

Book Review

Third world or one world?

Review of “Third World America: How our Politicians are Abandoning the Middle Class and Betraying the American Dream” by Arianna Huffington. Crown Publishers: NY (2010), Reviewed by Alan E. Singer

1. Introduction

In the cover acclaim for “Third World America” Bill Maher wrote that “luckily for Congress . . . and corporate America, no one reads anymore, because if people discover this book America will become a very different place.” But is there anything in the book that would surprise people who do read? In this review I will try to answer that question and to consider whether the recommendations in TWA are indeed likely to save the USA from a “3rd world” future.

2. Components

The topical theme of the book is “how to save the middle class” in the USA, or how to make the American dream a reality again (mainly for those already in America). Accordingly, this is a book about poverty alleviation. Like many others in the genre, it discusses and links together selected poles on one side of an essentially bi-polar political-economic-ethical terrain and then uses various arguments to inform the “topical theme” (Fig. 1). The particular bi-polar components emphasized in TWA include: distributive justice *vs.* economic efficiency, the problem of dollar-based lobbying, the proper level of business regulation and taxation, as well as plain old class-conflict (now: lower *and* middle *vs.* the new elite), amongst others (Table 1).

2.1. Justice

With regard to the distribution of wealth in America, TWA reminds us that about 40 years ago, top executives earned about 30 times the average wages (whilst the factor in Japan was closer to 10) but by 1990 that ratio had “skyrocketed” to around 300. Justifications from

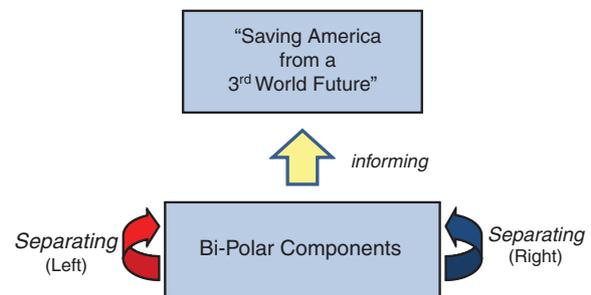


Fig. 1. A framework for assessing TWA prescriptions.

Table 1
 The bi-polar components mentioned in TWA

Component	Left-pole	Right-pole
Politics	Govt & market	Market only
Values	Justice	Efficiency
\$\$-Based lobbying	No	Yes
Regulation	Combat selected limitations	De-regulate
Redistribution	Tax	Philanthropy
Class	Labor & Middle	Elite (capital)
Sector	Public	Private
Wealth dynamic	Bubble-up	Trickle-down

the political right have typically focused upon alleged shortages of CEO talent (although every MBA class I have ever taught has contained at least one student who could probably do the job) or predicted trickle-down effects; but what was really happening all along, as reported in TWA and predicted by many others, was the setting of a poverty trap. As an example, TWA (p. 192) mentions a 1978 U.S. Supreme Court ruling whereby interest-rate ceilings on credit cards became determined by the state in which the card company was incorpo-

rated, not where the citizen lived. States then “rushed to repeal” their wisdom-based *usury* laws, in order to attract banks to town. The result of this kind of thing is a “2-tier economy” (p. 55) in which “it’s becoming harder than ever to move up” (p. 19).

2.2. Dollar-based Lobbying

On page 133, TWA quotes from Theodore Roosevelt (a former Republican president) that “there can be no effective control of corporations while their political activity remains” and that “the average citizen would get a fair shake” *only* if this activity were controlled. This principle is also implicit in Milton Friedman’s *Capitalism and Freedom* [1] and in Adam Smith’s *Wealth of Nations* [5]. The fact that it has *not* been controlled has duly allowed lobbyists in the U.S. to “(make) a meal out of the foundations of our democracy . . . like a swarm of termites reducing a house to sawdust” (p. 131). Corporate interests in the U.S. have, in effect, paid for political leaders’ re-election (p. 46) by deploying media messages that distracted and confused the electorate (corporate free speech). Once elected, “leaders” faced “overwhelmingly powerful incentives to do the wrong thing” (p. 234). Accordingly, “public policy (has been) sold to the highest bidder” and “the public-good has become a quaint afterthought” (p. 144). Arianna Huffington quotes Chris Mathews (p. 148) that “a 3rd World banana republic would do things this way”.

2.3. Regulation

Corporate America has also “bribed and browbeat political leaders” into accepting “deregulation snake oil” (p. 51), which has led to a “badly broken” regulatory system and the deliberate side-lining of the agencies needed¹ to protect the public (p. 36). The financial sector alone spent \$3.4 bn on lobbying for the rollback of legislation. The pharmaceutical industry is also criticized in TWA (p. 143) for contributing \$124 m to (federal) candidates between 2000 and 2008 whilst at the same time heavily promoting an image of social responsibility. Even after the “collapse”, lobbyists (*aka* bribe-payers) have audaciously continued to “gut ambitious plans for reforming Wall St., energy and healthcare”.

¹ As Zeleny recently put it ([8], p. 193) “An unregulated market is not free, because it allows one side to be cheated, deceived, misled, misinformed or lied to”.

2.4. Taxation

Many argue that the single most responsible thing any corporation can do is to pay its taxes (although one ought to add: “to good governments”). Yet many corporations have overlooked this most effective component of their so-called CSR-portfolio. TWA is duly critical of the use of offshore tax havens (pp. 56–57) known in Orwellian speak as “financial privacy jurisdictions”. This is the kind of “privacy” that allowed KBR/Halliburton to “avoid paying hundreds of millions of dollars in Medicare and Social Security taxes” even as they received “billions” directly from US taxpayers. More generally, “privacy” has enabled U.S. based MNC’s to pay an overall effective tax rate of 2.3% on foreign earnings. Hedge fund managers earning between \$1,000,000,000 and \$4,000,000,000 *per annum* also found ways to pay only 15% tax. Indeed, Warren Buffett admitted that his secretary pays a higher rate than he does.

3. Solutions

At about the time that the Huffington “termites” started to eat, Amartya Sen [4] wrote in *Business Ethics Quarterly* about three possible approaches to overcoming the known limitations of market based systems. They are (a) regulation, (b) public ownership, and (c) social concern in private enterprise. Huffington’s remedies for saving the American middle class can be categorized accordingly (Table 2). Starting with the regulatory process, TWA urges the full public financing of political campaigns² *aka* “the mother of all reforms” (p. 172). At the same time there must be a “top to bottom commitment to transparency”, with no more revolving door arrangements.

Getting down to business, TWA wants the entire U.S. economy to be re-oriented towards “production”. It should no longer be “a vehicle for gambling and speculation”, or the formation of “dead capital”, as Zeleny [7] put it. In addition, TWA prescribes that there should be “jail for boardroom crime”, which has not happened in connection with the recent “collapse”. This requires removal of law-related incentives for CEO’s *not* to know what’s going on in their own companies.

² To give but one example of private interests deliberately trying to confuse the electorate, a “message” on U.S. cable TV recently *criticized* a state governor for “using your tax dollars to fund political campaigns”.

Table 2
Sen's categories and TWA's prescriptions

Regulation (process)	Full public financing of campaigns; Middle and lower classes to be represented in institutions; Commitment to transparency. No revolving doors.
Regulation (content)	Jail for the boardroom crime; Remove "incentives not to know"; Favor production over speculation; Tax credits for job creation. "Help" for start-ups; Re-localization of the banking system; End usury on credit cards; Stop spending "trillions of dollars fighting unnecessary wars".
Public ownership (or projects)	Infrastructure & public works projects; Direct government funding of jobs; Direct job-conserving federal aid to states; Expand peace corps and conservation corps, etc.
Public funding of private providers	Infrastructure projects (again); Single-payer healthcare and education systems.
Social concern in private enterprise	"Change is going to have to come from outside Washington". Triple-bottom line approach; More philanthropy; Media should "stop pouring gas on the bonfires"; Promote a cultural shift towards empathy.
Social concern (individuals, citizens)	"Some serious lifestyle changes"; Re-evaluate our priorities; Move money into community banks. More philanthropy; Join volunteer groups; Promote cultural shift towards empathy.

Finally, at the bottom of the pyramid, there should be plenty of "help" for start-ups, as well as incentives for job creation.

The second line of defense for the middle and lower classes involves Sen's "public ownership", which is not mentioned in TWA in connection with means of production. When it comes to business development, government should instead act as a "platform" for services delivered by private companies (but paid for by citizens, sometimes with the help of subsidies). For example, a single-payer (private-provider) public health system is sorely needed (p. 178), as is a similar "single-payer system of education". TWA also recommends urgent government funding of publically-owned infrastructure projects, along with support of organizations such as a "peace corps" and "conservation corps". There should also be direct funding of job-conservation at the state and local level. As Paul Krugman put it: "the government could provide jobs by . . . providing jobs" (quoted on p. 181).

Ultimately, according to TWA (p. 234), "change is going to have to come from outside Washington". U.S. citizens should now "re-evaluate priorities" and make "serious lifestyle changes." They might for example "move (their) money" into community banks. They can also help to promote a cultural shift towards greater levels of "empathy and ethics". This particularly includes a citizen's duty to oppose the spending of "trillions of dollars fighting unnecessary wars" (p. 31). Meanwhile, corporations should cease and desist from irresponsibility and adopt the triple-bottom line approach (p. 195). Finally, the media, for its part, should "stop pouring gas on the bonfires of discontent" but instead act like a watchdog and speak "the truth".

4. Critique

Although Arianna Huffington writes compellingly for the benefit of those who do read, a few *caveats* to TWA might be in order, as follows:

4.1. "Going again"

Arguably, the situation described in TWA began to take shape around the time that Ronald Reagan scored political points with a famous sound-bite: "*There you go again*". The "going" involved the economic idea that "what matters is not the size of government, but what government does" ([6], p. 49). Therefore, some thirty years later, TWA is simply reporting that standard idea, again. The current situation was predicted many times by keen readers who have recommended broadly similar solutions (e.g. Sen, Stiglitz, Reich, Krugman and Nolan, to mention a few). Currently, TWA enjoys a temporary competitive advantage in that it is not only entertaining, but also that much more persuasive for coming *after* the "collapse" (but see also [3]).

4.2. *One world?*

On such prediction was made (about 20 years ago) by U.K. Professor Anthony Grayling in a BBC TV series about *Globalization*. In a society dominated by a global money nexus, he said, the "position of the average worker was bound to be extremely equivocal". He meant globally. Yet TWA seems to lack that global perspective. This narrowness of perspective becomes more apparent when one compares TWA with others in the

genre such as “*Making Globalization Work*” [6], where it was reported that in 21st century India:

“*women labor on the roads breaking stones by hand (whilst) . . . just a few miles away . . . (one can see) . . . the gleaming global HQ of InfoSys . . . where US companies hire Indian workers to do work that was previously done in US*” (p. 25)

This is the kind of empirical observation that is worth reporting. It makes it rather obvious that workers in America would eventually become less well off under any markets-only approach (see also [2]). The exclusive U.S. focus of TWA might have been a deliberate marketing tactic for the book, reflecting the further observation that “Americans bemoan the loss of jobs at home and do not celebrate a larger gain in jobs by those who are far poorer abroad” ([6], p. 22). If this is indeed the case, we have another major area where the TWA-endorsed “culture of empathy and ethics” might be very helpful indeed.

4.3. Giving up on government?

If the global view was largely absent from TWA, so too was any method for ensuring that the majority of U.S. voters come to learn the basic truth about capitalism and democracy. This included the limitations of markets and the corresponding benefits of good government. In particular, readers might have been reminded that for many years “the most successful countries have been in Asia . . . (where) government played a very active role” ([6], p. 29).

TWA actually takes a somewhat different tack on the whole question of government, by emphasizing community and self-governance solutions instead. Despite an appeal for the “mother of all reforms” in political campaign funding, there is a sense that TWA is adopting the first principle of *post-Carter* U.S. infrastructure management (“if it is broke don’t fix it”) and applying it to the government itself. So, for example, when TWA appealed for more philanthropy (as is currently fashionable and always a good thing) it failed to emphasize that charity is not an effective substitute for taxation³. Indeed “*The tax issue really is the key*” to social justice

³ The limitations of Philanthropy include: (i) it’s a lottery on the receiving end, (ii) it often involves priorities other than poverty alleviation, (iii) the total tax-take will always greatly exceed voluntary donations because of the incentive to free-ride, and (iv) the 35% of wealth owned by the wealthiest 1% (in US) should have been properly taxed and regulated all along. As described in TWA, much of it was appropriated by anti-competitive or anti-democratic means.

as stated by Deanne Julius⁴ (in the above-mentioned BBC-TV program on globalisation).

5. Conclusion

Winston Churchill once said that the best argument against democracy is a five minute conversation with the average voter. This seems very relevant to a Third World America where nobody reads anymore and where voters are targeted by unlimited multi-media corporate “free speech”. Therefore, in order to save the middle class (i.e. alleviate poverty), the mother of all political marketing strategies is surely needed. The objective should be to induce people to vote for their own informed and enlightened self-interest. Recently, Fareed Zacharia (on CNN-TV) advised his audience to learn a foreign language and some mathematics. He (and other responsible media) might also recommend something a whole lot easier: to study the basic principles of capitalism and democracy, in plain English. Anyone reading about those things would quickly discover that good government can help people to actually live better lives, rather than just dream.

References

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- [2] P. Nolan, *Capitalism and Freedom: The Contradictory Character of Globalization*, Anthem, London, 2008.
- [3] Reich, *Aftershock: The Next Economy and America’s Future*, Knopf, NY, 2010.
- [4] A. Sen, Does business ethics make economic sense? *Business Ethics Quarterly*, 3(1) (Jan 1993), 1–8.
- [5] A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Oxford University Press, Oxford, 1993 [1776].
- [6] J.E. Stiglitz, *Making Globalization Work*, Norton, NY, 2006.
- [7] M. Zeleny, *Human Systems Management: Integrating Knowledge Management and Systems*, World Scientific, NJ & Singapore, 2005.
- [8] M. Zeleny, Machine/organism dichotomy and free market economics: crisis of transformation? *Human Systems Management* 29(4) (2010), 191–204.

⁴ The chief economist of Royal Dutch Shell and British Airways corporations, at that time.