ent. After World War II and the Korean War, the federal government oversaw housing programs that did not permit the kinds of financial gimmickry by Wall Street, banks, and investors that have proven so destructive to the Aguiars, other veterans, and millions of other middle-class Americans.

"We had the American dream," said Syrena, "and it was taken from us."

CHAPTER 8

GLOBALIZATION SHANGHAIED

American politicians are always talking about creating jobs. So why is it they are always killing jobs?

A look at two industries reveals a pattern. Rose growing and circuit board manufacture could hardly seem more different, but what happened to them was the same. How it happened and why it happened is a story often repeated in America, and the tale almost always ends badly.

A generation ago, greenhouses that grew long-stemmed roses flourished in American communities from coast to coast, supplying florists with abundant homegrown bouquets on Valentine's Day, Mother's Day, and other special occasions. Many greenhouses had been owned by the same families for generations, and some towns, like Madison, New Jersey, which called itself "The Rose City," proudly defined themselves by the industry.

Today almost all the greenhouses are gone. More than 90 percent of the roses sold in America are imported, mostly from Colombia. They are grown on the high plateau near Bogota and harvested by peasants, then loaded into jumbo jets for flights to Miami. The most common explanation as to why this

happened is that American growers couldn't compete because of cheap labor and ideal growing conditions in the Andes. Those were certainly factors, but there's a more important reason. The U.S. government helped drive the American rose industry out of business.

Starting in the 1960s, the U.S. Agency for International Development (USAID), the arm of the State Department that encourages economic growth in poor nations, gave Colombia financial assistance to spur the growth of its flower-export industry. U.S.-funded technicians helped Colombian growers cultivate their crops and create a distribution network to get their flowers to market. In so doing, U.S. taxpayers helped pay the start-up costs for an industry that eventually would destroy one of America's own.

Once Colombia's flower industry was firmly established, producing ever-greater quantities for export, the federal government, no doubt at the urging of the State Department, allowed the flowers to be imported into the United States without facing high tariffs. Colombia's first flower exports, carnations, quickly overwhelmed American carnation growers. Roses, a much more lucrative crop, came next.

As rose imports quickly cut into the domestic industry, rose growers turned to the U.S. government for help, starting in the 1980s. They didn't get it. Almost every time they lodged a complaint with U.S. trade authorities concerning unfair trading practices, government officials sided with Colombian growers

and against U.S. companies.

This has been the pattern for years in scores of U.S. industries: domestic producers plead for help only to encounter indifference and denial about what is happening to their companies. In response to an impassioned plea from domestic rose growers in 1984, the U.S. International Trade Commission issued this adamant refusal to intervene:

> Imports of fresh-cut roses from Colombia have had no material impact on the domestic industry.... The domestic industry is in a healthy condition; domestic production, shipments, profits and productivity have all increased....
>
> Potential increases in imports from Colombia present no threat of material injury to the domestic industry because the industry has exhibited the strength to withstand import competition, and the projected increase in imports is small relative to the domestic market and past increases.

Were U.S. trade officials blind to what was happening, or were they just in the grip of special interests? In the end it made no difference to the American rose growers. The assertion that the U.S. industry was healthy was just plain wrong. The rose industry was already dying, due to Washington. When the trade commission claimed all was well, rising imports accounted for 22 percent of domestic consumption. By the end of 2011, imports had taken over all but 10

percent of the market.

Workers in old industries such as roses are often urged to learn a new trade so they can compete in the new economy. Woe to any of them who studied how to make printed circuit boards. From personal computers to cell phones, circuit boards are the heart and soul of all electronic devices. The internal plates to which chips and other components are attached, circuit boards connect the various parts of a device to make it work.

The circuit board industry developed in the United States and has been at the center of high-tech innovation. From a lone plant that opened in 1952 outside Chicago, circuit boards had become a $10 billion U.S. industry by 2000, one that produced 30 percent of the world's supply. With that amount of business, the United States had all kinds of potential economies of scale to support the industry. To little avail.

With high technology constantly cited as pivotal to America's economic future, one might have expected that this crucial cog in the high-tech machine would get an assist from Washington; after all, helping this industry would benefit not only industry workers but the nation as a whole. But Washington had other ideas. In the grip of free-trade ideas that would brook no actions that might be considered protectionist, Washington impassively stood by as foreign producers in China and South Korea, among others, subsidized and supported by their governments, undercut

domestic producers.

Over the years, domestic manufacturers appealed to Congress for help, citing the unfair trade practices that were destroying them. Congress turned a deaf ear. By 2012, the U.S. industry had only a few hundred circuit board makers, and the nation's output has shrunk to around $3 billion a year, less than one-third of what it was just a decade earlier.

The first plant that made circuit boards in the United States, Bartlett Manufacturing in Cary, Illinois, shut down in 2009, after fifty-seven years in business. Douglas Bartlett, whose father founded the company, said he could no longer compete against the predatory trade policies orchestrated by the Chinese government. With the loss of this domestic industry, the United States is forfeiting its high-tech future.

"Our kids are going to be fluffing dogs and doing toenails while the Chinese are making leading-edge devices," Bartlett told *Manufacturing & Technology News,* a sophisticated Washington, D.C., newsletter that tracks globalization, foreign trade, and other issues affecting American manufacturers.

The Chinese were eclipsing the United States in more than just high technology. On a summer day in 2010, Arnold Schwarzenegger, then governor of California, paid a visit to a factory to thank an enthusiastic crowd of steelworkers for their hard work in casting the steel for one of America's iconic bridges—the new Bay Bridge linking San Francisco and

Oakland.

"There was one thing that I demanded from my staff, and that was that . . . I can go and visit the workers that are building our Bay Bridge, so that I have a chance to say 'thank you, thank you, thank you for the great work you are doing,'" he told the assembled workers. "You have done an extraordinary job because so many of you go to work every day and do welding, painting, lifting, designing, shipping, all of those things in order to help us in California rebuild our Bay Bridge."

The steelworkers erupted in applause and rushed to shake Schwarzenegger's hand or stand next to him, a typical crowd reaction to the Hollywood movie star turned politician. It was the kind of scene that has played out countless times in America down through the years when politicians pay homage to those who actually build our monuments, from the Empire State Building to the Golden Gate Bridge.

But this time the setting wasn't Pittsburgh, Chicago, or Los Angeles. Schwarzenegger was standing in a steel plant thirty minutes outside Shanghai. Zhenhua Heavy Industries had won the multibillion-dollar contract to cast the steel components that make up the eight-mile-long span across San Francisco Bay.

How did a landmark bridge project in America—one that presented a serious engineering challenge, the kind that was once the staple of American manufacturing—end up in the mills of Shanghai?

The story starts in 1989, the year the original

bridge was severely damaged in the Loma Prieta earthquake centered south of San Francisco. The quake killed sixty-three people, including a motorist on the bridge when one section of the roadway collapsed. The bridge, which is often the nation's busiest toll bridge—it carries nearly 300,000 vehicles a day—was described as "unstable" and had to be closed for a month for repairs.

Years of wrangling over the design and financing of the replacement bridge followed, but eventually local and state politicians agreed on a design for an innovative, self-anchored suspension bridge with a tower rising to the height of a fifty-two-story building. That's the part of the bridge that will be memorialized by a "Made in China" label.

From the start, there was a decidedly pro-China tilt to the process of bidding for the project. Schwarzenegger had urged the Chinese to submit a bid. Ultimately the project went to a joint venture between the Chinese and the American Bridge Company of Coraopolis, Pennsylvania, a legendary name among American bridge builders. Steel from American Bridge had gone into San Francisco's Golden Gate Bridge and New York's Brooklyn Bridge as well as some of the nation's most famous office towers, including the Woolworth and Chrysler Buildings in Manhattan. But this time the steel was to be cast in China; American Bridge no longer made steel. It was just an assembler.

Even the president and chief executive officer of

American Bridge, Robert H. Luffy, favored China, believing that Chinese steel would be cheaper than American. He also didn't believe that any U.S. companies were capable of handling such a big job. As he explained to a congressional subcommittee during a 2007 hearing:

> The largest steel fabricating facility in the United States for bridges . . . is probably 300 or 400 people on the floor working. I was in a facility that is going to fabricate the steel for the Oakland Bay Bridge. . . . They have 32,000 people in that facility. It is not even a contest. It is not even a contest.

The United States was not the steel power it once had been. Years of allowing low-cost imports subsidized by foreign governments had decimated American steelmaking. A succession of U.S. Congresses and administrations from both parties occasionally complained about unfair trade practices, but the complaints always made little headway, as neither Democrats nor Republicans had the backbone to do anything substantive about them for fear of antagonizing our trading partners. Consequently, the once-powerful steel industry slowly shriveled.

But that didn't mean the United States was incapable of producing steel for the Bay Bridge. Even though there was no longer one company, such as Bethlehem Steel, that could do the work, the job could have been done by a consortium. And such a

consortium could have been created if there had been the slightest encouragement and assistance from policymakers in California and Washington.

Oregon Iron Works in Clackamas, Oregon, was ready to be part of a consortium. Tom Hickman, the company's vice president, said a group of Oregon steel fabricators was ready to build a new plant to manufacture girders for the Bay Bridge. "We put together a group that was willing to put up $30 million to build a new facility on the Columbia River," he said. In what could have been "really a country-wide effort," Hickman said, "other parts of the project could have gone to steel mills in Illinois, Indiana, and Pennsylvania." The contract, he said, could have provided jobs for fabricators, plate makers, drivers, material handlers, and others. "The chain of events goes out everywhere and probably would have affected almost every state," he said.

Because of its size and unique design, the new Bay Bridge was a daunting engineering and manufacturing challenge. But the sheer daring and unknowns involved in such a revolutionary design were considerations that the American bidders may have factored into their original bid but that their Chinese opponents overlooked or ignored.

Nevertheless, the contract went to the Chinese. The California Department of Transportation (Caltrans) bought into the argument that it was easier and cheaper to go with the Chinese. The cheaper argument, which would later turn out to have been a

fallacy, always plays well with American politicians and bureaucrats in the beginning, even if it often doesn't work out that way in the end. They count on the short-term memory loss of the country's voters. Any serious idea that the work might be done in the United States was never entertained. The Bay Bridge project exemplifies how some politicians have abandoned even the pretense that they want to create jobs in America.

After the contract was awarded, problems surfaced in the quality of the work being done in China. Initial checks found that as many as 65 percent of the welds failed to meet specifications. To oversee the work, Caltrans had to dispatch two hundred engineers and contractors to China to provide technical advice, answer questions, and make sure the finished pieces met specifications. The Caltrans engineers were in China for months, their work there adding significantly to the original cost.

Schwarzenegger had justified awarding the contract to China on the basis of numerous savings he claimed it would produce. By his count, he saved $400 million for his state when the contract went to Shanghai. His calculation did not, however, take into account the wages lost by steelworkers and ironworkers who otherwise would have been employed on the project and which could have run into the hundreds of millions of dollars. It did not take into account the taxes those workers would have paid, from state income taxes to Social Security and unemployment

taxes, a figure that would easily have totaled tens of millions of dollars. It did not take into account the multiplier effect of potentially hundreds of millions of dollars as well from all the potential benefits derived from the daily purchases made by people with jobs. It did not take into account all the local taxes that employed workers pay for schools and local government. Nor did it take into account all the tax revenue that state and local governments had to expend for unemployment, health care, and other costs run up by people who have no jobs. All told, hundreds of millions of dollars would have stayed in the United States and been plowed back into our economy. In short, what might look like a "savings" was anything but. The ultimate cost of the bridge is anyone's guess, although some estimates put the figure for the entire project, including interest, at $12 billion. What's clear is that the United States lost an exceptional opportunity to create good-paying jobs at home during a time of high domestic unemployment.

"If that investment could have been made here, it could have provided jobs here," said Oregon Iron's Hickman. "These jobs are living-wage jobs and family-wage jobs. They provide health and welfare benefits, 401 (k)s, and pensions. Our facilities meet all of the environmental requirements, and it just is a very, very difficult thing to compete with the Chinese when you are really competing with the Chinese government." Or when Oregon Iron and other domestic producers find themselves competing against not

only the Chinese government but their own government.

The contrast between the actions of today's policymakers and those who built the original Bay Bridge is dramatic. Construction started and ended during the Great Depression, providing urgently needed jobs, with financing arranged by a new government entity created to boost employment, the Reconstruction Finance Corporation (RFC). The steel for the bridge was the largest order ever placed for steel in the United States up to that time, and it put thousands of steelworkers and suppliers to work for years, generating income for their families and their communities. One of the largest infrastructure investments ever made up to then, the bridge once completed returned many times its original cost over the years in its boost to commerce and industry in the Bay Area alone.

By creating jobs for Chinese steelworkers, American politicians are making it all but certain that the domestic steel industry will continue to weaken. If it is an industry in which no one company today is capable of doing work on the scale of the Bay Bridge, then after another Bay Bridge or two, not even multiple U.S. companies will be able to tackle such undertakings, and the blue-collar workers will be followed out the door by the white-collar professionals—the engineers and draftsmen.

That's what makes Schwarzenegger's words in a factory in Shanghai all the more poignant. Any num-

ber of American workers would have loved the chance to weld, paint, lift, design, ship, and perform all the other chores required to help California rebuild its Bay Bridge. But they were not given that opportunity. Nor is it likely that they will be offered a stake in any similar undertaking in the future. U.S. politicians in thrall to a simplistic trade ideology would rather create jobs for people in China than for American workers.

JUSTIFYING JOB LOSSES

The chief culprit in the destruction of good jobs in America is this country's blind adherence to unrestricted free trade.

The concept of free trade goes back to the writings of Adam Smith and David Ricardo in the eighteenth and nineteenth centuries; these theorists held that trading nations should do away with tariffs and freely accept each other's products. As the theory goes, the country that can make a product most cheaply should specialize in that item and sell it to other countries, which enables that country to earn the money to buy specialized goods from other countries. In this ideal global economy, everybody is open to each other's products, and whoever has the best or cheapest wins out in this level playing field. It's a simple theory, and there is much to recommend it—providing that all trading nations abide by the same rules.

But the simple theory bears scant resemblance to the version of free trade practiced in this country. Here there is little or no attempt to promote fair trade. There are no safeguards for domestic workers and industries. There's no attempt to balance exports and imports, hence our mammoth trade deficit. U.S. trade policy has essentially been hijacked by multinational corporations, which have found it in their interest to ship work abroad and then bring products made offshore back to the United States while paying the lowest possible tariffs. This wide-open policy has enriched the biggest corporations, but it has been catastrophic for many U.S. industries at home and for millions of workers.

While the United States has lowered its trade barriers and now welcomes imports from around the world, many of our trading partners are not as open and commonly erect trade barriers to U.S. products. Japan has consistently frustrated efforts by the American auto industry to export products to Japan. When American businesses and workers protest these unfair trade practices and call for tariffs or some other penalty against an offending country to level the playing field, free-traders such as the Cato Institute or the Heritage Foundation in the United States go ballistic and claim that tariffs would violate principles of free trade and would be a form of protectionism. Their oft-heard charge is, "We can't build walls around the country." To levy tariffs against a nation that has failed to live up to basic trading rules is not

protectionist: it's called equity for American workers and businesses.

To make matters worse, many nations subsidize industries that make products specifically designed for export to America. Produced at an artificially low cost, these goods sell for less than the same products made in the United States. That kills jobs and businesses here, and it's a basic violation of free trade: nations aren't supposed to bankroll their companies to gain an export advantage. But many do, and they are rarely forcefully challenged by the United States.

The Chinese are masters of the art. China's government subsidizes numerous enterprises that compete directly with American businesses. Moreover, the Chinese government has weak labor and environmental laws and regulations. For many U.S. companies, it is remarkable that they can compete at all, given the way the deck is stacked against them.

The fathers of free trade—Smith and Ricardo—never envisioned a world in which developing nations would be sending their products to developed nations. Their concept of free trade depended on two conditions: first, that the countries trading would have fundamentally shared value systems; and second, that because of the time involved in the transportation of goods by sail (they had not envisaged the trading of services exactly), local products would always retain a competitive edge. Neither factor applies anymore. Smith and Ricardo never envisioned a time when a domestic manufacturer would invest

in a foreign plant to produce products for the home market. Smith, whose *Theory of Moral Sentiments* was as important to him as the *Wealth of Nations,* which is selectively cited by free-trade ideologues, would have decried a financial relationship that based short-term profit on the ability to outsource manufacture to countries whose labor conditions were worse in every way. In Smith and Ricardo's model, countries with similar economies would open their markets to one another to exchange locally produced goods and reciprocal courtesies in the same way that the present-day European Union operates.

No matter what free-traders in the United States say about the wonders of open markets, the Chinese are pursuing an entirely different approach as they target one industry after another through aggressive trade policies. Solar power was briefly viewed as one of America's most promising new industries. Solar photovoltaics, the alternative energy technology on which the greatest hopes are pinned, was invented in the United States at Bell Laboratories in 1954. By the 1980s, the United States was the leading manufacturer of solar photovoltaic panels to generate electricity for businesses and homeowners. Yet by 2011, the Chinese had taken over the market: by then, more than 50 percent of the solar photovoltaic panels installed in America were made by Chinese companies. Chinese solar imports jumped from $21.3 million in 2005 to $2.65 *billion* in 2011.

What happened?

In the last decade, the Chinese government set out to capture the market for manufacturing solar panels. It pumped the equivalent of billions of dollars into the country's nascent solar industry in low-cost loans, subsidies to buy land, discounts for water and power, tax exemptions, and export grants. Government aid to subsidize an export industry is illegal under global trading rules, but the Chinese forged ahead and soon cornered the world market on solar photovoltaic panels. China's exports of solar cells and panels to the United States rose a phenomenal 350 percent in just three years, from 2008 to 2010.

As massive volumes of Chinese government–supported solar cells and panels surged into the United States, prices in the domestic market collapsed. The Coalition for American Solar Manufacturing, in an October 2011 trade action, explained the consequences:

> The resulting price collapse has had a devastating impact on the U.S. solar cell and panel industry, resulting in shutdowns, layoffs, and bankruptcies throughout the country. Over the past 18 months, seven solar plants have shut down or downsized, eliminating thousands of U.S. solar manufacturing jobs in Arizona, California, Massachusetts, Maryland, New York, and Pennsylvania.

One of those plants, in Frederick, Maryland, had grown steadily since opening in 1982 and for a long

time had been thought to have a promising future. Owned by BP Solar, the plant had undergone a major expansion as recently as 2006 so it could produce more collectors for the burgeoning U.S. market. But in October 2010, BP suddenly closed the plant, throwing more than three hundred machine operators out of work. The company couldn't match the cutthroat pricing of the Chinese.

In March 2012, responding to a complaint by the U.S. solar manufacturing industry, the U.S. Commerce Department ruled that China did indeed engage in unfair trade practices in the solar industry, but the additional tariffs the Obama administration imposed on Chinese solar products were so low—ranging from 2.90 to 4.73 percent—as to be meaningless. Even if stiffer tariffs are assessed, the U.S. solar manufacturing industry has been so weakened by Chinese trade practices that it has little hope of regaining its position as a major player.

Despite the obvious damage that unrestricted free trade is causing in the lives of many American workers, the policy remains firmly in place. The economic elite wouldn't have it any other way. They view free trade as a way to hold down wages and increase profits—which lead to higher dividends and more robust stock prices. In the corporate world, America's multinationals are the most ardent backers of unrestricted free trade. And why not? Free trade lets them operate much more freely than if they were bound only by the laws and labor market of the United States. Free

trade allows them to pursue a bottom-line strategy without concern for the social consequences, in the United States or elsewhere.

The politicians, in hock to the corporate elite and other members of the ruling class, have fallen into line on free trade. They routinely enact legislation that U.S. multinational corporations request to "liberalize" trade laws. They mouth the same platitudes of corporate America about the evils of protectionism and the wonders of free markets. They dismiss any concerns about what such laws will do to the domestic labor market, urging workers to go back to school so they can compete in the new economy.

In addition to politicians, financial types, corporate executives, and economists, free trade has one other influential group of supporters. This is the media. Generally speaking, when a trade dispute arises, the media invariably come down on the side of unrestricted free trade and portray those who question its merits as protectionists or reactionaries out of touch with modern times.

Prominent among these advocates is Thomas Friedman, the *New York Times* columnist who set forth his views extensively in his best-selling book *The World Is Flat*. After weighing the pros and cons of free trade, Friedman wrote:

> Even as the world gets flat, America as a whole will benefit more by sticking to the general principles of free trade, as it always has,

> than by trying to erect walls, which will only provoke others to do the same and impoverish us all.

Like all free-trade boosters, Friedman speaks in absolutes: either you have free trade or you are a protectionist; either you leave the door wide open to imports or you build a wall around the country. The idea that a nation might selectively apply tariffs or other sanctions when a domestic industry is unfairly targeted isn't discussed as a possibility. But that is precisely how such a policy could be applied. In truth, the United States has never come close to erecting a picket fence on the border, let alone a wall.

Friedman contends, as do other free-traders, that all nations benefit from free trade, and he cites trade between India and the United States as an example. By allowing the free flow of commerce between the two nations, Friedman says, each nation has benefited, and "one can see evidence of this mutual benefit in the sharp increase in exports and imports between the United States and India in recent years." That imports and exports between the two nations rose is correct. But the biggest increase was in the U.S. trade deficit with India. From 2000 to 2011, it more than doubled, from $7 billion in 2000 to $14.5 billion in 2011—an all-time high. Like most of our major trading partners, India sells more to us than it buys from us—a trade gap that widens every year.

Friedman does recognize that free trade causes dis-

placements, and as a solution he offers two ideas that have long been part of the free-trade manifesto. The first, as we discussed earlier, is to educate working Americans to give them the skills that will enable them to compete in the global economy. This should be accompanied, Friedman contends, by "a foreign strategy of opening restricted markets all over the world . . . thereby bringing more countries into the global free-trade system."

For decades the United States has negotiated agreements to open foreign markets. In Japan's case alone, the United States has followed this route countless times, cutting deals that supposedly would allow our products into the Japanese market. But there has been very little penetration. Most U.S. products and services still haven't made headway in Japan. When a trade agreement isn't honored, as has long been the case with Japan, how can the United States enforce the law other than by building, at least temporarily, a wall to keep out certain Japanese products? But Friedman and other free-traders are against walls of any kind. So we are left with unenforceable agreements that are selectively ignored to suit their own domestic needs by our so-called trading "partners." This casual disregard for the way export markets are rigged against U.S. business has to cease. Otherwise, we have to ask: free trade is free for whom exactly? It's costing us plenty.

Free-trade advocates say that American consumers are the beneficiaries of U.S. trade policy. But the real

winners are America's multinational corporations. Free trade has given them enormous power and influence—the ability to depress the wages of U.S. workers, to move jobs at will around the globe, to richly reward executives, and to pay handsome dividends to stockholders.

Thanks to Washington's rule makers, a global corporation that moves its operations to a cheap labor zone anywhere in the world can bring its product back into the United States with few if any import duties and sell it in the domestic market for the same price it charged when the product was made by workers in Dubuque, Iowa. Congress has sweetened the deal even further with tax policies that allow corporations to park billions of earnings in offshore accounts beyond the reach of the U.S. Treasury—tax-free.

It's natural for corporations to pursue their self-interest, but in decades past, Washington set policies that struck a balance between those interests and those of the nation as a whole. The complete triumph of free-trade ideology has upset that balance. For many Americans, this has meant stagnant or declining earnings, reduced benefits, and fewer job opportunities. This is not the result of inexorable global economic forces. These trade and tax policies were bought and paid for by the major corporations through their investments in congressmen and the lobbyists who know their way around Washington.

Although workers have paid the steepest price for free trade, costs have also been heavy for thousands

of domestic companies—like Bartlett Manufacturing—that were unable or unwilling to move their operations offshore. For them, free trade has been a disaster. And those that survive often pay taxes at a higher rate than the multinational corporations that have relocated offshore.

Even when an effort is made in Washington to try to help domestic industries fighting for their lives against unfair trade practices, the money on the other side overwhelms it. In 2008 U.S. Customs and Border Protection proposed a change in the way duties are assessed on imported goods. Customs had long suspected that multinational corporations and importers were not declaring the full cost of goods they produced overseas. This deprived Treasury of revenue and made the cost of the imported goods artificially low, which undercut domestic manufacturers and their workers.

Customs proposed using a system that would conform with the way most other nations value imports. Even China, where most of the U.S. imports were made, uses a system similar to the one proposed by Customs. The change was supported by a trade association, the American Manufacturing Trade Action Coalition (AMTAC), composed of about one hundred domestic manufacturers, many in the textile industry.

But to the trade lobby, the change meant war. To scuttle the proposal, Boeing, Xerox, and other multinational interests joined forces with other importing companies as well as lobbyists for several foreign

governments. Under the direction of their Washington lobbyist, himself a former customs official, they formed an ad hoc committee called the First Sale Coalition—so named for an obscure provision in customs law by which imported items are valued for tariff purposes. A friendly congressman then inserted a clause on their behalf in a pending bill to put the Customs proposal on hold. Eventually, they succeeded in killing it altogether. The ruling class had showed once more how firmly it was in control of the system.

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FOR YEARS AMERICAN policymakers have tried to fool the electorate into believing that in a global economy everything will eventually work out. Poor countries with lots of cheap labor will take the dirty, unskilled jobs, leaving the smart jobs to countries with loads of educated people who have an entrepreneurial spirit.

We lost the so-called dirty jobs, and now we're losing the jobs they told us we would keep. You can find some of them in a sleek new building in an ultramodern commercial and industrial park just outside the ancient Chinese city of Wuxi, 125 miles west of Shanghai. The Wuxi R&D Center is a principal research facility for Caterpillar Inc., the Peoria, Illi-

nois–based maker of construction and mining equipment. Caterpillar's Wuxi research hub is a 10,000-square-foot LEED-certified facility that conducts research on a wide range of Caterpillar products. Its laboratories test new engines, materials, systems integration, and electronics. Opened in 2009, Caterpillar staffed Wuxi with five hundred engineers and support staff.

The R&D lab followed Caterpillar's major investment in manufacturing plants in China. Since 2007, when Caterpillar opened its first factory there, the company has been on a tear in the People's Republic. A Caterpillar plant in Xuzhou manufactures excavating machines, a plant in Suzhou turns out graders, a factory in Tongzhou produces large wheel loaders, a plant in Jiangsu province makes engines. All told, the company has seventeen manufacturing plants in China so far.

Just two years after opening the Wuxi R&D Center, Caterpillar announced a major expansion there to add more laboratories for fuel systems, electronics, cooling, rollover protection, and virtual reality. Caterpillar said the center also would have "extended design capabilities."

"China is the largest construction equipment market in the world, and Caterpillar continues to invest in China to help our Chinese customers succeed and to position Caterpillar for long-term leadership in China," said Caterpillar vice president and chief technology officer Tana Utley. "The Wuxi R&D center

is enabling Caterpillar's product development success in China and other growth markets," Utley added.

The exodus of American plants offshore has become commonplace, but the flight of more and more high-value jobs to facilities such as the Caterpillar laboratory wasn't supposed to happen. Those were to be our jobs, the next stage in our development after we offloaded the low-skilled jobs. But things aren't working out according to plan. The Chinese government isn't content to just snag a plant of a Fortune 500 corporation; it wants some of the company's brainpower too. And American multinationals, lured by the prospect of cheap labor and higher profits, are giving the Chinese what they want.

In exchange for the right to build plants in China, corporations are agreeing to turn over proprietary technology. Soon the Chinese will make the products for themselves without the help of their American tutors. In some cases, engineering and design knowledge—some of it funded by U.S. taxpayers—will flow to the Chinese, allowing them to shortcut a development process that ordinarily takes generations. R&D centers in which U.S. companies develop new products in tandem with the Chinese are found in many locations in China today. Boeing has one, and so does DuPont. So do scores of other U.S. multinationals.

Eli Lilly, the Indiana-based global pharmaceutical giant, represents yet another step in the transfer of high-value jobs. The corporation has established with

a Chinese company laboratories in Shanghai and Beijing that will develop new prescription drugs. Pharmaceutical researchers in the United States are among the more highly paid members of America's middle class. Without a doubt, more and more of these jobs will be flowing to China, India, and other developing nations.

As American policymakers continue to extol the benefits of free trade, the Chinese ignore the rhetoric and continue to build a self-sufficient economy the old-fashioned way—by protecting and enhancing its domestic industries. What need will China have to import much of anything from us once it has created all the basic industries? Meanwhile, the United States will become even more dependent on China as we send jobs and industries there.

None of this matters to multinational corporations and the Wall Street analysts who cheer them on. In exchange for short-term profits and hefty compensation, they are jeopardizing the country's future. They illustrate chillingly what Ralph Gomory, the longtime head of research at IBM, president-emeritus of the Alfred P. Sloan Foundation, and a longtime critic of U.S. trade policy, has warned about. As Gomory told a congressional committee in 2008:

> What is good for America's global corporations is no longer necessarily good for the American economy.
>
> We need to change this and better align the

goals of corporations and the aspirations of the people of our country.

CHAPTER 9

RESTORING THE AMERICAN DREAM

Over the last four decades, public policies driven by the economic elite have moved the nation even further away from the broad programs that helped create the world's largest middle class, to the point that much of that middle class is now imperiled. The economic system that once attempted to help the majority of its citizens has become one that favors the few.

Not everyone in the middle class who pursued the American dream expected to get rich. But there was a bedrock sense of optimism. Most people felt that life was good and might get better, that their years of dedication to a job would be followed by a livable, if not comfortable, retirement, and that the prospects for their children and the generations to follow would be better than their own.

Pam Sexton, a market researcher and engineer with two college degrees, described her version of the American dream like this: "The American dream is that you can work hard and be rewarded for your hard work. You'll be able to have a home and family and prosper and have medical care and not have to worry about expenses and bills. This is a country of opportunity." But Pam, along with thousands of oth-

ers, lost her telecommunications job in 2009, and the dream died: "I feel like the last few years that's all disintegrated or evaporated." It is a refrain we've heard across the country.

The economic collapse after 2007 was responsible for much of the most recent damage to the middle class, but even when unemployment declines significantly and the economy improves, all the policies that have been eroding the middle class will still be in force.

A version of the middle class will survive. There will be jobs that pay well, and the people who get them will enjoy many of the benefits of their parents. But the size of the middle class is in jeopardy. In the past, it seemed that a broad band of opportunity was accessible to increasing numbers of people who worked hard and played by the rules. That has changed: the middle class is shrinking alarmingly, and there are fewer and fewer entry points.

What follows is a list of the bare minimum of steps that in our view must be taken to restore the vibrancy of middle America so that it is a realizable dream for most Americans, not just the lucky few. These measures would go some way toward achieving equity and prosperity for everyone.

REVISE THE TAX CODE

If you were one of the richest Americans in 1955, you

paid on average about 51.2 percent of your income in federal taxes. If you were one of the richest Americans in 2007, your tax rate had plummeted to an average of 16.6 percent. Over that period, Congress systematically cut tax rates for the rich, allowed certain income to be excluded, and enabled the wealthy to funnel vast amounts of money through loopholes.

The justification for cutting tax bills was to stimulate the economy and create jobs. That hasn't happened; instead, tax cuts have given us a wealth gap greater than at any time since the late 1920s, when a similar chasm between the rich and everyone else foreshadowed the Great Depression.

Not only should we stop cutting taxes for the rich, but the very rich should pay more. Paying higher taxes wouldn't affect their lifestyle, and it would make our society as a whole more prosperous, which in the end benefits everyone, including the very rich. It also would dramatically reduce the federal deficit, which has soared in no small part because of tax cuts extended to the rich over the years.

Of all the economic challenges facing the middle class, the tax system should be the simplest to correct: what needs to be done is to reinstitute a series of tax rates that would apply largely to upper-income taxpayers. This would eliminate the situation that puts taxpayers who earn $388,000 a year in the same tax bracket as those who earn $50 million.

Most of the rich, of course, strenuously oppose paying higher taxes. Ever since the income tax was

first levied, income tax foes have denounced any system that contains more than two or three rates as being too "complex." What they really mean is that, when there are more rates, the ruling class and their wealthiest friends have to pay more. Listen carefully to debates over the need to confine the number of rates to two or three to simplify the tax code. Keep in mind that a code with ten rates is every bit as simple as a code with two rates. Revising the code to add more rates would just mean the wealthy have to pay more of their fair share.

"Simplification" of the tax code has been a Trojan horse promoted by the rich and their allies for years; it's a concept that lures people into thinking that fewer rates would provide a more just system, when in fact it's just the opposite. U.S. congressman Paul Ryan, the House budget chairman, submitted a proposed budget in 2012 that he claimed would "simplify" the tax code by reducing the number of tax brackets and lowering the top rate on the wealthy to 25 percent. Nothing could be simpler—at least for the ruling class and their friends who would rake in the billions. And nothing could be more catastrophic for working people. And the rest of America.

The tax code is complex, but not because of the rates. In fact, much of the complexity stems from provisions—usually tax exclusions—that have been inserted to take care of those at the top. Dividend income was taxed the same as wages and salaries for many years until Congress lowered that rate in 2003.

This complicated the tax code and put a costlier oversight burden on the IRS, but it was a huge gift to the wealthy. And it's a gift that would keep on giving if Congressman Ryan has his way. The tax proposal he floated in 2012 would eliminate federal income taxes entirely on dividend, interest, and capital gains income, a windfall of staggering proportions to the wealthy.

If Congress were serious about making the tax code simpler and fairer, what might it do? Why not create an individual tax system that requires an annual 1040 return of no more than a single sheet of paper? It would include all of your income and the sources of that income—wages, interest, dividends, rental income, what's referred to as capital gains and royalties. In short, every dollar of gross income from whatever source derived.

The sum of all that income then would be multiplied by your tax rate. No deductions for any purpose. No tax credits. No personal exemptions. There would be multiple rates, possibly as many as a dozen, running up to a top rate of 50 percent, which would be applied to all income over, say, $10 million. Multiple rates would ensure, as a matter of fairness, that people in totally different economic circumstances would not be lumped together in the same tax bracket, as has been the case since the highly-touted tax overhaul during President Reagan's era.

The task of salvaging a fair corporate tax code is complex, in no small part because the current code

has been bought and paid for by the elites, the giant corporations, and the special interests. This code has the unfair and undesirable consequence of taxing most heavily and treating most unfairly those companies that operate entirely within the United States. These are the businesses that actually provide jobs for Americans—grocery stores, dry cleaners, tool and die shops, small clothing makers, construction companies, bus companies, theaters, manufacturers that employ anywhere from a few hundred people to several thousand—and have no dealings of any kind outside the country. For these businesses, which create jobs here, not abroad, there is no offshore tax haven or slick way to move money around the world. The only way to reform the corporate tax is to toss out the current code and replace it with a system that treats everyone the same. That's no small challenge. The system Congress has crafted taxes corporations at the same rate, but special deals inserted into the tax code by lawmakers beholden to corporations dramatically lower tax bills.

So maybe it's time to begin experimenting with new approaches. One possibility is a sales tax on all Wall Street transactions, everything from individual stocks to the latest exotic instruments. Even a modest levy—less than the rate most people pay in sales taxes—could generate hundreds of billions of dollars in revenue. Far-fetched? A financial transactions tax is under active consideration by the European Union. Another option: A gross receipts tax, which would

make avoidance and evasion more difficult.

Lastly, it's impossible to talk about taxes without mentioning the one issue that has needlessly stirred panic among many seniors concerned about their Social Security—the national debt. Contrary to the frenzied claims advanced by Republicans—notably House Budget Committee Chairman Paul Ryan—along with private citizens who speak for the ruling class, the sky will remain where it is if the debt is not quickly eliminated. In truth, the budget deficit and debt issues are nothing more than a vehicle to continue tearing down the safety net of millions of Americans.

That's not to say we can continue adding to the debt in the reckless way we have over the last two decades. But the working poor and the middle class should not have to bear the burden of that debt through cuts in government programs as well as higher taxes. There is no legitimate reason to terminate programs that serve only the poor or working class. And there most decidedly is no good reason to even talk about cutting Social Security. It has not contributed a dollar to the debt. In fact, over the years, excess Social Security dollars have been used to pay for wars and ordinary programs and mask the size of the debt. The day will come when some action will be needed to bring Social Security taxes and payments into balance, but that is achievable.

Whatever decisions are made on taxes will go a long way toward either resolving or exacerbating the

deficit and national debt. Over time, a carefully targeted tax system, combined with judicious spending cuts—like no more wars unless they are fully funded with a new tax—will reduce the debt and eventually eliminate it. There is absolutely no need for the irrational hysteria of the deficit hawks in and out of government.

MAKE FREE TRADE FAIR

The policies we have followed for half a century have failed. Under them, dozens of U.S. industries have been gutted by imports, and new industries that could offset some of the job losses haven't been given the support they need to help their products break through the obstacles to foreign markets.

A healthy national economy requires a balance of imports and exports. That's the principle followed by our major trading partners. But imports into the United States have been out of balance with exports ever since the 1970s as each year imports overwhelm exports and drive up the trade deficit. This deficit, now the world's largest, kills jobs. It urgently needs to be fixed; it is a much more pressing piece of business than the clueless ideological expansion of an idea—free trade—that may simply add to the instability of the U.S. economy. Instability benefits no one—except market speculators. It's time our trade policy was asked to serve the interests of all Americans—

not just the markets and the people who control those markets. A good place to start would be to limit subsidized imports and insist that foreign nations lower their barriers to our goods. That would go a long way toward ending our massive trade deficit.

Barriers to U.S. companies are real. Every year the U.S. trade representative compiles a report on the ways in which foreign governments block imports of U.S. products, the *National Trade Estimate Report on Foreign Trade Barriers*. The 2011 version runs 382 pages and describes in detail how other nations discriminate against U.S. services and products. Here's a snapshot:

> *The European Union:* After many years of negotiations, the European Union maintains "significant barriers" to U.S. products, "despite repeated efforts to resolve them."
>
> *Japan:* "The U.S. Government has expressed concern with the overall lack of access to Japan's automotive market, as well as with specific aspects of Japan's regulatory system that limit the ability of U.S. automobile and related companies to expand business in the Japanese market."
>
> *China:* "Many U.S. industries complain that they face significant nontariff barriers to

> trade.... These include regulations that set high thresholds for entry into service sectors . . . and the use of questionable . . . measures to control import volumes."

What's most troubling about the 2011 report is that it contains nothing new; every year the report reads the same as the year before. The types of barriers change, but the obstacles remain, with the same result—many of our products cannot be sold in other countries.

What can be done?

The most obvious solution is to enforce existing trade laws by taking action against governments that unfairly subsidize their own industries and undermine the jobs of U.S. workers. This could be accomplished in some cases only by imposing tariffs—perhaps even high tariffs. The very mention of tariffs infuriates free-traders and the ruling class. But the U.S. economy is in a battle for its survival. Our competitors will not safeguard our interests over their own. Nor will corporations whose wealth is held substantially outside U.S. jurisdiction. We have to take responsibility. But unless we are willing to enforce the law, other countries will continue to ignore U.S. pleas to open their markets to our products.

For years American manufacturing has suffered at the hands of economists from leading business schools who have downplayed its importance in the economy. This needs to change. The head of a Silicon

Valley technology firm, Henry Nothhaft, argues that domestic manufacturing is essential not only because of the jobs and security it provides to workers, but also because it is crucial to innovation.

"R&D de-coupled from manufacturing eventually results in the loss of incremental innovation which occurs on the factory floor," Nothhaft has written. Because of corporate America's obsession with downsizing and short-term profits, he says, "we have gutted our ability to build the most advanced high-tech products of tomorrow." Similarly, Nothhaft says, "for every manufacturing job lost, ripple effects of job destruction and income erosion spread like a plague throughout the economy."

Relatively new companies like Google are often cited as classic examples of the entrepreneurial American venture that comes along in every era that injects life into the economy. But not every company can be, or should be, a Google. Our economy still runs on products that have been around for decades and are essential to the nation's well-being—its consumers and workers. As Ralph Gomory, the onetime head of research at IBM, told a congressionally-appointed study committee in 2011: "To prosper a country needs to make a range of good products and services, and then keep after them year after year, constantly learning and improving their capabilities to stay with or ahead of the competition." Those companies need congressional support quite as much as, if not more than, the multinational corporations.

If they are to grow, they must find and develop markets abroad as well as domestically.

Though the nation has done little to alter the free-trade policies that have destroyed so many jobs, hopes began to rise recently that the long slide in manufacturing employment as a result of those policies might be over. For the first time in many years, factories were consistently adding jobs; 400,000 were added in 2010–2011. In his State of the Union address in 2012, President Obama singled out manufacturing for special mention: "We have a huge opportunity, at this moment, to bring manufacturing back. But we have to seize it."

It may be just another one of those economic mirages that have spurred false hopes over the years. But it would be a defining moment in rebuilding the middle class if the slide in manufacturing jobs were to be significantly reversed. At the very least, what we must do is halt the growth in the trade deficit—to stop the bleeding that has resulted from the carnage in lost plant jobs in recent decades, to ensure that the manufacturing sector that's left is stabilized and bolstered by a change in our trade policies. That alone would be a major victory.

INVEST IN AMERICA

There is only one player capable of offsetting the decline in private investment in this country that has

resulted from U.S. corporations sending jobs and plants offshore and investing in other countries: the federal government.

Washington has the power to make an investment that would dramatically benefit the middle class as well as all other citizens. Instead, Washington is paralyzed. Intimidated by the deficit hawks who are funded by the ruling class, they decry any action that requires more federal spending. Contrary to what you hear and read in much of the media, in our view the nation should not be worried about federal spending right now. The federal deficit is an important, long-term problem, but unless we restore prosperity by creating more good-paying jobs, worries over the deficit will be moot.

One way for the government to create jobs would be to make a massive investment in infrastructure—not a make-work program, but a broad-based investment phased in over many years. This would boost the economy by creating millions of jobs in construction, manufacturing, and other industries. This would be a wise investment even if the economy was in fine shape and unemployment was low, because the country's basic infrastructure is falling apart from years of neglect.

The American Society of Civil Engineers (ASCE) issues a periodic report on the state of the nation's bridges, highways, dams, rails, waterways, ports, water systems, and tunnels—all the components of our nation's infrastructure. Nearly all of these facili-

ties are in such bad shape that they get no better than a D grade from the ASCE. "Delayed maintenance and chronic underfunding are contributors to the low grades in nearly every category," the ASCE concluded in its 2009 report. Just fixing current structural problems and upgrading those facilities would cost $2.2 trillion, the ASCE estimated. The deterioration is accelerating at such a pace that the ranking of the United States on infrastructure plunged from first in 2006 to sixteenth in 2011, according to the World Economic Forum.

Like so many other aspects of the economy described in this book, infrastructure investment is another casualty of the political dominance of the ruling class, whose private planes and gated residences lead them to think that infrastructure is less than essential to them. From 1950 to 1979, during a period when the United States funded broad-based public programs, its investment in transportation, water management, and electricity transmission grew at an average rate of 4 percent each year—about the same as the growth of the economy during that time. But from 1980 to 2007, when U.S. investment in infrastructure was scaled back to 2.3 percent, economic growth also fell, to an average annual rate of 2.9 percent, according to a 2009 study by the Political Economy Research Institute (PERI). "Faster public investment growth produces faster overall growth," concluded PERI.

In contrast, China and Japan, the chief competitors

of the United States in Asia, are investing heavily in infrastructure—railroads, highways, Internet networks, ports, airports, and all the basic services that promote commerce and create jobs. Visitors to those nations are often stunned by the sophistication of the new technology that the Chinese and Japanese are pouring into their basic infrastructure. Visitors arriving at JFK before driving to New York City don't have quite the same sense of awe.

RETHINK TRAINING

The nation's federal training program for workers who lose their jobs to imports or offshoring is sorely in need of reform. Interviews with laid-off workers showed a pattern of frustration with the Trade Adjustment Assistance (TAA) offices in many states. Although workers were appreciative that the program existed, many reported that their caseworkers were overwhelmed with work, rarely if ever returned their calls, and sometimes weren't sure if they could even be of help. Others told of TAA caseworkers who were so overworked that they refused to give their last names, presumably to make sure they weren't contacted outside of work hours. Other workers who had been laid off complained that TAA was out of touch with reality.

Terri Steger was a systems analyst for AT&T and one of its contractors for thirty-five years in Milwau-

kee before her IT job and the jobs of her coworkers were shipped to India in 2009. She soon found herself in an orientation class sponsored by the local TAA office in Milwaukee to help her and others who had lost their jobs decide on their next career. Steger said that one of the federal officials suggested to the group that they consider information technology.

"We raised our hands and said, 'Wait a minute, you might want to rethink that, because we're all in information technology and our jobs are in India right now,'" she said.

An even greater shortcoming in U.S. training programs is the lack of well-funded, well-publicized, and highly respected apprenticeship programs. Such programs would give high school graduates who are unable to go to college, or whose skill sets are in other areas, a way to obtain training that would make them valuable to employers and enable them to earn a good living. The U.S. emphasis on college at the expense of apprenticeship programs has long been a complaint of many American industrialists, sociologists, and other experts. In other countries, notably Germany and Switzerland, apprenticeship programs are considered a fundamental part of secondary education and have been a major factor in the manufacturing success of those countries.

UPHOLD THE LAW

It sounds almost old-fashioned: to protect the middle class and all other Americans from the charlatans of Wall Street who served up the great housing meltdown, let's start enforcing the law. The triumph of the ruling class is so complete that there's no longer serious prosecution for violations of fraud and other statutes, which, if enforced, might discourage financial bandits in the future. If people end up in prison for committing a misdemeanor, surely they could go there for destroying the lives of working people.

Unless we do that, the story still playing out today across the United States will be repeated in some fashion in the years ahead when Wall Street cooks up its next great scheme. So far, more than 8 million homes are in some stage of foreclosure. Millions more are teetering on the edge. To hold down the number on the market, the government has authorized the bulldozing of empty houses.

As the housing market imploded and trillions of dollars in home equity vanished, millions of homeowners watched their most valuable asset disappear. In effect, that money was stolen by Wall Street with the touch of a keystroke. Two hedge fund managers alone made billions of dollars by betting the house of cards would collapse. So it wasn't as if no one saw what was happening. The equity that went up in smoke was money the middle class and the working poor were counting on to pay medical bills, fund college tuition for their children, help aging parents, or support their own retirement. All gone.

Despite the literally tens of thousands of illegal acts committed throughout the years of the great swindle, not one corporate executive or Wall Street titan has been charged with a crime. Any reasonably curious prosecutor, who was so inclined, could start at the bottom and work his or her way up the food chain, beginning with all the statements attesting to the value of a mortgage applicant's assets. It would have been rather easy since the paperwork was known laughingly across government, the banking industry, Wall Street, and the mortgage industry as "liar loans." The people who arranged the mortgages were rewarded with oversized bonuses. So, too, their bosses. The phony loans then were packaged into securities sold by Wall Street, which started the process all over by attesting that they were of prime quality. The securities were peddled to investors who were suckered by Wall Street's spiel. And on and on it went.

Law enforcement has been feeble; many prosecutors lack backbone, will, or imagination. This contributes to the pervasive attitude that for some the ordinary rules do not apply. Indeed, this is a pretty good definition of the ruling class: they can avoid the rules. Those who control the economy as well as the country implemented the doctrine of "too big to fail": select corporations would not be subject to bankruptcy rules but would be bailed out by the taxpayers. The likes of Goldman Sachs and Morgan Stanley would have to be rescued—by the little people. The

principle also has been established that government bailout money can be used to pay executive bonuses.

The "too big to fail" doctrine helped trigger the largest economic collapse since the Great Depression, yet inexplicably Congress left the principle intact. Given the right circumstances, another unsuspecting generation will be blindsided by another crash. There's more. Congress bought into the idea that if select Wall Street firms and banks were too big to fail they also were too big to prosecute. Handing the moneyed a permanent "get out of jail free" card, Congress placed the ruling class as far above the laws of the land as they were above the laws of the market.

WILL THE MAJORITY RULE?

Most of the changes essential to restoring the American middle class require congressional support, but Congress has largely been on a thirty-year holiday from economic reality—at least as far as the middle class is concerned. Once in a while, however, even Congress has to come back to the people. Significant attempts to restore equity to the tax code by raising taxes on the wealthy will be met with cries of "class warfare," and any effort to temper the power and tax exemptions of U.S. multinational corporations that would limit their ability to invest outside the United States and send jobs abroad is certain to be met by a ferocious lobbying assault in Washington. Corpora-

tions also will argue that the goods they import made by cheap labor will provide lower-priced consumer items for sale that are good for our economy. But what kind of a society will we have if low prices are the ultimate measure of its worth? A society built on the economic principle that the lowest price is all that matters will be quite different from a society built on the principle that everyone who wants to work should receive a living wage. By putting the emphasis on the lowest possible price, we have sacrificed other values that create a healthy, productive society.

For all this to change, the people will have to prevail. Middle-class Americans, still the largest group of voters, must put their own economic survival above partisan loyalties and ask four simple questions of any candidate who wishes to represent them:

1. Will you support tax reform that restores fairness to personal and corporate tax rates?
2. Will you support U.S. manufacturing and other sectors of the economy by working for a more balanced trade policy?
3. Will you support government investment in essential infrastructure that helps business and creates jobs?
4. Will you help keep the benefits of U.S. innovation within the United States and work to prevent those benefits from being outsourced?

The choices we make in the candidates we elect and the programs and policies we support will set the

direction of the country.

Many Americans are determined to restore rule by the majority. Last year, after we published some of our preliminary findings about the economic state of the middle class, many citizens wrote to us to offer their views. One man called for a "nonviolent revolution by the middle class." Another proposed a movement to turn everyone in Congress out of office. Still others, while acknowledging the gravity of the situation, also expressed hope, like this man from Illinois:

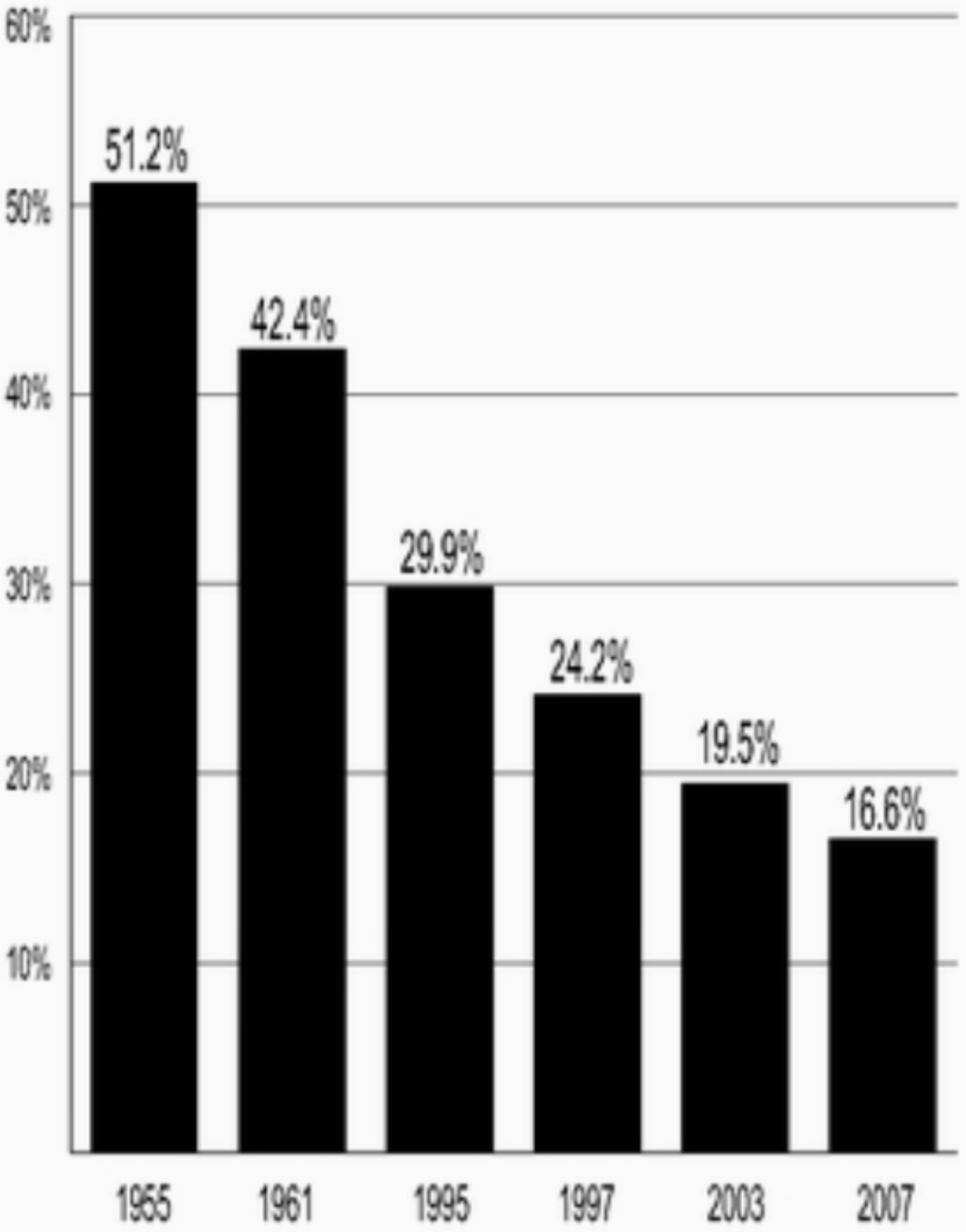
> Our market power is now so diminished, and our indebtedness so exorbitant, that we may have few levers left. But it is never too late to reorient our thinking and to correct a sustained injustice to our citizens.

What's at stake is not only the middle class, but the country itself. As the late U.S. Supreme Court justice Louis Brandeis once put it: "We can have concentrated wealth in the hands of a few or we can have democracy. But we cannot have both."

APPENDIX

Richest Pay Less
Effective Federal Tax Rate for Top 400 Families, 1955–2007
Sources: Top 400, 1955 and 1961: Janet McCubbin/Fritz Scheuren, Individual Income Tax Shares and Average Tax Rates, IRS, 1988 and 1989; 1995–2007: IRS, Statistics of Income, "The 400 Individual Income Tax Returns Reporting the Highest Adjusted Gross Incomes Each Year, 1992–2007." Research by Monica Arpino, Michael Lawson, Investigative Reporting Workshop
Graphic by Alissa Scheller, Investigative Reporting Workshop

The Betrayal of the American Dream



The Real Deficit

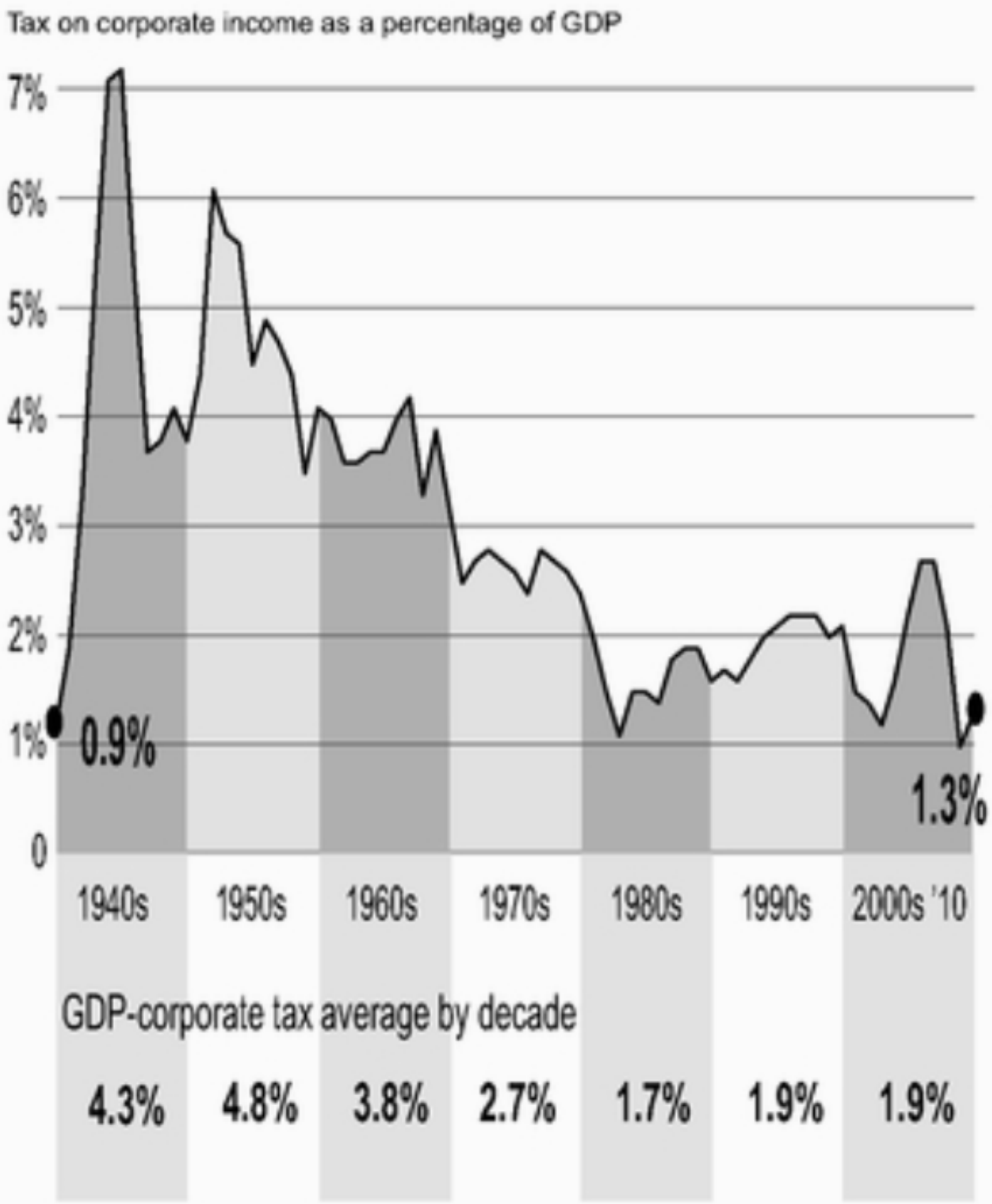
U.S. global trade policies have wiped out millions of jobs and created a staggering trade deficit —the world's largest. Our main trading partners all run trade surpluses.

Source: World Trade Organization Research by Monica Arpino, Michael Lawson, Investigative Reporting

Workshop Graphic by Alissa Scheller, Investigative Reporting Workshop

Corporations' Declining Share of the Tax Bill
Source: The President's Budget for Fiscal Year 2012
Research by Monica Arpino, Michael Lawson, Inves-

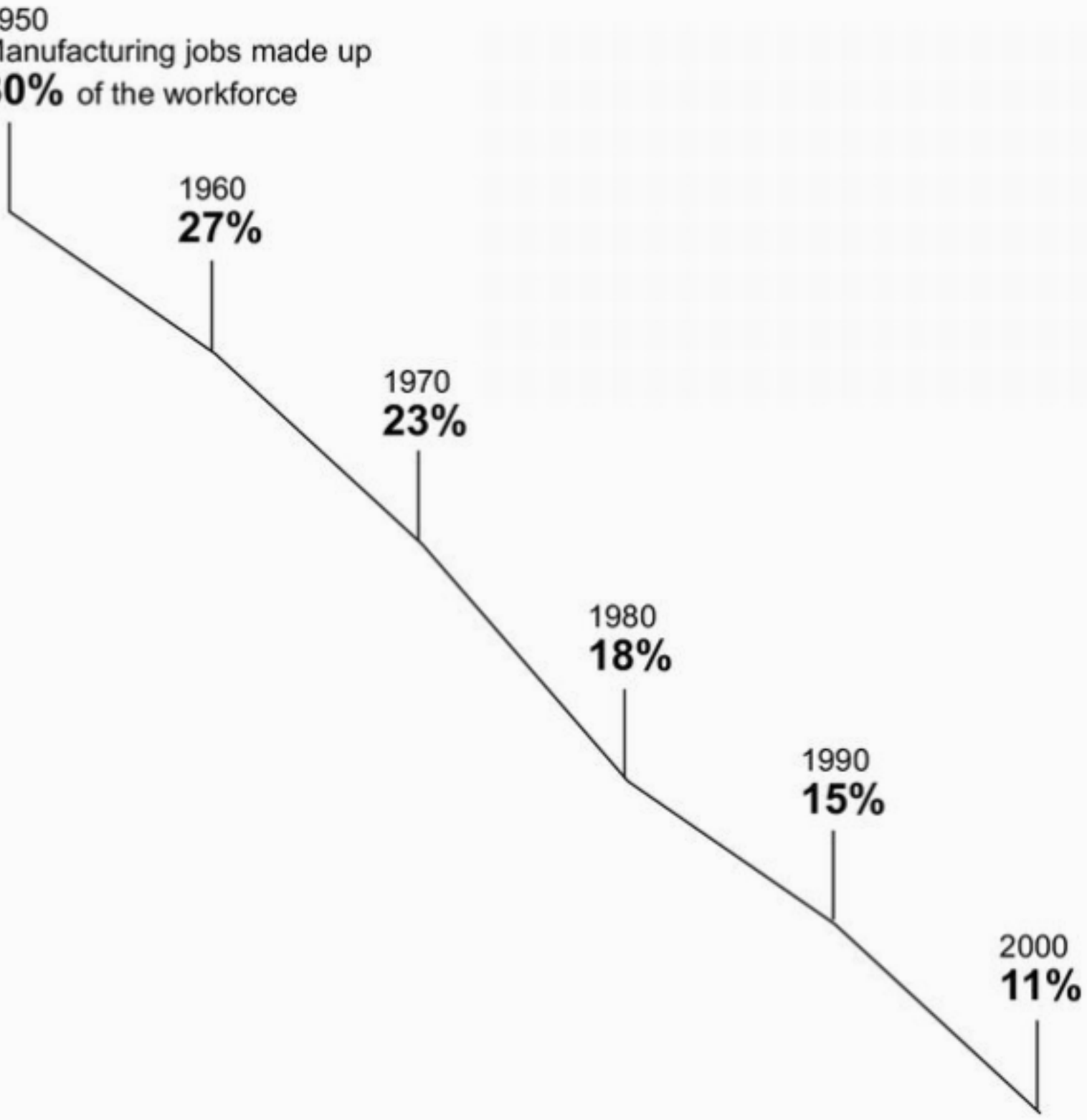
tigative Reporting Workshop Graphic by Lisa Snider, Investigative Reporting Workshop



The Loss of Manufacturing Jobs

Manufacturing, once a path to the middle class for American families, made up only 9 percent of the

workforce in 2011, an all-time low.
Source: Bureau of Labor Statistics Research by Monica Arpino, Michael Lawson, Investigative Reporting Workshop Graphic by Alissa Scheller, Investigative Reporting Workshop



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well as for the work of others on the subject. Under Chuck's direction, the Workshop launched a multimedia research and reporting project called "What Went Wrong." It quickly became a research hub for information about the middle class and its website served as an invaluable vehicle for us and other writers to post the stories about working Americans. This fruitful collaboration with the researchers, writers, and producers at the Workshop produced a rich volume of journalism—more than forty multimedia stories alone in 2011—including work by us that ultimately became an important part of this book.

Many others at the Workshop deserve our thanks. Kat Aaron, the project manager for "What Went Wrong," helped to direct the research and brought her own deep knowledge, compassion, and expertise to the subjects we researched. Her professionalism, commitment, and exceptional contributions to the entire venture are deeply appreciated. Lynne Perri, the Workshop's managing editor, is as able, expert, and delightful a manager of a newsroom as you are likely to find—a wonderfully incisive editor and steadying influence. We would also like to thank senior editor Margaret Ebrahim for her excellent preliminary work in chiseling out from the vast themes we all followed a coherent story line that we hope will be the basis of a documentary based on this work. Senior editor Wendell Cochran, a longtime friend and fellow investigative reporter, provided ideas that were helpful in shaping the project.

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And to Eileen Reynolds, who always asks the right questions.

Last, a special word of thanks to Nancy Steele, a superb editor who made important contributions to each stage of this project.

One final word: This book is another chapter in the continuation of a story we have been reporting and writing about for many years in newspapers, magazines, and books. Some of the individuals in this book have appeared in our previous work, but we have updated their stories to place them in the context of recent economic events. Staying in contact with some of them over the years has deepened our perspective about the plight of the middle class, which we have tried to convey in this book.

As always, whatever errors there may be, and we hope there are few, are solely our own.

A NOTE ON SOURCES

This book is based on interviews and public records and data from a wide variety of federal, state, and local agencies.

With few exceptions, the statistics used in this book were drawn from government and corporate sources. They include the U.S. Internal Revenue Service, the Bureau of Labor Statistics, the Federal Reserve Board, the *Annual Budget of the U.S. Government,* the *Economic Report of the President,* corporate filings with the U.S. Securities and Exchange Commission, the Congressional Budget Office, the Organization for Economic Cooperation and Development, the U.S. Department of Commerce, the U.S. State Department, the International Trade Administration, the Social Security Administration, and the U.S. Census Bureau.

Other sources of information at the national level included the U.S. International Trade Commission, the Employment and Training Administration of the U.S. Department of Labor, the Bureau of Economic Analysis, the United States Trade Representative, the Foreign Agents Registration Unit Public Office of the U.S. Department of Justice, the Center on Budget and Policy Priorities, the U.S. Department of Treasury, the Senate Records Office, the House Clerk's Office, the Government Accountability Office, the

Employee Benefit Research Institute, the Pension Benefit Guaranty Corporation, the Interstate Commerce Commission, the Federal Trade Commission, the U.S. Department of Agriculture, the Inspector General's Office, *Public Papers of the Presidents,* the *Congressional Record,* and congressional hearings related to trade, taxes, and other economic issues spanning more than half a century.

We also collected information from many associations, nonprofit organizations, court jurisdictions, and local government agencies, including the Association for Manufacturing Technology, Footwear Industries of America, the Aerospace Industries Association, the Institute for Policy Studies, Good Jobs First, the Coalition for American Solar Manufacturing, the Offshoring Research Network, the American Manufacturing Trade Action Coalition, the National Consumer Law Center, the Center for Responsible Lending, the Community Reinvestment Association of North Carolina, the California Reinvestment Coalition, the Lee County (Florida) Circuit Court, the U.S. Bankruptcy Court for the Northern District of Texas, the Circuit Court of Van Buren County, Arkansas, and the Concord (California) Police Department.

As always, the libraries in many communities were vital in allowing us to access older records that haven't been digitized, including the Free Library of Philadelphia, the American University Library, the Wayne County Public Library of Wooster, Ohio, and

the Bob and Wauneta Burkley Library and Resource Center of DeWitt, Nebraska.

We benefited from the work of others who have also studied the impact of economic measures affecting the middle class. We want to single out the 2010 report, "Shifting Responsibility—How 50 Years of Tax Cuts Benefited the Wealthiest Americans," by Chuck Collins, Allison Goldberg, and Sam Pizzigati. Published by Wealth for Common Good, a network of business leaders, high-income individuals, and others working to make the tax system fairer, "Shifting Responsibility" is a straightforward view of how tax policy has been hijacked by the rich.

While we used primary materials for the most part, some books and publications were invaluable. One of the most important books was *Manufacturing a Better Future for America* by Richard McCormack, Clyde Prestowitz, David Bourne, John Russo, Sherry Lee Linkon, Ron Hira, Irene Petrick, Peter Navarro, James Jacobs, and Michael Webber, published in 2009 by the Alliance for American Manufacturing. This is a compelling account of the systematic gutting of American manufacturing by American policymakers.

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Nick Kelsh

Donald L. Barlett and **James B. Steele** are the nation's most honored investigative reporting team, and authors of the *New York Times* bestseller *America: What Went Wrong?* They have worked together for more than forty years, first at the *Philadelphia Inquirer* (1971–1997), then at *Time* magazine (1997–2006), and now at *Vanity Fair* since 2006. They have also written seven books. They are the only reporting team ever to have received two Pulitzer Prizes for newspaper reporting and two National Magazine Awards for magazine work. They live in Philadelphia.

PublicAffairs is a publishing house founded in 1997. It is a tribute to the standards, values, and flair of three persons who have served as mentors to countless reporters, writers, editors, and book people of all kinds, including me.

I. F. STONE, proprietor of *I. F. Stone's Weekly*, combined a commitment to the First Amendment with entrepreneurial zeal and reporting skill and became one of the great independent journalists in American history. At the age of eighty, Izzy published *The Trial of Socrates,* which was a national bestseller. He wrote the book after he taught himself ancient Greek.

BENJAMIN C. BRADLEE was for nearly thirty years the charismatic editorial leader of *The Washington Post*. It was Ben who gave the *Post* the range and courage to pursue such historic issues as Watergate. He supported his reporters with a tenacity that made them fearless and it is no accident that so many became authors of influential, best-selling books.

ROBERT L. BERNSTEIN, the chief executive of Ran-

dom House for more than a quarter century, guided one of the nation's premier publishing houses. Bob was personally responsible for many books of political dissent and argument that challenged tyranny around the globe. He is also the founder and long-time chair of Human Rights Watch, one of the most respected human rights organizations in the world.

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For fifty years, the banner of Public Affairs Press was carried by its owner Morris B. Schnapper, who published Gandhi, Nasser, Toynbee, Truman, and about 1,500 other authors. In 1983, Schnapper was described by *The Washington Post* as "a redoubtable gadfly." His legacy will endure in the books to come.

Peter Osnos, *Founder and Editor-at-Large*

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