The State of the U.S. Economy: Another “Heck of a Job” for President Bush

By Robert Pollin

In his 2006 State of the Union address on January 31, President Bush boasted that “Our economy is healthy and vigorous, and growing faster than other major industrialized nations....Even in the face of higher energy prices and natural disasters, the American people have turned in an economic performance that is the envy of the world.”

Despite Bush’s claims, in a Gallup poll taken only two weeks before Bush’s speech, 55 percent of Americans rated the economy’s performance as either only “fair” or “poor,” and 52 percent said that the economy is “getting worse.” Clearly, either President Bush or the majority of Americans have an erroneous conception of what’s going on with the economy. Who is it?

For his part, President Bush frequently points to some basic statistical evidence as to the economy’s recent strong performance. GDP growth in 2005 was 3.5 percent, following on a 4.2 percent growth rate for 2004. These figures are far stronger than the dismal average growth rate of 1.7 percent for the first three years of Bush’s presidency and are roughly comparable to the average growth performance for the full eight years of Clinton’s presidency. The unemployment rate for the full year of 2005 was 5.1 percent, a significant improvement over the previous four years under Bush, when unemployment ranged between 6.0 and 5.5 percent. January 2006 was better still, with unemployment down to 4.7 percent.

However, these figures also mask a much more negative overall picture for the U.S. economy in terms of the things that matter most to people—i.e. jobs, incomes, fairness, and stability.

Let’s start with jobs. The standard unemployment statistics obscure a basic fact about employment conditions under Bush—that job growth has been essentially stagnant through the Bush presidency, including up to the month of January 2006 when Bush gave his State of the Union speech. Between Bush’s inauguration in January 2001 and January 2006, annual job growth has been 0.3 percent per year—i.e. virtually non-existent.

But if jobs are growing so slowly, how has the unemployment rate fallen to 4.7 percent as of January 2006? The big story here has been the large number of people who have dropped out of the labor market during Bush’s presidency. These are largely people who have given up trying to land decent employment.

And while job opportunities have been stagnant, job quality has also deteriorated. Considering just the period of economic expansion under Bush from 2003-05, the median real wage has not risen at all, but has actually fallen by 0.6 percent. More generally, under Bush, there is no evidence of a reversal of the long-term decline in the average real wage for non-supervisory workers. As the Financial Times reported in May 2005, “With wages across the nation failing to keep pace with inflation, a number of workers are justified in feeling that they have been treading water, or worse.”

Inequality has also continued to grow under Bush. Among other factors, business owners are capturing the gains from productivity growth as workers wages stagnate.

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Upcoming Events

SAGE Workshops, Amherst
On February 9, 2006, James Heintz and Emily Kawano presented “Pieces of the Puzzle,” for SAGE…This was a kick-off event and drew in more than 100 participants, many of which expressed interest in upcoming workshops co-hosted by CPE and SAGE. The next three monthly workshops will be:
- March 9: Introduction to the Economy
- April 6: The Economics of Fear
- May 11: Alternatives to Corporate Globalization

For more information, call or email CPE.


Green Drinks: March 31, 2006
Social meeting to follow up on the Roundtable for Economic Alternatives in Practice. We’ll be reporting on progress but it’s also just an opportunity for folks to stay in touch and build the Economic Alternatives community network. Everyone is welcome. Email or call us for the location.

Legislative Breakfast, Ma. Nurses’ Assoc.: April 2006
Michael Ash will present a workshop on the changing landscape of health care, focusing on factors that have led to understaffing, dangerous working conditions, high stress and rapid turnover in the nursing profession.

Keene State Conference on Poverty and Education: April 8, 2006
Keene State College, New Hampshire
Workshops in which Keene State faculty and CPE staff economists will be paired up to present the link between poverty and education.

Tent State University: April 17-26, 2006
UMass Amherst Campus
A week-long outdoor university shaped by students, workers and community members. TSU calls for equal access to education and it creates an example of what a university should be. It is a protest against budget cuts that year after year diminish the accessibility and quality of higher education. CPE members will teach classes and hold workshops for tent city students.

Summer Institute: July 23-29, 2006, Amherst College

Recent Events

October, 2005: “And Justice for All” Conference: Poverty and Inequality Workshop, Harrisburg, PA
One of our Summer Institute participants initiated this workshop which more than 40 social work practitioners and students attended. Emily Kawano facilitated the exploration of the impact of changes in economic policies on poverty and inequality.

October, 2005: China in the World Economy, Wilbraham & Munson Academy
CPE staff economists Zhaochang Peng and Ningyu Li facilitated a workshop for High School students on the Chinese economy in a global context.

Sam Bowles gave a talk about how the emerging economy of ideas and information has the potential to promote communal sharing over private property rights.

We had around 26 participants from a range of groups involved in building economic alternatives. Each group talked about their work and identified present and potential linkages with other groups. We formed a working group and prioritized some follow-up. For more details see REAP (page 6).

Emily Kawano facilitated this exploration of capitalism versus existing or emergent alternative economic systems.

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In late January, roughly 70,000 people gathered in Caracas, Venezuela to attend the sixth World Social Forum. They participated in thousands of cultural events, workshops and plenaries, organized by some 2,000 civil society organizations on every imaginable issue of social justice. The Social Forum is a democratic space for people from social movements throughout the world to share, debate, strategize, network, learn and build an alternative to the free-market economic model that dominates the globe today.

We embrace the slogan of the World Social Forum - “Another World Is Possible” and in this spirit we have chosen economic alternatives as the special track for this Summer Institute.

Cracks in the Neoliberal Economic Model
The World Social Forum is part of the growing opposition to the ruling economic model of the day – neoliberalism, which promotes ‘free’ trade, footloose corporations, de-regulation, privatization, a down-sized public sector, and free market fundamentalism.

In Latin America populist and leftist governments have swept to power on anti-neoliberal platforms in Brazil, Venezuela, Uruguay, Argentina and most recently Bolivia. Widespread criticism of the harmful impact of these pro-corporate policies, especially for the poor, has forced the International Monetary Fund (IMF) and the World Bank to retreat on at least some aspects of their free-market prescriptions. The World Trade Organization (WTO), another purveyor of neoliberal globalization, has been dogged by global justice protesters and stymied by Third World blocs within the WTO flexing their collective muscle. There are widening cracks in the neoliberal model - these fractures present openings to create ‘another world,’ grounded in principles of economic justice and sustainability.

Stepping stones to ‘Another World’
In fact, that ‘other world’ is already here, or at least building blocks are. Look at the challenges to private property rights (cont’d page 6)
Almost everyone agrees that something is wrong with America’s health care system; the problem is we won’t make it better unless we can identify what the problem is. The Bush administration and its allies say we spend too much on too many procedures demanded by irresponsible consumers indifferent to costs because they have too much insurance. The solution, then, is to make us more price sensitive by reducing or eliminating health insurance. A bad solution to a misunderstood problem, this would worsen the real problem of American health care. This real problem is that we waste too much of what we spend on health care because of the inefficiency of our patchwork insurance system. It is inadequate insurance that raises costs by reducing care, leaving too many of us vulnerable to the ravages of disease and premature death. To solve the real problem, we need to extend insurance—by making insurance universal, we can eliminate much of the current system’s administrative waste and lower the cost of care for all of us. Rather than trying to save money by reducing health care access by chasing the will-of-the-wisp of consumer choice, we should create a health care financing system that focuses on what we really want: minimizing administrative waste while saving money by improving health.

Conservatives paradoxically boast of the quality of America’s health care system and complain that rising health care costs are due to unnecessary overuse by ordinary Americans. They are right about one thing: we have a astonishingly expensive health care system. In the US we spend around $5600 per person on health care, compared with an average of $2300 for countries belonging to the Organization of Economic Cooperation and Development. We spend 70% more per person than does Germany, 80% more than Canada, 90% more than France, and we spend twice as much as Sweden. Yet we get worse health care than any of these countries. We have fewer doctors, nurses, CAT scans, fewer hospital beds, and, shorter life spans. American women die a year before the OECD average, and American men live almost two years less. Greater expenditures are associated with longer life expectancy in other countries, but not in the United States. Compared with other OECD member states, we should either live 3 years longer, or we should be able to save $3000 per person, reducing our per capita expenditures to the level of Portugal, a country with comparable life expectancy.

Our health care system is both expensive and ineffective because we leave management to for-profit insurance companies. This is where the Bush proposals would make things worse. The problem is not consumers, it is the insurance industry; it is not that we are frivolous in our use of medical procedures, it is that insurance companies are wasteful; the problem is not that we use too much health care but that too many of us use too little. To solve the real problems of American health care, we need to extend and improve insurance rather than reducing and minimizing it.

I. We don’t receive too much health care. Despite conservative complaints that Americans overuse medical procedures, Americans receive less health care than those in other affluent economies. Compared with the OECD average, we have 25% fewer acute care hospital beds per capita, 28% fewer CT-scanners, 30% fewer doctors, and over 1% fewer nurses.

II. The insurance industry is wasteful. Competition among insurance companies does not lead to greater efficiency because the best way companies can increase their profits is by driving away expensive clients. Most insurance claims are for a relatively small group of unfortunate people; the real way to increase profits is to put roadblocks in the way of these people so that they will hesitate to seek care or, even better, they will leave. A good business plan, this contributes to the great cost of administering private health insurance including the cost to physicians and clinics. Compared with Medicare, the extra administrative burden for private health insurers may cost (cont’d page 6)
As the same *Financial Times* article itself explained, “Companies have been extremely successful at capturing the lion’s share of the gain from productivity improvements. Since 2001 productivity has been rising at an average annual rate of 4.1 percent, while compensation growth has averaged just 1.5 percent, leaving workers with just over a third of the benefit from rising efficiencies. In the previous seven business cycles, by contrast, workers reaped about 75 percent of the benefit of increasing efficiencies.”

Amid these job trends, the stability of the economy is also becoming increasingly fragile. The average U.S. household now devotes nearly 14 percent of its income to paying off debts, an unprecedented level. This debt burden could produce serious stresses in the economy if, as expected, housing prices continue to fall. In such a scenario, mortgage lenders, including the giant mortgage holders Fannie Mae and Freddie Mac, will have less collateral to retrieve if households begin to increasingly default on their debts.

The U.S. trade deficit—the excess of our imports over our exports—reached yet another peak of 5.8 percent of GDP in 2005, with about quarter of the deficit due to imports from China. The fiscal deficit—amount of federal government spending in excess of tax revenues—projected at 3.2 percent of GDP for 2006. This is a large, but not overwhelming deficit. But there are two major problems associated fiscal deficit. The first is how Bush intends to reduce the deficit, is to cut social programs such as Medicaid. Bush’s fundamental commitment to cutting taxes for the rich has remained inviolate through thing—recession, the stock market crash, the corporate accounting dals, and 9/11—and he has no intention of changing course now.

The second issue connects the fiscal deficit back with the trade deficit—our so-called “twin deficits” problem. About 50 percent of government debt is now held by foreigners, with the biggest pur- ers being Japanese and Chinese. If these foreign holders of U.S. sury bonds decide to diversify their wealth holdings away from the this could induce a rapid fall in the dollar and perhaps a worldwide financial crisis. But to prevent such a crisis, the Federal Reserve would have to continue to raise interest rates, thereby continuing to make our bonds attractive to foreigners. The rise in interest rates will however slow down economic growth in the U.S. and transfer income from people borrowing money to the banks and wealthy who lend it.

So let’s come back to the initial question: who has the more accurate picture of the state of the U.S. economy today, President Bush or the majority of U.S. citizens? Here’s a hint in case the question seems challenging. We are talking about the same President Bush who declared “Mission Accomplished” in Iraq in May 2003, and who pronounced in September 2005 that the then Director of Federal Emergency Management Agency (FEMA) Michael Brown was doing “heck of a job” in the aftermath of Hurricane Katrina.

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**Decent Work in America**

The Economic Alternative Policies Initiative seeks to raise awareness, debate, strategizing and mobilization for key policies and institutional re-structuring that would promote greater equity, poverty reduction, democratic participation, and sustainable economic development. We are beginning by putting together an accessible, user friendly electronic library of alternative economic policies and strategies.

As I look back at nearly two decades of doing popular economics I feel happy that we have collectively come so far in our critique and mobilization to challenge neoliberal globalization. I look forward to the next step of building upon existing economic alternatives to create a just and sustainable economy.

III. The real problem is lack of coverage.

Nearly 50 million people do not have any form of health insurance but excluding them from insurance coverage inflates our medical budget rather than helping to hold down costs. Because they lack insurance, these become the most expensive part of America’s health care system, receiving care for conditions aggravated by neglect in the most expensive circumstances. In Massachusetts alone, hospitals billed the state free care pool for over $700 million for care provided those without health insurance. In many cases, care could have been provided more efficiently in a doctor’s office, except people without insurance don’t go to doctors because of the expense. Worse, many of these cases were aggravated by lack of preventive or timely care; the condition of the average person seen in the free-care pool in 2004 was judged 73% more severe than persons seen who had insurance. Inadequate care raises the cost of care, contributes to the spread of communicable diseases throughout the population; and, of course, it contributes to premature death for the uninsured.

Once we recognize the health care problem for what it is, then a solution is obvious. We don’t need more Health Savings Accounts, and certainly we don’t need more Health Maintenance Organizations to oversee our health care. Instead, we need what citizens of every other advanced capitalist economy have: a simple system that protects everyone from the cost of debilitating illness.
It is lamentable to think how a great proportion of all efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against injury, to be turned to the legitimate employment of the human faculties...

-J.S. Mill, Principles of Political Economy, 1848

How much effort is exerted to maintain the existing structures of power and ownership in modern society? How do countries differ in this regard, and what might be behind these differences? In a recent paper, Samuel Bowles and I explored these questions by trying to estimate the actual labor devoted to what we term ‘guard labor’ in the United States and several other developed countries.

Our analysis drew from the perspectives and insights of classical economists who had made a distinction between labor involved to the production of goods versus labor devoted primarily to the preservation of the existing structure of society and the corresponding distribution of property, wealth, and income. In order to measure the latter (guard labor) we calculated the total number of supervisors, private guards, police, judicial and prison employees, military and civilian employees of the department of defense (and those producing military equipment), the unemployed, and prisoners as a fraction of the labor force in the U.S over time and in several developed economies. We included unemployed people and prisoners as people whose ‘activities’ discipline the employed labor force by reducing incentives to shirk and to steal. We did not include others who might perhaps legitimately also be considered ‘guard labor’- for example, religious leaders, teachers, and media personalities who enforce and propagate the ideas that support the existing power relationships in society.

Since the U.S had the best historical data, we collected data for the country from 1890 to 2002 and found that there was a substantial increase in the level of guard labor over the period. As a percentage of the labor force, guard labor rose from six percent in the last decade of the nineteenth century to over a quarter of the labor force in the first years of the twenty-first. Much of this increase has been driven by the increase in work supervisors whose ranks have risen from less than one percent of the labor force in 1890 to over fifteen percent today. Military personnel fell as a percentage of the labor force from five percent of the labor force to less than two percent, while the percentage of prisoners saw a three-fold increase from half a percent to one and a half percent.

The level of guard labor in the U.S in 2002 is high as compared to other advanced countries. In fact, using cross-country data, we found that with the exception of Greece (which had an exceptionally high level of unemployment), the U.S had the highest level of labor devoted to guard labor among 18 different economies. The degree to which citizens of different nations are engaged in guard labor activities varies substantially. Switzerland and the Scandinavian countries, for example, allocate between ten to twelve percent of the labor force to guard labor, or about half the level of the U.S. Anglo-American economies as a group apportion a larger than average amount of resources to guard labor, with Australia, New Zealand, Canada, the United Kingdom, and the United States occupying five of the top eight spots. Resources spent on supervision varies dramatically, with a low of less than three percent of the labor force in Italy to a high of fifteen percent in the U.S.

What might be the underlying reasons for these substantial differences across economies? We considered various explanations from technical differences such as in firm size and technologies to socioeconomic and cultural differences (such as the level of inequality, the degree of political participation, and the level of trust). Most interestingly, guard labor seems to be greater in countries with more inequality and political conflict, and where (cont’d on page 8)
there is a lower degree of perceived political legitimacy. A hypothesis drawn from this might be that more unequal and undemocratic states may need to devote more labor to sustain the status quo distribution of power and property.

Guard labor is, in classical terms, ‘unproductive,’ in that it is labor taken away from the production of goods and services to maintain the institutional distribution of property rights and power. If it is true that more inegalitarian societies need more guard labor, this may suggest that they incur a penalty in terms of potential product foregone. This would be particularly true of the U.S where one in five people are guard labor.


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