead, those against privatization have promoted the work of analysts, like Shiller, who show that relative to the current system, individual investors could lose a hefty chunk of their retirement funds in the market.

I’m not sure why no one thought to tap Social Security’s collective risk-sharing aspects in its defense. Maybe they tried it and it polled badly with a focus group. But I doubt it. It may be the case that those who oppose privatization (and who argue at most for small alterations to the current program) are stuck in the dominant frame of “What’s better for me?” That is, they probably believed that they’d never convince the general population with arguments about pooling everyone’s risk under the banner of intergenerational interdependence. So they never proposed the alternative frame: We’re all in this together; we’ve all got productive years and retirement years ahead of us; there’s a time to sow and a time to reap. How, then, can we best come together to tap our resources to meet this challenge?

I readily grant that the other frame — “What’s better for me?” — is by no means unappealing, and the interesting question for someone of my persuasion is, what if the numbers had worked out differently? What if they had showed that a privatized system did yield better results? In that case I’d move to a hybrid that tapped the power of the market but preserved the core collective aspect of Social Security.⁹ Once the program is privatized, once one huge pool becomes a million puddles, something inherent that binds us together is lost. A privatized program would chip away at our fundamental connectedness. Under such a system, when I walk

down the street as an aging baby boomer, I would no longer see younger generations contributing to my old age while building the economy for the progeny of their fellow citizens. I would see a bunch of competitors in the stock market.

OTHER YOYO INITIATIVES:

KNOW THEM WHEN YOU SEE THEM

Social Security reform is the most visible example of where the hyper-individualists want to take us, but the promotion of Health Savings Accounts is an equally telling example of their thinking. As described in fascinating detail in an article by Malcolm Gladwell in *The New Yorker*, the idea of HSAs is to shift the risk of paying for illness from the largest pool to the smallest, from society at large to individuals.¹⁰

HSAs are already on the books, although, like the idea of injecting private accounts into Social Security, they're not very popular. They work by setting up an individual account—see the pattern?—where you can deposit money, tax free, to use for health care. If you're young and healthy, or think you are, you can use the money to pay for that rare visit to the doctor while your account grows, since you can invest the account funds just like IRAs. The plan also requires that you own a low-premium, high-deductible insurance plan against “catastrophic illness.”

The way the YOYOs see it, the plan will save the system money by shifting more costs from the insurer to the “health care consumer,” or sick person, thus providing a new disincentive to go the doctor (as though you need another one). Essentially, the plan gives individuals an incentive to gamble: if they stay well, they can save tax free. But if they fall ill before they've had time to accumulate much in the account, they're going to be worse off than if they'd stuck with a typical plan under the current system. Interest-

ingly, the early research shows that this is precisely what's happening: people in HSAs spend more on out-of-pocket expenses and premiums than people in traditional plans.¹¹

Let's look for a moment at what the Social Security and HSA plans share. In fact, a few core themes emerge that are useful markers for recognizing YOYO initiatives. Both deal with significant risks: in the case of Social Security, old age (and disability and the loss of a spouse); in the case of HSAs, illness. Both plans meet these risks by encouraging individuals to manage their own accounts, building up the reserves they need to finance their own retirement or health care needs.

The first thing to notice is that both plans rely heavily on the market. They work off the assumption that if individuals are given the right incentives, two things will happen: people will take the necessary steps to meet the risks in question, and the market will respond appropriately. In the case of Social Security, that response equals an investment portfolio that reliably beats the current system (which it doesn't, as Shiller has shown).

With the health accounts, the idea is to make consumers better shoppers. In a speech touting this aspect of the policy, President Bush argued that there's not enough "comparative shopping" in health care, noting that you wouldn't shop for tile or insulation that way. "You don't know whether the guy next is going to offer a better deal when it comes to some kind of medical procedure," he said.¹² Later we'll discuss the huge inefficiencies triggered by this approach, but here, the point is to see the YOYOs' fundamental belief that health care is just another commodity to be priced on the open market. They believe that what's driving health costs is too much insurance held by too many people who are not conscious enough about cost savings. The idea behind HSAs is that the actions of account holders will create the competition needed to drive down prices and provide a better set of choices for consumers.

Never mind that trying to meld health care and markets got us deep into this mess in the first place, that health care ain't tile, that every other advanced economy has solved this conundrum with universal coverage, that it doesn't make sense to give people an incentive to put off going to the doctor, or that those with low incomes will be hard-pressed to build the account or meet the high deductible. And never mind that HSAs can't really control costs anyway, because the big spending in health care is for the expensive procedures that will always be covered by insurance. No one's going to pay for heart surgery out of pocket. For YOYOs, it's all markets, all the time, and don't let the facts get in the way.

Second, such initiatives aim to shrink the role of government. YOYOs don't just rely on the market; they generally also view government with outright hostility. Some of this is only in theory: they spend a lot of federal dollars despite their rhetoric. But their rap clearly casts government as an impediment to be gotten around. Granted, that opinion is not exceptional these days, as most Americans are quite skeptical of the government's ability to act efficiently, a skepticism boosted almost monthly (think Katrina).

And that's exactly the way the YOYOs want it. It's another important theme we'll see popping up throughout: if you're running the shop, it's not that hard to prove to your constituency that government is ineffective. You staff it with incompetents, slash its income, decry it from the bully pulpit, and sit back and watch your self-fulfilling prophecy come true.

A related theme here, one that comes out in the brief history that follows, is that, in contrast to their mistrust of government solutions, YOYOs have a reverence for corporate solutions. They reflexively believe that private firms, acting in their own interest, will promote the wider interests of society as well.

Third, YOYO initiatives avoid sharing resources and risks. To the contrary, they create individual silos. Clearly, a goal of their

policies is to put the individual, not the group, at the center of the solution. This grows out of their faith in incentives. The hyper-individualist fears that pooling risks erodes a person's incentive to meet risks. People provided with universal health care, for example, will have less reason to take better care of themselves and avoid frivolous uses of the system. (Jargon alert: economists call this proclivity "moral hazard," which occurs when insurance allegedly leads you to engage in riskier or more expensive behavior than you otherwise would.)

Another YOYO account-based initiative, Personal Reemployment Accounts, floated by the Bush administration in 2003, also reflects this theme. Although Congress opposed the creation of PRAs at the time, they recently resurfaced as part of the administration's plan to rebuild the Gulf Coast.

These accounts were designed with the belief, one supported by some evidence, that people receiving unemployment insurance aren't always in a rush to find a new job.¹³ The PRA thus establishes an account for the job seeker that can be spent on employment-related activities, like job training or career counseling. An unemployed worker who finds a job before exhausting the account gets to keep the difference. Clearly, this approach is designed to counteract the moral hazard in the current unemployment insurance system.

Finally, there's the personal anti-terrorism account . . . Just kidding, but the pattern is incredibly clear.

These initiatives sound pretty reasonable, no? The classically trained economists have probably all bailed out by now, but if any are still with us, they're probably thinking these ideas make some sense. Yet, as the lack of acceptance of these ideas reveals, the people feel otherwise.

And the people have got it right. The three principles cited above—freer markets, less government, and more individualism—are fundamentally flawed when it comes to retirement, health care,

and unemployment, not to mention the slew of other big-ticket challenges we face, like globalization and rising inequality.

The YOYOs get it wrong because they mistakenly ascribe the source of both the problem and the solution to the individual. But these challenges are bigger than an individual's ability to fix them, even for him- or herself. Take unemployment: while the traditional unemployment insurance program implicitly assumes the problem is on the demand side—there are too few jobs—the PRA embeds the notion that what stands between an individual and a new job is her reluctance to get off the dole and get to work. In the real world, where a weekly benefit check replaces about half an average worker's earnings, most families can't rely on unemployment insurance to make up for lost wages. What has held such job seekers back, especially in the absence of tight labor markets over the past thirty years (a tight labor market is one with very low unemployment), isn't the enticement of a benefit check nearly as much as it is the scarcity of decent jobs. By obsessively focusing on the moral hazard, the YOYOs aim their policy fix at the individual and miss the real target: the lack of good job opportunities.

There is of course a place for tapping the immense and creative powers of the private market, for sending out accurate "price signals," for worrying about moral hazards, and for getting the individual incentives right. But that place is not around health care, pensions, unemployment, and a slew of other risk-laden issues that loom large in today's economy.

What is it about these particular aspects of our economic lives that makes them inadequate candidates for market solutions? For one, they are areas of the human experience that entail risks we all share, and even if we don't experience them—if we never fall seriously ill or experience a spell of unemployment—our economic security is greatly enhanced if there's a safety net in place. You might hope that the private market would respond to this need, but that turns out to be both impossible (because some people simply

can't afford to purchase a personal safety net) and highly inefficient (because the benefits of very large risk pools are lost).

Second, markets fail, and they fail at many levels. There are big-time market failures like stock market or housing bubbles, massive layoffs, and recessions. Then there are the midlevel failures, ones that may not throw the economy off track but will certainly entail huge costs for their victims. I'm thinking here of firms that go bankrupt and renege on their pension promises, or industries hard-pressed to compete in global markets where the deck is stacked against them. (U.S. manufacturers face a huge disadvantage when Asian countries manipulate their currencies to make our exports more expensive, for example.) Then there are the everyday failures, like the lack of health care coverage for about 75 percent of the jobs in the low-wage labor market, or the steady pace of layoffs, now more numerous even in good economic times.

Third, these areas involve social goods, and you can't count on the markets to price or provide them at a level that will work best for most of us. If you want to accurately price future options on pork bellies, the market is your best bet. If you want to set the right price for access to health care, look elsewhere.

As discussed next, history shows that these matters are best dealt with either outside the market, by pooling both risks and responsibilities, or inside the market, but with a dose of regulation to steer it in a direction that works best for the most people. History also shows that when we've tried to ignore this lesson, we generate astounding levels of inequality—of wealth, income, and opportunity.

HOW EVER DID WE GET HERE?

One could view the history of economic and social policy in America through the lens of the tension between YOYO (“You’re on your own”) and WITT (“We’re in this together”). In each period

we seem to locate ourselves somewhere on the continuum between them, and whenever we go too far to one side, we slide back to the other.

Contemporary social policy begins in the 1920s, a period that has much in common with what we're living through today. A few decades before then, as the Industrial Revolution hit its stride, America was introduced to the new captains of industry, people like Andrew Carnegie and John D. Rockefeller. The political power of these unimaginably successful industrialists—their ability to determine the standard of living for millions of Americans—caught the attention of muckraking journalists, progressive policy types like Louis Brandeis, and President Theodore Roosevelt, whose administration brought a large number of antitrust suits against these men (the most memorable being the 1911 case that broke Rockefeller's Standard Oil monopoly).

Yet once this burst of progressive regulation played out, the tide began to turn toward the unregulated accumulation of wealth. The sensibility of the time was that the muckrakers and regulators thoughtlessly (or in the minds of some, socialistically) handcuffed the “invisible hand” of free-market economics. Regulatory commissions were denounced by Republican leaders, and President Coolidge summed it up with his famous declaration that “the chief business of the American people is business.”

What ensued was the largest increase in the concentration of wealth in the history of the data, and almost surely in the history of our country. As figure 1.1 shows, the 1920s era of wealth accumulation has only one competitor: our own era.¹⁴

There's a lot to be said about this trend. Why does it occur? What is responsible for the peaks and valleys of inequality? Why is inequality a problem? I will address those questions later, but for now it is important to recognize some characteristics that the two periods share.

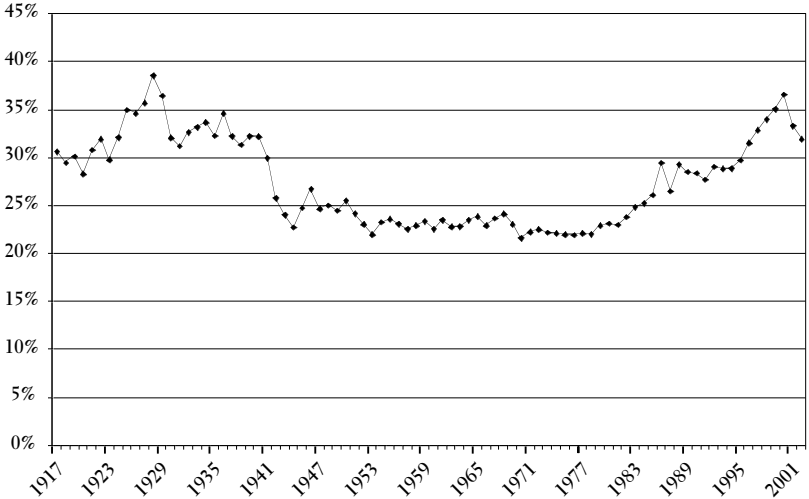


FIGURE 1.1

The share of the nation's income going to the top 5 percent of the population, 1917–2002.

[SOURCE: Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913–1998," *Quarterly Journal of Economics* 118, no. 1 (February 2003): 1–39.]

Most significantly, in both the 1920s and the 1980s, when the gap between rich and poor began to widen, the federal government consciously constrained its regulatory role, allegedly to promote business interests. Regulations to prevent monopoly power in the earlier period, or to set minimum wages, preserve union power, or provide welfare or unemployment insurance benefits in the latter era, were denounced as doing more harm than good. If only the chains of socialist regulation could be broken, it was said, the unleashed power of the market economy would provide for all.

What about this claim? Figure 1.1 shows these sentiments to be closely tied to sharp spikes in inequality, but that could be an ancillary effect of the economic turbocharge that the deregulators take credit for. Yet the evidence doesn't support their claims at all. It

never has. It takes about an hour on the Internet to collect the relevant statistics. The United States' bottom line, the gross domestic product, did not grow faster during those periods, nor did employment, investment, or most importantly, productivity, the measure most associated with a successful economy.

To spare you a statistical pit stop, I've relegated to the appendix the evidence comparing the growth rates of these variables over different periods. There you will see that during periods wherein large, regressive tax cuts were sold as ways to promote faster investment, better job growth, and higher productivity, the cuts didn't have those effects at all. In the Reagan and Bush II eras, YOYO economics generated annual GDP growth rates of 3 percent and 2.6 percent, the lowest in the table, with data going back to 1949. Same for investment growth, same for employment growth. Worst of all, those years saw the slowest growth of real income for the typical (that is, the median-income) family.

I won't go so far as to claim this is a slam dunk against the cheerleaders for the freest possible market. They can, and do, make all kinds of arguments about why such simple comparisons are inadequate. Any economy always has millions of moving parts, and one could argue that productivity growth over the Reagan years never took off because . . . well, I can't think of why, but I'm sure someone has.

But here is the slam-dunk, hole-in-one, surefire case made by these historical comparisons: YOYO policies—massive tax cuts for rich people, privatization, deregulation—are unequivocally not associated with better macroeconomic outcomes. They demonstrably have not led to faster growth, in terms of GDP, employment, or productivity. What they have done, at least in the two periods highlighted above, is led to huge redistributions of wealth.

And wealth isn't the only thing redistributed during these periods. Economic risk was also shifted squarely onto the shoulders of the less advantaged. As the rules and norms of those eras evolved, the

less economic or political clout a person had, the less he or she was insulated from the inevitable upheavals of a deregulated economy.

The greatest cataclysm of all, the Great Depression, followed the excesses of the 1920s, and it gave rise to a very different approach to managing economic risk. Few need reminding of the conditions of that era, when unemployment, hunger, and homelessness soared to unprecedented heights. The majority of Americans came to understand that we needed to pool some amount of our resources to do a better job of looking out for one another.

But memories of this era have faded, and while there still exists considerable poverty amid the plenty in America, we've seen nothing like the devastating economic conditions of the 1930s. As our collective memories fade, opportunistic YOYOs have built a movement to reverse the policies that reflect the shared values that grew out of that era. The results can be seen in the inequality trends above, and in the unwillingness and inability of government to face the pressing challenges of the day. But even though this profound policy shift is very much upon us, its nature is not always obvious. We are thus lucky that some clever and dedicated people have recognized the problem and are documenting it.

RISK SHIFT: THE YOYOS' MODUS OPERANDI

Much like Gottfried Leibniz and Isaac Newton, who, working separately, discovered the calculus at the same time, an economics reporter and a Yale professor discovered that a historically important shift was occurring regarding economic risk. Over the last few decades, a period when the accelerated pace of globalization and technological change was ratcheting up economic insecurity, the government programs, corporate practices, and cultural norms that provided insulation from such insecurities sharply diminished. The result was a huge shift in risk from these larger bodies to individuals.

In 2004, Peter Gosselin of the *Los Angeles Times* began an eye-opening exposé of this phenomenon, entitled “The New Deal.” (For this series Gosselin won the Hillman Prize, an award for exploring social justice issues relevant to the common good.) The articles question why so many Americans’ sense of economic insecurity has expanded during an era when our nation has grown more prosperous. “The answer,” Gosselin wrote, “lies in a quarter-century-long shift of economic risks from the broad shoulders of business and government to the backs of working families. Safety nets that once protected Americans from economic turbulence—safeguards like unemployment compensation and employer loyalty—have eroded or vanished.”

As he tracks the evolution of the YOYO vision over the past few decades, Gosselin documents how its policies have exposed more and more individuals and their families to the risks inherent in our economy, including less secure employment, less reliable income trajectories (that is, more ups and downs than in previous periods), worse pension and health coverage, and less reliable public services. The result: the families he follows “are more vulnerable to sudden shifts in the economy than any time since the Great Depression. The result is a daunting ‘New Deal’ for many working Americans—one that compels them to cope, largely on their own, with financial forces far beyond their control.”¹⁵

In *The Great Risk Shift*, political scientist Jacob Hacker begins with a discovery that family income has become much more volatile in recent decades, jumping up and down much more than it used to. That’s a sign that something new and important is buffeting the living standards of working families. When Hacker goes looking for causes, here is what he finds:

In the past generation, in a wide range of areas—from health care and retirement planning to the job market and the balancing of work and family—the responsibility for economic risk has shifted

from the government and corporations to workers and their families. Some of this shift has been deliberate. Witness the steady cut-backs in workplace health insurance, and corporations' movements away from offering traditional guaranteed pensions in favor of offering "defined-contribution plans" that place the investment risk on workers. Yet a good deal of the Great Risk Shift results not from action, but from *inaction*—from the failure of the government and the corporate sector to accommodate new social and economic realities, leaving families to bear the resulting risks on their own.¹⁶

Note that Gosselin and Hacker were writing about this phenomenon well before the administration of George W. Bush was offering future Social Security recipients the chance to play the stock market with what would otherwise be a guaranteed pension. And, of course, neither had any idea that a force-five hurricane would collide with years of YOYO politics to expose its inherent contradictions.

As I write the closing words to this chapter, our nation is debating exactly these issues of risk shifting. And as I cited above, the op-eds and letters to the editor are replete with warnings about where the YOYOs are leading us. None of this, however, means we are at a turning point.

The YOYO agenda is creeping back into place. Prior to Hurricane Katrina, Congress was planning to come back from its summer recess and cut \$70 billion worth of taxes on dividends and capital gains, make the estate tax cut permanent (a tax that reaches the tiniest sliver of the richest of the rich), while also cutting \$40 billion in Medicaid (health insurance for the poor), food stamps, child-support enforcement, student aid, and skill-enhancement programs for workers in need of retraining. The optics of the post-Katrina moment were such that the Congress shelved those ideas for a while. But this type of fiscal policy is pure YOYO—cut taxes for the wealthy and spending on the poor—and it was back for Congress's consideration about six weeks after the storm.

Fear not. Later chapters focus on what needs to happen to push those ideas back off the table. But to put a stake through a bad idea's heart, you need to know where it gets its strength. It turns out that the discipline of economics has evolved in such a way as to form the intellectual underpinnings of YOYO. We turn now to an examination of the way in which these two highly potent forces have come to interact.

this material has been excerpted from

***All Together Now:
Common Sense for a Fair Economy***

by Jared Bernstein

Published by Berrett-Koehler Publishers

Copyright © 2009, All Rights Reserved.

For more information, or to purchase the book,
please visit our website

www.bkconnection.com