



Popular Economics

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Financial FAQs

Week of November 3, 2007

The Failure of Reality-Based Economics

David Brooks makes a valiant, but unsuccessful, attempt to justify the Bush Administration's economic policies in his July 24 op-ed piece, "A Reality-Based Economy." The "complicating facts" that he cites to refute the Democrats' campaign to discredit Republican economic policies are themselves simplistic in the extreme, as follows:

First factor—Brooks correctly notes that wages have finally risen in 2006, but average real household wages from 2000-2005 fell 5.4 percent per the Economic Policy Institute. This has been the poorest post-war recovery on record, both in terms of wage earnings and job creation.

Second—It is true that the bottom 20th income percentile may have increased earnings by 80 percent through 2005, but that poorest 20th percentile still has an average income of just \$15,400, approximately \$4,000 below the current official poverty line, per the latest U.S. Census figures! Is this something to be proud of?

Third—Income volatility may be down slightly, but so is upward mobility. The latest studies show that Europeans now have greater upward mobility than U.S. citizens, hence a greater opportunity to better themselves.

Fourth—Recent rises in inequality certainly have much to do with a growing educational inequality. That is proven by the sky-high tuitions and admission caps for the best schools that can only be overcome by the huge student loans that those in the lower and middle classes fortunate enough to be admitted have to take out. Brooks' insinuation that hard work is somehow lacking in those left behind is belied by the fact that U.S. workers work more hours, have less vacation time, (and less health insurance coverage) than European and Japanese workers.

Fifth—"Performance pay" is certainly a reason for growing income inequality. It is also a method of making workers work harder with longer hours. Increasing income inequality increases job insecurity, which makes workers more docile, which is just what employers who wish to exploit their workers want.

Sixth—Working longer hours is not a cure for inequality, as Brooks suggests. It is not good for anyone's health, either, and U.S. workers are paying for it with poorer health outcomes than other developed countries. Our life span is shrinking, we have higher disease rates, and have even a shorter average height now than in European countries.

Seventh—It is true that "greedheads" are not just "self-dealing" corporate types "bilking shareholders", but is that a defense? Brooks doesn't mention that much of the hedge fund managers' whopping earnings were made through a tax loophole that they have profited from—their incomes being taxed as capital gains rather than ordinary income.

Eighth—Certainly CEO compensation should be performance based. So how does that excuse those corporate greedheads who got the big bucks (such as Pfizer's CEO Hank Kinser) without good economic results? Pfizer lost both earnings and stock

price under his watch, yet he was awarded what--\$200 million?—for his non-performance?

Ninth—True, our economy is doing well with a 4.5 percent unemployment rate, tax revenues are up and the budget deficit is down to 1.5 percent of GDP. But the Republican tax and spending policies of the past 6 years have left an \$8 billion federal debt burden, much of it owed to foreign investors.

More economists are sounding the alarm that the policies Brooks attempts to defend are dangerous to our long-term, economic health. Goldman Sachs Vice Chairman Robert Hormats is but the latest. Hormats appeared before the U.S. House Budget Committee to “discuss an issue of great economic, financial and national security importance to our country -- the growing dependence of the United States on foreign capital.” Currently we import \$1 trillion new debt annually, with no repayment plans. That’s a historic break from over two centuries of American policy.

“One central, constant theme emerges,” he continued, “sound national finances have proved to be indispensable to the country’s military strength” and long-term national security.

So, who is drifting “further away from reality”? The only solution to our long-term economic (and national) security is a bi-partisan consensus on reducing our national debt. Right and left-wing ideologies have never answered the needs of real people.

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