

CHAPTER 4

PHANTOM JOBS

On his last day on the job, Kevin Flanagan, after clearing out a few personal effects and putting them in boxes in the back of his Ford Ranger, left the building where he'd worked for seven years. He settled into the front seat of his pickup truck on the lower level of the company garage, placed a twelve-gauge Remington shotgun to his head, and pulled the trigger.

He was forty-one years old. He was a computer programmer. He'd been a programmer his entire working life.

Until, that is, his job was shipped overseas. The business of moving traditional U.S. jobs abroad—called “outsourcing”—has been one of this country's few growth industries. It's the ultimate short-sighted business promoted by the country's elite because it means lower wages and fatter profits. As for the American workers eliminated along the way, they are just collateral damage. Kevin was a casualty of the new American economy. Only a few years before, programmers like him were seen as some of the brightest lights of a modern American workforce as technology became the backbone of so many corpo-

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rate operations.

Kevin was college-educated and hardworking by all accounts. He had compiled an impressive résumé with his last employer, Bank of America in Concord, California, and at previous jobs in the Bay Area and Los Angeles. His peers gave him high marks: One called him a “programming god.” Another noted that “every time I got stuck on a program, he’d unstuck it in, like, ten seconds.”

He was analytical by nature and loved to solve problems, but in the end he had no answer for the problem that had been dealt his profession.

His employer, Bank of America, did what so many companies now do to their employees. After years of dedicated service, one day they’re told they’re being replaced. Not because they haven’t worked hard enough. Not because they aren’t dedicated to their jobs. Not because they’re not educated or qualified. They’re being replaced because the company, thanks to federal policies, can hire someone else a lot cheaper.

Kevin’s replacement was a programmer from India who had gained admission to the United States under a U.S. government program pushed through Congress by big business. Corporate lobbyists claimed the program was needed to ease a shortage of domestic programmers and computer specialists. In fact, it was a way for corporations to cut salaries.

Kevin was ordered to train his replacement or lose his modest severance package. It ripped him apart.

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Playing by all the rules had gotten him a pink slip.

It was a bitterly sad end for a talented professional. Kevin grew up in the Long Beach, California, area, the son of middle-class parents. His father worked for the famed aircraft maker Douglas Aircraft. His mother was a high school music teacher. In school, Kevin was inquisitive and loved to ask questions—he needed to know the “why” of everything, his father, Tom Flanagan, recalled fondly. Kevin was also captain of the high school debate team, which never lost a match.

He studied computer science and philosophy at California State University in Long Beach. After graduation, he worked as a programmer for McDonnell Douglas, and when that company began to falter before being acquired by Boeing, he moved to the San Francisco area and worked as a programmer at two companies before joining Bank of America in 1996. He was part of a small unit at the bank’s Concord Technology Center, a four-building complex on San Francisco’s East Bay where programmers wrote code on a myriad of money transfer transactions.

There Kevin felt he had found a home. His father said that his son liked his job and his colleagues and did well at the bank. He was even offered a promotion to move to one of the bank’s East Coast facilities, but he declined.

“Kev wanted to stay where he was,” said Tom Flanagan. “He was content with his small group of programmers, with the job, and with the little house

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he bought in Pleasant Hill.”

But then, in his father’s words, “the hammer began to strike.” The bank began shipping some work off-shore and importing programmers from India as guest workers, courtesy of the U.S. government. Bank of America had cut a deal in 2002 with an off-shore provider based in India to oversee part of this work transfer.

The outsourcing was bad enough. Flanagan found himself called upon to clean up some of the mistakes that came in from overseas. Week after week Kevin saw his little group of programmers whittled down. As more foreign guest workers arrived, one after another of his longtime programming colleagues was let go. Finally his unit was down to one—him. Even though “he knew it was only a matter of time,” his father said, Kevin nevertheless was “totally disgusted” by the order to train his replacement. That might have “tipped him over the edge,” his father said, though no one saw it at the time.

On what he knew would be his last day of work, April 17, 2003, Kevin met with a bank official from Chicago who had been sent in to do the firing. The official later told police that he had met with Flanagan the morning of the day he committed suicide, explained his severance package, and asked him to turn in any company property in his possession. The official told police that Kevin, ever professional, was in “good spirits and had been taking it well.”

For the Flanagan family, the wounds are still fresh.

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They lost a son and brother, and America lost a good mind, in Tom Flanagan's words. They knew Kevin was upset. They knew he felt betrayed by the company that he'd given so much to for years. But they had no idea that he was "so desperately in need of help."

Kevin Flanagan didn't lose his job by accident. Outsourcing is not a freak occurrence of nature like an earthquake or hurricane, although we often use metaphors like that to describe what it feels like for those on the wrong end of it. Kevin Flanagan lost out because the economic policies that those in power have imposed on America guarantee that jobs like his will be eliminated. Of course, they never told Kevin that when he went off to college to study computer science.

Any product or service in America can be imported or outsourced with little or no duty, regardless of where or how it is made. The product may be produced cheaply under dangerous conditions, in a nation with no labor standards or environmental regulations. But to the folks who run the country, that's okay. *Sorry, they say, but American workers will have to pay the price. That's just the way it's going to be. That's the market at work.*

This is *not* the market at work—this is the market they created that works for them. The ruling class sold the idea of opening the country to an unrestricted flow of imports on the basis that American society as a whole would benefit: we would buy from

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other countries, and they would buy from us. But from the start there has never been a balance. No safeguards were ever put in place to prevent other nations from taking advantage of our open-door policy to sell us goods produced under conditions that made their cost artificially low. One of the central manufacturing costs is the price of labor. Inevitably, the consequence of inviting foreign firms into the American market is that labor costs fall to the level of the lowest suppliers.

Global free trade is an invitation to cut the cost of labor at home or, even more profitably, shift jobs abroad. Like so many other chapters in the nation's trade history, the shipment of work offshore began imperceptibly as a way for companies to trim costs, and was seemingly so inconsequential in the beginning that it appeared to pose no threat to U.S. workers.

America essentially invented outsourcing, but few outside the corporate world realized how rapidly it, along with other trade policies, would devastate employment across the middle class as imports quickly overwhelmed exports and workers in industry after industry were sacrificed on the altar of unrestricted free trade.

For the ruling class, this was just fine. Everything was proceeding along the lines of their free market theories. They wanted no restrictions on trade policy, and Congress obliged. They wanted complete freedom to close plants in the United States, set up

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plants offshore, and outsource work to anywhere in the world without any tax penalty, and Congress obliged. They wanted to stonewall the wage demands of workers back home by hinting that their jobs might be ticketed for the next offshore shuttle if they asked for too much, and Congress went along. With this kind of oversight, was any job safe?

Kevin Flanagan certainly thought his field was safe when he entered it in the 1980s. Computer programming looked like one of the surefire careers for the future. Everyone said so. The advent of large mainframe computers in the 1960s had kicked off the first big increase in jobs, and the demand for programmers rose even more in the late 1970s with the introduction of personal computers and the extension of data processing into more and more businesses. Everyone thought that even bigger growth in programming jobs lay ahead.

In its 1990–1991 *Occupational Outlook Handbook*, a biennial publication that forecasts the future of occupations in the United States, the U.S. Department of Labor was especially bullish: “The need for programmers will increase as businesses, government, schools and scientific organizations seek new applications for computers and improvements to the software already in use [and] further automation . . . will drive the growth of programmer employment.” The report predicted that the greatest demand would be for programmers with four years of college, who would earn above-average salaries.

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When the Department of Labor made these projections in 1990, there were 565,000 computer programmers in the United States, but with computer usage expanding, the department predicted, “employment of programmers is expected to grow much faster than the average for all occupations through the year 2005.”

It didn't. Employment fluctuated in the years following the report, then settled into a slow downward slide after 2000. By 2002, the number of computer programmers in the United States had slipped to 499,000. That was down 12 percent from 1990—not up. Nonetheless, the Labor Department was still optimistic that the field would create jobs—if not at the robust rate the agency had predicted, then at least at the same rate as the economy as a whole.

Wrong again. By 2006, even that illusion couldn't be maintained. When the number of jobs fell to 435,000—130,000 fewer than in 1990—the Labor Department finally acknowledged that jobs in computer programming were “expected to decline slowly.” It was a telling confession of a huge miscalculation: computer programming and the kind of work it represented—skilled work that usually required a bachelor's or higher degree—had been assumed to be beyond the capabilities of competitors from abroad with their less vaunted educational systems and lack of English language skills. They couldn't take that away from Americans, could they? But they did.

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The reason? While some in Congress are simply ignorant about trade matters, a lot of free trade legislation is passed because people with money want it and make sure the money gets to those who vote. In spite of strong evidence put forth at the time of NAFTA about what would happen to jobs—which ultimately turned out to be accurate—Congress ignored it. From 1990, when Labor made its rosy prediction that programming jobs would increase at a faster rate than other jobs over the next fifteen years, the U.S. workforce grew by 24 percent. If the number of programmers had increased at just the pace of the overall workforce—let alone at the optimistic rate that Labor had once projected—at least 700,000 programmers would have been employed by 2006. Instead, there were only 435,000. The job opportunities have continued to decline: in 2008, the last year for which figures are available, the number had dropped to 427,000. Even that number masks the magnitude of the domestic job losses. For among those 427,000 programmers were thousands of H-1B guest workers—foreign nationals brought in by U.S. companies, as allowed by immigration law, to do programming, usually at much lower pay and benefits. Like the guest worker who took Kevin Flanagan’s job.

Washington attributes the unexpected U-turn on programming jobs to numerous factors, but the most telling cause was not even on its radar screen in 1990, even though it was already etched into the DNA of corporate America—offshoring. “Because

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they can transmit their programs digitally,” the Labor Department belatedly admitted in 2006, “computer programmers can perform their job function from anywhere in the world, allowing companies to employ workers in countries that have lower prevailing wages.”

In place of well-paid programming jobs in the U.S., the growth fields in the two decades after 1990 were for home health aides, retail clerks, customer service agents, truck drivers, security guards, and child care workers—low-paying jobs with few opportunities for advancement or better pay.

Domestic programmers, like millions of workers in other fields, are casualties of a Congress long indifferent to the plight of American workers. Rather than create a level economic playing field, lawmakers and presidents, both Democrat and Republican, have permitted foreign governments to set American job policies by eroding this country’s basic industries. While free-traders in the United States have been busy honking their horns against any form of government intervention in the market, they have turned a blind eye to what has been going on in the globalized world they are so proud of having created. Many foreign governments ignore such theories and subsidize industries that they believe will help their people. In the 1980s, the government of India began supporting its nascent software industry in order to encourage companies to produce software for export. India’s software exports totaled a mere \$10 million in 1985;

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by 2010 they had reached an estimated \$55 *billion*.

That dramatic increase came about because the Indian government in 1986 designated information technology as a high-priority industry with tremendous growth potential. The government then enacted incentives for attracting foreign investment and spurring industrial development to “enable the software industries to commence their operation with a minimum gestation period,” as an Indian government report put it.

In 1991 the Indian government went a step further and created software technology “parks” throughout the country where the government provided space, electrical power, satellite hookups, streamlined procedures for export, and tax exemptions. In other words, the Indian government did what the U.S. government almost never does—it targeted a crucial industry for major government support. And it picked a winner: just ask unemployed U.S. computer programmers.

In what will spell even more trouble for America’s remaining programmers, the Chinese are rapidly trying to catch up to India and are taking the competition to a new level. Like the Indian government, the Chinese government is providing incentives to foster a software development industry and has selected cities to pursue the software export strategy. In a sign of how aggressively they are marketing this industry, the Chinese have dispensed with the term “software parks.” They are tactlessly but honestly calling the new centers what they truly are: outsourcing hubs.

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According to a study by Duke University's Offshoring Research Network, China has "mounted a vigorous challenge to India's software development outsourcing industry. More and more U.S. and European companies are outsourcing software and I.T. services directly to Chinese service providers."

The U.S. government is still very interested in creating programmer jobs—just not in this country. In 2010 the U.S. Agency for International Development (USAID) put up \$10 million to help Sri Lanka develop an outsourcing industry. U.S. taxpayer dollars are aimed at training Sri Lankans in advanced IT skills like Enterprise Java, as well as in business process outsourcing and call center support. The goal is to create three thousand jobs.

According to *Information Week*, a similar program is being funded by USAID in Armenia to train Armenians. Perhaps even more countries are slated to get U.S. taxpayer money to develop their software industries. By then there may be no need to help U.S. programmers. There won't be any.

Service jobs in fields such as programming once were thought of as a key to America's future. As factory jobs were decimated by the imports encouraged by federal policies, service jobs were to take their place. America was in transition, we were told—the brawny factories with their bellowing forges and thunderous stamping machines were simply giving way to entirely new workplaces with sleek workstations housed in office towers.

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Sure, it was sad about all those people losing their factory jobs to imports, but foreign competition would make our remaining plants more competitive, and the upheaval would be just a pit stop on the way to a bright postindustrial America. The future might seem bleak to anyone who worked in a factory that made cars or shoes, but the nation as a whole would adjust and move on to greater things. America always adapts, we were told. Isn't that what makes America great?

But there were fatal flaws in this theory. The first was that America's corporate leaders—executives and their boards—saw quickly that they could make enormous profits producing goods offshore rather than reinvesting at home. Labor was cheap abroad, and the developing countries would do anything to get the jobs. And as Apple discovered in China, none of these other countries were subject to the regulations that U.S. companies had to adhere to: fair labor standards, workplace safety rules, environmental standards—all rules that most Americans supported to make the nation a more livable place. As a bonus, thanks to corporate lobbying, whatever these U.S. companies made abroad under primitive conditions using slave labor they could bring back to the United States paying little or no import tax.

The other flaw in the theory, and the one that will be causing grief for working Americans for years to come, is that while China and India may be poor countries, each has millions of very bright, talented

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people eager to work at a fraction of what bright, talented people need in the United States to maintain a middle-class lifestyle here.

The first of the service jobs to be outsourced in great numbers were the back-office operations of banks, investment houses, insurance companies, and any business that processed huge amounts of paper, from credit card charges to procurement manifests to legal exhibits. Most of this work went to India, and as the industry grew, American corporations began sending more work there. Soon programmers in India were writing code and shipping it back to the United States. Other companies established call centers to field customer inquiries from the United States, and soon they too began to take on more complex tasks. Most large American health insurers now have call centers in India where workers answer questions following a highly detailed script on a computer screen. It is a multibillion-dollar-a-year industry that employs millions—in India. No one knows how many jobs this strategy has cost Americans, but who's counting? We still have those smart jobs, the creative ones—don't we?

Even the jobs requiring ingenuity and brain power are going too. The earlier phase of outsourcing was known as business process outsourcing (BPO). The latest is called knowledge process outsourcing (KPO). The corporate focus has expanded to the highly sophisticated operations that represent, in the words of one management consultant, the “very

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heart of the business . . . involving complex analytics.” Where an earlier generation in India might have been reconciling credit card balances, today they perform statistical analyses, run growth projections, and do all the other things that number crunchers back home do—or once did.

The global consulting firm KPMG explained the appeal of KPO in a 2008 report: “Knowledge process outsourcing (KPO) enables clients to *unlock their top line growth by outsourcing their core work to locations that have a highly skilled and relatively cheap talent pool*” (our italics). This phrase should send a shudder down any economist’s spine because it says out loud, albeit with a bit of jargon, the truth that cannot be spoken if you believe in a growing economy and shared prosperity: companies can get richer by moving the essence of what they do to cheaper countries. Why be located in the United States at all?

Advances in technology, along with rising education levels in India and other low-wage countries, have eased the reservations that many corporations once had about outsourcing and offshoring, according to KPMG. In its view, KPO is unstoppable.

An ever-greater share of sophisticated analytics as well as creative jobs that were once done by middle-class Americans are being shipped offshore. Indian vendors create advertising copy, high-end photography, marketing brochures, graphic art, original illustration, and even music videos for the U.S. market—all at a fraction of what that work would cost in the

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States.

“Outsource your creative design services . . . and see your ideas taking form,” says Outsource2india, a Bangalore-based firm. “Outsource2india offers a wide array of creative design services which include Graphic Design Services, Cover Design Services, Artwork Services, Illustration Services and Photography Services. Our professional graphic designers, creative illustrators and skilled photographers can meet all your design needs, be it a cover design for your music DVD, professional wildlife photographs, illustrated characters for your book, conversions of your rough sketches and much more.

“At Outsource2india, we provide high-quality and creative design services at a low cost. By outsourcing design services to India, you not only benefit from low costs but also benefit from our professional and creative design services.”

Outsourcing is beloved by management consultants, and none more so than Accenture. The world’s largest consulting firm, Accenture is a \$25 billion a year global enterprise and a far cry from its days as a modest unit within the Arthur Andersen accounting empire in the United States.

Since branching out on its own, Accenture has reaped untold riches helping U.S. companies send work out of the country. Far and away the most successful outsourcer, the company is referred to on Wall Street as the “outsourcing giant.” Accenture doesn’t dispute the claim. The company says its “out-

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sourcing services touch every industry and business process.” Every year Accenture is voted the “top outsourcing service provider globally” by professionals in the industry, a distinction that a spokesman says the company earns by taking “outsourcing deeper” than others.

Deep into its own ranks, it turns out. Petitions are on file with the Labor Department by onetime Accenture employees in Atlanta, Georgia; Birmingham, Alabama; Chicago, Illinois; Dayton, Ohio; Morristown, New Jersey; Richfield, Minnesota; Wilmington, Delaware; and other cities. Their jobs as software developers, global management consultants, accountants, and financial agents were eliminated by Accenture in the United States and shipped to Argentina, Brazil, India, the Philippines, and other countries.

Whatever you say about Accenture, the company practices what it preaches.

THE EPICENTER OF IT

It was one of the best places to work in Tampa. The salaries were good. The benefits were excellent. Turnover was rare. And every year the company hosted a lavish holiday party. In a city with a large high-technology presence, PricewaterhouseCoopers (PwC) always ranked high in ratings compiled by the local press on the best places to work in the area. That’s what made the events of July 29, 2010, so

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shocking.

The word had come down that day that everyone in information technology was to attend a company webcast that afternoon. Webcasts were broadcast every so often, and employees often skipped them. But this time the message was firm: everybody had to attend. Even members of the skeleton crew who manned the help line 24/7 when others were in staff meetings had to attend. *Shut down the phones. Be there.* One manager thought to herself, *This can't be good news.*

The webcast opened with a PwC official giving details about the company's financial picture, its revenue and profits. Then, a few minutes into his talk, he suddenly switched topics. The subject was the company's strategic plan. PwC had decided to outsource the work of its information technology division to India. It occurred so fast, and with so little warning, that it took people a few seconds to realize what had happened: they were all losing their jobs.

By year's end, about eight hundred employees would be gone. The cuts were staggered over months to give PwC's new IT contractor, Tata Consultancy Services of India, time to learn the jobs of the people PwC was firing. It was one of the largest mass dismissals ever in Tampa, but what was especially ominous were the kinds of positions eliminated.

PwC's huge Tampa operation was the "epicenter for nearly all the IT staff that supported the U.S. market," in the words of one former employee. Among

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their responsibilities was to build, manage, and maintain operating systems and the hardware supporting them for PwC partners and staff in the United States. To do so meant not only riding herd on temperamental computer networks but dealing with thousands of individual servers throughout the country. The men and women who held these sophisticated jobs were often college-educated, and were well versed in multiple software applications, database management, and the intricacies of managing a far-flung internal network that served thousands of PwC personnel. In other words, they had all the skills that supposedly count in the new American economy.

The jobs paid well, but they could be extremely stressful, especially when it came to keeping a galaxy of networks and servers all functioning in tandem. Anyone who has lost their Internet connection knows the frustration of trying to get back online. The problem is magnified at a commercial venture such as PwC, where millions of dollars can be at stake if connectivity is disrupted for an extended period. It was not uncommon for members of some of PwC's teams to work sixty to eighty hours a week to keep all the systems running. In one sector called platform services, one specialist worked every weekend for months without a break, according to Mark Ferneau, a former member of this team.

The Tampa office was part of PwC US, the American arm of the \$29 billion global accounting and consulting behemoth based in the United Kingdom. The

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company, which is privately held with ownership in the hands of about eight thousand partners, discloses few financial details, but the Ames Research Group estimated the average gross earnings of partners at \$872,640 in 2008—meaning, of course, that many earned in the millions. Although as a private company it wasn't answerable to Wall Street or stockholders, PwC had started to act like a publicly held company even before the mass layoffs.

Despite its reputation in Tampa as employee-friendly, in the years leading up to the layoffs the company had been engaging in belt-tightening moves that were out of character. Retiring employees weren't replaced. Other longtime employees were let go on a piecemeal basis for reasons that made no sense to their colleagues other than to cut costs. As one former IT employee later told the *St. Petersburg Times*: "It used to be a great place to work. They took care of their workers." But by the time of the layoffs in 2010, he said, it had become "a company of bean counters, and all they care about is saving a few pennies."

One of the divisions hit especially hard was the help desk headed by Irene Odell, who had worked at PwC for eleven years. A one-hundred-person operation, the desk was manned around the clock to field calls and requests from partners and other staff across the United States. The PwC help desk wasn't like the help desks that consumers contact when they want to question a bill or order a product. It was an

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integral part of the company's executive structure and business, always on call to resolve technical computing problems, connectivity issues, password glitches—any problem that had to be dealt with immediately.

A first-generation Greek American, Odell had graduated from the University of South Florida with a degree in business administration in 1990. But she quickly found out that “it was not a good time to be a brand-new graduate with a business degree,” she said. When she couldn't find anything but minimum-wage jobs, she realized that “this isn't what I want for the rest of my life.” So she went back to school to become a nurse. There she became fascinated with computers and the rapidly emerging Internet. She started a website and became active with newsgroups through Usenet, tried her hand at building websites, and became proficient in using the new personal computer software that was constantly arriving. By the time she earned her nursing degree in 1995, there was such a demand for people with computer experience that she went into IT, first at a small company in the Tampa area, and then in 2000 at PricewaterhouseCoopers.

After losing her job, Odell wondered what she would do next. She had the qualifications and résumé to land another job in IT, though IT jobs were scarce in the Tampa Bay area. But the more she thought about it the more she felt that there was no future for IT in the United States. As she wondered whether to

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change careers, a meeting at PwC helped Odell make up her mind.

Like others who were on their way out the door, she attended counseling sessions arranged by the company to help them with their “transition.” At one meeting she attended with about sixty others, the employees were asked what they were thinking about doing next.

“Every single person was choosing a different field,” she said. “Not one person said, ‘I’m going to be looking for the kind of job I was doing.’”

One said she was going to nursing school. Another decided to open a cake decorating business.

“If I’d had any doubts about making a complete career change, that settled it for me,” she said. “Because PwC had really smart people, and if all these really smart people are saying they want training for some other field, then collectively as a group we must be right.”

She decided to return to nursing, the field where she’d earned her second degree before she went to work in IT. She had to go back to school to refresh her training, and she also had to obtain her nursing license. While in school, she took a nursing job at an acute-care facility, but cutbacks there created staff shortages and made working conditions extremely stressful.

Odell isn’t sure that she will stay in nursing, but wherever she winds up, she knows she’ll be earning much less than she earned at PricewaterhouseCoop-

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ers. Still, she feels fortunate. Her husband, a pharmacist, has a good job, so they'll be okay.

Others are not as fortunate. Alex Sanabria also worked in PwC's IT unit when he was fired in 2010. After he lost his job, Sanabria couldn't find work in Tampa. The recession there was still raging, and there was a glut of unemployed technology workers. First, he and his wife drew down their savings to try to keep their home, which they had bought at the top of the real estate market five years earlier. But they finally had to walk away and declare bankruptcy. For Sanabria, bankruptcy was "the most gut-wrenching, awful thing I've ever had to do." Eventually he and his wife moved to Colorado to live with her parents while he looked for work there. He finally found a job on the help desk of a consumer products company. He was working again, but at a much lower salary than at PwC.

Almost as bad as the economic blow was the emotional impact. PwC was Sanabria's first real job after college, and he says that he put his "heart and soul" into it, sometimes working sixty-five to seventy hours a week. He said he always got high marks and was moving up, taking on more responsibilities and earning raises and bonuses. Led to believe by his performance evaluations that the company valued his work, he had the feeling that "good things are coming around the corner."

What came around was a security escort out of the building. Like many people who lose their job, he

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began to doubt himself after he was fired. “You start wondering—and I don’t think this way now—but you start thinking, *Maybe I wasn’t a good employee. Maybe they had a reason to let me go.* I know that’s the wrong way to think. I know I went in there and did the best job I could have possibly done every day I was there, but you start getting so demoralized.”

Irene Odell says that she and many of her former coworkers will move on, but she does worry about what is happening to the middle class. With their expenses going up and their earnings going down, they have less and less income, and the gap between most Americans and those at the top keeps on growing. She wonders:

“When we get down the road and we end up where we’re headed—which is an elite class and a low class—is the low class going to tolerate that for a long period of time? Isn’t that what inspired the revolution?”

NEXT TO GO

One of the most overlooked—and most frightening—forecasts about the future of the middle class was released in December 2008. This was a study by researchers at the Labor Department that identified service jobs that might go offshore. Despite its scholarly tone, its conclusions are alarming.

It found that as many as 160 service occupations—

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one-quarter of the total service workforce, or 30 million jobs—could go offshore. Jobs in those 160 categories were growing at a faster rate than service jobs overall and, ominously for future middle-class incomes, they were among the higher-paying service jobs. The Bureau of Labor Statistics calculated the annual wage for these jobs at \$61,473—significantly higher than the \$41,610 in annual wages for all service occupations.

The list of vulnerable jobs and their average annual earnings is breathtaking: aerospace engineers (\$92,700); aircraft mechanics (\$49,670); anthropologists (\$55,490); architectural drafters (\$45,280); biochemists (\$85,290); chemical engineers (\$84,240); chemists (\$68,520); epidemiologists (\$63,600); fashion designers (\$71,170); financial analysts (\$81,700); graphic designers (\$45,340); insurance underwriters (\$60,120); market research analysts (\$66,980); mathematicians (\$90,930); microbiologists (\$66,430); multimedia artists (\$61,010); nuclear technicians (\$65,850); pharmacists (\$98,960); and tax preparers (\$34,890).

The most revelatory aspect of the BLS report was how surprised by its conclusions its authors seemed to be. The agency that specializes in economic matters affecting working Americans has spent little time looking at what may be an Armageddon for service workers. But that's in keeping with the perennial optimism that economists generally peddle about the direction of the American economy when the subject

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involves free trade. Why give much ink, these optimists reason, to a problem that doesn't fit the prevailing theory that offshoring is good?

One of the few economists who did sound an alarm on offshoring, Alan S. Blinder of Princeton, was roundly criticized by his fellow economists when he predicted in 2007 that the offshoring of service jobs from rich countries to poor countries “may pose major problems for tens of millions of American workers over the coming decades.”

While it's clear that free trade, as practiced by the United States, is driving down the income of millions of working Americans, the economically elite are sticking to their message that America is on the right track.

Harvard economist N. Gregory Mankiw, a former chairman of the Council of Economic Advisers under President George W. Bush, says that the migration of jobs from offshoring makes economic sense and is “the latest manifestation of the gains from trade that economists have talked about at least since the days of Adam Smith.... More things are tradable than were tradable in the past, and that's a good thing.” For decades, Americans have been given misleading assurances like that. Many so-called experts have also made rosy predictions about the U.S. trade deficit. In a *Washington Post* article in 1992, Stephen Cooney, a senior policy director for international investment and finance for the National Association of Manufacturers, predicted that because of changes under way

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in the American economy, “with luck our trade deficit could disappear by 1995.” No such luck. In 1992, when Cooney made his prediction, the deficit was \$39 billion. Rather than disappearing by 1995, the deficit nearly tripled to \$96 billion, and it has continued to escalate; by 2011 the trade deficit had reached \$560 billion.

Gary Clyde Hufbauer, a former deputy assistant secretary at the Treasury Department, predicted in a research paper that was widely picked up by the media that NAFTA would “generate a \$7 to \$9 billion [trade] surplus that would ensure the net creation of 170,000 jobs in the U.S. economy the first year.” Instead, NAFTA caused an immediate trade deficit with Mexico. By 2012, the cumulative total was \$700 billion. More importantly, NAFTA wiped out hundreds of thousands of good-paying manufacturing jobs in the United States.

Hufbauer is still in the job-predicting business at a Washington think tank. One of his latest: “When American multinationals go overseas, on balance, they create more jobs here in the United States than they would have if they’d not gone overseas.”

Right.

THE EDUCATION TRAP

If free trade isn’t working out for millions of middle-class Americans, the elite have the answer. American

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workers need more education. If they upgrade their skills, they can compete in the global economy.

One of the promoters of this theory is Thomas Friedman, the *New York Times* columnist and author of the blockbuster bestseller *The World Is Flat*. Friedman maintains that our trade policies “must be accompanied by a focused domestic strategy aimed at upgrading the education of every American, so that he or she will be able to compete for the new jobs in a flat world.” This is one of the most shopworn theories about what has caused our trade deficit and why we have lost so many jobs to offshoring and outsourcing. And it’s wrong. The real cause is a failure of the trade policy in the first place.

In fact, what education has done is create a false sense of security. The theory that all you need is a sheepskin and jobs will seek you out is not rooted in reality. To begin with, not everyone benefits from a college education. Truth to tell, tens of millions of Americans don’t benefit from higher education, but that doesn’t mean their potential contributions to society are any less worthwhile. To suggest that their contributions are insignificant is arrogant and also ignores the basic rules of the labor market. Flooding a jobs sector with new applicants can have only one result: lower wages for everyone, which is exactly what is happening.

Today young Americans have more education than ever, but it’s not doing them much good. The entry-level hourly earnings of college graduates today are

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lower than a decade ago: \$21.77 in 2010 compared with \$22.75 in 2000, according to the Economic Policy Institute (EPI). This decline had little to do with the 2008–2009 recession. EPI data show that earnings of recent grads fell all through this past decade. In fact, entry-level wages have barely risen in the last three decades. While a degree is better than no degree, there are “really no safe havens—even for college graduates,” says Carl E. Van Horn, a professor of public policy at Rutgers University. “Everyone needs to calibrate, to readjust their expectations to meet the harsh realities that show little sign of letting up.”

Even worse, more and more graduates leave college with suffocating debt loads that will make it impossible for many to achieve the lifestyles of their parents.

By the end of 2011, total outstanding student loan debt in the United States totaled more than \$1 trillion—more than all credit card debt. The average college student graduates with a debt of about \$24,000. Some owe \$100,000 or more. Overall, student debt is growing by \$100 billion a year. Those with a vested interest assure students they are not merely borrowing money, but investing in their futures. For some, it’s true. For many, it isn’t.

This trend creates a domino effect in the economy. It means that young people, the traditional first-time homebuyers, are unable to obtain a mortgage, hence priced out of the market. This further impacts the already dismal prospects of the homebuilding indus-

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try. The previous generation of homeowners, now ready to move up, can't because the pool of potential buyers for their homes has shrunk. Lastly, there can be no meaningful economic recovery until the housing sector rights itself. Since 2006, the country, under the guidance of Wall Street, Washington, and the super-rich elites, has run up \$7 trillion in housing losses. As the Federal Reserve explains in its dry, understated way: "Declines on this scale are unprecedented since the Great Depression." Only the morbidly optimistic believe that any of this can be fixed within the foreseeable future.

Forty years ago, student loan debt was such a non-issue that it barely registered as a liability in America. The rising cost of college has been a major reason for the growth of student debt, but a parallel cause has been the economic collapse of the American middle class. In years past, many middle-class parents could save enough to pay for the education of their children. No more.

The amount of student debt was relatively unchanged throughout the 1970s, but in the 1980s—a period that coincided with growing problems of middle-income families—student debt began to spike. From 1999 to 2011, it recorded the sharpest rise yet, increasing 511 percent.

The result is that growing numbers of young American college graduates begin their working lives (if they're lucky enough to have a job) deep in debt and have no money to save, buy a home, or start a

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business—all the options of earlier generations.

More and more of them default on their loans. The U.S. Department of Education estimated defaults at nearly 9 percent in 2011, but other sources, including the *Chronicle of Higher Education*, say that the actual default rate is much higher, at least 20 percent.

Whatever the number, default often makes the plight of borrowers much worse.

In 2005, bowing to the wishes of Wall Street and the financial industry, Congress passed a law that made it much harder for anyone to file for bankruptcy. The Bankruptcy Abuse Prevention and Consumer Protection Act came down especially hard on those struggling with their student loans by making it next to impossible for anyone with college loans to seek relief in bankruptcy court.

Student loans are the only form of debt for which bankruptcy isn't an option. Instead, borrowers have to undergo a costly process called "loan rehabilitation" run by companies holding the debt, a process that piles on more charges and plunges them even deeper in the hole. "This effectively obligates the borrower to a much larger debt than when the loan defaulted, often double, triple, or even more than the original loan amount," according to StudentLoanJustice.org, a grassroots group.

This means that many Americans who have college loans will never pay them off, says Nicholas Pardini, a Villanova University graduate student in finance who has followed and blogged on the issue. Instead, he

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says, they'll be relegated to a "lifetime of debt slavery."

Debt slavery at home or iSlavery abroad? With those consequences, can we really be proud of the trade policy we've been following for the last thirty years?

CHAPTER 5

THE GREAT TAX HEIST

Most Americans agree that the rich should pay more taxes. Poll after poll indicates that a majority—including even a few billionaires such as Warren Buffet—would like to see higher taxes on the wealthy.

But it hasn't happened. And it isn't likely to happen. The ruling class won't let it happen.

In today's America a minority sets policy for the majority, the opposite of what democracy should be.

Two numbers starkly tell the story:

In 1955 the richest Americans—the four hundred households with the highest incomes—paid 51.2 percent of their income in federal taxes.

In 2007, on the eve of the global financial meltdown, the four hundred richest Americans paid 16.6 percent of their income in federal taxes.

The figures do not come from some liberal soak-the-rich think tank: they're from the Internal Revenue Service, part of the periodic number-crunching that the IRS performs on tax returns.

The victory of the ruling class has been more decisive in setting tax policy than in any other area, with trade running a close second. Three decades of tax cuts have lowered tax rates for corporations as well

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as the wealthy. Some of those savings have been reinvested in Washington so the victors could hold on to their gains and seek more. It's no coincidence that campaign contributions and lobbying expenditures have surged in the last generation, and they will continue to escalate.

After buying Congress, the super-rich secured a stamp of approval from the U.S. Supreme Court, which in 2010 gave its blessing to unlimited campaign contributions to a candidate by anyone with the money—individual or corporation. This means it will be harder and harder for the will of the people to override the money machine of the ruling class. A sign held by a protester at Occupy Wall Street in the fall of 2011 framed the issue: **I DON'T MIND YOU BEING RICH. I MIND YOU *BUYING MY* GOVERNMENT!**

The tax cuts for those at the top have greatly exacerbated inequality in America. Equally devastating is their effect on the deficit and what that will mean to the middle class for years to come. The tax cuts for the wealthy from 2001 to 2008 cost the U.S. Treasury \$700 billion in lost tax revenue. To cover the shortfall, Treasury printed more money and added \$700 billion to the national debt. Paying interest on that debt will fall on many middle-class taxpayers for decades.

Having added to the national debt, the wealthy are now funding initiatives that decry the deficit and call for cuts in programs that provide safety nets for mid-

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dle-class Americans such as Social Security and Medicare.

Meanwhile, during the period when the richest Americans received their enormous tax cuts, the taxes on the middle class actually went up. In 1960 the middle 20 percent of U.S. taxpayers paid 15.9 percent of their income in total federal taxes. By 2007, the same group of taxpayers was paying 16.1 percent, according to a report by the Wealth for Common Good, a Boston-based network of business leaders and wealthy individuals that advocates a more equitable tax system.

During World War II, most Americans—both corporations and individuals—contributed a fair share through an income tax that was progressive: those who could afford to pay more did so. The very richest saw their tax rate go up to 94 percent on taxable income over \$200,000 (equivalent to \$2.5 million in 2011). The theory was that people should be able to get by on \$200,000. Tax rates came down somewhat in the 1960s and 1970s, but it wasn't until the 1980s that the tax bills of the wealthy really began to tumble after Congress converted the tax code into a boutique bank offering all sorts of products tailored just for them.

When Ronald Reagan took office in 1981, the top tax rate on salaries and wages was 50 percent; today it is 35 percent. The tax rate on unearned income—dividends and interest for example—was 70 percent. In 2012 it was 15 percent. The maximum tax rate on

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income from capital gains was 28 percent in 1980; in 2012 it was 15 percent.

Another dramatic change was the tax cut in 2003 for dividends paid to individuals by corporations. For much of recent history, dividends were taxed at a similar rate as salaries and wages. But before 1980, they were taxed at a higher rate than so-called earned income—money received in wages. The long-held theory was that people who worked for a living should not pay taxes at a higher rate than someone who lived on investment income. George W. Bush's Jobs and Growth Tax Relief Reconciliation Act of 2003 repealed that notion by slashing the maximum tax rate on dividends to 15 percent. This was a crowning moment in the annals of the great tax heist for the benefit of the wealthy. This one tax cut alone put billions of dollars into the pockets of the richest Americans. According to the Joint Committee on Taxation, which is required to prepare estimates of the implications of tax legislation passed by Congress, the dividend reduction cost the U.S. Treasury more than \$100 billion over seven years. Politicians, economists, and media figures are fond of saying that more and more Americans own stock. President Bush later defended his 2003 tax cut on dividends by saying that "American families all across this country have benefited from the tax cuts on dividends.... Half of American households—that's more than 50 million households—now have some investment in the stock market."

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Bush's claim is entirely misleading. While 50 percent of Americans own *some* stock, often just a few shares, ownership of shares and equities is concentrated in the hands of the wealthiest Americans. They are the ones who receive substantial dividends from stocks, and they are the ones who benefited overwhelmingly from the dividend rate cut. That tax cut, along with other Bush-era tax favors for the rich, is why the top 1 percent of Americans prospered to such an extreme during the last decade.

Studies by economists Thomas Piketty and Emmanuel Saez have concluded that “two-thirds of the nation's total income gains from 2002 to 2007 flowed to the top U.S. households.” This is why the top 1 percent, they said, “held a larger share of income in 2007 than at any time since 1928.”

If Congress had not enacted these tax cuts, if Congress had not opened new loopholes for its friends, and if Congress had closed a few existing loopholes, we would not be having discussions about the dangers of the federal deficit. Tax cuts didn't just fatten the bank accounts of rich people—they plunged the nation deeper into the red. As for the folks in Washington who made it all possible—mostly Republicans—they now want working people to cover the costs through reduced Social Security and health care benefits at the same time that they want to guarantee that the rich, the beneficiaries of all the largesse, will be insulated from any tax increases.

Any attempt to increase taxes would provoke stiff

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opposition from the elite, but when they whine about the taxes they pay, there are two things they never mention: in their grandparents' day, the rich paid taxes at twice the rate they do in the twenty-first century. Some don't come anywhere near paying even the maximum rate. By the IRS's own count, of the 400 tax return filers with the highest adjusted gross incomes in 2008, not one paid taxes at the top rate of 35 percent. It was the same for 2007 and the same for years before that. Those numbers underscore a longtime tax truism: if the top rate is 2 percent, some rich people will claim it is too high. Even the very rich who paid taxes did not come close to the top rate. For 30 of those 400 filers, their effective tax rate was under 10 percent. And for 101 of the top earners, the effective tax rate was between 10 and 15 percent.

Beyond the top 400, a whopping 18,783 individuals and families with incomes of more than \$200,000 paid not one cent in federal income tax for 2008. That was up 1,782 percent from 1995, when only 998 individuals and families reported that they owed no income tax, according to IRS data. And that exponential growth occurred during a time when the people at the top of the economic pile seized more of the nation's overall wealth than at any time since the years leading up to the Great Depression.

Some high-income folks will threaten to pack up and leave the United States when they think taxes are too high. That obviously is everyone's right. But once that right is exercised, they should cease to

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enjoy any of the privileges that come with U.S. citizenship.

Corporations also will threaten to vote with their feet and move business operations to another country. That, too, is their choice. But they also should face a similar loss of U.S. benefits—like all the standard legal protections they enjoy courtesy of the taxes they should pay, but don't even pay now. Think patents, copyrights, and the American legal system, among others. Would Apple have achieved its lofty stock price absent such protections?

To fully appreciate the inequity of the U.S. tax system, visit your local bank and ask a teller to show you some Capital Gains dollar bills.

When you get a puzzled stare, ask for some Dividend dollar bills.

If there still isn't a hint of recognition, drop the big one: you would like to see a Carried Interest dollar bill.

If the teller still has a quizzical expression, just say that you will settle for some old-fashioned Work bills—the kind you get from your job as a store clerk or as a schoolteacher or as a carpenter.

You might think that a dollar is a dollar. After all, it can be used to buy an ice cream cone or pay your child's tuition or cover medical expenses. But to the IRS not all dollars are equal. Long ago, members of Congress, responding to the wishes of their well-heeled constituents, ordered the IRS to treat some dollars differently. This arrangement ensures prefer-

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ential tax treatment for the privileged, including members of Congress, many of whom are millionaires. If all dollars were treated the same, as they should be, the deficit would disappear, with only a few adjustments in tax rates. But that would mean that the super-rich and the privileged would have to pay more taxes. It's not about to happen.

Among those who have benefited from having their own congressionally approved dollar bills are the men who run the hedge funds. Part of their earnings take the form of what the architects of tax language have labeled "carried interest." Because these earnings are performance-related, they are taxed at a much lower rate as capital gains, not as income. The government taxes a carried interest dollar at a maximum of 15 percent. Most people in America in regular salaried jobs pay taxes at a higher rate. But they don't speak the language of the privileged—people like the Republican presidential candidate Mitt Romney, who acknowledged that he pays taxes approaching 15 percent, thanks in part to carried interest, on income up to \$42.6 million over two years. Most of us don't understand the incredible importance of carried interest, or even what it is. It's the kind of complex, murky term that has made the tax code such a field day for the rich and their lawyers. But the lesson of carried interest is clear: there is one dollar for the rich, and one much smaller dollar for the rest of us.

If hedge fund managers and others were required to pay taxes at the normal rate, it would generate

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tens of billions in additional tax revenue. It would also remove some egregious unfairness. Philip Falcone, the billionaire creator of Harbinger Capital Partners, a New York City–based hedge fund, made a fortune betting against subprime mortgages before the collapse of the housing market. John Paulson, another hedge fund manager, made an even bigger fortune betting that subprime mortgages would be a loser. In short, two billionaire hedge fund managers made staggering sums betting that you would default on your mortgage and lose your house and that the financial institution holding your mortgage would collapse. In doing so, they were taxed at a much lower rate on that income than the rate applied to the salary you received, which went to pay the mortgage on the house you no longer have. How can that be right?

Falcone and Paulson are but two of this mushrooming breed of global financial buccaneers in private equity and hedge funds who have made huge amounts of money courtesy of Congress's largesse on the carried interest deduction. The riches that have come their way are financing lifestyles that average Americans cannot even fathom. If the fraternity were to bestow an award for flaunting that wealth, the hands-down winner would be Stephen Schwarzman, the CEO of Blackstone, the huge private equity fund.

Schwarzman's now-infamous multimillion-dollar sixtieth birthday party in New York City has long since passed into the annals of "the rich are different

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than us,” but it is worth revisiting for what it says about their boldness and ability to turn aside any public policy that threatens their wealth.

Held at the famed Seventh Regiment Armory on Park Avenue on February 14, 2007, Schwarzman’s birthday party attracted hundreds of the glitterati from New York and beyond. Arriving guests were ushered inside by a brass band and a contingent of children dressed in military uniforms. The cavernous armory, home to the most prestigious antiques show in America every year, was festooned with colorful banners and had been decorated to resemble the Schwarzmans’ Park Avenue apartment. Copies of paintings from Schwarzman’s art collection were mounted on the walls, and a huge portrait of Schwarzman himself, painted by the head of Britain’s Royal Society of Portrait Painters, had been sent over from Schwarzman’s apartment to greet arriving guests. “Dinner was served in a faux night club setting, with orchids and palm trees,” according to the *Wall Street Journal*. Patti LaBelle sang “Happy Birthday,” composer Marvin Hamlisch performed a number from *A Chorus Line*, and Rod Stewart sang for half an hour for a fee reported to be \$1 million.

After stories of the party appeared in the media, legislation was introduced in the Senate to repeal the carried interest tax break that gave Schwarzman and his fellow private equity managers multimillion-dollar tax breaks on their personal income.

Hearings were held, and the giveaway was roundly

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condemned. But the proposal went nowhere. Behind the scenes, the leaders of private equity firms pumped millions of dollars into a lobbying campaign that scuttled the move to make them play by the same rules as everyone else.

When President Obama later proposed a similar reform, Schwarzman leveled an outrageous charge: “It’s a war,” Schwarzman told a nonprofit board. “It’s like when Hitler invaded Poland in 1939.”

Schwarzman later apologized for comparing the president to Hitler, but the repeal of the private equity loophole didn’t go anywhere that time either. Game, set, match for private equity. And no surprise: the ruling class is now so powerful that it can brazenly flaunt its wealth—wealth it owes in part to middle-class taxpayers—at a shindig like Schwarzman’s party without fear of losing its privileges.

As should be clear by now, Congress, at the direction of those at the top, has created two different tax systems: one for the wealthy and one for everyone else. America’s founders, who were very well aware of how the aristocracy rigged the system to guarantee its own perpetuation, up to and including the king, would shudder. We all know the importance of luck in having wealthy parents. But under the twisted U.S. tax system, it’s especially important for tax purposes. If you are among the privileged and your company rakes in billions of dollars over the years, essentially tax-free, the basis for those tax freebies may be passed along to the next generation.

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Such is the case with Carnival Cruise Lines, a Miami-based company whose glitzy megaships have names like *Carnival Fantasy*, *Ecstasy*, *Elation*, and *Paradise*. Over the six years from 2005 to 2010, Carnival, the world's largest cruise carrier, racked up \$13 billion in profits. The company's tax bill for the six years? Chump change of \$191 million. And that included U.S. income tax, foreign income tax, and local income tax. The overall tax rate came in at 1.4 percent. Carnival's ships may sail out of Miami and be inspected by the U.S. Coast Guard, but its finances hardly touch our shores. Middle America has not fared nearly so well, thanks to a Congress that likes to sock it to ordinary people, the same people who are and will be hammered even more as lawmakers and the elite target them to be a scapegoat for the ballooning deficits. While corporate profits have continued to climb, the wages of working people remain frozen in time. In 2008, according to IRS data, 10 million working individuals and families filed tax returns reporting incomes between \$30,000 and \$40,000. Their effective tax rate: 6.8 percent—nearly five times the Carnival rate.

This helps explain how members of the Arison family, who started Carnival, have held membership in that exclusive club of global billionaires for two decades.

Ted Arison was born in Tel Aviv in 1924 and moved to the United States in 1952. In 1972 he formed a joint venture to establish a shipping business. His

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partner was Meshulam Riklis, who was born in Turkey but also grew up in Tel Aviv. Riklis, too, moved to the United States, where he eventually became an early-day corporate takeover artist, working alongside the legendary junk bond king Michael Milken.

The Arison-Riklis arrangement lasted only two years until Arison bought out Riklis in 1974. From that point on, he maintained tight control of what would become the company's flagship brand, Carnival Cruise Lines. He systematically added ships, amenities like gambling, and passengers. Each of his ships was a floating casino featuring slot machines, roulette, "Big Six" wheels, and tables for craps and blackjack. In 1987 Arison took the company public, and a hefty chunk of the proceeds from the sale of stock went to Arison personally. His take, according to U.S. Securities and Exchange Commission (SEC) records, was a special dividend of \$81 million.

Carnival has long been a master at avoiding U.S. income taxes. The fine print in a document filed by Carnival with the SEC allowed that:

The company is not subject to United States corporate tax on its income from the operation of ships, and the company does not expect such income to be subject to such tax in the future. This exemption from United States corporate income tax will remain in effect under current United States law for as long as the company retains its status as a controlled

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foreign corporation.

Even better for Arison and his family was yet another provision in the SEC public offering document that said: “The company intends to distribute dividends to all shareholders in at least such amounts as are necessary to enable the principal shareholders to pay the income taxes imposed on them with respect to those earnings.”

Translation: whatever taxes Arison or his family incurred would be covered by a payment to them from the Carnival Corporation.

Imagine such a deal: when you receive your W-2 from your employer next January, ask if the company would write you a check to cover the taxes withheld from your paycheck! This perk, of course, doesn't exist for 99 percent of us.

Ted Arison renounced his U.S. citizenship in 1990 to further insulate himself personally from the U.S. income tax, and he returned to Israel. Years earlier, his son Micky, a fixture in Miami, had assumed day-to-day control of the business empire, which also includes the Miami Heat, the National Basketball Association team. The elder Arison died in 1999. Son Micky and daughter Shari inherited their father's tax freebies, meaning a second generation of the Arison family continues to enjoy the benefits of a company that pays only token taxes, thanks to a beneficent Congress.

Along the way, Micky and Shari also secured their

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very own slots on *Forbes* magazine's global list of billionaires. For 2012, the total is drawn from fifty-eight countries. He is number 223. She is number 288.

POOF! THE DISAPPEARING TAX ACT

Corporations, like the very wealthy, have also seen their taxes go down over the years. In 1952 corporate taxes accounted for 32 percent of the federal government's overall tax collections. The corporate share in 2011 was 7.9 percent. When World War II started for the United States in 1941, corporate taxes amounted to 1.9 percent of the nation's gross domestic product (GDP). By war's end in 1945, that figured had gone up to 7.2 percent. It would never reach that level again. In fact, during the first decade of the twenty-first century, when the United States was waging not one but two wars, in Iraq and Afghanistan, the ruling class and their allies in Congress not only held corporate tax rates down but forced them lower even as they continued a policy of non-enforcement of the tax laws.

As a result, corporate tax collections added up to a meager 1 percent of GDP in 2009—the lowest level since the Great Depression. This at a time when corporate profits topped \$1 trillion for the fifth consecutive year—double what they were as recently as the 1990s. Those who make the rules had achieved the perfect formula: the more money a corporation rakes

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in, the lower its U.S. tax bill. Underlying this formula is a condition that most people recognize: in a global economy, higher profits do not mean more jobs.

More often than not, they mean just the opposite.

Further increasing the tax burden on the middle class, the number of corporations that pay little or no corporate income tax has exploded. They are large and small, closely controlled and owned publicly. Their one common trait is that they operate in multiple countries. Companies whose businesses are solely in the United States are treated most unfairly compared to the multinationals. They often pay taxes at the maximum rate or close to it, since they have few opportunities to move their cash around the globe's assorted tax havens, unless they are willing to engage in flagrant tax avoidance, bordering on evasion, which is a crime.

The more prominent corporate tax avoiders have been publicly identified in the news media. The familiar names include General Electric Company (GE), which ranks number six on the current Fortune 500 list, its interests ranging from jet engines to financing, from health care to appliances. SEC documents show that in the three years from 2008 to 2010, GE reported no corporate tax owed in one year and in the other two years taxes well below the prevailing rate. The Boeing Company, the airplane manufacturer and defense contractor, has siphoned far more money out of your pockets and the pockets of other taxpayers by way of government contracts than

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it pays in taxes itself. In the three years from 2009 to 2011, the company reported owing no federal income tax. In 2011 Boeing ranked number three on the list of the largest government contractors at \$8.4 billion.

Wells Fargo—one of the big banks that “originated, purchased, and securitized billions of dollars in home loans each year,” in the words of a 2011 Senate report—helped bring down the economy and destroy the lives of millions of working people before it picked up a TARP (Troubled Asset Relief Program) bailout. For the years 2008 to 2010, Wells Fargo earned the coveted top spot on the list of twenty-five companies that avoided paying the most taxes. Its winning number: \$17.96 billion in tax breaks, according to Citizens for Tax Justice (CTJ), a Washington public-interest group that compiles the rankings yearly. Exxon Mobil Corporation, the global energy giant, came in at number six on the CTJ list at \$4 billion off its tax bill. Actually, it was a little better than that. Exxon Mobil claimed a tax benefit of \$838 million, while it paid \$15.8 billion in income taxes to other countries. Wells Fargo Bank reported \$49 billion in profits from 2008 to 2010. Like Exxon Mobil, it too received a tax benefit—of \$651 million.

Boeing, Exxon Mobil, GE, and the others have lots of company. A study of corporate tax returns for the years 1998 to 2005 conducted by the Government Accountability Office (GAO), the investigative arm of Congress, found that in any given year the number of large, foreign-controlled domestic corporations that

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reported no income tax liability was sometimes as high as 72 percent. In short, seven of every ten big corporations operating in the United States under foreign ownership paid no taxes. As for large corporations owned by U.S. citizens, an astonishing 55 percent reported that they owed no federal income tax.

Another GAO study identified eight tax havens that were home to anywhere from 123 to 569 offshore subsidiaries of major corporations. In one instance, 372 subsidiaries were owned by just four corporations. Businesses establish foreign subsidiaries for reasons other than taxes, but the tax appeal is much stronger in some countries than others—like the Cayman Islands, where no direct tax is imposed. Hence, you may keep your money there and invest it around the world essentially tax-free. Mitt Romney maintains personal trusts in the Cayman Islands, a fact that became public after he released his tax returns during his presidential campaign.

The Caymans are home to far more corporations than they are to people. The islands have a population of 53,000. But 93,000 companies exist there, at least on paper. One five-story office building is the official address of more than 18,000 corporations. One of the more prolific Cayman Islands corporations in the 2008 GAO report was Citigroup, which boasted 427 subsidiaries in tax havens, with nearly 20 percent of them in the Caymans. That's par for the course for Citigroup. The company and its vari-

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ous affiliates have long contrived the use of secret bank accounts for Third World dictators, a strategy it pioneered.

Bank of America counted 115 subsidiaries in tax havens, with 59 of those in the Caymans. Bank of America and Citigroup, of course, were among the financial institutions that contributed to the economic trashing of the middle class and then shared in the government bailout for their handiwork.

It's one thing to escape payment of most federal income taxes. It's something else to extort tax favoritism. That's effectively what a group of U.S. multinational corporations are doing. Because they conduct business around the world and move money in and out of tax havens and other countries to secure the lowest possible rate, many stash their cash offshore rather than bring it home, where they would be obliged to pay taxes on it.

They will bring it back only if Washington will agree to a tax holiday. They want the 35 percent corporate tax rate waived and would like Washington to impose a onetime rate of, say, 5 percent. If Washington refuses to accommodate them, well, they will keep the money offshore and allow it to accumulate until a more pliable administration comes along. Or they might just take the money and invest it someplace else, like China. If you want to understand the differences between you and the ruling class, try that ploy with the IRS someday. Just tell them if they don't lower your tax rate you are going to move your

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money to another country.

The huge corporations that conduct business in multiple countries do pay income taxes in those countries, albeit at a much reduced rate. But the United States levies its income tax on the global income of U.S. corporations. It then allows a credit for taxes paid abroad. In theory, this means that U.S. global businesses should never pay less than 35 percent of their profits in income taxes—a sum shared by other countries and the United States. But when it comes to taxes, things are never as they seem.

Google stirred up controversy when its overseas tax rate was shown to be 2.4 percent, according to a global study by *Bloomberg News*. The company claims write-offs for money moved around the tax havens of the world, so it never shows up as “income” on its U.S. tax returns.

So how much corporate cash is sitting abroad? Possibly as much as \$2 trillion. That’s *trillion*. Even at a tax rate of 25 percent, that would generate \$375 billion in revenue, or the equivalent of all the taxes paid by everyone earning less than \$100,000 a year—that is, all of Middle America and the working poor, more than 100 million individuals and families. This one issue illustrates why the corporate elite always win—and why Middle America always loses, why the future is so bleak. As companies lobby for legislation to give them a mammoth tax break, there is no one in power in the U.S. government to speak—and act—for working America to counterbalance corporate

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power.

While some in the GOP would prefer to include repatriation in a broad overhaul of the Internal Revenue Code, others don't want to wait. "Repatriation is an interim step that we can take to encourage businesses to bring investment back into our country," says Eric Cantor, the House majority leader. "Such a step adds capital that would otherwise go overseas directly into our economy which will help create jobs, investment, and growth." Many Democrats also have signed on to the cause, among them Barbara Boxer of California: "By bringing back the more than \$1 trillion that's sitting overseas, we will create jobs, strengthen the economy, and reduce the deficit," says Boxer.

Neither Cantor nor Boxer, nor many others in Congress, have much concern for tax fairness. If they did, they'd oppose this giveaway to big business, which would reward a handful of American corporations at the expense of all other companies, most of them domestically based. More than 95 percent of U.S. corporations would not benefit from a tax holiday. Just as the tax code overflows with provisions that benefit wealthy individual taxpayers over average citizens, the holiday for overseas earnings rewards the largest corporations over smaller companies.

A coalition of small businesses, which always end up paying taxes at the highest rates, wrote Congress explaining the inequity of a tax holiday:

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When powerful large U.S. corporations avoid their fair share of taxes, they undermine U.S. competitiveness, contribute to the national debt and shift more of the tax burden to domestic businesses, especially small businesses that create most of the new jobs. A transparent corporate tax system that assures all companies—large and small—pay for the services upon which our businesses, our customers, our workforce and our communities depend, would help restore the economic vitality and domestic job creation we all seek.

Nonetheless, the lobbying power, as always, rests with Big Business, which in this case has adhered to the rich tradition of giving its lobbying organization a name that means just the opposite of what the words suggest.

WIN America—a catchy acronym for “Working to Invest Now in America”—has very little to do with creating jobs, but a great deal to do with securing a tax break worth billions of dollars for its corporate clients.

Among those working on the WIN America campaign is SKDKnickerbocker, a public relations and political consulting firm that, by its own account, has “a track record of taking on the most difficult communication challenges—and helping our clients reach their goals.” As the firm says on its website, “It is important to have a partner who understands how to

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strategically structure and deliver the right message on the right platform. It's your message, and we work with you to develop it through research and then help you implement it through a strategic communications plan, advertising, print and direct mail. The stakes have never been higher."

In the kind of coincidence that occurs all the time in Washington, a managing director in the SKD-Knickerbocker office overseeing the WIN America project is a veteran political operative, Karen Olick, who helped Boxer win her first term as a U.S. senator from California in 1992 and then spent eleven years as Boxer's chief of staff. Another SKDKnickerbocker managing director in Washington is Anita Dunn, a senior adviser in President Obama's first presidential campaign and later White House interim communications director. Thus, while Obama pledges to make those at the top pay more taxes, one of his former top aides is working the other side of the street.

The onetime staff members to the people who make the laws, as well as the former members of Congress themselves who enacted legislation, are masterminding the campaign to return as much as \$2 trillion to their corporate benefactors. Industries with the most to gain—pharmaceuticals, technology, and energy—have thrown their weight behind a massive \$50 million (and counting) lobbying effort. Under the WIN America banner, executives of fifteen corporations signed a letter to President Obama and House and Senate leaders of the two parties, urging passage

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of legislation to bring home \$1 trillion in profits free of significant U.S. taxes. Among the signers: Steve Ballmer, Microsoft CEO; Paul Jacobs, Qualcomm chairman and CEO; Ian Read, Pfizer president and CEO; Jim Rogers, Duke Energy chairman, president, and CEO; John Chambers, Cisco chairman and CEO; and Safra Catz, Oracle president and chief financial officer.

The letter contained a veiled threat of what might happen if Congress failed to act favorably on their request:

In 2011 alone, U.S. companies have spent more than \$150 billion of their overseas earnings on acquisitions of foreign companies or other foreign investments—money that otherwise could have been invested here at home to create new jobs and strengthen our economy. The simple truth is that the longer we wait, the more money will be spent overseas, and these foreign investments are unlikely to return to the U.S. even if our tax policies are changed to encourage domestic investment in the future.

These executives fully expect their companies to be given preferential treatment by the U.S. government. After all, they usually get what they ask for and they have been here before. In 2004 lawmakers enacted a tax holiday that allowed \$312 billion back into the United States at a token tax rate of 5.25 percent—

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less than the rate actually paid by individuals and families earning \$30,000 to \$40,000. The only beneficiaries were the select corporations, their bottom lines, and their executives, who pocketed tens of millions in stock options. There was no surge in new hires. There was no dramatic increase in new plant construction. Essentially, there was no measurable benefit for the nation.

A 2011 study by the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs concluded that just 843 corporations took advantage of the tax freebie. Those 843 companies represented a microscopic 0.015 percent of the 5,557,965 corporations that filed U.S. tax returns in 2004. Of the \$312 billion brought home largely free of taxes, the Senate committee found that \$157 billion, or half, “went to multinational corporations in just two industry sectors, the pharmaceutical and technology industries.” In most cases, the money was channeled through corporate subsidiaries in tax havens that served little purpose other than to avoid the tax collector. The pharmaceutical giant Merck & Company brought back \$16 billion, but to add insult to injury, the Senate committee found that, after bringing money back to the United States, Merck started the process all over again, stockpiling an additional \$40 billion offshore in anticipation of another tax holiday at some point in the future.

Eli Lilly, another pharmaceutical company, brought

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\$9.5 billion back to the United States, most of it from a holding company in Switzerland that, with its twelve subsidiaries, had a total of eighty-six employees. Some money came back through an investment holding company in the British Virgin Islands. It had no employees.

Oracle, which describes itself as “the world’s largest enterprise software company and a leading provider of computer hardware products and services,” brought back \$3.3 billion the last time. The money came largely from an Irish subsidiary that had no physical office. It was designed, Oracle told the Senate committee, to “facilitate business operations outside of the United States.”

When Senate committee staffers asked the repatriating companies if the subsidiaries sitting on the untaxed cash had ongoing operations, most said that they were holding companies “designed primarily to hold funds or facilitate the movement of funds among a network of foreign subsidiaries.” But don’t go looking for them. “A number of those tax haven subsidiaries,” Senate investigators found, “had no physical office and few or no full time employees in the tax haven jurisdiction.”

And that is how profits actually earned in the United States can be routed through shell companies in tax havens that impose minimal or no corporate income tax. Paul Egerman, a Boston entrepreneur, has no sympathy for the global businesses. “It is simply wrong,” he says, “that a U.S.-based multinational

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company is able to report profits to their shareholders and losses to Uncle Sam.”

THE UNITED STATES AS TAX HAVEN

One might almost feel sorry for American banks at the sight of all those dollars fleeing the United States for sunnier (and less taxed) bank accounts overseas. But any pity would be misplaced. Often the money ends up in a foreign branch of the same bank. Additionally, it is frequently replaced in the American branch by new money pouring into the banks from foreign corporations. Think of what's happening as a two-lane electronic superhighway. On one lane, trillions of dollars—and yes, that's trillions—are gushing out of the country and into and out of tax havens around the world. On the other lane, trillions of dollars are flooding into the United States—the world's newest, largest, and most secretive tax haven. The United States a tax haven? Don't our elected leaders bemoan the existence of tax havens like the Cayman Islands, Switzerland, Jersey and Guernsey in the Channel Islands, and the Isle of Man? They do indeed. But never confuse what Washington and Wall Street say with what either is really up to.

For years foreign investors have used the Internet to invite wealthy Americans to open secret accounts in tax haven countries, most with the clear goal of avoiding U.S. taxes. Now those invitations are urging

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wealthy people around the world to establish such accounts *in the United States*. Like this one by Connex International Services, headquartered in the United Kingdom, with a U.S. branch in Wilmington, Delaware:

Many people do not realize the enormous tax benefits given to “non-resident aliens” making passive income in the United States, or earning income outside the United States and simply using the USA as their own personal “offshore tax haven.” The United States does not tax non-resident aliens for any interest income or dividend income derived from the United States. There is zero capital gains on profits from investments. There is zero tax on income earned outside the USA.

Connex says that investors don’t even have to be immigrants to the United States to take advantage of U.S. tax laws. They just have to spend less than six months a year to qualify for all the tax-sheltered goodies. In language that would make any Caribbean tax promoter proud, Connex boasts that it “can also establish U.S. Limited Liability Companies (LLCs) which are very effective when you need to establish full service bank and brokerage accounts and a business presence in the USA while avoiding unnecessary tax liabilities.”

So the United States, at the behest of its financial institutions, has morphed into a tax haven country. It

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goes unsaid, but obviously is understood by sophisticated foreign investors, that U.S. banks enjoy a unique relationship with the U.S. government and will get pretty much whatever they want. (Remember the trillion-dollar bailout of the banks and Wall Street, the very institutions that economically trashed tens of millions of working Americans, who were largely abandoned by the government?)

Does America's new status as a tax haven for foreigners mean that U.S. authorities have less interest in going after tax cheats who illegally park money offshore? The story of Bradley Birkenfeld would seem to suggest that.

Birkenfeld was born into the privileged life of a Boston-area neurosurgeon and his wife. In 1988 he graduated from Norwich University in the Green Mountains of Vermont, the first private military college in the United States. With a freshly minted economics degree, he returned to Boston and went to work in a series of low-level banking jobs, before heading off to Switzerland to secure an MBA at the American Graduate School of Business on the shores of Lake Geneva. After collecting his MBA, Birkenfeld began his real career in the wealth management field, where he could exploit his networking skills. In 2001 he moved from Barclays Bank to the venerable UBS, taking with him a prized client, Igor Olenicoff, a certified member of the Forbes directory of global billionaires. A Russian, Olenicoff had emigrated from the Soviet Union to the United States many years

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earlier, made a lot of money in California and Florida real estate, and divided his time between homes in those two states. Birkenfeld tended to Olenicoff's various financial needs, including, at one point, transferring money from UBS accounts to the New Haven Trust Company Ltd., a small private bank in Liechtenstein. The reason? Birkenfeld assured his Russian client that Liechtenstein had better secrecy laws than Switzerland.

In 2006 Birkenfeld resigned from UBS, but continued to provide offshore banking services to U.S. clients through a Swiss corporation with offices in Miami. He also continued to work with Mario Staggl, who owned and operated New Haven Trust in Liechtenstein. Over the years, according to U.S. court documents, Staggl "devised, marketed and implemented tax evasion schemes" through the use of "Liechtenstein nominee entities, Liechtenstein banks, and Danish shell companies." On behalf of their tax-averse clients, Staggl and Birkenfeld routed money through phony companies and assorted tax haven countries to conceal income: standard fare in foreign tax havens.

But in 2007 Birkenfeld became concerned about what he was doing and approached the IRS seeking whistleblower status. If the IRS agreed, Birkenfeld would receive, in exchange for inside information on international tax fraud and the roles played by UBS and Swiss bankers generally, a percentage of the tax revenue ultimately recovered. For the IRS, this was a

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golden opportunity to do what had never been done before: unveil the inner workings of the legendary secret Swiss banking system, which featured untraceable cell phones, fake trusts, encrypted computers for bankers to use when they traveled around the United States signing up new clients, and the tactic of personally carrying checks back to Switzerland so as not to trigger a suspicious activity report by the Treasury Department.

It was all very cloak and dagger. On one occasion Birkenfeld had used a client's money to buy diamonds, stuffed them in a toothpaste tube, and brought the contraband into the United States, with Homeland Security and the IRS none the wiser. Bankers would meet clients at prestigious public events like the NASDAQ tennis tournament and Art Basel Miami Beach, where more than 250 leading galleries from around the world showcase the works of 2,000 artists of the twentieth and twenty-first centuries. In 2004 alone, 32 Swiss bankers came to the United States and met with clients about 3,800 times. No matter the event, all of those meetings had the same unifying feature: rich Americans with money to conceal from the IRS.

Birkenfeld also provided inside information to the Securities and Exchange Commission and the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs.

In large part because of Birkenfeld's information

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about his former employer, UBS agreed to pay \$780 million to the U.S. Treasury to settle claims that it had helped cheat the United States out of tax revenue. Igor Olenicoff, the California and Florida real estate developer, paid \$52 million in back taxes, fines, and penalties. He added another layer of intrigue to the tax evasion scheme by saying that one of the sham companies was actually an entity that Russia's president at the time, Boris Yeltsin, had set up to make foreign investments.

As for Birkenfeld, the very same Justice Department that said in court documents that he had provided "substantial assistance" that was "timely, significant, useful, truthful, complete, and reliable" sent him to the slammer. Indicted for conspiring to help people hide money from the tax collector, Birkenfeld pleaded guilty and was sent to prison for forty months. Why the Justice Department chose to jail an informant who helped the United States recoup billions of dollars in concealed taxes and helped disclose the existence of more than 20,000 secret American offshore accounts holding nearly \$20 billion is uncertain. What is clear is that the Justice Department sent an unmistakable message to future whistleblowers: turn in a list of tax cheats and it's quite likely that you—not the tax law violators—will go to prison.

To date, few have. In fact, most of the cheats were given amnesty if they agreed to pay up. But the vast majority of Americans who held the secret UBS

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accounts have never been identified. UBS itself and several of its executives all just paid fines. As for Mario Staggi, he simply disappeared into the mists of foreign tax havens, never to be seen by U.S. authorities, who declared him a fugitive. Birkenfeld's boss, who presided over the global tax fraud scam, fared even better. Martin Liechti pleaded the Fifth Amendment when he was called to testify before Congress. After being detained for a few months, he was allowed to return to Switzerland. He was never charged with a crime.

The Justice Department's handling of Birkenfeld stirred indignation among tax professionals, the news media, and the whistleblower community. It's generally understood that whistleblowers in any field often enter the courthouse with less than clean hands. But it's also generally understood that the good they can accomplish far outweighs their personal transgressions. *Tax Notes*, a highly respected weekly publication on federal taxation, proclaimed Birkenfeld its "2009 Tax Person of the Year" for successfully disclosing "what goes on in the wealth protection units of the world's major banks." The *Atlantic* called the prosecution one of "the five worst law-related moves by the Obama White House and Justice Department." And *Time* asserted that "almost no one in the U.S. government would deny that Birkenfeld was absolutely essential to its landmark tax-evasion case against Swiss banking giant UBS."

The sentence was handed down on August 21,

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2009, in the U.S. District Court in Fort Lauderdale, Florida. Six days later, President Obama, on vacation with his family at Martha's Vineyard, set off to play several hours of golf with friends. Among his golfing partners was Robert Wolf, the head of UBS's American operations, an early financial supporter of Obama and one of his major bundlers of campaign contributions. Wolf continues to fill that role, in addition to stopping by the White House for occasional dinners and other gatherings.