

UNCONVENTIONAL THOUGHTS ON THE ECONOMIC DOWNTURN ... AND THE NEW ECONOMY AHEAD

RESPONSIBLE CITIZEN SUMMARY

Background

- Despite the natural tendency for optimism, the American economy is in serious trouble.
- Previous assumptions about the “American Dream” no longer apply.
- Family stability and economic innovations can be counted on to help the American economy recover.

What’s at stake?

- The free-market system – as politicians try to solve government-created problems with government-created solutions.
- The prosperity of future generations – as greater government spending places unreasonable financial burdens our children and grandchildren.
- Freedom itself – as America reaches a tipping point when more of us work for government than not.

What’s next?

- We must return to a culture of entrepreneurship.
- We must focus more on how our economy benefits family-run, non-public, businesses.
- We must eliminate the inheritance tax.

Responsible *Citizenship*[™]

For those young persons willing to be owners rather than wage-earners, innovators rather than security-seekers, and free rather than servile, the future can be bright indeed.

The “Economic Downturn” of current parlance is now fifteen months old. As 2009 crawled toward an inglorious end, economists hopefully reported that the worst is over. Unemployment seems to be stabilizing at a bit over 10 percent, the big banks are making money again, and home prices appear to be leveling out.

Perhaps so. All the same, the decade now drawing to a close has proven – in terms of key economic measures – to be arguably the worst in American history. Since the 1840s, for example, only twice has the inflation-adjusted value of the American stock market been negative over a ten-year span: -0.2 per cent during the Great Depression era of the 1930s; and -0.6 percent during the 2000-09 period! Since 1950, each decade has recorded a rise in the average net worth of Americans, ranging from 12 percent during the sluggish 1970s to 44 percent during the 1990s. Alas, the 2000s showed an unprecedented decline in this number of -13 percent. The total number of jobs in America, which has climbed every decade in American history (even during the 1930s), and which grew by 31 percent during the 1960s and by 20 percent during the 1990s, was flat during the 2000s: 131 million jobs in 2000; the same in 2009.

These numbers suggest that something more fundamental is occurring than merely another recession. Indeed, it appears that the economic order created after World War II and sustained for over 50 years, has now completely broken down.

This new reality is partially disguised by macro-economic numbers that seem sterile and distant. All of us, in fact, live in flesh-and-blood communities – from families and neighborhoods to towns and states – that have their own realities. Brought down to this level, what are the lessons taught by the nation’s “Economic Downturn”?

Sustainable growth in the housing sector can only come from an increase in the absolute number of stable families. During the original American housing boom of the 1945-65 era, this form of expansion prevailed. Young couples founding homes and anticipating children received about 99 percent of indirect federal mortgage subsidies, mainly in the form of VA and FHA mortgage guarantees. However, starting in the late 1960s, Federal housing authorities shifted subsidies to “underserved” or “alternate” family forms: divorced persons; single persons; unmarried couples; etc. Indeed, by 1980 economists George Sternlieb and James Hughes convincingly showed that American housing demand was being driven largely by *family dissolution*: divorce was good for the housing market, since two homes would be needed where one had sufficed before; the same would be true for intentionally-created, single-parent families. (George Sternlieb and James W. Hughes, *America’s Housing: Prospects and Problems*, New Brunswick, N.J.: Center for Urban Policy Research, Rutgers University, 1980.) More recently, housing demand was driven by raw speculation: in some areas, a third to a half of new homes were bought by investors seeking a quick “flip.” Both of these stimulants have now played themselves out, with fairly disastrous results. Real growth will only resume when home builders and government officials return to the fundamentals, delivering affordable homes to young families.

Transnational corporations can no longer be relied on to provide jobs. If these “artificial persons” (in legal speak) were real persons, they would be considered poor, nearly criminal citizens. Such contemporary massive accumulations of capital have no loyalties, display no sympathies, and hold to no conventional morality. Driven entirely by material goals, they seek market share and competitive advantage at any cost. Jobs that they might provide for a time are ephemeral; of no more substance than mist in the air. Communities that give shelter and social sustenance to transnational corporations can expect in return the gratitude normally shown by a disgruntled teenager. Deere and Co. CEO Robert Lane has put the matter nicely: “For years we talked about Deere as a family. The fact is, we are not a family. What we are is a high-performance team.... If someone is not pulling their weight, you’re not on the high-performance team anymore.” These are entities which – metaphorically speaking – shoot their horses, toss Granny outside into the cold, and commonly commit the economic equivalent of treason. Count on them for nothing.

At the national level, at least, a free market no longer exists. While family businesses have been devastated by the tens of thousands during the Downturn, the great banking houses (with the exception of hapless Lehmann Brothers) have weathered the storm quite nicely. So did industrial dinosaurs like General Motors, socialized in the blink of an eye to save the United Auto Workers from a deserved extinction. These favored firms enjoy the status of being “too big to fail.” A more accurate description may be “too big to succeed,” without government favors and protection. Small firms still operate by market rules, including the possibility of failure. Politically-connected companies have escaped that market discipline. They represent the now-dom-

inant neo-mercantilism of modern State Capitalism, where true competition no longer applies.

The “American Dream” is over. By this term, I mean the assumption that if an individual gains a decent education and is willing to work 40 hours a week, he or she can almost automatically enjoy a middle-class life, found a family, buy a home, and claim a decent retirement pension. This formula no longer holds. A Bachelor’s degree now guarantees nothing: if paid for by student loans, the one predictable consequence is thirty years of financial servitude to the banks or the U.S. Department of Education. Put another way, the 21st-Century economy no longer delivers the “cradle-to-grave” promise of lifelong employment, with one exception . . .

The great employment divide now lies between those who work in the private sector and those who work for the state. Guaranteed hours, early retirements on generous pensions, and lifetime job protection are now found only among “civil servants.” Funded by the tax collectors, impervious to the claims of efficiency, and almost impossible to fire, public school teachers and state bureaucrats have emerged as the 21st-Century American version of the Soviet Union’s *nomenklatura*, a privileged class resting on the forced extraction of wealth from the huddled masses. Unless politicians are willing to face down the Education Associations and the American Federation of State, County, and Municipal Employees, the burden of maintaining this parasitic class will grow exponentially in the decades ahead.

This view of the prevailing economy may appear pessimistic and discouraging. In fact, if one peers around these lessons, the economic opportunities lying ahead are actually quite expansive. Young, morally-grounded,

responsible persons of reasonable ambition actually can claim an exciting and rewarding future. The key is to learn from the errors and immoralities of the failing economic model and embrace instead a true culture of enterprise. The formula is fairly simple: real entrepreneurship bound into resilient communities.

Real entrepreneurship is the economy envisioned by Adam Smith and David Ricardo: a wide range of innovative and productive activities, locally- and regionally-grounded and animated by a shared moral code. Not coincidentally it is also the model envisioned by the founders of the American Republic. In 1776, 87 percent of the free population of the American colonies were **independent proprietors**. They owned real capital in land and productive goods and they operated family-scale farms, shops, and modest factories. These qualities imparted a sense of independence, autonomy, and self-reliance that was critical to the formation of free government.

The opportunities to build a similar order abound in the early 21st Century. The personal computer is a powerful tool for research, design, and innovation, now available for use in every home. The Internet is a remarkably democratic marketing agent, providing to the small shop opportunities for sales not substantially different from those available to the great corporations. Even modern machine tools are growing smaller and more capable of being decentralized.

The main obstacles to **entrepreneurship** today are the financial and political favoritism shown to the large and established corporations, and a toleration for monopoly. In many fields, barriers to entry remain high. The great corporations manipulate the law to suppress competition. Legal reforms should focus on opening the econ-

omy to the new, the innovative, and the decentralized: to a new generation of economic pioneers.

Such innovators can help build, in turn, what Kevin A. Carson calls a “networked civilizational entrepreneurship,” **resilient communities** that rest on stable households and an array of mutually-aware, family-based, micro-enterprises. Family-held firms have always been the glory of capitalism, the entities which combine innovation with a sense of responsibility toward both employees and host communities. Current incentives favor taking a company “public.” Public policy should instead favor family ownership and the continuation of closely-held firms. **Elimination of inheritance taxes** on family-held businesses would be a good place to start.

For those young persons willing to be owners rather than wage earners, innovators rather than security-seekers, and free rather than servile, the future can be bright indeed...if the politicians have the courage and wisdom to help.

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