#125

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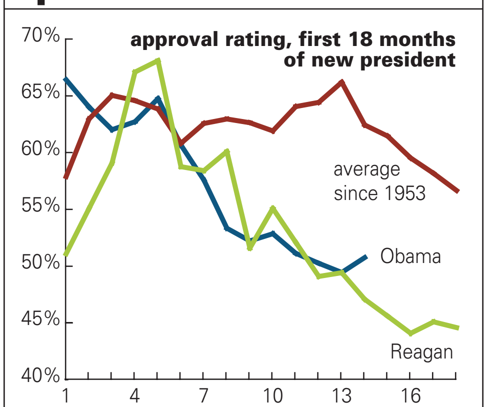
LEFT BUSINESS OBSERVER

INSIDE

upturn in 2011?



Obama started popular, but fell hard. He's tracking the new president with the worst course—Reagan, who also came into office in a recession, though his fortunes recovered with the economy in 1983.

How to learn nothing from crisis

This is the edited text of a talk given by ***LBO*** *editor Doug Henwood at the* Studies in Political Economy *annual meeting in Ottawa, January 29, 2010.*

Greetings from the USA, where a populist rebellion is underway. Let's take its measure.

First, for a moment it looked like Ben Bernanke faced rough sledding in his bid for a second term as chair of the Federal Reserve. In the run-up to the confirmation vote, a swelling roster of Senators of both parties said they wouldn't vote for him. Of course, when it was over, he won, 70–30—a squeaker as these things go, but a landslide by any reasonable standard.

One reason for Bernanke's unpopularity: he failed to acknowledge, much less deflate, the housing bubble back in 2005. Right, up to a point, but had he raised interest rates or cracked down on the availability of mortgage credit he would have faced…a populist outcry. American populists love nothing more than easy credit and rising house prices. But another reason for his unpopularity: pumping billions—trillions, if you're an aggressive counter—into the financial system after the bubble burst. If he hadn't done that, we'd all be wearing barrels. He could have done it more transparently and justly, but the principle of pumping aggressively to avert deflationary collapse has been pretty well established since the Fed didn't do that in the early 1930s. Populists used to love the idea of an elastic currency to prevent depressions, but now that the leading avatars of populism wear teabags on their heads, austerity is their favorite strategy.

Another sign of the populist insurgency is the new tone struck by the Obama administration—hostile to the banks. It's not for real, but let's forget that for now. The reason for the populist turn is, of course, the victory by Scott Brown in the special election to fill the Senate seat vacated by Teddy Kennedy. That victory seemed to overturn the laws of nature—the seat had been held by a Kennedy, first John then Teddy, from 1953 through 2009. (There was a two-year interregnum, filled by a placeholder, until Teddy ripened to the Senatorial minimum age of 30.) Imagine the shock when the dull, complacent Martha Coakley, who deemed campaigning on the chilly streets of Boston beneath her, lost the seat that seemed the Democrats' birthright.

Brown—a man who once posed nude for *Cosmo*, whose wife appeared in a music video suggestively squirting suntan oil, and whose daughter did a stint on *American Idol*—isn't your standard issue Moral Majority-style candidate. But he does appeal to that other strain of populist rebellion, the Tea Baggers (or did—until he betrayed them by voting for a weak jobs bill).

Upsurge! It's amazing that amidst our worst economic crisis since the Great Depression, most of the dissent is coming from the right. Despite watching 8.5 million jobs disappear, much of the population has been passive while the bankers got billions and the jobless got an average of $305 a week in unemployment benefits—if they were lucky. Unlike the 1930s, there's been no upsurge of union organizing, plant occupations, or solidarity with those facing foreclosure. Tea Partiers are enraged by the march to socialism being engineered by Barack Obama, particularly through his health insurance reform scheme and $787 billion stimulus program. Never mind that the health insurance scheme was from the first designed to be friendly to the medical–industrial complex, and never mind too that a third of the stimulus program consisted of tax cuts and zero New Deal-style jobs programs. Despite that, the Tea Baggers are setting the political agenda. At first, it seemed odd that the Republicans, despite having lost the 2008 elections badly, had so much influence on political discourse, and despite showing no interest in cooperating with the administration or Congressional Democrats, were courted by the Dems. Now it looks like the right wing of the Republican party, or a fringe group that finds the Republicans too establishment, is exerting a weird gravitational pull not merely on speech but also on policy.

Who are these Tea Baggers? They were nicely described by Ben McGrath in *The New Yorker* as a collection of "footloose Ron Paul supporters, goldbugs, evangelicals, Atlas Shruggers, militiamen, strict Constitutionalists, swine-flu skeptics, scattered 9/11 "truthers," neo-'Birchers'" and, of course, 'birthers'—those who remained convinced that the President was a Muslim double agent born in Kenya." Though no one has yet done the rigorous sociological work, they look to be a movement of middle managers, professionals, and retirees—the petite bourgeoisie, to use the old language. The classical working class seems more disenfranchised than ever.

Top view. To that pessimistic view of the "grass-roots," let me add a gloomy diagnosis of our elite. Our rulers have learned nothing from our brush with economic death. The initial response of both the Bush and Obama administrations has been to spend enormous wads of public money on trying to restore the *status quo ante bustum.* One would like to think that McCain lost the election in November 2008 because he represented that status quo—and that Barack Obama represented, if only in fantasy, a fresh departure. Those hopes have proved misplaced. There's been almost no effort to stiffen financial regulation to avoid future catastrophes.

Let's step back to last May, when the chair of the Council of Economic Advisers, Christina Romer, gave a talk at the Council on Foreign Relations in New York, a trade association for the old northeastern Establishment. (See **LBO** #119 for more.) Romer said that what the U.S. economy needs is a smaller financial sector, higher levels of real investment, and a more equitable distribution of income. She noted that the high consumption days of the U.S. economy were past, and that we needed new sources of growth. Government couldn't be a fertile source of jobs—after the stimulus, it would retrench. Residential investment was tapped out after the long bubble. Exports weren't likely to help much, since the rest of the world wasn't thriving. So it had to come from business investment—mainly green technologies. She was also critical of the growth of finance over the last few decades. She said that "bubbles waste talent"—people who should be doctors, engineers, and teachers end up doing deals instead.

In the Q&A following her talk, an audience member observed that most of the people in the room made their money over the last 20 years on "outsized returns" available in the financial markets. Were they going to have do something different? "Make things," Romer answered. That evoked a hiss from the audience.

Romer's exhortations were high-minded, and not without appeal. But her boss has done almost nothing to promote such an agenda. You're not going to get the sorts of green investment she's hoping for without massive government involvement, a mix of subsidies and coercion. There's no way those policies could get through today's Congress—not that the administration is about to try. There was a little of this stuff in the stimulus bill, but not much, and what was initially proposed got watered down. Republicans and conservative Democrats think that solar power and bullet trains are for citified pansies. Even cap-and-trade, a compromised and Goldman Sachs-friendly approach to reducing greenhouse gas emissions, is dying in the Senate. Popular opinion is hostile to a carbon crackdown. If there were an elite consensus in favor of it, popular opinion could be steamrolled, but there's no such elite consensus.

And Romer's touching plea to a roomful of financiers to transform themselves into makers of things died the second she uttered it. Finance is back to making outsized profits and paying itself enormous bonuses. It's one thing when Wall Street is booming while the rest of the economy is doing sort of OK, as it did in the mid-2000s, or better than sort of OK, as it did in the late 1990s. It's another thing entirely when the rest of the economy is still bleeding jobs, as it is now. That disparity has provoked a formless rage among the American population, a rage without any constructive outlet—not an unprecedented situation in American politics.

Structures. I see the U.S. as being in the midst of several structural crises. There's the economic crisis—and not just the immediate one, caused by the housing bust. That was the culmination of a process long in the making. The capsule history would be this. In the 1970s, the American ruling class was faced with several interrelated problems. Abroad, having just lost Vietnam, the U.S faced a crisis of imperial authority. The Third World was demanding a bigger slice of the pie. Oil and other commodity exporters were nationalizing resources. Japanese and European competition was hammering U.S. manufacturing. At home, the streets were full of demonstrators, women and minorities were agitating against white male privilege, and the working class had developed a serious attitude problem. Corporate profitability, which had peaked around 1966, had been drifting lower ever since. From the point of view of the U.S. ruling class, things were slipping out of control.

That class eventually engineered a very successful crackdown. It had several dimensions. First, in 1979, Jimmy Carter,

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blindly following the recommendation of David Rockefeller, appointed Paul Volcker chair of the Federal Reserve. On taking office, Volcker announced that the U.S. standard of living must decline, and then made it happen. He drove interest rates towards 20%, provoking the deepest recession since the 1930s. That terrified the U.S. working class, and drove Latin America into debt-crisis-induced depression.

Just over a year after Volcker's ascendancy, voters put Reagan into the White House. Reagan's major contributions to the class war were firing the striking air traffic controllers, signalling open season on the unions; cutting taxes on the rich, signalling that all social constraints on wealth accumulation were suspended; and rebuilding U.S. military power, signalling that the era of imperial reticence following Vietnam was over.

It all worked splendidly. Unions were broken, wages stagnated, and Latin America was restructured using the club of debt. Corporate profitability bottomed out in 1982 and began a fifteen-year surge. But—and this is a very big but—an economy that was dependent on high levels of mass consumption and a political system that depended on the same thing for its legitimacy had to figure out how to keep spending up while wages were heading south. The answer, as we all know, was debt: household liabilities more than doubled relative to income between 1982 and 2008. The ratio has since come down a bit, but not by much.

So here's the structural crisis: profitability was restored, but at the cost of fostering unsustainable levels of personal debt. The profit boom and the upward redistribution also gave rise to a gusher of cash that flowed into the financial markets, prompting a proliferation of incomprehensible instruments of mind-boggling vastness. The ratio of financial assets of all kinds to GDP more than doubled between 1982 and 2007. That too has come down a bit, but not by much. The financial sector's share of corporate profits nearly tripled over the same interval.

False twilight. During the heat of crisis last year, it looked for a moment like that whole model of debt and financialization was on the verge of collapse. Things now look to be going back to what I hesitate to call normal. Debt ratios have picked up a bit, and the financial sector's share of corporate profits, after falling by more than half, is back to its old highs. Bankers are paying themselves like it's 2006 all over again. Since the crisis broke out, policy has been designed to get the credit machinery running again, and while it's not yet ready for the drag strip, it is picking up speed.

A while back, we heard a lot about how the U.S. economy badly needed deleveraging—get debt levels down. But it's clear that we can't live with that. Nor can we live with balancing our international books—we still need to import more than we export and borrow the difference. Given the evisceration of U.S. manufacturing over the decades, it's not clear how we could change that anytime soon; there's no domestic consumer electronics industry, for example. But even a recession as deep as the one we've just been through came nowhere near balancing our current account. The current account deficit did fall by half from its peak, but to a level that was still unsustainably huge.

Failed transformation. The U.S. needs something like the transformation envisioned by Romer, but that's not happening. Which brings up the next structural crisis: the political and intellectual one. Neither the U.S. elite nor the U.S. electorate is capable of analyzing our problems coherently, much less coming up with solutions, and much much less adopting them. And that's not just our problem.

For a little while it almost seemed like Obama's election might represent some sort of departure for the U.S.—a willingness to rethink the stupid verities about minimal government and the vital private sector that we grow up hearing. I never bought the line that he was some sort of progressive, but I did, for a now almost un-recallable instant, think he was a grownup who could prod a maturing country in a more sensible direction. The model wouldn't have been the New Deal, even—maybe something more like the Progressive Era, meaning a more sensible, organized, regulated capitalism without a major redistributionist component.

But that was not to be. From the first, he was hot for compromise with the party that his had decisively beaten. Why? One reason is that the discursive grip of Ronald Reagan remains unchallenged. For evidence you need look no further than Obama's State of the Union address—despite making some Romerish noises about necessary transformations, he couldn't stop from bragging about all his tax cuts and praising the wonders of our private sector. The fact that this private sector's major innovations—computers, the Internet, pharmaceuticals—have been made possible by very generous public subsidies can't be spoken in public. And he couldn't resist closing the address with the phrasing introduced by Reagan: "God bless America." No public address is complete without invoking our status as the new chosen people.

Actual transformations. That address was a core sample of American political pathologies. In the days leading up to it, the White House assured us that Obama would make a "hard pivot" towards jobs. Sounds not so bad. But how did he go about this? With an ineffectual tax break for small business. Businesses invest when they have the cash and think that their future sales will be strong; neither is the case now. Adding a tax break won't change this. To help working families, as they like to say, he proposed an expansion of the child care tax credit—which would apply to one in twelve families, to the tune of $0.88 a day.

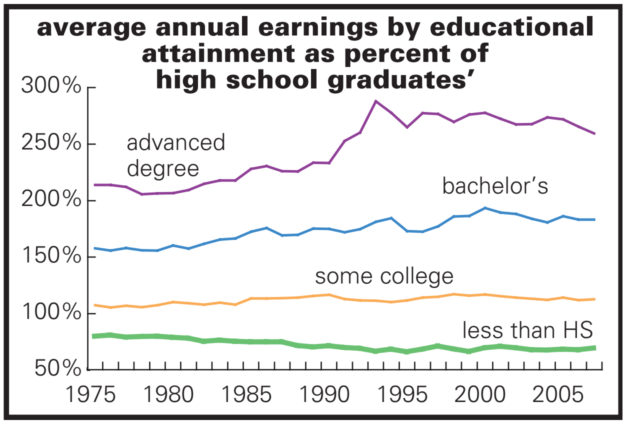
And on top of those micro-initiatives, he added a dose of austerity: a three-year freeze in domestic civilian discretionary spending. (For more on the budget, see p. 6.) The Pentagon will be allowed to flourish. For the moment, entitlement programs like Medicare and Social Security—which are funded automatically under current law, the opposite in budget-speak from discretionary, which must be funded annually by Congress—will be spared. But much of the good stuff that government does—nutrition, environment, education—will be squeezed. Announcing this, administration officials bragged to the press that the freeze will bring this category of spending down to its lowest share of GDP in 50 years. You can't fund a Romeresque transformation out of that. And an anonymous administration official told the *New York Times* that this freeze was intended as a first step in a plan to build political support for an attack on entitlements, meaning Medicare, Medicaid, and probably Social Security as well.

But it's not just the discursive grip of Ronald Reagan that provokes these things. It's also the structural situation of the

(cont. on p. 7)

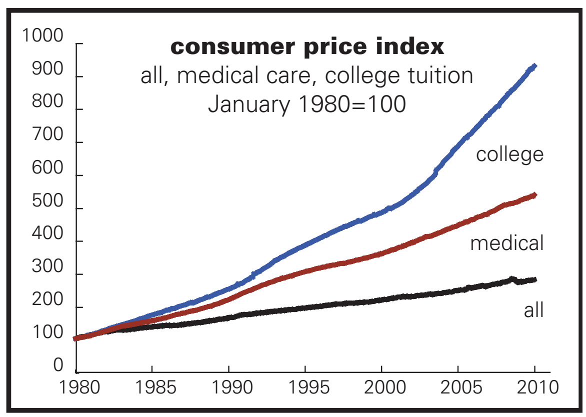
I'm borrowing my way through college...

As everyone knows, the way to get ahead these days is by accumulating degrees. A rising education premium, as they say in economics, is the favorite official explanation for the increase in inequality over the last three decades. That's far from a complete explanation, of course—it overlooks the decline of unions, for example—but there's no doubt that the further you get in school, the more money you make. The problem is that it's getting harder to pay the freight.



Graphed nearby is that legendary education premium. Note first how badly high-school dropouts have done. Back in the mid-1970s, they earned about 20% less than those who got a diploma; that deficiency has expanded to over 30%. The advantage for those with more than high school has grown substantially—though that trend mostly topped out by the late 1990s. As of 2007, the average college graduate earned 83% more than a high school grad; those with advanced degrees, 159% more. By the way, the increase in the education premium has been particularly strong for women; although the male bachelor's premium is larger than the female, the patriarch's advantage has narrowed considerably over the last three decades.

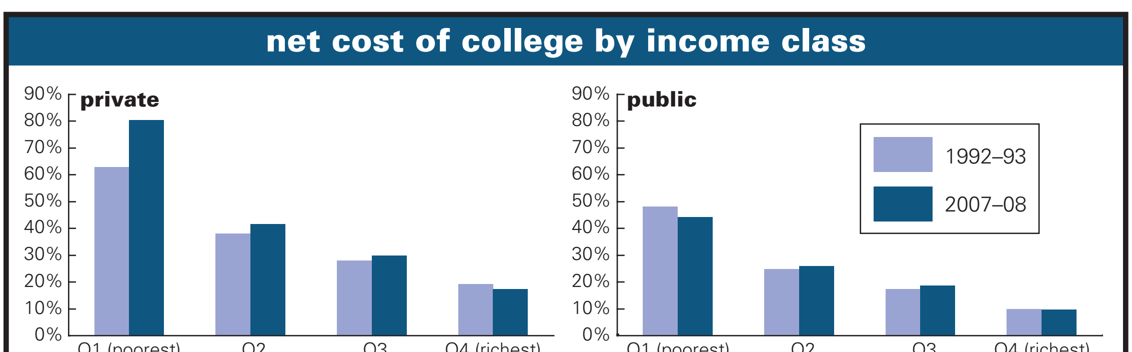
Inflation. But how the price of grabbing the credential has risen! Inflation in college tuition almost makes the medical kind look reasonable. Since 1980, the overall consumer price index is up 179%; that for medical care, 436%; and that for college tuition and fees, 827%. And while medical inflation actually slowed a bit between the 1990s and 2000s, college inflation actually accelerated.



Such rates of inflation leave family incomes in the dust. According to the College Board, posted annual costs—and in this and all subsequent cases that means tuition, fees, room, and board—for attending the typical private four-year institution were 26% of average (median) family incomes in 1979; they're now 58%. For public four-year institutions, the bite went from 12% to 25% of average incomes over the same period. In other words, the burden relative to incomes roughly doubled for both, and the cost of attending a public university now is almost as heavy as the cost of attending a private one three decades ago.

Of course, as the old saying goes, only suckers pay retail. There is aid available, especially for poorer families, and not all of it loans, which greatly reduces the costs of attending college. The College Board makes a big deal out of this in its annual reports on the costs of higher education. But many barriers remain.

Take, for example, the Board's estimates of net costs of attendance—tuition, room, board, and fees less grants—relative to incomes. (See nearby graph.) In 1991–92 school year, the net cost of attending a four-year public institution for a student from the poorest quarter of the income distribution was around 48% of that group's average income; by 2007–2008 that had fallen to 44%. At least it hasn't risen—but 44% is still an impossible number, especially a family with an income of $20,000, the quartile's recent average. For the richest 25%, the burden was steady, at around 10% of family income. For private universities, the net cost for the poorest quartile went from 63% to 80% over the same period; for the richest, it *fell* from 19% to 17%. For those in the middle two quartiles, the burdens stayed fairly steady, falling between these extremes. But even for a family in the second-richest quartile, average income around $80,000, a year at a public college still cost about 19% of income *after* grant aid. Of course, better-off parents have savings to dip into, or grandparents to put the touch on. Still, students from all but the richest families have to borrow to a public university. No wonder two-thirds of college graduates now emerge with massive debts—an average of $23,200 in 2008, up 24% from 2004.



Average net costs of attendance—tuition, room, board, and fees less grant aid but before work-study and loans—for private and public four-year colleges and universities as a percentage of income by income quartile (25% slices of the income distribution, from poorest [Q1] to richest [Q4]) for the 1992–93 and 2007–08 academic years. Net costs from College Board; quartile incomes estimated by **LBO** from Census Bureau annual quintile income data.

Access. These costs are keeping students from poorer families out of college. Thanks to the invaluable work of Tom Mortenson, publisher of *Postsecondary Education Opportunity* <www.postsecondary.org>, we've got an excellent handle on how this has played out over time. Overall, 17% of Americans had a bachelor's degree by age 24 in 1970. By 2008, that had risen strongly, to 29%. But, as the graphs on the top of p. 5 show, this increase has been driven mainly by the children of the well-off. The share of kids from the bottom 25% of the income distribution getting a degree by 24 rose from 6% to 9%; for the top 25%, it rose from 55% to 95%. Looked at another way (as the graph on the right does), the offspring of the bottom quarter accounted for 12% of bachelor's achieved by age 24 in 1970; that *fell* to 9% of the total in 2008. The share accounted for by the top quarter rose from 52% to 54% over the same period.

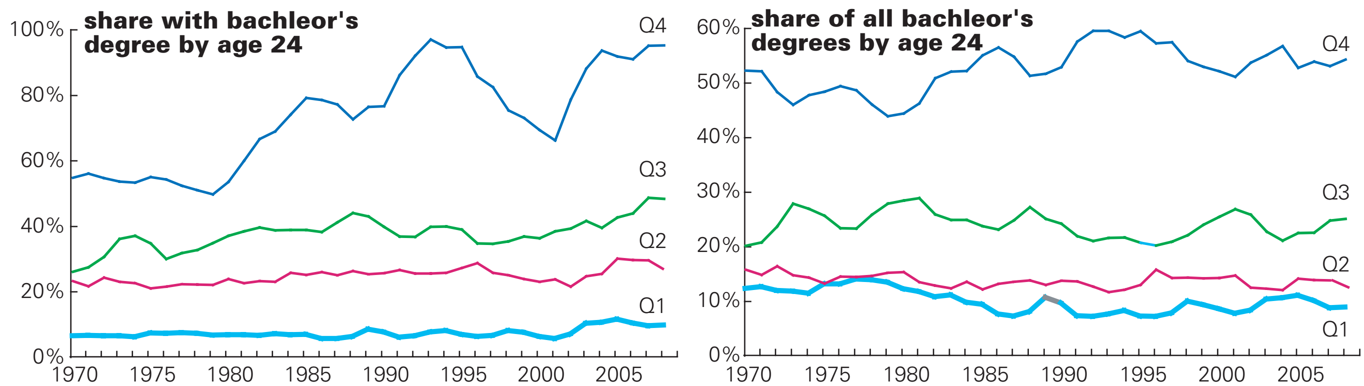
Clearly there are a lot of cultural barriers for poorer people getting to college—and maybe some have no desire even to try. But there's no doubt that money is also a major factor.

Why? Why has the cost of college risen so sharply? To the right, the answer is simple. A 2005 paper by the Cato Institute puts almost the entire blame on Washington: overly generous federal subsidies have made it easy for universities to raise prices. Get Washington out of the college business, and the market will take care of the rest. It makes this preposterous argument with more quotes from Hayek than citation of actual data.

Another popular explanation, faculty salaries, doesn't really hold water. Average pay for full-time instructors since the early 1990s is running only slightly ahead of inflation—and the use of part-timers has proliferated. Universities have added some layers of management, but that can't explain a sustained inflation rate more than four times the overall average.

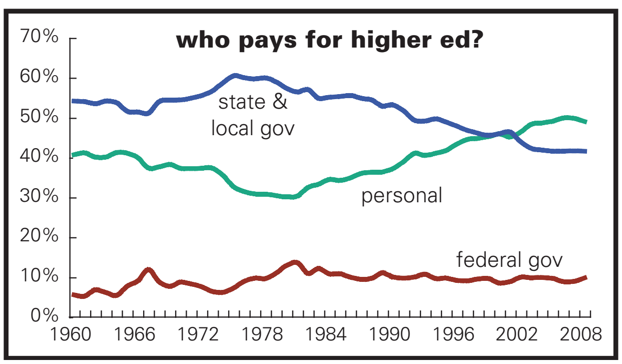
The real answers are slightly more complicated, though actually not all that terribly so. At the very high end, elite universities are in something of an "arms race" to get the most desirable students. They want to pamper and seduce, with everything from food courts to saunas to supercolliders. And since they typically offer poor students full scholarships, they can assuage any class guilt they suffer by presenting themselves as selection agents for the meritocracy—which they are to some degree, if not the degree they'd like to imagine. And given the swelling in the college premium, parents with the means to pay the bills demanded by Harvard and Yale are happy to write the checks, since the eventual degree will grease their kids' way to the hedge fund trading desk.

higher education: reproducing class or promoting mobility?



The graph on the left shows the share of offspring of each of the four quartiles of the income distribution gaining a bachelor's degree by the age of 24. The graph on the right shows the share of all bachelor's degrees earned by age 24 accounted for by the offspring of each of the four quartiles of the income distribution. Quartiles are 25% slices of the income distribution; the fourth quartile (Q4) is the richest quarter of the population, and the first quartile (Q1), the poorest. Data from Tom Mortenson, *Postsecondary Education Opportunity* (www.postsecondary.org).

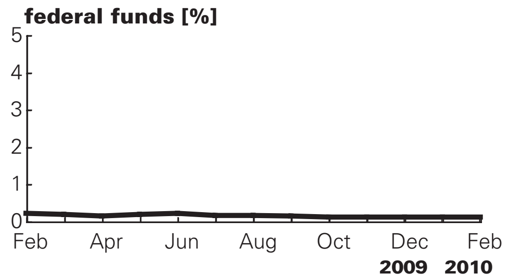
But the real crisis of college affordability is among the public institutions. And the reason for that is pretty straightforward: sharp declines in public support. For example, the University of Virginia, one of the so-called "Public Ivies," got 33% of its budget from the state in 1989; that was down to 12% in 2009. Tuition accounted for 19% of revenue in 1989—and 31% in 2009.

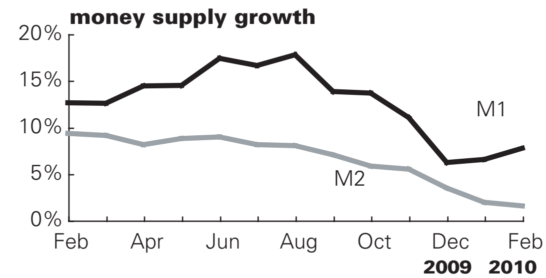


Overall, as the nearby graph shows, state and local funding has fallen hard since 1980, and students and their parents have taken its place. That reversed the trend of the previous twenty years. Between 1980 and 2008, the share of higher ed expenditures coming from government fell by almost 19 percentage points—the amount by which personal expenditures had to increase.

It would not be hard at all to make higher education completely free in the USA. It accounts for not quite 2% of GDP. The personal share, about 1% of GDP, is a third of the income of the richest 10,000 households in the U.S., or three months of Pentagon spending. It's less than four months of what we waste on administrative costs by not having a single-payer health care finance system. But introduce such a proposal into an election campaign and you would be regarded as suicidally insane. ❏

MONEY



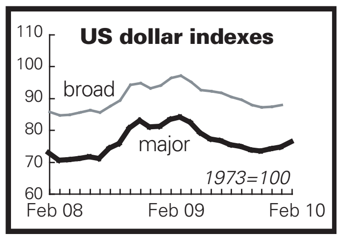


By raising the discount rate, the interest rate it charges troubled banks for emergency loans, from 0.50% to 0.75%, the Fed has signalled that it's thinking about how to withdraw the extraordinary stimulus it's provided over the last couple of years. But the move is almost entirely symbolic; it's not likely to tighten anytime soon. Elsewhere, the dollar has benefited from Greece's troubles as it becomes clear that the EU is not yet a competitive hegemon. Imperial decline takes time.

It's now the bourgeois consensus: time to start checking out the exit signs.

After a couple of years of unprecedented fiscal and monetary stimulus in most of the world's major economies, pundits and politicians are now getting exercised about the need to cut back. This is very dangerous stuff. For its entire history, the Obama administration has said that it doesn't want to repeat the mistake of 1937, when a bout of monetary and fiscal tightening—the result of pressure from Wall Street and orthodox economists—undid four strong years of recovery and threw the economy back into depression. The extent of that recovery is often underappreciated. The unemployment rate peaked at 25% in March 1933, and fell to 11% in May 1937—but rose back to 20% in June 1938. Of course, we're not that badly off now, but the jobless rate is only a hair off its peak, and already the orthodox are getting the upper discursive hand. Any serious tightening in policy could push the jobless rate over 12% inside a year.

Quite stimulating. It's already become conventional wisdom that the stimulus package did little or nothing (the centrist view) or made things worse (the yahoo POV). That's nuts. Elsewhere in this issue the claim is made that without it we'd all be wearing barrels. Of course, that's an exaggeration for rhetorical effect. On this page, **LBO** gets wonky, and so the proper thing to do would be to cite fresh estimates from the Congressional Budget Office (CBO) on the StimPak's effectiveness. While not quite barrel-dramatic, they're impressive. Using fairly cautious assumptions, the CBO figures that GDP is between 1.5% and 3.5% higher than it would be without what's officially known as the American Recovery and Reinvestment Act (ARRA); employment is 1.0–2.1 million higher; full-time-equivalent employment is 1.4–3.0 million higher (FTE is higher than overall employment because some people are working longer hours than they would have without ARRA); and the unemployment rate is 0.5–1.1 point lower. Though they don't come out an say this directly, from the numbers they publish it looks like the unemployment rate would still be climbing, instead of declining modestly as it has in recent months. And ARRA's effects are likely to continue into 2011.



All good news—but now you see President Changiness appointing a bipartisan commission to address the deficit problem. While many analysts view this as a classically cynical attempt to avoid facing the issue, it looks more like a search for respectable bipartisan cover for a post-2011 austerity program. As **LBO** argued in #124, over the very long term, big deficits are a problem, but they can easily be cured by paring back the military, taxing the rich, and introducing a single-payer health care system. Needless to say, that's the last thing that such a commission will recommend. Instead, it will almost certainly recommend cuts to Social Security and Medicare, a strategy on which the president has declared himself "agnostic," which is probably another word for "receptive."

Downer. Looking at Obama's proposed budget for fiscal 2011, which he unleashed on the world on February 1, isn't encouraging. In many ways it's reminiscent of Bill Clinton's budgets, which this page analyzed back in the 1990s: filled with high-flown rhetoric about Investment and The Future, but without the actual numbers to support it. True to that model, Obama's budget message intones the need for education, clean energy, and all the other accoutrements of The Future. But when you look at his proposed spending, you get *bupkes*, or close to it.

Overall, the fiscal effect of the budget will turn strongly contractionary as the stimulus program wanes. Spending will fall and taxes will rise. With the economy barely off its back, this is not good .

But things are discouraging even at the level of fine detail. Take, for example, energy conservation. On that, Obama would spend 0.01% of GDP for the next five fiscal years, no change from Bush. On general science and basic research, 0.08% of GDP, again, about the same as Bush. Pollution control and abatement, 0.05%, ditto. R&D projections only go out to 2011, not 2015, but Obama proposes to increase civilian R&D funding from 0.38% of GDP in 2008 to 0.44% in 2011. Energy R&D would double!—from 0.01% of GDP to 0.02%. Another big initiative: he'd raise federal spending on higher education from 0.16% of GDP at the end of the Bush years to 0.26% in 2015. Add together a few 0.1 point proposals, and you've got a real transformative agenda, eh?

Yeah yeah, there's Congress to contend with. But you'll never get anywhere if you don't even try.

We're screwed. ❑

learning nothing from crisis *(cont. from p. 3)*

Democratic party—a party of capital that has to pretend for electoral reasons that it's something else. So Dems make progressive noises to satisfy the base, but once in power, do the bidding of their funders. Sometimes these contradictory tendencies can be seen in one figure, like Obama himself, and sometimes in the wings of the party (e.g. the Progressive Caucus vs. the Blue Dogs). But in both cases, the more conservative faction, whether of personality or party, usually prevails. That's especially the case when there are no popular movements pushing them in a better direction.

The dominance of business interests in the Democratic Party isn't some recent, post-Reagan innovation. As a European analyst once put it: "The divergence of interests even in the same class group is so great in that tremendous area that wholly different groups and interests are represented in each of the two big parties, depending on the locality, and almost each particular section of the possessing class has its representatives in each of the two parties to a very large degree…. The apparent haphazardness of this jumbling together is what provides the splendid soil for the corruption and the plundering of the government that flourish there so beautifully." That was Friedrich Engels writing in 1892. How much of that description would you change today?

Popular concerns. That's not the whole story. Although a lot of liberals, and even more serious leftists, don't like to admit it, there's a deeply conservative streak in the American electorate, and not just the elite. The "common sense"—unschooled instincts imparted by upbringing and inherited ideology—of people in this country is individualist and self-reliant. You see rage expressed through polls and in the media, but, like I said, it's mostly formless. Sometimes it's directed at bankers, but sometimes it's directed at immigrants and the government.

Taking us back to where we started, a major reason for that formlessness is that American radicalism has had a hard time breaking out of the populist mode. That is, it posits a virtuous People being exploited by an often-nameless Elite. But there's no consistency in identifying the mechanisms of abuse—nothing like the clarity of the surplus value extraction of the classical Marxist model. It's usually petit bourgeois, directed against both the rich and the poor, often against urbanity—in both senses, the citified and the intellectually polished—and against bigness itself. It often posits a virtuous past of a competitive, self-reliant small-scale capitalism that has been usurped by corporate internationalists, and assumes that even if such a thing had ever existed, it would be desirable to return to that insular world.

The individualistic common sense of the U.S., or at least its white Protestant core, has become increasingly dysfunctional. The U.S. reminds me in many ways of a startup company that's grown so big that it needs a serious overhaul but is incapable of the necessary transformation. In the corporate example, you frequently see that the founders don't want to turn things over to professional managers. They want to keep running the show on instinct and animal spirits. But those aren't working anymore.

So too the U.S. The dog-eat-dog model of social Darwinism worked well (on its own terms) while the U.S. was growing rapidly in the 19th and early 20th centuries, but since growth slowed down in the 1970s, we've been in need of a rethink of the old model. But we're incapable of it. Instead, we've tried ever more reckless applications of debt to keep things going.

The recent financial crisis looked like a major affront to that approach, but we're now emerging from the crisis phase without things having changed all that much. The country seems to be rotting from within, but the political and ideological systems are incapable of recognizing that fact. I wish I could detach myself from the consequences and find it all amusing, in the style of H.L. Mencken. But I can't. Now I've got a kid who was born into this nuthouse, so I take it all more personally. I hope we can get our act together and make this a less brutal place. But it's hard to get hopeful. I guess this is what it's like to live in the midst of imperial decline. ❑

Chart details, facing page: *Fed funds, money supply,* and *debt:* year-to-year change, from Fed data. The fed funds rate is the interest rate banks charge each other for overnight loans; it is the most sensitive indicator of Fed policy. *Dollar indexes* are two of the Fed's indexes of the dollar's value;"broad" is composed of 26 currencies, and the "major," of seven. Data through 2/24/10.

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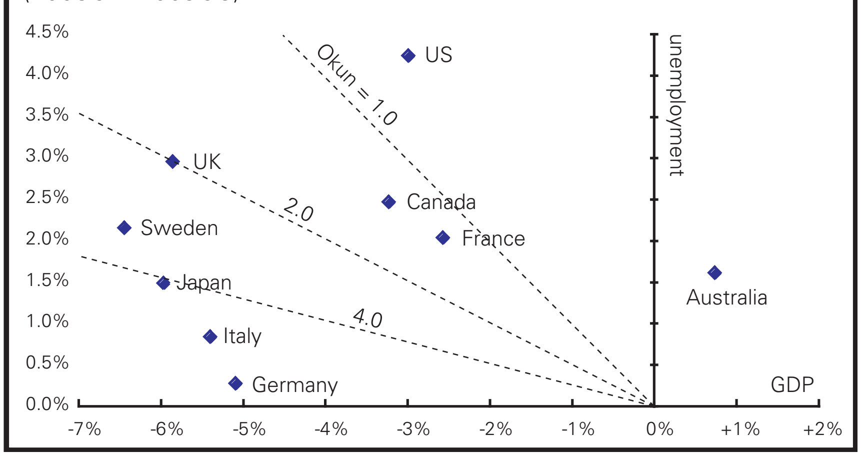
Okun. Back in the early 1960s, the economist Arthur Okun observed that it took GDP growth of 3% (adjusted for inflation) to lower the unemployment rate by one percentage point. Ever since, that relationship has been known as Okun's law. It's not really a law, since the exact number has varied over the years, but it is a well-established tendency. As the economy grows, employers can squeeze more out of the existing workforce by working it longer and/or harder. (The relationship also works in reverse.) As the economy shrinks, employers can shorten the workweek or, for a little while (a very little while), tolerate some slackening of effort on the job.

Okun's tendency has changed in the 48 years since it was first published. According to **LBO** number-crunching, since 1970, the so-called Okun coefficient for the U.S. has been closer to 2 than 3. That is, it takes about 2% real economic growth to lower the unemployment rate by a percentage point—or a 2% contraction will raise the jobless rate by a percentage point. And the relation between unemployment and growth is very tight: almost three-quarters of the movements in unemployment over the last four decades can be statistically explained by changes in the growth rate.

Things are looser in other countries. Australia, Britain, and Canada all have Okun coefficients a little higher than the U.S.—between 2.2 and 2.5, meaning that it takes a bit more growth to move the unemployment rate—and the statistical relation is noisier, with only about 50–60% of the moves in joblessness explained statistically by changes in GDP. But the relationship isn't all that different from the U.S.—not surprising, really, since the predominantly English-speaking economies are more loosely regulated than many others. Things get even looser when you move to the more tightly regulated economies. Germany has an Okun coefficient of almost 3; France, almost 4, Japan, almost 11; and Italy, almost 12. And the share of the movement in unemployment statistically explained by GDP growth is much smaller than in the Anglophone countries—roughly 40% in Japan, 30% in France, 14% in Germany, and less than 7% in Italy. In other words, employers are much slower to hire and fire, for reasons of both law and custom, in these countries than in the U.S. Curiously, though, Sweden's numbers are closer to those of the U.S. than the pokier countries—a story in itself.

How's Okun's law held up in the recent global recession? Depends on where you look, as the graph at the center of the page shows. (The dotted lines mark Okun coefficients of 1, 2, and 4.) In Canada and France, the unemployment rate has risen almost as much as GDP has declined (so they're close to the Okun = 1.0 line). It Italy and Japan, the jobless rate has risen considerably less than GDP contracted—they're 4.0 or higher. But in the U.S., unemployment rose by almost 5 points while the economy contracted by "only" 3%—an Okun coefficient of 0.6. So while this has been a rough recession measured by GDP alone, it's been absolutely savage for workers. Had the historical Okun relationship prevailed, the unemployment rate would have been under 7% instead of close to 10%.

Back in the 1990s, celebrants of the American way loved to cheer on our dynamism, in constrast to the stodgy old world. Clearly that dynamism works in reverse too—with a vengeance. Workers are more disposable today than they've ever been.



recession changes in GDP and the unemployment rate
(2008Q2–2009Q3)

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