

Looking Back to Move Forward: Resuscitating the Ailing U.S. Economy

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*Although many books have been written in the aftermath of the 2007 great recession that examined its causes and consequences, none has captured the essence of what went wrong and why America was so oblivious to the changing world than the Thomas Friedman and Michael Mandelbaum book entitled *That Used to Be Us*. Although the authors express frustration with our dwindling political and economic power, they assure us repeatedly that they are optimistic and believe there is a light at the end of the tunnel. However, reaching the end may not be smooth sailing. All we need to do is to revamp our success formula that has always guaranteed our triumphant return in the past.*

INTRODUCTION

Numerous books and articles have been written in the aftermath of the 2007 great recession that examined its causes and suggested possible remedies, but none has captured the essence of what went wrong and why America was so oblivious to the changing world, especially after the end of the Cold War, than the Thomas Friedman and Michael Mandelbaum book entitled *That Used to Be Us*. These authors explain how the dominance of the world has shifted historically from Great Britain in the 19th century to the United States in the 20th century and subsequently to China in the 21st century, noting that China's economic ascendance will continue and its best days are yet to come. Although we are all frustrated with our dwindling political and economic power, the authors assure us repeatedly throughout this book that they are optimistic and believe there is a light at the end of the tunnel. However, reaching the end may not be smooth sailing. The United States has experienced economic turmoil before, none with the perversity and duration of the current crisis however, but it has been able to come out triumphantly and recuperate even from the worst downfalls. This economic downturn is not an exception as long as we have a correct understanding of its root causes and are willing to consciously make the tough decisions that will certainly entail sacrifices. The authors believe five factors have contributed to the current abysmal economic conditions in the United States. First, our leaders ignored the fact that the world they were used to was, and still is, structurally changing. They failed to connect the dots and confront the challenges of the new world. Second, the U.S. has not paid serious attention to some of our fundamental problems such as lagging public education, the national debt and deficit, the lack of policy on energy and climate change, or we failed to think of these things as critical to our viability. Third, we stopped investing in the formula that has guaranteed our success for many decades, a formula that is built on the foundation of healthy ideas such as promoting entrepreneurial initiatives and fostering research and development. Fourth, we have failed to uphold our core values and confront, or even acknowledge, our weaknesses. Many of us stretched our economic and financial resources too thinly, and extended ourselves beyond our means and thought we could get away with it. And finally, our political system has been polarized to the point of

unproductive stalemate. We have placed ourselves in the position of a driver who drives an automobile equipped with effective safety apparatus, but has insufficient knowledge of the principles behind the operation of the engine.

According to Friedman and Mandelbaum, we seem to have become too obsessed with the world we invented and the “pride of authorship has bred complacency” for our country (p. 29). We are now confronted with new realities that require sacrifice, something we are reluctant to make. For example, the increasing monetary as well as social costs of using conventional energy will eventually persuade us to switch to renewable sources, and the sacrifice of doing so is imminent and definitely costly. The problems we are struggling with today are chronic and have progressed to an elevated level of severity due to many years of inattention or inaction. The solutions, therefore, should be gradual but steady, integrative, and wholesome. They require formulation and implementation of “policies appropriate to confront the four great challenges” (p. 32) that the authors have underscored in their book. We had created much wealth throughout 1980–1999, much greater wealth than any other period in our history. The American formula for this success was: public education, especially in math and science; accommodating infrastructures; an open-door immigration policy; support for basic and potentially life-enhancing research and development; and more importantly a modern regulatory system. Historically, the partnership between the public and private sector has been, and will be, essential to America’s success. The authors argue that government contribution has been instrumental in transforming America into an advanced industrial country. They present many examples of historical government initiatives that have resulted in pivotal undertakings such as the National Science Foundation, the New Deal plan, and an open immigration policy. They believe that “markets are not wild gardens that can be left unattended. They need to be shaped by regulations that promote risk taking but prevent recklessness on a scale that can harm everyone” (p. 42). Regulations not only promote a healthy environment in which business firms can thrive, but also provide stability and establish safeguards for the economy. The authors remind us that we should take advantage of historical opportunities whenever they become available; “in economic history class, students learn that turns where you get passed” or you outdo your rivals. They believe that in order for the American economy to revive, a big push is needed to create massive propulsion, “the kind of national responses wars have evoked” .

THE NEW FLAT WORD

Friedman and Mandelbaum analyze in detail how, under the new world paradigm, the way business firms do business is changing, how values become universal, and how demand for egalitarianism is spreading. People, even those living under tyrannical regimes, are demanding democracy and restoration of their citizenship rights. The new flat world, “flat world 2” as they call it, is hyper-connected, creating new opportunities as well as challenges for business firms and governments. Access to high-speed, ultra-modern communication systems is no longer the prerogative of government, the army, or big companies. Unfettered access to wireless resources across the globe have empowered ordinary people everywhere, even people living in remote areas of less developed countries. What kind of progress this hyper-connected world brings to a nation depends on institutional factors, such as the extent of socioeconomic freedom, regulation systems, tax policies, respect for human rights and dignity, which either facilitate or impede the use of modern resources. In other words, the authors seem to suggest that the benefits of a hyper-connected world are not automatic and evenly spread. In the meantime, widespread progressive technology and automation have changed the nature and the availability of jobs. Technology, at first glance, seems to be a job killer, causing the elimination of jobs; however, it also creates many new white-collar, high-paying jobs. Modern job markets are effectively segmented, and the extent of employment or lack of it depends on supply and demand in each particular segment. The merger of globalization with information technology has influenced the various segments of the job market differently. How we benefit from this alliance of globalization and IT depends on the types of jobs we have or will create.

Modern jobs require creativity and critical thinking ability to collaborate and work in a team. To succeed in these areas, we have no option but to revamp our education system, and train our work force to empower them to assume the challenges of this hyper-connected world. The view of the authors regarding

the changing nature of jobs and their prescription for education reform is best summarized in the following statement. “For decades there has been struggle between American economy’s desire to constantly increase productivity and the desire to maintain the blue-collar jobs. We watched as more and more machines and cheaper and cheaper foreign workers replaced American manual laborers. We compensated for this loss of blue-collar jobs by creating more white-collar jobs. But, how do we compensate for the loss of white collar jobs, which are increasingly under threat in a hyper-connected world? We do it by inventing the new kids of white-collar jobs” (p. 136). This can be done only by reforming our education system and bringing it up to par with nations currently at the top of the echelon. The authors offer three mindsets that will help us accomplish this. First and foremost, we all need to think like new immigrants who have no one to rely on except themselves and so must earn their way up in the complicated world inch by inch, often under adversarial conditions. Immigrants understand that the secret to their success is only one thing, education. They take nothing for granted. Second, we need to think as “artisans” who succeed by creating distinctiveness and creating products worthy of putting their initials on them with pride and confidence. Personal touch and a constant striving for perfection are the secrets to their prosperity. And finally, we need to give something extra to our customers so they appreciate us and keep returning. The authors tell the story about a waitress who received from them a fifty percent increase in her tip just because she gave them “extra fruit” with their order. What we need to become is the “creative creators” in the hyper-connected world which requires critical thinking, collaboration, and good communication, what the authors call the three Cs of becoming “creative creators.”

NATIONAL DEBT AND DEFICIT

During the decade of 2000–2010, the United States added more to its national debt and deficit than any other decade in our history. When President George W. Bush came into office, our national debt was \$5.6 trillion; it then surged to a whopping \$14 trillion at the end of his presidency, almost 100% of our GDP. We disregarded the law of mathematics when it came to dealing with debt and deficit. The authors claim that “in the first decade of the twenty-first century, America declared war on math [with regard to debt and deficit] and physics [with respect to climate change]” (p. 156). Politicians fooled themselves, and many of us, into believing that cutting taxes on the rich and increasing government spending have no effect on debt! Republicans thought that “raising spending means that one and one makes two. But in the case of lowering taxes without lowering spending, one and one makes one, there is no effect on the deficit” (p. 156). National debt is created by government and should be dealt with through government policies. Unless our government plays a more active role in dealing with our debt and deficit and global warming, we leave ourselves at the mercy of the two “merciless, unemotional, and unrelenting forces of the planet: the market and Mother Nature” (p. 158).

The problem with government spending is that it can easily be increased; however, lowering it is a painstaking job once people get used to and become dependent upon government handouts. There is not, of course, any objective answer to the question of what the optimal level of debt and deficit is, and when the U.S. debt limit is reached. However, we can have an intuitive understanding about how much debt is too much, especially when we compare it to our national output or to the same ration in advanced nations. The authors carefully examine the reasons why we fell into the trap of chronic debt and deficit and how we can get out of it. They argue: “Although we have passed the point at which we could correct our fiscal errors in a pain-free manner, the sooner we adopt the third option [the combination of cutting spending and increasing taxes], the less economic pain we have to suffer” (p. 169).

The authors blame both Republicans and Democrats for the run-away debt and deficit. Republicans, understandably, should assume the lion’s share of the blame for giving tax breaks to the rich and fooling us into believing that the rich are “job creators” and investors in productive projects, and thus, the benefits of such tax cuts will trickle down to the rest of us. Likewise, Democrats are culpable as well. They are guilty of refusing to cut government spending, and especially, they “fell into the habit of granting pay and pension increases to public employee unions—police, firemen, teachers, and civic servants—which were based on wildly optimistic assumption about future tax revenues and future market returns for pension

funds” (p. 169). Unless both parties come to their senses and accept the simple rule of mathematics that one plus one cannot be zero or one, we will not see any sustainable relief.

Friedman and Mandelbaum believe that successful efforts to alleviate the debt and deficit should follow four guidelines. First, oratories will not solve our debt and deficit problems; we need to get serious. Piecemeal remedies and band-aid solutions are like temporary pain killers, not permanent treatments. We have experienced three decades of relentless deficit and we need solutions that parallel the problem. Second, we need to generate sustainable sources of economic growth—jobs and incomes—to alleviate the deficit gradually. This requires heavy investment in infrastructures, education and training, and research and development. Third, we need across the board cuts in government spending, both discretionary and non-discretionary spending. Government should not, however, try to save money by cutting spending on programs that are essential to long-term economic prosperity. “To destroy them to save money would be akin to trying to lose weight by cutting off two of your figures” (p. 177). And finally, we used to think apathetically when it came to the national debt; but its burden will fall on the shoulders of future generations. This should no longer be the case. We have to think of national debt as an impediment to our prosperity and the welfare of future generations. “What is at stake here is nothing less than whether or not we are going to give the next generation a chance at the American dream” (p. 182).

POLARIZED POLITICAL SYSTEM

Both political parties need to set aside their ideological differences and seek a common ground. They both have some right ideas: Democrats’ prescription of higher taxes for the wealthy and advocating investment in the country’s infrastructures, and Republicans’ emphasis on the private sector and minimizing the regulatory burden on business firms. “But both parties are wrong to assure Americans that taxes will never rise, as Republicans do, and benefits promised will never be cut, as Democrats do” (p. 332). We should assemble a system that combines the good ideas of the two parties. Voters’ dissatisfaction, as indicated by recent polls, is compelling evidence that strife between Republicans and Democrats has created backlash and loss of faith in the two-party system. There is a historical juncture now for a third-party presidential candidate who may gain support of many voters in the next election. Third-party candidates will undoubtedly bring to the public purview many important issues that may otherwise remain dormant.

Unlike duopoly in business world that often results in a healthy alliance, duopoly in American political system - although has been weakened during the past couple of years following the emergence of the Tea party - has led to antagonistic environment under which each party is determined to drive the other party out of power. And, the most effective way to weaken the political duopoly is to remove the barriers that have effectively prevented the potential candidates from successful entry into the political system. Friedman and Mandelbaum suggest: “The only way around all these ideological and structural obstacles is a third party or independent candidate, who can not only articulate a hybrid politics that addresses our challenges and restores our formula for success but—and it is a huge but—does this in a way that enough Americans find so compelling that they are willing to leave their respective Democratic or Republican camps and join hands in the radical center” (p. 334). “A vote for a third-party presidential candidate can be an effective way to change the direction of American National policy—and that is the strategy we are advocating” (p. 335). The authors present the historical examples of the candidacies of H. Ross Perot and George Wallace which left a lasting influence on the American political system and brought a new perspective into public focus. Continuing with the current political system, they say, is a sure trajectory to our demise.

Equally, they accuse politicians of ignoring the law of physics by playing down the effects of climate change. We need a reformed energy policy that promotes clean, renewable sources of energy, not only for its economic benefits of stabilizing the balance of payments and supporting the value of the dollar, but also because the quality of the air we breathe is critical to our health. The authors argue: “America will not thrive in the twenty-first century without a different energy policy, one better adapted than the policy we have now to the realities of the flatter world in which we live” (p. 188). Even if we are not 100% sure

about the effects of climate change, it is exactly this uncertainty that should prompt us to act and formulate a sensible energy policy. We should do this for the same reason we purchase car insurance to protect us against the costly consequences of an accident even though we are not certain an accident will ever occur. “Even if global warming did not exist at all, the fact that the planet is on track to move from 6.8 billion people today to 9.2 billion by 2050, and more and more of these people will indeed live in American-size homes, drive American-size cars, and eat American-size Big Macs, will mean that global energy demand for oil, coal, and gas will surge” (p. 196). This should give us a sense of urgency to think about a national energy plan. As well, we need to raise the bar and set high standards for the buildings we build, automobiles we manufacture, and power plants we construct. Without such standards, there is no accountability and improvement, and no well-regimented business conduct.

A DECADE LOST

Friedman and Mandelbaum believe that the first decades of 21st century formed the historical turn in which we got economically surpassed simply because we were oblivious to what was happening in the world. We were immersed in our conceited attitude, and unwilling to give up our arrogance and admit our mistakes. Because the Bush administration “devoted more attention, political capital, and resources than were warranted to the threat of terrorism, serious though it was and is, while pursuing the worthy but not vital goals of nation building in Afghanistan and Iraq, we recklessly pumped up our annual deficit and cumulated national debt to new and dangerous heights, and pumped out more and more greenhouse gases, heedless of potentially serious consequences” (p. 354). The authors compare the reckless policies of the Bush administration during his terms in office to baseball players injecting steroids just to improve their performance superficially. They write that “our government injected steroid into the economy in the form of cheap credit so Wall Street could do more gambling and Main Street could do more home buying and unskilled workers could do more home-building” (p. 217). Less attention was paid to the plight of industries that would create real value; they did not grow or grew scantily. After the effects of financial steroids dissipated and the economic tide subsided, we found out that many of these financial institutions that created a false sense of value for a massive number of investors were, in fact, “swinging naked”.

The authors’ criticism of Bush’s war on terrorism is reiterated also in other chapters. They express their regret that it was costly and “that America and Iraq have had to pay in lives and treasures” (p. 238). Occasionally, the U.S. government has been successful in using a major conflict such as the Cold War as a catalyst to unite the nation behind a worthy cause and improve our formula for success. They argue: “In the Terrible Twos, the George W. Bush era, we used [the war on terrorism] to avoid doing the things we had to do to assure a prosperous future” (p. 240).

Most of us were negligent in understanding the rapidly changing world in which we were living, and many of us still are. Friedman and Mandelbaum compare the first decade of the twenty-first century to the “Terrible Twos” scenario in a child’s life, “the development stage beginning sometime after the child turns two, when the child becomes cranky, moody, and willful about almost everything” (p. 218). Although our economy was contaminated by reckless behavior in both the public and private sectors during this decade, politicians looked the other way and assured us that everything was okay. Because of preoccupation with other things, “We failed to upgrade our five-part formula for greatness—education, infrastructures, immigration, research and development, and appropriate regulation—just at the time when changes in the world, especially expansion of globalization and the IT revolution, made adapting that formula to new circumstances as important as it had ever been” (p. 218). In other words, we missed the golden opportunity provided, especially by the termination of Cold War, and let others economically surpass us at that critical junction. When the bubble burst, the covers were blown off, the culprits were unmasked, and government bailed out many of the perpetrators at the expense of taxpayers. We were in it together when things went sour. However, afterward, when the bailed-out companies made exorbitant profits, reaped the rewards, and showered their top executives with exorbitant compensations and undue bonuses, we were no longer in it together. The American public only shared the loss and not the fruit of prosperity. That is insane. Now, most of the imaginary wealth created from injecting financial steroids

into the system during the “Terrible Twos” has disappeared, but the dreadful consequences are still haunting the taxpayers. According to the authors, we have sacrificed our long-term viability for short-term gratification, and the cost of getting back to where we were before will be high and mounting unless we act promptly.

UNDERPERFORMING EDUCATION SYSTEM

The authors present a gloomy report card for the U.S. education system. Our best brains are mostly from other countries. The statistics concerning the contribution of immigrants to the technological progress of this country is indeed enlightening. “Although they [immigrants] represent just 12% of the U.S. population, they have started 52% of Silicon Valley’s tech companies, and contributed to more than 25% of the U. S. global patents” (p. 227). We need, therefore, a more accommodating immigration policy, one that removes the unreasonable restrictions on entry visas, especially for talented students and for work permits. Whether they are a trained physician or a landscape worker, immigrants strive to work hard and be the finest because they know that they can thrive only through hard work and perseverance. According to the statistics the authors present, the investment in human capital and on R&D have been declining in the United States while surging in other countries. They believe education is the most critical component of their five-part formulas. We have no option but to reform our education system by placing a greater emphasis on math and science, and incorporating critical thinking and collaborative learning into our curricula. The need to adjust our immigration policy to fit the nation’s needs is just as critical. While political rhetoric and slogans may rouse people, what we really need is less talk and more effective political action.

THE SKEWED INCOME DISTRIBUTION

The American economy has been bedridden by the intensity of income inequality, a problem that has become more aggravated over the last three decades. The gap between the rich and the poor has been widening to the point that it is now creating a public backlash and anguish that may precipitate more severe reactions. As noted in this book, according to Joseph Stiglitz, a Nobel Prize winning economist, “the top one percent of Americans now takes in roughly one fourth of America’s total income every year. In terms of wealth rather than income, says Stiglitz, the top one percent now controls 40% of the total” (p. 237). One of the disturbing consequences of income inequality is social and economic polarization. The rich are now isolated and do not want to live next to the rest of us. In the meantime, “The more divided society becomes in economic terms, the more likely it is that the wealthy will opt out of paying for public goods and common needs” (p. 237). Sooner or later, the pent-up frustration of individuals will elevate into public anger and possibly confrontational riots as evidenced by the Occupy Wall Street movement.

With respect to regulation, Friedman and Mandelbaum admit that the proper balance between excessive regulation and too little regulation is a complicated task. However, like economists, they share the idea that the healthy growth of an economy depends on the strength of the collective economic power of the middle class, and that needs to be protected by government regulation. The problem is not that we should get rid of our regulatory system, or need to have a different kind of government; the problem is that we need a more sophisticated state-of-the-art government regulation, the kind that is tailored to the needs of the twenty-first century and business environment. We have a good political system; however, any good system may malfunction occasionally. The current system is wrecked and needs rehabilitation now. It is like a stalled car in need of a jump start.

THE HAPPY ENDING

Although Friedman and Mandelbaum are frustrated with the current state of affairs in America, they are optimistic about our future outlook. Their obsession with America’s past success and their confidence in our ability to revive our success formulae are the main reasons behind their enthusiastic optimism. We

will be able to counteract the adversarial forces of globalization and the internal forces of greed and reckless conduct of the past and restore our eminent position in the world. All we need to do is to revamp our success formula that has always guaranteed our triumphant return in the past. We need to shore up the support for our gifted industrialists, especially those who are willing to venture into start-up businesses that produce real products, create good jobs that stay in the community, and improve people's life. The business success stories of make-a-difference entrepreneurs like Wendy Kopp, the founder of Teach for America, Mike Biddle, the founder of MBA Polymers, Robert Stevenson, the CEO of Eastman Machine Company, and many more have been documented and presented inspiringly in this book. We can learn valuable lessons from these stories. "Many, many Americans, including the most academically accomplished, are still eager to help solve the country's hardest problems, if we create conducive environments and effective frameworks for them to do so" (p. 306). The needed supportive resources are mainly well-designed regulations, government incentives for those businesses that keep jobs in America, and any other strategies that help our entrepreneurs adapt to the new global paradigm. We need to support and get excited about companies that make real life-enhancing products and stop focusing on complicated, risky financial products that do nothing but destabilize the economy and create a false sense of accomplishment and wealth. As one of the entrepreneurs the authors interviewed said: "Friends don't let friends get into finance" (p. 318). The authors further suggest that we need a hybrid economic model that includes the synergetic partnership between the public and private sectors. There is no question that the new world economic structure requires a new set of approaches, political leadership, incentives, and initiatives for success. We need a huge push, a shock to the system. "It could come from the market, or Mother Nature, or the middle of the political spectrum. We [the authors] vote for the one from the middle" (p. 325).

Despite the gloomy stories they tell throughout their book, Friedman and Mandelbaum stress that we need not be held hostage to fate; we can write a happy ending to our story. All we need to do is to find a navigable path to the happy ending. We need not be frustrated about the rise of other nations, especially China. The Chinese are not eating our lunch. We need to translate our unexpressed anxiety into a healthy passion for our own progress. The authors are not shy about expressing their reservation concerning the applicability of China's model of economic progress to the U.S. economy. We don't need to seek assistance from China or any other country for that matter. Instead, we should invoke our own history of economic success, get back to our own best practices, and utilize our own potential. "The right option for us is not to become more like China. It is to become like ourselves" (p. 10). "And, China's fate, whatever it is, will not determine ours" (p. 356).

Friedman and Mandelbaum conclude by reviewing the reasons for their optimism. The first is American support for individualism, its honor and respect for private properties, rights, and achievements, and its supportive legal and institutional settings that allow individuals to take risks and reward success and tolerate failure. Second, the United States has been historically strong enough to pull itself out of the troughs of recessions, and has "rarely failed to meet major challenges" (p. 352). We are resolute enough to find our way to victory, and have what it takes to revive this economy. The globalization and the IT revolution should not frighten us and push us to disappointment; it should make us think and act critically and differently. And finally, we have tremendous strength to draw upon. The United States is strong fundamentally and well-endowed in terms of capital and natural resources. We have the most talented people living in this country, the best universities, the most democratic socioeconomic system, the best functioning capital market, and one of the most productive labor forces. In this book, the authors devote more pages to education than to any other subject. "In this century, education is the foundation of economic strength and American economic strength is the foundation of the country's vital, indispensable role in the world" (p. 355).

Our inattention to the dangers befalling us reminds me of a story I once heard. A man was walking along a street at the middle of night and saw a burglar trying to break into a store. He approached the burglar and asked what he was doing. The burglar said, "I am playing the violin." "Why can't I hear it then?" the passerby asked. The burglar replied, "You will hear it tomorrow." And for us, tomorrow is finally here.