

DECENT JOBS FORUM

A SERIES OF THE NEXT SOCIAL CONTRACT INITIATIVE

# A MOST UNDEMOCRATIC RECOVERY

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Unemployment over nine percent, the highest rate this far into a “recovery” in modern times, reflects only the surface of our problems. More troubling is that over six million American have been unemployed for more than six months, the largest number since the Census began tracking their numbers. The pool of “missing workers” – those neither employed nor counted as unemployed – has soared to over 4.4 million, according to the left-of-center Economic Policy Institute.<sup>1</sup>

Not surprisingly, working class and even educated middle class Americans have become increasingly pessimistic about their children’s ability to achieve their level of well-being.<sup>2</sup> Average consumers are more pessimistic about their financial prospects than at any time for a quarter century.<sup>3</sup> The failure of this “recovery” to reach the middle class is unprecedented in modern American history in its scope. The consequences – economic and political – could be profound.

In sharp contrast, for the affluent few, things improved rapidly even before the recovery started. Large financial institutions, in particular, have been blessed with cheap money and implicit government guarantees for their survival; this has boosted the size, profits and wealth among the very sector most implicated in creating the great financial crisis. Top pay for CEOs of financial companies, including those bailed out by the taxpayers, is once again soaring.<sup>4</sup> Stock prices have risen, mostly benefiting the top one percent, who own some forty percent of equities and sixty percent of financial securities.<sup>5</sup>

How did this very undemocratic scenario unfold? One explanation lies in the significant demographic, economic and geographic shifts within the Democratic Party, epitomized by Barack Obama.

## The Triumph of Gentry Liberalism

From the beginning, Obama has been first and foremost a gentry candidate. Even in the Democratic primaries, his strongest base lay, outside of the African-American community, within college towns, affluent urban areas and the toniest suburbs. Unlike his predecessors Bill Clinton or Jimmy Carter, he never connected well with working class and middle class suburbs.

The gentrification of the Democratic Party, of course, predates Obama. Starting in the 1970s, the party has focused more on the liberal social and green values of concern to the urban upper classes than the bread and butter issues of middle or working class voters.

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For financial support, Obama and his Party have become increasingly close to Wall Street. Hedge fund managers have done very, very well under Obama; the top 22 managers in 2010 earned a remarkable \$25 billion. Overall in 2010, Wall Street compensation hit a new record of \$135 billion.<sup>6</sup> And despite the fact that some hedge fund and bank executives have recoiled at the President's occasional public chastisement, the financial community and the Republican Party, as the American Prospect recently noted, are the ones "drifting apart." One source of division lies with the Tea Party movement that, along with its radical fringes, reflects a genuine grassroots middle class disdain for the financial hegemony and their political allies.<sup>7</sup>

This does not necessarily apply to many Republicans who may play up to Tea Party populist sentiments but in practice favor policies – for example in terms of financial legislation and taxation – that favor financial hegemony and large corporations. As you speak to business groups around the country, particularly in small and mid-sized cities, one senses little more enthusiasm for corporatist Republicans than for their Democratic counterparts.

Obama's gentry liberalism is no less corporate and tailored to the powerful than that of the Republicans but differs in what constitutes its economic and political base. President Obama's other key pillars of support include "new economy" centers as Silicon Valley, Hollywood and the heavily subsidized "green" industrial complex. From the beginning, "green jobs" have been one of the linchpins of the Administration's job creation strategy and arguably one of its biggest disappointments. Heavily dependent on government mandates and subsidies, the growth trajectory of solar, wind and battery companies, at least in the near term, remains dubious, particularly against even more lavishly subsidized foreign competition.<sup>8</sup>

At the same time, the Administration has been almost unfailingly hostile to the green-industrial complex's greatest nightmare, the orderly development of the nation's prodigious oil and gas resources. This has occurred despite rising fossil fuel prices, expanded off-shore drilling in ascendant countries such as Brazil, and the fact that the country continues to burn a dirtier fuel – coal – while buying much of its oil from other nations.

The Administration's green tilt also infects its urban policy. The dogged emphasis on expensive programs like high-speed rail and support for "smart growth" initiatives around the country reveal a cultural mindset that rejects the fundamental aspirations of a vast majority of Americans to own their homes in low-density neighborhoods.

Here is the ultimate political irony of the Obama era and gentry liberalism: the metropolitan areas most passionately committed to the progressive agenda – which have adopted them on the state and local level – also tend to be those with the highest rates of inequality and the deepest poverty. Indeed, if cost of living is included, most of the urban counties with the highest percentage of poor people are located in the very bluest areas of New York, California or Washington, D.C., which together account for five of the nation's ten poorest counties.<sup>9</sup> As a state, California, once a prototype for democratic capitalism, now suffers the worst income inequality in the country.<sup>10</sup>

This is also the case in New York, the other anchor of the Obama economy. Wall Street – the beneficiary of Administration fiscal and monetary policies – is booming, but as the Fiscal Policy Institute notes, the poorest 50 percent claimed barely 8 percent of the city's income while a shrinking middle class just about 34 percent. Overall, Gotham has become, as *The Nation* recently noted, "the most unequal large city in America."<sup>11</sup>

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In contrast to much of the country, government centers, notably Washington and its suburbs, are flourishing. Five of the richest counties in the country are located in the belt around the nation's capital. The region is also the only one in the nation seeing real estate price gains.<sup>12</sup>

If you believe some pundits, California, New York and Washington, D.C. represent progress due to the enlightened social and environmental rhetoric espoused by the media, academics and politicians based in these regions. But in reality this new ruling class seems likely to create an American future that looks a lot like today's Great Britain, with a significant affluent population concentrated in core cities and some affluent suburbs that lives an exciting life at the top of the world economy, surrounded by a large underclass and a fading middle class.

## Learning from the New Deal

The gentry liberalism that has triumphed in the Obama era differs radically from its New Deal forbearers. For one thing, many places closest to Obama are themselves almost "failed states," including the President's nearly-insolvent home state of Illinois. In contrast, the New Deal was forged by a New York that was at the time a leader in economic growth, infrastructure development and social democracy. In the 1920s and 1930s, small entrepreneurs and skilled craftsmen, office workers and the unskilled flocked to New York. Today those same populations are deserting the Obama bastions in huge numbers for places, notably Texas, that embrace a very different political philosophy.

Unlike the urban-centered Obama, Roosevelt also focused heavily on the nation's less developed regions. Indeed, the Hudson Valley gentleman farmer had among his stated goals "to make the country in every way as desirable as city life..."<sup>13</sup> The New Deal great hydro-electric plants, for example, literally brought light to large areas that had barely emerged from semi-feudalism, particularly in the South.

Instead of narrowing his base, Roosevelt's policies expanded the Democratic Party's sway from cities to many rural areas which historically might have opposed a progressive agenda. Similarly his successors – notably Truman, Johnson and Clinton – embraced suburbanization as means to assure upward mobility and reduce the overcrowding and unhealthy living conditions associated with cities. To be sure, sometimes bipartisan enthusiasm sparked a surplus of unwise credits to boost homeownership, but at least the party embraced the lifestyle aspirations of Americans, as opposed to seeking to transform them to an urbanist model.

These approaches must be changed if the Administration and their allies want to create the basis for, as they often claim, a long-term progressive era. Here again the New Deal model could be helpful. One idea, particularly in an era of long-term persistent unemployment, would be to revive the Work Progress Administration (WPA), which along with the Civilian Conservation Corps, which employed roughly three million of the unemployed during the height of the Depression. To be effective, and worth it to the public, a new WPA should concentrate on such things as the expansion of ports, roads, electrical transmission lines and other critical elements needed to revive American industry.

Most future growth would come from the private sector, but one has to ask what kind of industries should be fostered. Do we really need to spend money for more post-modernist English professors and lawyers, or to lend billions to investment bankers? Perhaps policies should be redirected instead towards bolstering those "basic industries" – notably agriculture, energy and manufacturing – that since the beginning of the Administration have received, at best, mixed signals.

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This approach would counter the fashion, common among both techno-libertarians and “creative class” enthusiasts, asserting that the country’s future can be assured by hip startups, software companies and videogame producers alone. As Intel co-founder Andy Grove has noted, we cannot rebuild our job base just with sexy start-ups; we need to also “scale up” our emerging companies, the very thing that made Silicon Valley and its counterparts across the country such prodigious opportunity regions in the past.<sup>14</sup>

Rather than being excoriated, for example, the oil and natural gas industries need, with improved regulation, to expand at a time of growing global demand and rising prices.<sup>15</sup> Farmers, notably in the West, have been greeted with pronouncements by senior Interior Department officials about the end of dam-building, a critical source of water, at a time of generally rising demand and prices.<sup>16</sup>

Manufacturers, particularly smaller ones, have been hard-pressed by regulatory reform when their competitors elsewhere are dialing into the developing country market. There is a pervasive sense that the Administration favors only large and well-connected crony firms, such as General Electric (which paid no taxes last year) and the kinds of green start-ups backed by John Bryson, who has been selected to be Obama’s next Commerce Secretary.

The well-connected sections of the investment community may well howl at such changes, but ultimately the future of our financial industry depends upon the health of the America’s productive sectors. Without a strong US economy at its back, in the long-term, Wall Street will become ever weaker in its growing competition with London, Frankfurt, Singapore, Shanghai and Hong Kong.

Ultimately, the only progressive agenda that can work – from the environment to healthcare to education – rests on the foundation of widely dispersed economic growth, not upon policies that favor a few influential sectors at the expense of everyone else.<sup>17</sup>

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## Notes

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- <sup>12</sup> Nathan Vardi, “Meet America’s Richest Counties”, *Forbes.com*, May 13, 2011; S. Mitra Kalita, “In Washington, a Housing Thaw”, *Wall Street Journal*, June 2, 2011.
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