



## PROLOGUE

*The Betrayal of the American Dream* is the story of how a small number of people in power have deliberately put in place policies that have enriched themselves while cutting the ground out from underneath America's greatest asset—its middle class.

Their actions, going back more than three decades, have relegated untold numbers of American men and women to the economic scrap heap—to lives of reduced earnings, chronic job insecurity, and a retirement with fewer and fewer benefits. Millions have lost their jobs. Others have lost their homes. Nearly all face an uncertain future. Astonishingly, this has been carried out in what is considered the world's greatest democracy, where the will of the people is supposed to prevail. It no longer does. America is now ruled by the few—the wealthy and the powerful who have become this country's ruling class.

This book tells how this has happened, who engineered the policies that are crippling the middle class, what the consequences will be if we fail to reverse course, and what must be done to restore the promise of the American dream.

We have been reporting and writing about middle-class America for many years. In our 1992 book *America: What Went Wrong?* we told the stories of people who were victims of an epidemic of corporate



takeovers and buyouts in the 1980s. We warned that by squeezing the middle class, the nation was heading toward a two-class society dramatically imbalanced in favor of the wealthy. At the time, the plight of middle-class Americans victimized by corporate excess was dismissed by economists as nothing more than the result of a dynamic market economy in which some people lose jobs while others move into new jobs—“creative destruction,” it was called. Soon, they said, the economy would create new opportunities and new jobs. We said, *Don't believe it*. What happened to the middle class in the 1980s and early 1990s wasn't just a blip, but part of a disturbing pattern: a shift by Washington away from policies that had built the American middle class and enabled successive generations to do better than their parents, in favor of policies that catered to Wall Street, corporate chieftains, and America's wealthiest citizens. We wrote:

Popular wisdom has it that the worst has passed, that it was all an aberration called the 1980s. Popular wisdom is wrong. The declining fortunes of the middle class that began with the restructuring craze will continue through this decade and beyond.

Because of statements like that, we were accused of being alarmists. But in fact we grossly underestimated how much more difficult life would become for most Americans. The workers we wrote about in





the 1990s were pioneers of a sort never before seen in the United States. Unlike middle-class Americans for more than three generations before them, for whom life progressively got better, they were heading *down* the economic ladder. They were the first substantial wave of what will be tens of millions of casualties—most likely well over 100 million—as Wall Street and the moneyed interests proceed unchecked to dismantle the structure that has sustained America's middle class, all with the assistance and blessing of Congress. The country that once offered so much to its people—like the GI Bill, which put millions of Americans through college—has begun to eat its own.

In this book, we describe areas where government action or indifference has taken its harshest toll. Some of the examples we dwell on, such as the deplorable working conditions in Apple's Chinese plants, may seem familiar. But their context and wider consequences are often overlooked. Apple is America's most profitable corporation. It is a signature innovator in a field—technology—that has for years been said to hold the promise of lucrative and long-term employment. Yet this innovative company has left most of its American workers behind. If the United States is unable to retain the benefits of a successful company like Apple and its potential to provide huge numbers of good jobs in this country for years to come, what does that say about our ability to encourage future innovators and provide employment



here at home? Apple's phenomenal business success has benefited only a small share of the population, unlike some of our great corporations in the past that provided a solid middle-class living for generations of working Americans while also rewarding stockholders with handsome dividends. For its part, Apple decided to take the money and run. It is by no means alone, just the most visible. In fact, between 1999 and 2008, according to *Tax Notes*, the definitive tax publication, foreign affiliates of U.S. parent corporations increased their employment abroad by 2.4 million jobs, or 30 percent. During the same period, they slashed their employment in the United States by 1.9 million. If our largest and most successful corporations are no longer working for the shared benefit of American workers, then what is the future of the middle class?

The skewing of the tax code in favor of the rich is a subject we have written about for years. In this book, we tabulate the unprecedented riches the preferential tax law provisions have showered on the wealthy, and we explain why they will hollow out the middle class for years to come. The well-being of the majority of Americans is also coming under assault from U.S. policies having to do with trade, regulations, and benefits. In each of these areas, we address the broader context, drawing on decades of our own research and observations. It is the cumulative impact that has been so detrimental to the middle class. Yet most of the media cover these stories as if



they were isolated events, devoid of a larger significance or pattern. Unfortunately, the significance is stark.

At a time when the federal government should be supporting its citizens by providing them with the tools to survive in a global economy, the government has abandoned them. It is exactly what members of the ruling class want. The last thing they want is an activist government—a government that behaves, let's say, the way China's does. Their attitude is "let the market sort it out." The market has been sorting, and it has tossed millions out of good-paying jobs. Now that same ruling class and its cheerleaders in Congress are pushing mightily for a balanced budget at any cost. If it happens, it will be secured mostly by taking more out of the pockets of working people, driving yet another nail into the middle-class coffin.

The economic elite have accomplished this by relentlessly pressing their advantage, an advantage that exists for the simplest of reasons: the rich buy influence. As the divide between them and everyone else has grown since the early 1970s, the wealthy have poured more and more money into lobbying and politics in order to control the agenda. Now the "one percent" is plowing untold millions into political contributions and lobbying, and every effort to try to reduce the influence of money in politics has been rebuffed. With the Supreme Court *Citizens United* ruling of January 21, 2010, the message was driven home to the middle class that politics had become



slavishly addicted to the big bucks of the moneyed class and that the ability of average Americans to influence elected officials would be overwhelmed by that money. Now, for a price, the elite will select the candidates and bankroll the campaigns, and few politicians will be able to afford to give up the corporate dollars.

Who are the members of America's ruling class? We use the term to describe an amalgam of politicians and special interests who have succeeded in making life exponentially more comfortable for the already comfortable, while simultaneously lowering the quality of life for everyone else. The book details how they have done it. The chapters form a mosaic whose overall picture is clear: the ruling class is defined by its ability to move money beyond the reach of government supervision. This has been accomplished in various ways, but the most important is arguably the establishment of a belief that government has no business in business. This creed has no basis in fact and is widely disproved by the performance of other governments around the world. But not in America. Instead, we have created the world's newest financial aristocracy, a class that has successfully put itself beyond the reach of government constraint and can do pretty much whatever it wants in pursuit of its own personal gain. This, they like to tell us, is virtuous.

There are no Blue Book membership rosters of the new ruling class, no secret handshakes, no regularly



scheduled meetings. Wealth alone does not get you a seat at the table; nor does your family tree, your academic credentials, or your job title, whether in a corporation, the government, or a think tank. What counts is your ability to advance the cause of the group. The membership is bipartisan. There are seats for Republicans and Democrats, as well as for institutions, including representatives of the mainstream media. In the most devastating financial collapse since the Great Depression, when the news media accounts were studded with doomsday scenarios, the ruling class made conscious decisions to rescue certain businesses while they shoved others off the cliff. In the process, both Democratic and Republican administrations ditched the notion that all Americans should be treated equally, that the playing field should be level for everyone. This quaint concept has no standing in a plutocracy. Lacking a civic or moral compass, it's a peer group without a purpose beyond its own perpetuation with no mission except to wall in the money within its ranks.

In contrast, we define the “middle class” strictly by income. Most Americans, even those who are affluent, think of themselves as middle-class. But economically they are not. We have defined the heart of the middle class as those wage-earners who reported overall incomes between \$35,000 and \$85,000 on their tax returns in 2009. Median household income that year was \$50,599, meaning that half of all Americans earned more than that and half earned less.



That figure has since fallen below \$50,000 as the United States went through its first full decade of declining incomes when adjusted for inflation. Only the poor and the middle went down. The rich tracked sharply higher.

All told, there were 34 million individuals and families in the \$35,000 to \$85,000 range who reported wage and salary income on their 2009 tax returns. They accounted for 30 percent of the more than 116 million returns filed by working Americans. By far the largest group with job income, 58 million individuals and families, fell below our middle-class definition. The remaining 24 million tax return filers fell in the upper-middle, affluent, and rich classes. While the merely affluent 20 percent in the upper middle maintained their wealth, those at the very top of the income scale—the one percent—dramatically increased their wealth. An extended middle class would include people with incomes up to \$115,000. While that may seem large to people living in many towns across the country, it would not be nearly so impressive for a family in an expensive city such as New York. At the same time, at the other end of the scale, a new definition of poor puts one in two Americans in that category. Census Bureau and academic statisticians are still refining the definitions that will make up the new American poor.

Men and women of every age and profession within the middle class have been affected by the policies championed by the ruling class, but the ones





who may pay the highest price are the young—those in their twenties and thirties. For the next generation, the outlook is even bleaker. Many doors that were once open to high school graduates have slammed shut. Factory jobs that offered a way to maintain a comfortable lifestyle have disappeared at record rates, and nothing has come along to take their place. The reason the Apple example is so chilling is that Apple and companies like it were supposed to be the forward-looking option for a better-educated U.S. middle class. As we show, especially with regard to outsourcing, the promise that education is a gateway to solid middle-class well-being has also been retracted for many Americans.

Growing numbers of college graduates are hurting, unable to find jobs in this economy that match the skills for which they were trained. They had been assured that a college degree would be their ticket to a secure future. Now many of those with freshly minted degrees are working at jobs that require only a high school diploma, expecting to be in hock for much of their productive lives, or living in shared housing with parents or friends because they don't earn enough to pay their own way.

Veterans of the wars in Iraq and Afghanistan are especially disheartened by the lack of options. Volunteers at a veterans' service center in Cape Coral, Florida, recall a young Army veteran who served in Iraq and received a Bronze Star. After his discharge, he returned to the States, enrolled in college, and earned



a bachelor's degree. He was then ready to enter the job market, but he told advisers at the veterans' center that "there was nothing out there." He believed that his only alternative was to reenlist, an option that will be less available as Defense cuts start to bite and staffing levels are reduced in all the armed services.

Many more areas of public policy affect the middle class but are beyond the scope of this book. For example, we do not discuss health care here in detail because of pending litigation and turmoil in Congress over threats to repeal President Barack Obama's health care law. But in our view, the most fundamental problem in health care won't be addressed anytime soon. The U.S. health care system is based on the misguided notion that the private market is the best way to provide care and coverage to Americans. We focused on it in our 2004 book *Critical Condition: How Health Care in America Became Big Business—and Bad Medicine*. In that work, we documented the failure of the market system to deliver quality health care to everyone at an affordable price. The market system didn't work then. It doesn't work now. It never will. Yet ideologues are committed to foisting it off on an unsuspecting public, and key lawmakers and jurists are prepared to do their bidding, even though when compared with other developed countries, the United States has fewer hospital beds per capita, fewer doctors per capita, and fewer nurses per capita. But the bottom line is this: U.S. citizens die younger than



people in more than two dozen other countries, many decidedly less developed, largely as a result of inferior health care. What the existing American system does very nicely, however, is enrich a very few people and favored corporations.

The private market experiment has failed, but even Obama's health care bill still leaves most of the power in the health industry in the hands of private insurers. It is a mark of how effectively the ruling class's propaganda machine has become in framing the debate in America that this relatively benign piece of legislation would be portrayed as a triumph of "socialism."

There is a reason why Washington has turned its back on average Americans. We are no longer the democracy we once were. We have become a plutocracy in which the few enact programs that promote their narrow interest at the expense of the many. Ironically, it was Wall Street that disclosed the emergence of the American plutocracy. As early as 2005, a global strategist at Citigroup, Ajay Kapur, and his colleagues coined the word "plutonomy." They used it in an internal report to describe any country with massive income and wealth inequality. Among those countries qualifying for the title: the United States. At the time, the top 1 percent of U.S. households controlled more than \$16 trillion in wealth—more than all the wealth controlled by the bottom 90 percent of the households. In their view, there really was no "average consumer," just "the rich" and everyone



else. Their thesis: “capitalists benefit disproportionately from globalization and the productivity boom, at the relative expense of labor,” a conviction later confirmed by America’s biggest crash since the Great Depression. The very rich recovered quite nicely. Most everyone else is still in the hole. Some in the middle and at the bottom, like the millions who lost their jobs, their homes, and their retirement savings, will never recover.

Today, it’s not just Wall Street that discounts the significance of the great American middle class. In 2011, *AdAge*, the trade publication for the advertising industry, declared the era of mass affluence over in America, adding: “Simply put, a small plutocracy of wealthy elites drives a larger and larger share of total consumer spending and has outsize purchasing influence—particularly in categories such as technology, financial services, travel, automotive, apparel, and personal care.” From now on, if you don’t make \$200,000, you don’t count, according to the advertising industry.

Barring wholesale changes in public policy, the coming years will be grim for millions of American men and women. To be sure, there will be ups and downs in the economy, enabling the mainstream news media and cable television to proclaim from time to time that all is well, just as they did in the early 1990s. But the dismal fact is that for tens of millions of middle-class Americans, as well as for the working poor who hope to achieve that status, the



American dream is over. As for the mantra heard ever since the 1950s—that children can expect to enjoy a better life than their parents—only the delusional believe it today.

This is a sea change in American life without modern parallel. Where once we were told, over and over, that anyone could move up the economic ladder, now that movement is, with some exceptions, down. If existing policies remain in place, all that will be left will be the upper end of what once was a thriving, broad-based middle class. Everyone else will be toiling on a treadmill. “Retirement” will join “pension” as an archaic term in the dictionary. And if those who write the economic rules continue to have their way, those terms will be joined by some others too. Having dismantled the economic support network that underpinned the world’s largest middle class, the members of the ruling class have set their sights on another goal that, if achieved, would put the middle class in an even deeper hole: they are promoting “austerity” in government budgets and policies—cuts in programs such as Social Security and Medicare—for everyone but themselves.

Only once before in American history, the nineteenth-century era of the robber barons, has the financial aristocracy so dominated policy and finance. Only once before has there been such an astonishing concentration of wealth and power in an American oligarchy. This time it will be much harder to pull the country back from the brink.





What is happening to America's middle class is not inevitable. It's the direct result of government policy, and it can be changed by government action. Look no further than at what the governments of our trading partners do to protect their people and advance the interests of their country. We could do the same.

But the United States has taken a totally different route.

“Running the country like a business means everyone is expendable,” says Christine Wright-Isak, a former advertising executive who teaches marketing at Florida Gulf Coast University. “Is that the kind of country we want?”

In the forty years that we have been researching and writing about issues that affect all of us, we have never been so concerned for the future of our country. The forces that are dismantling the American middle class are relentless.

America must stop sacrificing its greatest asset. Because, without a middle class, there isn't really an America.





## CHAPTER 1

### ASSAULT ON THE MIDDLE CLASS

Her name was Barbara Joy Whitehouse, but everyone called her Joy, and after you met her you knew why.

She was sixty-nine, and though hobbled by ill health, her eyes sparkled and she wore a smile. A wisp of a woman who had probably never weighed a hundred pounds, she radiated dignity and resolve.

Joy lived in a small home in a community called Majestic Meadows, a mobile home park for seniors just outside Salt Lake City. In her backyard was a shed that was filled with used aluminum cans—soda cans, soup cans, and vegetable cans—that she had collected from neighbors or found alongside roadways.

Twice a month she took them to a recycler who paid her as much as \$30 for her harvest of castoffs. When your fixed income is \$942 a month, as hers was, an extra \$30 here and there makes a big difference. After paying rent, utilities, and insurance, Joy was left with less than \$40 a week to cover everything else. So the money from cans helped pay for groceries as well as her medical bills for the cancer and chronic lung disease she had battled for years.

“I eat a lot of soup,” she said.



As a young woman, Joy never dreamed that her later years would be spent this way. She and her husband had raised four children in Montana, where he earned a good living as a long-haul truck driver. But in 1986 he was killed on the job in a highway accident attributed to faulty maintenance on his truck. It happened during a period when his company was struggling to survive the cutthroat pricing that Congress legislated when it deregulated the trucking industry. After her husband's death, Joy knew that her future would be tough, but she was confident that she could make ends meet. After all, the company had promised her a death benefit of \$598 every two weeks for the rest of her life—a commitment she had in writing, one that was a matter of law.

She received the benefit payments for four years. Then the check bounced. A corporate-takeover artist, later sent to prison for ripping off a pension fund and committing other financial improprieties, had stripped the business and forced it into U.S. bankruptcy court. There the pension obligation was erased by members of Congress who had passed laws allowing employers the right to walk away from agreements with their employees. In a country that once prided itself on creating a level playing field for everyone, those same members of Congress preserved the right of executives in those same companies to keep all their compensation, and even to raise it substantially.

To support herself, Joy sold the couple's Montana

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home and moved to the Salt Lake City area, where she had family and friends. With her savings running out, she applied early for her husband's Social Security at a reduced rate. She needed every penny. For health reasons, she couldn't work. In addition to lung disease that kept her tethered to an oxygen tank part of the time, she'd been further weakened by battles with uterine and breast cancer.

Her children and other relatives offered to help with expenses, but Joy, fiercely independent, refused. Friends and neighbors pitched in to fill her shed with aluminum.

"You put your pride in your pocket, and you learn to help yourself," she said. "I save cans."

Joy's story may sound like an isolated case of bad luck, but in one respect she vividly demonstrates what many other middle-class Americans experience these days. Thanks to Washington, Wall Street, and the ruling class, our economic security has been taken away. The good-paying jobs that underpinned a way of life have been replaced by part-time or minimum-wage jobs, if there are jobs at all. As steady work disappears, more and more people work under contracts, wages go down, and of course some have no work at all. Benefits that middle-class Americans paid for through reduced wages, benefits that promised to make their lives more secure, have been canceled.

And the worst is yet to come, as the privileged and their associates in Congress prepare to initiate slash-

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and-burn policies, beginning in 2013, to balance the budget—largely on the backs of the working middle class. That’s when people will learn that they are expected to work until at least the age of seventy, assuming that they can find employers willing to hire them at that age and that they are healthy enough to handle full-time employment. At the same time that the government is requiring people to work until they are seventy before retirement benefits are available to them, for most working people fifty is all too often the new sixty-five when it comes to employment opportunities for anyone who wants to do anything other than become a greeter at Walmart.

The ills of today’s economy are explained away by the privileged as nothing more than ongoing fallout from the recent recession. All will be better, they insist, when the economy recovers. They said the same thing twenty years ago when they attributed the economic failings of the early 1990s to a recession. The recession was not why the middle class was declining then. Nor is it now. The causes are deeper. The joblessness, foreclosures, and implosion of retirement savings that came into sharp focus after this last recession are no more transitory today than they were in 1992. The attack on the middle class goes back long before that.

For decades Washington and Wall Street have been systematically rewriting the rules of the American economy to benefit the few at the expense of the many—putting in place policies that have steadily

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dismantled the foundation of America's middle class.

The future looks bleak for all but the richest Americans if these policies don't change.

Indeed, it's grimmer than Washington is saying.

A majority of the new jobs being created are at the bottom of the wage scale. And there are still not enough. We are in the fourth year of unemployment hovering above 8 percent. In April 2012, it was 8.2 percent, or 12.7 million men and women out of work. The last time we were in this situation was during the Great Depression. In 1982–1983, unemployment was above 9 percent for those two years, before dropping back into the 7 percent range. But the unemployment number the news media parrots is a Washington spin figure. The real number of people without work is north of 22 million. Think of it as the entire population of New York City and the surrounding suburbs, all looking for a job.

Begin with the basic unemployment figure of 12.7 million. Add to that the people who were working part-time because they could not find full-time jobs, or who were forced into working less: 7.7 million. Now unemployment is 20.4 million. Finally, toss in another 2.4 million people officially identified as “marginally attached to the labor force”—those who had looked for a job in the past year but not in the month before the federal survey, partly because they were discouraged. Grand total: 22.8 million in need of a job—or nearly double the official unemployment total.

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These figures will take on new meaning in 2013, when Congress begins to mindlessly—and needlessly—wield a meat axe to government spending. Not that spending should be allowed to continue unchecked. There are many areas where it should be reduced. But the spending that should be curbed won't be. Rather, lawmakers will pretend, as they have for several years, that spending must be slashed to bring down the deficit. Even Social Security will be on the chopping block. So, too, health care. What they really mean is the ruling class is getting ready to squeeze working people even more.

The financial deregulation that enriched Wall Street and triggered the Great Recession was just the latest in a long series of moves by the economic elite to consolidate their control of the American economy. They have:

- Created a tax system that is heavily weighted against the middle class
- Deregulated sectors of the economy and in so doing killed jobs or lowered wages for employees across entire industries such as airlines and trucking
- Ignited in the financial sector a wildly speculative run-up in mortgage-backed securities of little value that imploded in the 2008–2009 recession
- Encouraged corporations to transfer jobs abroad and eliminate jobs in this country to

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bolster the value of stock, increase dividends, and boost executive compensation

- Enabled companies to eliminate positions and replace permanent employees with contract workers at lower pay and with no benefits
- Allowed multinational corporations to shelter profits overseas and avoid paying taxes on earnings that could be used to help stimulate jobs at home
- Forced 11 million people with mortgages that exceed the value of their homes to make monthly payments to the banks that caused the housing collapse—a debt they will never be able to pay off
- Refused to support the growth of new industries that could generate jobs for the future

Look upon all this as the end of a broad-based middle class in America.

## MORE FOR THE FEW

Throughout its history, America has dazzled the world with the outsized fortunes of its entrepreneurs and industrial titans. But the heart and soul of our democracy has long been its middle class, a beacon of opportunity to the world. Entrance into America's middle class meant a good job, decent benefits, your own house. Maybe it wasn't a way to get rich, but at

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least it was a chance to have a good life. It attracted the brightest and the best to America, and our life, economy, and culture were immeasurably richer.

The optimism of the past has given way to raw fear—middle America worries over how to pay the bills, whether they can send their kids to college, whether they will ever be able to retire. The insecurity is rampant. “I’d say 99 percent of Americans are not sure they’re going to have a job next year,” says Tom Toner of West Chester, Pennsylvania, a former telecommunications industry manager and engineer who lost two jobs to downsizing and offshoring before trying to start his own business. His income is a fraction of what it once was.

How did this happen? Who decided to dismantle the American middle class?

Despite obligatory comments about the importance of the middle class and why it should be helped, America’s ruling class doesn’t really care. They’ve moved on, having successfully created through globalization a world where the middle classes in China and India offer them far more opportunities to get rich.

The chief executive officer of a global hedge fund made this clear to Reuters journalist Chrystia Freeland when he told her, as she later wrote in the *Atlantic*, that

his firm’s investment committee often discusses the question of who wins and who

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loses in today's economy. In a recent internal debate, he said, one of his senior colleagues had argued that the hollowing-out of the American middle class didn't really matter. "His point [the CEO explained] was that if the transformation of the world economy lifts four people in China and India out of poverty and into the middle class, and meanwhile means one American drops out of the middle class, that's not such a bad trade."

The only problem is that no one told working Americans they were going to forfeit their future so that people in China, India, Brazil, and other developing countries could become part of a global middle class. In theory, this should not be a zero-sum game. But it is because Washington and corporate America have structured the rules that way.

No one disputes that globalization, no matter what policies the federal government might have adopted, would have eliminated jobs in certain industries in the United States as Asian, eastern European, and Latin American economies developed to replace that work. But where U.S. policy broke down was in failing to make that transition less traumatic for existing workforces and compel other nations to open their markets to U.S. exports to offset the losses at home.

At every step in the globalization process, the American middle class has been misled by corporate leaders, politicians, economists, and others in the

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economic elite. When blue-collar workers first began to lose jobs, white-collar workers were told that globalization wouldn't affect them—that jobs in the growing service sector would in fact be the wave of the future, replacing all those factory jobs shipped overseas. But the same forces that eviscerated plant workforces are spreading through white-collar ranks, from information technology to pharmaceutical research. Under the trade policies pursued by the U.S. government, very few jobs are safe anymore.

The result is a huge transfer of wealth from the middle class to the wealthy in this country, as well as to workers in China, India, and other developing nations. No one wants to deny people in those countries the right to improve their lot, but the price of uplifting them has been borne almost entirely by American workers, while in this country the benefits have flowed almost exclusively to a wealthy super-elite. Globalization was peddled on the basis that it would benefit everyone in this country. It hasn't, and it won't as long as current policies prevail.

What has happened to the middle class—the shrinking middle-class share of America's wealth and middle-class workers' loss of good-paying jobs and secure retirement—is told by statistics drawn from decades of tax and economic data:

*The "One-Percenters":* America's richest citizens, the "one-percenters," would not become notorious until 2011. In 1996, when we first wrote about the "top one percenters," recognition of their existence was

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just emerging. Based on 1992 data, the one-percenters were all those who earned more than \$190,000, with income going all the way up to millions of dollars. The average income of those at the top went up 215 percent from 1980 to 1992, compared to 67 percent for the bottom 90 percent of tax filers. By 2010 the baseline for the one percent was \$344,000. A more revealing number was the *average* earnings of the top income group: \$950,000. By contrast, average earnings for the bottom 90 percent, according to IRS data, came to \$36,000.

*Executive Excess:* While earnings for middle-income wage-earners have been stagnant for decades, executive compensation has soared. In 1980 the average CEO was paid about 42 times more than the average factory worker. By 1990—when we were researching *America: What Went Wrong?*—CEO pay had climbed to more than 100 times that of average workers. Since then, it has tripled: today CEO pay is 325 times more than the pay of factory workers. If the earnings of manufacturing workers had gone up at the same rate as the compensation for corporate chiefs since 1990, factory workers today would earn on average \$82,000. In fact, they take home about \$40,000 a year, according to the Bureau of Labor Statistics (BLS). CEO pay is now so hefty that it often exceeds the corporation's annual federal tax bill.

*Subsidizing the Rich:* People generally understand the origin of the nation's deficit: we spend more money than we take in. But why do we take in so little? Sta-

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tistics culled from the mountain of IRS personal tax data available show that in 1980 a total of 4,410 individuals and couples with adjusted gross income of \$1 million up to tens of millions filed federal tax returns. On average, they reported that they owed \$999,944—in other words, just short of \$1 million each.

Now jump forward twenty-seven years to 2007, the peak year for the financial bubble. That year 18,394 individuals and couples filed tax returns listing adjusted gross income of more than \$10 million. Even adjusting for inflation, that represented a generous increase from 1980. Actually, it added up to about four times more money in real dollars. In any event, the average tax paid came to \$6.0 million.

But the really telling numbers are these: The 1980 taxes paid averaged 47.9 percent of income. The 2007 taxes paid came to a meager 19.8 percent of income. If the nation's richest tax return filers had paid at the same rate as those twenty-seven years earlier, the U.S. Treasury would have taken in a whopping \$157 billion a year in added revenue—or as the people who like to play with numbers in Washington would put it, \$1.5 trillion over ten years. More to the point, \$1.5 trillion never would have been added to the debt, and no interest payments on that amount would have been made.

*Corporate Greed:* One explanation for the tax burden on middle America is that for years U.S. multinational corporations have refused to bring home billions of

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dollars they've earned on overseas sales because they don't want to pay taxes on those profits.

Sitting in banks in the Cayman Islands, the Bahamas, Switzerland, Luxembourg, Singapore, and other tax-friendly jurisdictions is a staggering amount of money—an estimated \$2 trillion, a sum equal to all the money spent by all the states combined every year, or more than half the size of the annual federal budget.

The corporations say they will bring these overseas profits back to the United States to invest in the country and create jobs, but only if Congress wipes out nearly all the taxes they owe by reducing their rate from 35 percent to 5.25 percent. To appreciate the pure greed and arrogance of this stance, the next time you are required to send a check to the IRS to pay your personal income tax, imagine what would happen if you advised the agency that you will pay only a fraction of what you owe.

When corporations were given a similar tax break in 2004, they repatriated \$312 billion and avoided taxes of \$3.3 billion over ten years. But the program was a sham. Rather than create jobs, according to the U.S. Senate Subcommittee on Permanent Investigations, the proceeds from the tax holiday were used by multinational corporations to pay more to their executives and stockholders while they cut more jobs in the United States.

The fifteen corporations that brought back the most money reduced their U.S. workforces by

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20,900. One of the most aggressive was Pfizer, the world's largest pharmaceutical company. Pfizer eliminated 11,700 jobs in the United States after celebrating the tax holiday. The company's CEO, Henry McKinnell, made out just fine during this period. While Pfizer was cutting jobs, McKinnell's compensation soared 72 percent in 2004, to \$16.6 million. When he retired two years later, McKinnell walked off with a \$200 million severance package, which included \$305,644 for unused vacation days.

*Entitlements for the One Percent:* The federal budget deficit is a big issue with the wealthy and their think tanks. Typical of the position they espouse is that of Peter G. Peterson, the billionaire cofounder of the Blackstone Group, the big Wall Street private equity firm. Peterson says the deficit is a "real threat to America's future" and has the nation on an "unthinkable and unsustainable path." But how did this deficit get so out of control?

Peterson points to Social Security and Medicare as among the chief culprits in creating "trillions of dollars of entitlement obligations." But let's look at it another way.

Since 2001, tax cuts to the rich, including Peterson, have totaled \$700 billion, according to IRS data. How did the federal government make up for the lost tax revenue? The Treasury issued more IOUs, adding \$700 billion to the federal debt. Paying the interest on that debt in years to come will fall heaviest on the middle class.

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*Vanishing Jobs:* Ever since jobs began to be exported from the United States, the elite have sought to assure Americans that the number was small and would not have a significant effect on overall employment. In 2007 Jacob Kirkegaard of the Peterson Institute for International Economics contended that concerns over offshoring had been “vastly overblown” and that only about 4 percent of those who had been laid off had lost their jobs because work was shipped offshore.

Financial writers picked up on the study to echo that theme. In a May 16, 2007, column, Robert J. Samuelson thundered: “Remember the great ‘offshoring’ debate? . . . Merciless multinational companies would find the cheapest labor and to heck with all the lives ruined in the process. What happened? Well, not much.” Samuelson cited Kirkegaard in contending that offshoring was no big deal.

But offshoring is a huge deal. Samuelson, like other media cheerleaders, failed to take into account the trends already under way when he dismissed warnings about it. Although the U.S. Department of Labor does not have definitive statistics on the number of jobs sent offshore each year, a little-noticed report by the agency’s economists in 2008 concluded that 160 service occupations employing 30 million Americans—more than 25 percent of the entire service industry workforce—were “susceptible to offshoring.”

If the past is a guide, any job that can be offshored

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will be. An analysis by Princeton University economist Alan S. Blinder, using 2004 data to measure potential job losses in both the manufacturing and service industries, concluded that 291 occupations accounting for 38 million jobs—29 percent of the workforce—could be offshored.

### **RIGGING THE SYSTEM**

For what has happened to jobs, retirement savings, and other vital signs of America's economic health, you can thank Congress and a succession of presidents who make the rules for the American economy. These rules determine the kind of job you may have, how much you will pay in taxes, and whether you have health benefits or a pension.

Congress makes the rules when it enacts new laws and amends or rescinds others—and then votes on whether or not to provide the resources that determine whether the laws will be enforced.

The president makes the rules through the departments and agencies that implement new regulations and amend or rescind others—and then either enforce or ignore these regulations.

Both the Congress and the president make the rules when they succumb to pressure from special interests and fail to enact laws or implement regulations that would level the economic playing field for everyone.

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Taken together, the myriad laws and federal regulations form a set of rules that govern the way business operates—from trade to taxes, from regulatory oversight to bankruptcy, from health care to pensions, from corporate write-offs to investment practices.

In every era, these rules establish a system of rewards and penalties that influence business behavior, which in turn has a wide-ranging impact on your daily life:

- From the price you pay for a gallon of gasoline or a quart of milk to the elimination of your job
- From the cost of your favorite cereal to the size of your unemployment check if you've been laid off
- From whether the company you work for expands in the United States or shifts your job to Mexico
- From the size of your pension to the question of whether you will even have a pension

Ultimately, the rule-makers in Washington determine who, among the principal players in the U.S. economy, is most favored, who is simply ignored, and who is penalized. In the last few decades, the rules have been nearly universally weighted against working Americans.

That a huge wealth gap exists in this country is now so widely recognized and accepted as fact that most people have lost track of how it happened. One

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of the purposes of this book is to show how the gap became so huge and to explain why it was no accident.

Over the last four decades, the elite have systematically rewritten the rules to take care of themselves at everyone else's expense. As postwar U.S. history shows, it doesn't have to be this way. For decades after World War II, personal income in the United States grew at roughly the same rate for the rich and everyone else, all except for the poorest Americans. During this period, the gap between the rich and the middle class remained about the same.

The rich would have you believe that high taxes are a damper on the economy, but the postwar economic boom was marked by the highest personal income tax rates on the wealthy in peacetime U.S. history. At one point in the early 1950s, the top rate was 92 percent. No one actually paid 92 percent of their total income in taxes, but the wealthy paid a much higher percentage in taxes than they have paid for many years since. The federal government collected that tax money and routinely reinvested it in the American people. Veterans were able to go to college, families bought homes for the first time, and government invested in infrastructure projects such as the interstate highway system—the benefits of which all Americans continue to enjoy to this day. All boats rose.

But in the 1970s things began to change. Middle-class incomes, after growing steadily for decades,

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began to flatten, while incomes in the top bracket rose by quantum leaps. By the early years of the twenty-first century, the rich had captured the lion's share of the nation's growing wealth. And they paid taxes at little more than a token rate.

From 2002 to 2007, the income gains of the top one percent rose 62 percent, compared to just 4 percent for the bottom 90 percent of households, according to economists Emmanuel Saez and Thomas Piketty. Consequently, by 2007 the top one percent of Americans claimed a larger share of the nation's income than at any time since 1928. Among the richest of the rich—individuals and families with incomes in the top one-tenth of one percent—the gains were even more astronomical: their income rose 94 percent, or \$3.5 million a household, from 2002 to 2007, according to Saez and Piketty.

This, too, was no accident. The rich were getting richer thanks to public policy. Their greatest victory—one that would aggravate the nation's deficit and substantially widen the gulf that separated them from everyone else—was lobbying Congress to rewrite the tax code in their favor. Since the 1980s, with a few exceptions, the tax rate of the very rich has gone straight down and now bears no resemblance to the rate during the years when America as a whole prospered. The top rate on personal income—92 percent—has shrunk to 35 percent. But that tells only part of the story.

In addition to lowering the overall rate for the rich,

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Congress in 2003 reduced the tax on income from corporate dividends, one of the key income streams for the very wealthy that significantly benefits only about 2 percent of taxpayers. In the 1950s, '60s, and '70s, millionaires might pay as much as 70 percent of their dividend income in taxes. In 2003 that rate dropped to 15 percent.

And they want more.

They plan to cut their taxes even further by having Congress eliminate the capital gains tax on sales of stock and other assets. During his 2012 presidential campaign, Republican candidate Newt Gingrich spoke for many of the elite when he proposed doing away with the capital gains tax, ostensibly to spur investment in America. Eliminating that tax would deepen the income and wealth gap and do nothing to create jobs in America. But that's okay with the folks who make the rules. In their view, inequity is a reasonable price to pay for the greater profit on the sale of, well, equities.

When word got out in the press in 2009 that Goldman Sachs was paying more than \$16.7 billion in compensation, bonuses, and benefits to executives that year—in the midst of the recession—an outcry arose, but Brian Griffiths, an executive with Goldman Sachs International, brushed aside the criticism:

“We have to tolerate the inequality as a way to achieve greater prosperity and opportunity for all.” *For all?* Griffiths was silent on when that “greater prosperity” might trickle down to the rest of us.

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The economic elite are forever telling working Americans that the lag in their earnings is just the way it is going to be in a globalized economy. But other countries also compete head-on in the global economy—with different results. Germany and Japan have healthy trade surpluses, in contrast to the ballooning U.S. trade deficit, which cumulatively is nearing \$10 trillion, far larger than that of any other country. That Germany and Japan provide education and training for workers is important, to be sure, but that's not why both countries are succeeding so well in the global marketplace. Germany and Japan are succeeding because each has national policies that protect basic industries and encourage jobs.

China is routinely the focus of our trade deficit. It rose from \$84 billion in 2000 to an all-time high of \$295 billion in 2011. U.S. government officials, lawmakers, and economists complain loudly about this, citing China's policy of manipulating its currency to keep the cost of its exports artificially low. But the problem isn't in China—the problem lies in us, and in our own policies.

Not so long ago, Japan was the target of similar complaints. Because of Japanese import barriers, American products weren't allowed into Japan. Over the years, the U.S. government repeatedly negotiated deals with Japan that were supposed to enable American companies to sell more products in Japan. But those deals were rarely enforced, and so the trade barriers remain.

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In 1990, at the zenith of concern about Japan's unfair trade practices, the U.S. trade deficit with Japan was \$41 billion. During the past decade, the annual deficit has often been double that. The Japanese are no doubt delighted to see America's anger over trade issues shift to China. It allows them do business as usual with the United States—to their advantage.

If the middle class has been hammered by U.S. trade policies that favor our trading partners more than our own citizens, it has also been hit by the actions of a group of opportunists at home who likewise benefit from favorable policies set down by Congress. These are the moguls of private equity. The activities of private equity companies burst into the national debate early in 2012 when Mitt Romney's Republican opponents (of all people) accused him of being a job-killer for his past work at the Boston private equity firm Bain Capital. Bain certainly did its share of cutting jobs at the companies it acquired, but there was nothing unusual about that. Eliminating jobs is what private equity funds do—all of them. This is how, for instance, Stephen A. Schwarzman, CEO and one of the founders of the Blackstone Group, the nation's largest private equity fund, has become one of America's richest men with an estimated net worth of \$4.7 billion.

It's no coincidence that the private equity industry has exploded in the last two decades at exactly the same time that the decline of the middle class has

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been most pronounced. The money managed by these firms has skyrocketed, rising from \$5 billion in 1980 to an estimated \$1 trillion by 2012. In addition to 2,300 private equity firms, nearly 10,000 hedge funds, some of which are similar to private equity firms, have another \$1 trillion under management. This means that Wall Street has \$2 trillion in funds to buy and sell companies, often with disastrous results for almost all the people who work for them.

While the practices of many publicly held corporations have been detrimental to the welfare of their employees, the private equity firms have generally been much worse. Secretive, insular, and essentially unregulated, private equity funds have been free to pursue their rapacious job-killing strategies with abandon.

Typically, private equity firms borrow money to take over a company. Then they institute cutbacks and other “efficiencies” to groom the company for sale to new investors. When the company is taken public, the private equity firm earns substantial fees and passes on the debt it took on when it bought the company. Often the new company has difficulty managing the heavy debt load and reduces expenses by cutting even more jobs.

The list of companies whose employees were cast aside after their company was acquired by Blackstone is long and depressing. In what was the largest technology company buyout of its time, Blackstone in 2006 acquired Freescale, the huge maker of semicon-

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ductors based in Austin, Texas. Financed largely by debt, the \$17.6 billion acquisition was a prelude to a string of job cuts of skilled workers. In 2009, again using borrowed money, Blackstone took over one of America's most venerable names in processed food, Birds Eye Foods. Blackstone instituted job cuts, axing the corporate staff of Birds Eye in Rochester, New York, and closing a processing plant in Fulton, New York, that had been a fixture of the town for a century.

To conservatives and free-market zealots, job cuts by private equity companies such as Blackstone and Bain, while causing pain, are absolutely essential and have a positive effect on the economy. Writing in the *New York Times* in 2012, columnist Ross Douthat argued that the "private equity revolution was necessary" and that "our economy became more efficient" as a result of often brutal restructurings. To Douthat and like-minded thinkers, the "competitiveness revolution," as he called it, has reinvigorated the economy.

But has it? It depends on what you mean by the economy.

There is no hard evidence that all this buying and selling has helped the economic welfare in communities across the country so that money flows from one enterprise to another, supporting other businesses and local services. What is absolutely certain is that the deal-making has been a boon to the bank accounts of Schwarzman and his fellow private equity

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moguls.

The managers of the largest equity and hedge funds have become immensely wealthy—many are billionaires—even though some of the companies they bought and sold later foundered. In addition to the rich fees they harvest, private equity fund managers rake in millions more courtesy of U.S. taxpayers. Thanks to Congress, a portion of their annual income is taxed at 15 percent (rather than 35 percent) under an obscure provision called “carried interest.” This puts that income in the same tax bracket occupied by the janitors who clean their buildings. Using the proceeds from their deals and the money they save on taxes, private equity and hedge fund managers have lavish lifestyles featuring multiple residences, private planes, and ostentatious parties.

### **THOSE HIGH-PRICED AMERICAN WORKERS**

The ruling class thinks that the average American earns too much money. This is an unspoken belief, and one that most of them would no doubt vehemently deny. But the evidence is compelling. The elite show their hand in many ways:

- When they oppose raising the pay of the lowest-paid workers, those covered by the mini-

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mum wage

- When they encourage the export of good-paying jobs in fields such as information technology
- When they resist changes in the tax code that would protect American workers

Corporate executives contend that they are forced to relocate their operations to low-wage havens to remain competitive. In other words, their domestic workers earn too much. Never mind that manufacturing wages are lower in the United States than in a dozen other developed countries.

Thanks to the rules, many of which are written by corporations, a company can pull up stakes and use cheap foreign labor to make the same product it once did in America. It no longer has to meet environmental standards. It no longer has to abide by U.S. labor laws. It no longer has to pay a decent wage. Then the company can ship the product back to the United States where, courtesy of the rules, it will pay little if any duty. How can American workers hope to compete against that? They can't.

Lisa Gentner worked at a company called Carrollton Specialty Products, housed in a one-story warehouse in Moberly, Missouri, a town of 15,000 in central Missouri. Carrollton was a subcontractor for Hallmark Cards, the global greeting card giant based 125 miles west in Kansas City, Missouri. The largely female workforce of 200 provided the hand assembly

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for a variety of Hallmark products. They tied bows and affixed them to valentines and anniversary greetings. They glued buttons, rhinestones, and pop-ups inside birthday cards. They made gift baskets.

As in many towns across the country, the plant was an economic anchor for Moberly. Manufacturing is often pictured as a big-city enterprise, but a substantial number of plants are the lifeblood of small to medium-sized cities.

Gentner started working on Carrollton's production line when the plant opened in 1995. She earned \$4.25 an hour, or just under \$10,000 a year based on a forty-hour workweek. She gradually took on more responsibilities. When a supervisor was out, she would fill in. When the plant manager was off-site, other employees came to her for help. She never had the title of assistant manager, but it was a role she often filled. A single mom raising three small children, she did nearly every job in the plant over time. "The best way I can describe myself was, I was a jack-of-all-trades and a master of quality," she said.

She had worked her way up to quality control manager in 2009 when Hallmark dropped a bombshell: the contract that had provided steady work for the women of Moberly for years was canceled and the work would be sent to China.

Gentner was earning less than \$35,000 a year. By then, the pay of women on the production line had risen to just \$7 an hour, essentially minimum wage, or less than \$15,000 a year. But that was apparently

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too much for Hallmark Cards.

“We didn’t earn a lot of money,” Gentner said, but she was learning a lesson that many Americans have had to absorb in recent decades. “The heads of businesses are in it for what they can put in their pocket,” she said, “and the less they can give me, the more they have in their pocket.”

With jobs scarce in the Moberly area, Gentner did what so many who are thrown out of work do: she enrolled in school, the Moberly Area Community College. With the help of federal retraining funds, she studied business technologies with a goal of earning an associate’s degree two years later. She had no idea whether she’d find a job, but she felt that if she had a grasp of business software she’d have a better chance.

“My theory was, if there are any businesses left in the United States, they’re going to have an office,” she said. “So it was job security.”

On the eve of her graduation, the college offered her a full-time position in student services. That job, coupled with a temporary appointment to teach two night courses a week in Microsoft Office programs at the college, brought her income almost to where it had been nearly three years earlier.

Even though Gentner never expects to make back the money she lost after her job was sent to China, she feels that she’s one of the luckier ones because many of her coworkers still have not found steady work. She’s baffled by government reports indicating

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that the economy is improving. “I don’t know where they live,” she said.

In the Moberly area, as in many communities today, things are still rough. Good jobs are only becoming scarcer. As companies ship more and more work offshore, people who do find new jobs usually earn less than they once did.

“If it keeps up like this, within twenty to thirty years we’re going to be like Africa,” she said. “We’re going to be living in little mud huts, drinking whatever water we can find floating across the road.”

Lisa Gentner and her coworkers were put out of work not because the rest of the world’s economy was catching up with America, but directly because of policies put into place by the powerful who rewrote the rules to serve their own interests.

They hired lobbyists and bought Congress to do their bidding, and they did something else that may have been even more important: they created a powerful propaganda machine.

The very rich have never liked the federal government, because it occasionally enacts broad programs such as Social Security, Medicare, and now health care reform that they regard as interfering with the private market. While that’s long been their credo, during the last three decades they’ve acted aggressively to convert those beliefs into national policies by funding foundations and think tanks that agitate for lower taxes, smaller government, and less regulation—policies that benefit them. Authoritative-

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sounding research reports, studies, and news releases issued by these groups under the guise of scholarship are peddled to the media, receive wide distribution, and influence national policies on taxes, jobs, and benefits in ways that adversely affect the middle class. Among the super-rich, few have been more active and influential in shaping national policy for the elites than two brothers whose fortune is rooted in the plains of Kansas, and there's no sign that they think their task is anywhere near complete yet.

Charles and David Koch are two of the richest men in the world. *Forbes* calculates their net worth at \$25 billion each, which, if combined, would rank them only behind Bill Gates on the list of richest Americans. They head Koch Industries, the second-largest private company in America with annual revenue of about \$100 billion. They have holdings in oil refining, pipelines, and forest products, but the Kochs are also major investors in consumer products, from Brawny paper towels to Dixie cups.

The company was started by their father, Fred, who built oil refineries in Russia for Joseph Stalin before returning to the United States to build Koch into a profitable regional energy company based in Wichita, Kansas. He later helped found the right-wing John Birch Society and instilled in his sons a burning hatred of governments of all types. After his death in 1967, his sons took the company to new heights through expansion, acquisitions, and aggressive business practices.

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Like many rich people, Charles and David Koch believe fervently in unrestricted free enterprise and as little government regulation as possible. But they aren't content to exchange their ideas with fellow plutocrats at their private clubs: they turn them into policy decisions that enrich themselves to the detriment of America's middle class.

The Kochs have contributed \$12.7 million to candidates (91 percent Republican) since 1990 and spent more than \$60 million on lobbying Washington in the last decade. But their greatest impact is the millions they have poured into foundations, think tanks, and front groups to mold public opinion in their favor by promoting positions that in almost every case benefit the few.

The rise of these conservative think tanks and foundations directly coincides with the economic decline of the middle class. Among the more prominent of these organizations are the Cato Institute, which Charles cofounded in 1974, and Americans for Prosperity, which David launched in 2004 as a successor to a similar group that he had helped found earlier called Citizens for a Sound Economy. Dozens of other groups receive Koch money at the national or regional level. In early 2012, a rift developed between the Kochs and Cato, sparking litigation by the Kochs and charges by Cato president Ed Crane that Charles Koch was trying to gain full control of the think tank to advance his "partisan agenda."

The environmental group Greenpeace, which in

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2010 examined just one issue on the Kochs' agenda—their efforts to discredit scientific data about global warming—identified forty organizations to which the Koch foundations had contributed \$24.9 million from 2005 to 2008 to fund what Greenpeace called a “climate denial machine.”

The Investigative Reporting Workshop at American University has calculated that various Koch foundations contributed at least \$143 million to more than two hundred groups in the three-year period 2007 to 2009. Many were colleges and cultural institutions, but others were think tanks and foundations. Based on its own research and information culled from other foundations, the Workshop estimated that the Koch foundations have contributed no less than \$275 million to various groups since 1986.

One of the most significant, ongoing recipients of the Koch largesse is the Mercatus Center at George Mason University in Arlington, Virginia, just across the Potomac from Washington, D.C. Mercatus, which describes itself as “the world’s premier university source for market-oriented ideas,” has become one of the most powerful voices in the country for right-wing economic policy. It was founded in the 1970s by Richard Fink, a long-time Koch operative who heads the brother’s multimillion-dollar operation in Washington. Charles serves on the Mercatus board, but the brothers’ chief contribution has been money. The Investigative Reporting Workshop estimated that the Koch foundations gave Mercatus and its parent,

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George Mason University, \$11.9 million in the years 2007 to 2009. Mercatus was one of the earliest and most strident opponents of President Obama's economic stimulus plan adopted early in 2009.

Interest groups supported by the Kochs spew out a steady stream of position papers, congressional testimony, and public pronouncements about public policies that are detrimental to the middle class. They back unrestricted free trade and oppose even the slightest government actions that might be interpreted as protectionist, a position that has helped destroy millions of domestic manufacturing jobs. They oppose any increase in the minimum wage. In 1970, before the Kochs and right-wing groups began railing about the evils of raising the minimum wage, it was \$1.60. In 2012, it was \$7.25, meaning the wages of those at the bottom have not even kept pace with inflation. Koch-funded groups have supported changes in bankruptcy law that make it much more difficult for average Americans to reorganize their finances when they are plunged into debt by medical bills or the loss of a job. That change has been especially harmful to women, usually single mothers, who for years have been the largest group of distressed Americans who file for bankruptcy.

The push by Koch-supported groups for the deregulation of industries such as airlines and trucking drove down wages and salaries in those fields and produced—in the case of financial deregulation—one of the most catastrophic financial bubbles in Ameri-

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can history. Some of those groups contend that the housing crisis was caused by the federal government's wrongheaded moves to promote homeownership, while dismissing the much larger role played by Wall Street, banks, and the private equity market, all of which made billions bundling and peddling junk mortgage securities. Koch-funded groups agitate to cut Medicare and limit Social Security and would love to abolish both. In lieu of that, their goal is to privatize Social Security by turning average Americans' retirement savings over to Wall Street to invest in the stock market. Making Social Security benefits the equivalent of a 401(k) would further enrich stockbrokers but put most working people at even greater risk of poverty in their old age.

The Kochs are masters of misinformation. David Koch's Americans for Prosperity (AFP) virulently opposed the national health care reform bill and helped create the image that there was a vast groundswell of opposition to the measure by organizing town hall meetings to attack it. Speakers often made wild, sensational claims about the legislation: at one Colorado gathering sponsored by an AFP group, a speaker contended that the bill mandated physician-assisted suicide, charging that "Adolph Hitler issued six million end-of-life orders—he called his program 'the final solution.' I wonder what we're going to call ours?"

After the Patient Protection and Affordable Care Act (PPACA) was passed in 2010, the AFP bought

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television time on the eve of the 2010 midterm elections to condemn the new law. One featured a Canadian woman who warned about the perils of government-run health care systems. Identified on Koch's AFP website as Shona Holmes, she delivered an unsettling message: "Many Americans wonder what the new health care bill will do. Well, I know. I am a Canadian citizen. I had a brain tumor, but if I had waited for treatment in my government-run health care system, I'd be dead." She said she traveled to the United States for "world-class care that saved my life." An AFP official said that her case showed how "our health is too important to leave in the hands of a government bureaucrat." It was later revealed in the Canadian press that Shona Holmes did not have a brain tumor—only a cyst on her pituitary gland. The U.S. doctors who removed the cyst later said that they did not consider her condition life-threatening.

Similarly, the Koch-supported Cato Institute spreads misinformation about the economy. Every year Cato and its partners compile and publish an annual index of the nations that have the most "economic freedom." The most highly ranked have lower taxes, less government regulation, higher personal incomes, lower infant mortality rates, and fewer murders than those that supposedly restrict economic freedom. The survey is trotted out annually by Cato and other conservative think tanks with claims attesting to its scrupulous methodology, but its con-

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clusions are based more on ideology than on science. Cato claims that nations that are “economically free out-perform non-free nations” but glosses over the fact that most of the so-called non-free nations, such as the Congo, have been poor for centuries and owe their lowly status more to ingrained poverty than current government policies.

Even more misleading is Cato’s measure of economic freedom among developed nations. The United States is always in the top ten, but Germany, which has a dynamic, job-creating economy, always ranks well down the list largely because it has higher taxes and more regulation than the United States. In 2010, for example, the United States was sixth, while Germany was ranked twenty-fourth.

But what is life like for people in each country? The infant mortality rate, cited by Cato as a mark of a nation’s prosperity, is much higher in the United States than in Germany—5.98 per 1,000 births compared to 3.51 in Germany. The murder rate, another Cato bellwether of economic freedom, is more than five times higher in the United States than in Germany at 4.6 homicides per 100,000 persons compared to 0.8 in Germany. German manufacturing workers earn 26 percent more in wages and benefits than their counterparts in the United States. Germany’s unemployment rate in 2010 was 7.2 percent; in the United States it was 9.6 percent. German CEOs, on the other hand, earn on average about half what their counterparts in the United States earn,

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and then pay higher taxes on those earnings.

By most every significant economic measure, Germany's policies benefit the broader society. But in Cato's view, those very policies—higher wages for working people, higher taxes on the wealthy, regulations on corporations—are constraints on economic freedom. But whose freedom? To Cato, “economic freedom” is measured largely by how much freedom members of the economic elite enjoy—not the freedom enjoyed by the society as a whole.

The vision of the Kochs and members of the economic elite for transforming America is by no means complete. The assault on the middle class that we detail in this chapter is just a prelude to actions that will further tighten the screws on working Americans if the privileged continue to set policy that favors only themselves.

To carry out their vision, the Kochs not only continue to pump money into politics and think tanks but are aggressively launching vehicles they directly control, such as the Americans for Prosperity Foundation, which was founded in 2004. Although the brothers' combined net worth has risen over the last three decades from \$532 million in 1982 to \$50 *billion*, they decided in 2007 that the American dream—their version of it anyway—was somehow under attack and needed defending. So they launched what would become a regular conference, the “Defending the American Dream Summit.”

This conference brings together hundreds of Koch

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supporters who pledge support for the goals the brothers deem essential to America's future. At a conference at a hotel in suburban Washington in 2009, David Koch thanked followers and said their efforts were succeeding "beyond our wildest dreams." Koch told them that meetings such as theirs were breathing life into the vision that he, his brother, and others have of creating a mass movement of Americans who will stand up and fight for the "freedoms that have made our nation the most prosperous society in history."

As Koch spoke, the gap between the richest Americans and everyone else had never been greater. The jobless rate was rising to 10.2 percent, the highest in twenty-six years. The number of Americans without health insurance hit a record high of 48.9 million. One in every seven Americans was in poverty. That month workers at companies such as Kasco in Atlanta, which made band saws and grinder knives, watched helplessly as their jobs were shipped off to Mexico. Only days before Koch's speech about the "most prosperous society," Heather Newnam shot herself to death as sheriff's deputies closed in to evict her from her foreclosed home in Tamarac, Florida. She was one of 332,292 Americans to lose their homes that month.

But those events taking place across America might as well have been happening on Mars for all those gathered in the conference room cared. David Koch told them that if they all worked together

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they'd preserve the principles that had made America great. "The American dream," he said, "of free enterprise and capitalism is alive and well."

What Koch didn't say is that free enterprise doesn't offer everyone the same opportunities if policies undercut members of what once was the world's greatest middle class.

The year David Koch launched the "Defending the American Dream Summit," Joy Whitehouse's dreams came to an end. Barely able to afford minimal medical care and enough food to stay alive, she continued to maintain her independence by practicing free enterprise as best she could—collecting empty cans by the side of the road until her strength gave out and she died.