

## **NZZ Podium 30<sup>th</sup> of October 2008**

### **America on the Brink of the Election**

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Is the American Dream in danger?

#### 1. Introduction

America's election campaign has lasted half an eternity, but this coming Tuesday will finally be the day: Americans will elect their next president, and a new era will begin in the USA.

Over the past two years we've all looked on as the initial field of nearly 20 hopefuls dwindled to two finalists as presumed favorites lost their front-running positions and outsiders surprised everyone, as the campaign highlighted conflicts between fundamental positions and frequently also trivialities. I don't wish to go back over all this here, but rather to consider the subject of the historic decision about the next occupant of the White House from a different perspective.

As great as the differences between the candidates indeed are, one thing is worth noting: Both major parties are inspired by the same basic idea. It is the idea of the American Dream – and it is about this dream that I would like to speak today.

#### 2. The American Dream as political idea

Central to the concept of the American Dream is the conviction that every inhabitant of America can rise to the top by dint of hard work. It is the idea that success in life is achieved not by hereditary membership in some group or class, but rather by an individual's abilities and industriousness. Taken to an extreme, it implies that anyone can make the journey «from rags to riches», from dishwasher to millionaire.

The term «the American Dream» was coined in 1931 by historian James Truslow, but the underlying idea is as old as the USA itself. It found expression in America's founding fathers incorporating into the language of their Declaration of Independence certain «inalienable rights», among them «the pursuit of happiness».

One might of course object that this dream is precisely that – just a dream, a myth which has little to do with American reality. And indeed, for a black slave it was an absurd idea that hard work could bring one to the top of society. The long struggle for the equality of women is another illustration of the limits to that idea. But at the very

least, as a political concept the American Dream has been a force which helped overcome those areas of discrimination. And it remains such today.

Neither naked ambition nor a sackful of dollars is enough to achieve a presidential candidacy. To succeed, a would-be candidate must also be able to inspire – first, the army of helpers who voluntarily work and sweat for «their» candidate, then hundreds of thousands of donors big and small, and finally the voters themselves.

Yet no politician can avoid presenting him- or herself as a defender of the American Dream. It is not by chance that Barack Obama's best-selling book «The Audacity of Hope» bears the subtitle «Thoughts on Reclaiming the American Dream». And at the Democratic Convention Michelle Obama, the woman who will probably become America's next First Lady, spoke about the same thing. She had experienced the Dream in her own life, she said, having been able to attend a first-class college despite her color and her origins in a working-class family.

The Republicans operate no differently. In the final presidential TV debate, John McCain brought up the case of «Joe the Plumber» and pointed out that this tradesman and millions of other Americans would be prevented by Obama's presumed tax increases from fulfilling their American Dream of owning a small business of their own.

### 3. Growing inequality

But what do the circumstances surrounding the American Dream look like in reality? According to Texas political scientist Cal Jillson, who has written a book on the subject, that dream is receding farther into the distance for an ever-increasing number of Americans. Is that true? Has the United States of America become a country where the chances for economic success and social improvement have dwindled? Closer examination shows that the American Dream lives on, but in a somewhat battered condition.

It is worthwhile, first, to take a look at the problem of growing inequality in American society. For quite some time, the USA has been a country with a large gap between rich and poor. According to the latest figures from the Census Bureau, as of last August 50% of all U.S. income went to the upper 20% of American households. By contrast, the poorest 20% of households earn only a little over 3% of all income. An international comparison shows that income distribution in the United States is more unequal than in any other Western industrialized nation. That is not something new, except that the inequality has grown sharper over the last 40 years.

While it is not true that only the rich grow richer while the poor get steadily poorer, not everyone has benefited equally from economic progress. Since 1980, inflation-adjusted incomes in the lowest 20% of American society have risen by about 12%. The

uppermost 20%, however, now earn a solid 50% more than they did back then. And incomes have grown even more dramatically at the very top of the scale.

The reasons for this widening gulf are not clear and cannot be explained by the rhetoric of class struggle, as the Democrats are wont to do in their campaigns. Interestingly enough, the income gap has not grown wider during the Bush era – but nor has it diminished, despite a high level of welfare expenditure.

#### 4. Limited social mobility

Most Americans are quite prepared to accept the inequities in their society. But they do so on one condition: that there will be continuing large-scale economic mobility – in other words, that the path upward remains relatively open to all. The system is regarded as unfair only when it is always the same people who stand at the top of the ladder and always the same ones stuck at the bottom. That would be contrary to the American Dream.

In my experience, I have found that most Americans continue to be convinced of the fairness of their system. But that view is being diluted by increasing skepticism. Realization of the American Dream has become more difficult. Following World War II a typical family's income doubled within a single generation. But after 1973 the increase slowed considerably, to only 20%. And in the current decade the average family income has not grown at all. George W. Bush will probably be the first American president to leave office after eight years without leaving behind any improvement in the general population's economic situation.

There is another thing worth noting: Men of approximately my age earn less well today than their fathers did at the same age. If most American families are nevertheless better off today than the previous generation was, it is mainly because many more families today have two members working. Without the spread of the two-earner family, a typical American family would have been faced with economic decline.

As part of a project sponsored by the Pew Foundation, specialists from a variety of think tanks recently explored the question of how much movement there is on the American scale of prosperity. They compared the income levels of present-day adults with those of their parents, and discovered a very high degree of mobility in the middle class, both upward and downward. But things were less fluid in the poorest and wealthiest segments of the population. Forty percent of children born to families in the lowest 20% were found to be still stuck down there as adults. Success stories – «from dishwasher to millionaire» – were very rare; only 6% of children from the poorest economic level made it into the top 20% of the income scale as adults. The converse was true of children from the upper class. Those born into prosperous families in the USA have a very high chance of achieving above-average incomes as adults.

The question of whether economic mobility has tended to decline in the USA in recent years is a subject of dispute among the experts. One thing certain is that, especially for immigrants, the American Dream remains an often-realized reality. But it is also certain that many members of the lower classes – quite often individuals from the African-American minority – remain stuck in poverty and their children have to fight against serious initial disadvantages.

It is hardly surprising that there is no completely equal opportunity even in America, the proverbial Land of Opportunity. But what is surprising is that several recent studies show that economic mobility, and with it chances for advancement, are actually lower in the USA than in many European countries.

#### 5. The role of education

Why has realization of the American Dream become more difficult? One primary reason is doubtless the role of education. An individual's chances for advancement today depend increasingly on education and training. Attendance at a college or university is a requisite in a growing number of professions. On average, Americans with a college diploma earn about 70% more than those who have only completed secondary school. Children from poor families therefore find themselves faced with double disadvantages. First, schools in poorer areas are generally inferior, hence the children from those areas have more trouble achieving college level in their academics. Secondly, attendance at college is a major investment, far more manageable financially for more prosperous families. Elite universities provide scholarships to enable talented but financially disadvantaged students to attend. Nevertheless it is especially the elite universities, the gateways to subsequent leadership positions, which are attended principally by the offspring of prosperous families. There is also a factor which representatives of the so-called Ivy League prefer not to talk about: A certain quota of open slots for new students is reserved for children of former graduates and prominent donors. It is estimated that 10-15% of Ivy League students are children of alumni, given privileged access because of that relationship. There is increasing criticism of such privilege, because it contradicts the ideal of a meritocracy, of a society which rewards achievement rather than status.

#### 6. The American Dream as a dream of politicians

As has been mentioned, the American Dream is an idea which politicians often like to invoke. Nowhere is this more evident than in home ownership policy. Owning one's own home is a symbol of the American Dream. About two thirds of Americans live in their own four walls – a high percentage compared with the situation on this side of the Atlantic. But in recent years politicians of both major U.S. parties have energetically tried to promote home ownership even more. Paradoxically, their efforts have

contributed to a nightmare rather than a dream. I am referring of course to the crisis in the mortgage sector. That crisis is not due purely to the greed of private speculators, as is sometimes simplistically asserted. Instead of putting the brakes on, the government actually encouraged excesses in the realm of sub-prime mortgages. Like others, government officials clung to the conviction that house prices would continue to rise indefinitely and that issuing mortgages to people with poor credit constituted a negligible risk. Democrats and Republicans alike see encouraging home ownership among the poorer segments of the populace as a task for government. Early on, President Bush launched a program which made it possible for low-income citizens to acquire homes with close to 100% financing. Characteristically, the program was known as «the American Dream Down Payment Initiative.»

Of even greater significance is the existence of the two semi-private mortgage credit giants Fannie Mae and Freddie Mac. Those two enterprises hold or guarantee about half the mortgages in the USA. Thanks to what amounts to a government guarantee, they are in a position to acquire capital at favorable rates and pump it into the real estate market. But they do not operate in a political vacuum. In recent years, almost in the manner of a planned economy, the U.S. Department of Housing prescribed what percentage of their capital was to be invested in structurally weak regions. Both Fannie Mae and Freddie Mac did this with investments in the sub-prime sector. According to economist Robert Samuelson, the result is a typical case of good intentions leading to bad results. The sub-prime market has collapsed; Fannie Mae, Freddie Mac and other financial institutions carrying mountains of poor credit papers have had to draw upon government support.

But the determination of politicians to help the American Dream along remains unbroken. Republican John McCain has proposed spending \$300 billion to restructure problematic mortgages in order, as he put it, to make it possible for homeowners in trouble «to realize the American Dream». In contrast to the original concept of the American Dream – success due to the individual's efforts – the preservation of this dream in times of financial crisis seems to have become a task for the government.

## 7. Candidates and the American Dream

What does the presidential election mean for the future of the American Dream? A simple answer would be that the dream remains intact and real. To all appearances, America's next president will be Barack Obama, a politician who virtually personifies the American Dream: son of an African immigrant, growing up in far-from-privileged circumstances, a political self-made man. If, on the 20<sup>th</sup> of January 2009, he becomes the first African-American to be inaugurated president of the United States, it will be a historic occasion, a scene that will make a deep impression in many parts of the world.

But reality is more complex. John McCain and Barack Obama both see a threat to the American Dream, but their reactions to that threat are quite different. By and large, McCain follows the traditional free-market line. He proposes to strengthen private enterprise and thus reinforce those forces which have traditionally driven the American Dream. To that end the Republican senator wants to cut corporate taxes and prevent the planned rise in the tax progression. But his domestic plans are often vague and sketchy in detail. Because his main interest is foreign and security policy, he has apparently misjudged the mood in his country. Unlike the situation a year ago, voters today are clearly more concentrated on economic issues and matters of social policy. Obama has quite a different perspective. He sees a middle class which is under serious threat from the rising costs of health care and energy, from job cutbacks and the widespread real estate crisis. He proposes to combat these trends with new spending programs, more government regulation and a better redistribution of wealth. In health-care policy, for example, he wants to make employer-based health insurance mandatory and to offer affordable health insurance to those who are not employed. The government's helping hand plays a much greater part in Obama's vision of the American Dream than in McCain's.

But whether his ambitious plans in the realms of education, health and energy are feasible is quite another question. The Democratic senator makes everything sound painlessly possible, even a tax cut for most Americans. Yet it is hard to see how his plans are to be realized. To finance them he would have to either raise taxes across a broad front or accept further increases in budget deficits. The present financial crisis also places a question mark after his campaign promises, which were formulated when the American economy looked much rosier than it does now.

It remains to be seen how a President Obama would set his priorities. But judging from his views so far, it seems fair to assume that he would put more emphasis on domestic policy than would McCain. What this might mean for America's foreign policy is something we will look at in the discussion period. But I'd like to make a few brief points now:

- The financial crisis and imminent recession will compel the next president to turn his attention first to the economy.
- That will not mean a return to isolationism. But a Democratic administration will hesitate before undertaking expensive new engagements abroad, whether military or non-military.
- Immediately after taking office, Obama will begin an accelerated troop withdrawal from Iraq. Paradoxically, in doing so he will benefit from the success of the two-year "surge" strategy which he has consistently rejected.

- As president, both McCain and Obama would bring a new style to the White House, which could generate new goodwill for America worldwide. But the perceptions of many global problems will remain different in Washington from those in many other world capitals, which could continue to generate some irritation.
- The financial crisis does not seal the USA's decline as the leading world power. On the contrary, it is conceivable that America will master the crisis better than other countries which have now been sucked into its wake. For a long time to come the USA will remain the world's greatest economic power and will be in an unparalleled position to confidently exercise its unique combination of economic, political and military might.