

Free Enterprise and the Myth of Prosperity

It is difficult to picture America without commerce. America is inseparable from its material culture. Walking down any American main street, I am struck by the unavoidable fact that all life gravitates around what is available for sale. Many of the stores that dominate the market place are the same no matter what city they are in. The airwaves are dominated by buying and selling. So much of ordinary life is occupied with consumption.

The apologists for the American brand of commerce and business represent it as a free enterprise system. Such a description could not be farther from the truth. It is a system dominated by conglomerate corporate enterprises that span the ordinary boundaries of nation states. It is yet another myth that can not stand up against the sharp light of scrutiny.

It is important to begin by examining just how the corporation actually came into being, and to try to understand how it came to dominate so much of modern life. The corporation became a legal entity as a result of judicial fiat. In 1886, the Supreme Court was hearing arguments in the case of Santa Clara County vs. Southern Pacific Railroad. In its historic decision, the Court held that under the U.S. Constitution a private corporation was a “natural person” entitled to all the rights and privileges afforded to a human being. This decision dramatically altered the character of American society and culture. From that point on corporations could seek the same legal protections and entitlements normally afforded to ordinary citizens.

Corporations have not only grown in sheer size over the intervening years, but have also subsumed many different kinds of business ventures under a single corporate

roof becoming what is referred to as conglomerates. Some examples of these giants are the tobacco companies such as Philip Morris which is now involved in food production among other things, and the oil companies such as Exxon-Mobil. A truly representative example would be that of Gulf + Western which has over 100 companies, under its corporate umbrella, involved in the production of such diverse products as auto parts, musical instruments, cigars, insurance, farm supplies and traffic lights. It operates in every state and in fifty foreign countries. Because of the enormity of their financial holdings and assets, conglomerates wield tremendous political power.

Ben Bagdikian in his book, *The Media Monopoly*, details the breadth and power of the media conglomerates in the United States. At the end of World War II, 80 percent of the nation's newspapers were independently owned. By 1989, 80 percent of the newspapers were owned by corporate chains. By 1987, three corporations controlled the nation's 11,000 magazines. These data are glaring evidence of the consolidation of the media into the hands of a very few, very powerful interests. Furthermore, the corporations that control the print media also are involved in broadcasting, movies, cable and motion pictures. It should be kept in mind that the owners of these media operations also have strong ties to the banking, insurance, oil and defense industries.

Bagdikian examined the growth and business practices of the Gannett Trust, the largest newspaper chain in the United States. The author went on to conclude, "Chain papers are divided in their political drive. Either they pursue the doctrines of their owners, like Freedom or the chains that impose centralized endorsements, or they become bland to avoid controversy. Editorials that take a stand may offend advertisers or community groups. In general, as all organizations become large and directed from afar,

they value predictability and bureaucratic smoothness. A *Journalism Quarterly* study of editorials over a fifteen-year period found that after an independent paper is bought by a chain the general result “is not helpful to readers who seek guidance on local matters when they turn to the editorial pages of their daily papers.””

The tendency towards consolidation of the media into the hands of a few powerful interests provides them with enormous political power. With the ability to sway and manipulate public opinion, they can easily make or break political leaders. William Randolph Hearst understood this only too well, having effectively used the press to rouse public support for the Spanish American War. Such power has been abused repeatedly in the past and will most likely intensify in the future. In addition, such concentration of power and influence effectively undermines any possibility of a free market, for broad control of such a wide range of diverse media markets insures that the market place will be manipulated to maximize profit.

Kevin Phillips, in his book *Arrogant Capital*, makes the point that America’s ascendancy is in a state of serious decline. He speaks at some length about the “Financialization of America.” According to the author, “Finance has not simply been spreading into every nook and cranny of economic life; a sizeable portion of the financial sector, electronically liberated from past constraints, has put aside old concerns with funding the nation’s long-range industrial future, has divorced itself from the precarious prospects of Americans who toil in factories, fields, or even suburban shopping malls and is simply feeding wherever it can.”

Much of the economic boom of the 1980s and ‘90s had not been the result of tangible improvements in the real economy, but rather a result of wild speculation in the

financial and money markets. Exorbitant returns did not reflect real economic production, but rather a manipulation of the financial markets so that having money, made money. Greed for wealth without necessarily working for it is what drove this process. The bubble finally burst in the 1990s, an event that could have easily been predicted.

From an historic perspective, the concentration of wealth in the hands of the very few is not a new phenomenon. Neither is the close connection between government policies and business interests. Evidence for the corrupting influence of big money upon political institutions is, also, quite evident throughout the nation's history.

In Kevin Phillips' book entitled, *Wealth and Democracy*, the role of wealth in the life of the nation is clearly delineated. America of the twenty-first century is not only the wealthiest nation with the greatest number of very rich individuals, but also the nation with the greatest gap between rich and poor. It also stands as a nation with an extremely inadequate social safety net for most of its people.

This gap between the haves and the have-nots is not a new aspect of American life. According to Mr. Phillips, "Many of the declaration's signers were representative of America's richest families-a Massachusetts Hancock, a New York Livingston, a Carroll of Maryland, a Lee of Virginia, and a South Carolina Rutledge. Theirs was a revolutionary document with respect to Britain, but not in matters domestic....Hierarchy was a fact of life in the eighteenth-century American colonies."

Throughout the nation's history, enormous power and influence rested in the hands of a very small portion of the population. The current accumulation of wealth by those at the top of the economic pyramid is not very different from the situation in 1890,

when the top 1 percent of the population controlled some 50 percent of the entire nation's wealth.

Wealth flowed to those with the closest connection with government, especially in time of war. This relationship remains true to this day with the most recent example being the profits accruing to those companies, such as Bechtel and Halliburton, involved in the reconstruction of Iraq, whose leaders have very close ties to the George W. Bush Administration.

At various times in the nation's history, reform movements, pushing progressive agendas, rose up to oppose the ascendance of the powerful. This momentum for social change was often disrupted by war, for war usually causes a shift of political alignments to the right and, thereby, strengthens the hand of the powerful. This was clearly seen in regard to World War I, which saw the fall of the Progressive movement from its position of strength.

Since the end of World War II, there has been a continual increase in the growth of corporate power and its concomitant impact on American life. At the present time, corporate power dominates national policy both at home and abroad and shapes the lives and destinies of the American people.

The extent of corruption in the corporate culture has been exposed in regard to such companies as Enron, Arthur Anderson, Global Crossing, Tyco, WorldCom, Xerox, Qwest, Merrill Lynch and others. Arianna Huffington has detailed the extent of corporate misconduct in her book, *Pigs at the Trough*. A glaring representation of the real nature of economic life in America is the disparity between the salaries of corporate Chief Executive Officers (CEOs) and the workers who are responsible for the productive

capacity of these industries. Currently, on average, the CEO makes over 1000 times the salary of the workers whose destinies they control. Furthermore, between 1990 and 2000, the average pay of a CEO increased by 571 percent, while the average worker's salary has risen only 37 percent over this same time period.

According to Arianna Huffington, "...in the year before Enron collapsed, about 100 executives and energy traders collected more than \$300 million dollars in cash payments from the company. More than \$100 million dollars went to former CEO Kenneth Lay. After filing bankruptcy, Enron lost \$68 billion in market value, 5000 employees lost their jobs and Enron workers lost \$800 million from their pension funds." While Enron proved to be a particularly egregious example, it has not been uncommon for CEOs of failing companies to become remarkably enriched at the expense of both their workers and the national economy.

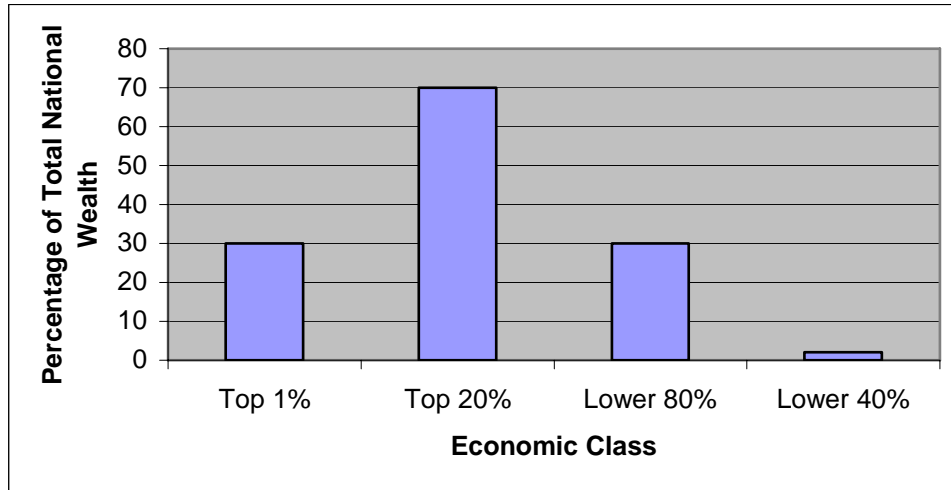
Under the mantle of free enterprise, industries such as airlines, telecommunications and energy have been strong proponents of deregulation, and have influenced and even helped craft legislation to accomplish this goal. Many laws allowing deregulation have already been passed. Such laws have been satisfying to the industries involved, but often injurious to consumers. The net result has been the consolidation of power into the hands of fewer and fewer companies, the telecommunications and airlines industries being notable examples. Thankfully, the Enron debacle exposed the hidden face of deregulation, and hopefully forestalled a rush to deregulation in the energy sector.

The extent to which corporate power has captured the political process can be demonstrated by examining the quantities of money that flow from corporations to legislators in the form of campaign contributions. In the last ten years, the contributions

made by corporations to legislators have exceeded 1 billion dollars in so-called “soft money”. In fact, there were only two Senators: Thomas Carper (Del.) and Mark Dayton (Minn.) who did not accept campaign contributions from WorldCom, Enron or Arthur Anderson. Furthermore, Enron and its executives gave some \$2.4 million dollars to Congressional candidates during the 2000 election and to George W. Bush’s campaign as well. In light of this information, it is not surprising that Kenneth Lay was given access and input into the Federal Energy Regulatory Commission (FERC), the very agency charged with regulating the energy industry. This cozy relationship between corporate power and government is not the exception, but the norm. The concentration of power in the hands of a small minority of individuals has apparently been a hallmark of the Republic since its inception. An unmistakable indication of this reality is the actual distribution of wealth.

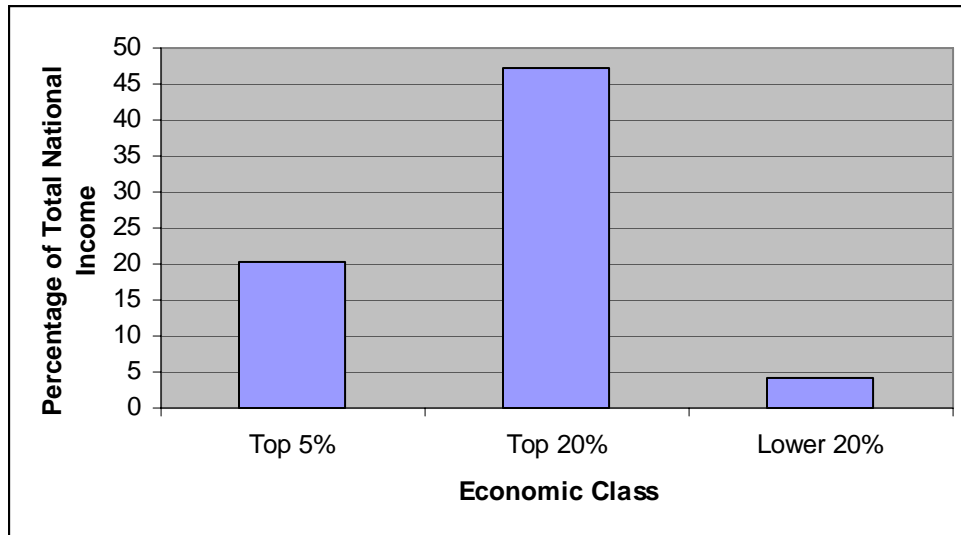
Current (2002) estimates are that 40 percent of all households have a mere 1 percent of all the wealth in the nation. The top 1 percent holds 30 percent of the total wealth, and the top 20 percent of the population controls 70 percent of the wealth. The extent of this inequity is, in my estimation, staggering in scope. It is a serious indictment of our social order that so few have so much, while so many can barely sustain themselves economically. A graphic representation of the distribution of wealth is shown below (Chart 2).

Chart 2 Showing the Distribution of Total National Wealth among the Economic Classes.



In addition, the distribution of household income shows that the top 20 percent of the wealthiest individuals have over 10 times as much household income than those individuals that comprise the lower 20 percent. These data are represented graphically below (Chart 3).

Chart 3 Showing the Distribution of Total National Income among the Economic Classes.



These statistics indicate, without any doubt, that an overwhelming share of the nation's economic resources lies in the hands of a very few. These facts, of course, are opened to wide range of interpretations. A particularly interesting interpretation was proposed in an article entitled, *Understanding the U.S. Distribution of Wealth*, written by Vincenzo Quadrinia and Jose-Victor Rios-Rull, which appeared in the Federal Reserve Bank of Minneapolis Quarterly Review in the spring of 1997. The authors claim, "The key rationale for savings that we have reviewed states that households save to prevent future drops in earnings from dramatically reducing their consumption. If the government has a policy that guarantees a certain minimum level of consumption, then those households that foresee that their consumption is likely to remain below the government set minimum have no incentive to accumulate assets. If these people do accumulate assets and their earnings do drop, they will not receive what the government

would otherwise have given them...” This reasoning makes it clear that the authors and the audience they are addressing have no real concept of the state of the poor. The suggestion is that poor people make decisions to not accumulate assets based on largesse they would supposedly receive from the government. Hard working families, making wages that can not sustain their lives and the lives of their families, are hardly in the position to make such choices.

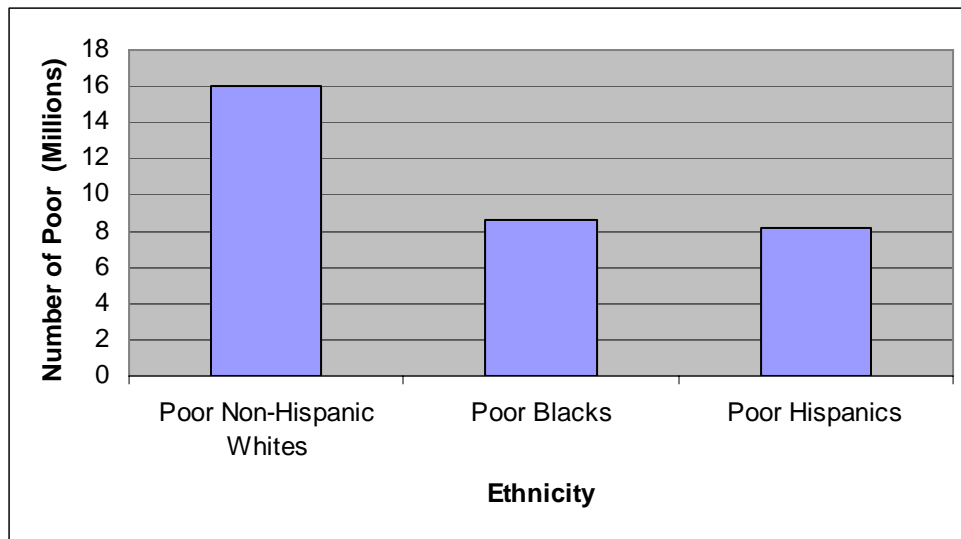
No matter what rationale economists or politicians may come up with to explain away this phenomenon, it is an important indicator of just how corrupt the system has become. The extent of this disparity between the haves and the have-nots helps us to better understand the underlying social malaise that has gripped this country. The neo-conservative ideology is passionately opposed to social programs as exemplified by Social Security, Medicare, and Medicaid etc. Not surprisingly, this viewpoint is in accord with business interests that see fantastic potential profits to be made by privatizing these programs. Under the guise of “reform,” these programs are currently under assault. In the past, attempts to undermine the fabric of the social safety net have met with strong opposition from the public. However, the George W. Bush administration has proclaimed a state of perpetual war against terrorism, and, in that way, distracted the general population from its most urgent needs such as health care, employment, housing, infrastructure, etc. Maintaining a heightened and sustained climate of fear among the population has also been used as an effective leverage for the curtailment of civil liberties in the name of security. It is important to note here that while the government is clearly responsible for many of what I maintain are disastrous policies, the methods, tactics and practices that are being employed to expand and solidify power are not significantly

divergent from the past. The fault lies not in the individuals who rise to power, but, rather, to the very structure of the institutions that serve the interests of the powerful and serve them exceedingly well.

The extent to which the entrenchment of power and wealth, in the hands of the very few, has impacted a significant part of the population that does not have access to such resources is made evident by studies carried out by the U.S. government.

According to the United States Census Bureau Population Report issued in September of 2002, 32.9 million people are below the federal poverty line. The chart below (Chart 4) shows the millions of individuals in poverty represented by non-Hispanic Whites, Blacks and Hispanics out of a total population of 229.9 million.

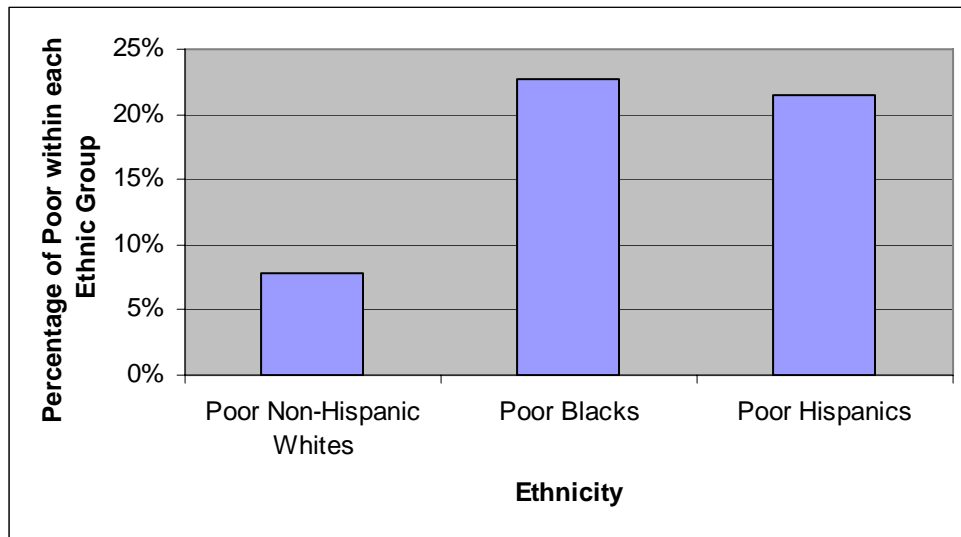
Chart 4 Numbers of the Poor (in Millions) in Relation to Ethnicity.



From the data shown below (Chart 5), it can be seen that 7.8 percent of the non-Hispanic White population are poor, while the poverty rate for Blacks and Hispanics are

22.7 and 21.4 percent respectively. This corresponds to 1 out of 5 Blacks and Hispanics living in poverty.

Chart 5 Percentage of the Poor Based on Ethnicity.



In addition, 16.3 percent of the nation's children live in poverty. This represents 35.7 percent of those who are poor. This is quite an extraordinary number since children represent 25 percent of the total population. One must keep in mind that the threshold for poverty is based on an income of \$11,859 for two individuals and \$18,267 for a family of four. If these figures for income were set realistically in terms of current housing, energy, medical, food and living expenses, the real rate of poverty would probably be considerably higher. Over forty-six million people lack medical insurance and, therefore, access to adequate health care, and this number is growing. Many are homeless. New York, for example, currently (2002) has a homeless population of over 37,000 people, including 4,000 families.

The condition of the poor has been further compromised by the draconian measures imposed by so-called “welfare reform.” Many of the states imposed such harsh restrictions on receiving welfare payments, that they have cut the welfare roles by as much as fifty percent.

According to Loretta Schwartz-Nobel in her book entitled, *Growing up Hungry*, the major provisions of the new Welfare to Work legislation reflect changes in public policy that are bound to exacerbate the problems of poverty, hunger and homelessness in America.

Before these changes, the availability of food stamps was based on the need for food. Under the new regulations, food stamps are limited to three months out of every three years for adults under fifty without children, regardless of need. This change no longer protects people from starvation. In addition, the new law precludes those immigrants who are not citizens from obtaining food stamps unless they qualify for specific exemptions.

The law freezes the standard deduction, and lowers the Thrifty Food Plan, which effectively diminishes the availability of food to those most in need. This “reform” effort shifts the administration of the program from the Federal government to the individual states. It is no longer an entitlement program, but subject to states’ choices. Aid to Families with Dependent Children has been changed to a block grant referred to as Temporary Assistance for Needy Families administered by the states and lacking the guidelines of the old system.

The primary impetus for this reform was the emphasis on work. No genuine effort has been made, however, to focus on training as a way to break the cycle of poverty and dependence.

In the Children's Defense Fund study, entitled *Welfare to What?*, it has been shown that many of those forced off of welfare have found themselves working at minimum wage (not a living wage) non-union jobs, often part time, with no benefits available to them. Many are finding themselves without housing. Many of the jobs that welfare clients first accepted proved to be temporary and subject to the vicissitudes of the marketplace. There seems to be no thorough follow up studies of those who have left welfare in order to determine how they have fared in their new economic surroundings.

Welfare reform has created a large supply of surplus unskilled workers to fill minimum wage jobs. This surplus of potential workers guarantees that wages will continue to be suppressed, leaving workers to make due with wholly inadequate incomes. Those who work but are not able to sustain a viable economic life for themselves are now referred to as the working poor.

In Barbara Ehrenreich's thought provoking book, *Nickel and Dimed*, the author, as a journalist, decided to discover first hand what it was like to live on the wages earned from minimum wage jobs. She lived this life in Florida, Maine and Minnesota. On a number of occasions, she found herself needing two jobs to sustain herself. Her experiences demonstrate just what a challenge it is to survive with such employment.

It is not uncommon for a family, in which both parents hold down full time minimum wage jobs, to be unable to pay the rent for the apartment in which they live. In actual fact, it is the minimum wage workers in the U.S. and the factory workers from

developing countries who are subsidizing the more well to do by making it possible to purchase products and services cheaply. Such is the nature of the system where the unequal distribution of the wealth is lauded and supported, and the exploitation of the many by the very few is held up as a successful model for all to follow.

The list below enumerates some additional statistics regarding homelessness, poverty and hunger in America:

- According to the US Department of Health and Human Services, up to 600,000 men, women and children go homeless every night. This number has been estimated to be around 750,000 from other sources
- 1.2 to 2 million people experience homelessness throughout the year
- In a survey of 25 US cities (2000), families with children represent 36 percent of the total homeless population
- New York City has some 37,000 homeless as compared to the 1200 reported in London
- According to the National Coalition for the Homeless, June 2000, the primary causes for homelessness are poverty and lack of affordable housing
- The percentage of poor increased by 41 percent from 1979-1990 where children under 18 represented half that increase
- The median wage required to afford a 2 bedroom apartment is more than twice the minimum wage
- Temporary Assistance to Needy Families (TANF) replaced Aid to Families with Dependent Children (AFDC). Current TANF benefits and

food stamps combined are below the poverty level, i.e. they are inadequate to support a poor family

- The real impact of Welfare to Work has been that only a small fraction of recipients have found jobs that pay above poverty wages. Most new jobs are below the poverty line
- 675,000 individuals lost health insurance in 1997 including 400,000 children
- In 1995-1997, rents increased faster than income for the 20 percent of American households with the lowest income
- Children without a home suffered the highest rates of asthma, ear infections, stomach problems and mental health problems such as anxiety
- Half the children in shelters are under the age of five
- According to the 1996 U.S. conference of Mayors, 19 percent of the homeless are employed
- According to the USDA, 36.2 million Americans live in “food insecure” households (1992). This number includes 12.1 million children under the age of 12
- In 1997, 26 million people secured food through Second Harvest. One third of these were working families and 38 percent were children.

These data do not speak well for the richest nation on the planet. It is indicative of a society that is apparently unwilling to use its immense resources to benefit its own people. Although it may seem to be appropriate policy for those

who stand to gain the most from its implementation, in the long run it will prove to be self-destructive. A society that allows so many of its people to suffer needlessly from poverty, hunger and homelessness will find itself depleted of the most important resource of all, the human resource.

If there is any hope of stopping and ultimately reversing this ominous trend, it will come by uncoupling the intimate association between the moneyed interests, as exemplified by corporate power, and the government. Within the current system, big money has undermined truly representative government. Societal problems that require immediate attention, as outlined above, are either worsening from neglect or exacerbated by government policy.

Transformation must also come at the personal level. In a truly great society, all individuals, regardless of ethnic, religious, cultural or economic backgrounds would be treated with care, concern, compassion and respect. This is the goal that we, as a people, should be aspiring to. What is needed is a generosity of spirit and realization that we are all members of a singular species that is currently in a state of crisis on the planet.