**How the Economy Stole Democracy**[i]

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The Constitution of the United States gives very few economic responsibilities to government. "Coining" U.S. currency and regulating interstate and international trade are the only two specifically mentioned. The economic theory of "self-regulating" markets was the prominent economic philosophy at the time the Constitution was written. Economists believed that periods of cyclical unemployment would be corrected by lower wages, which would increase profits and provide incentives for businesses to invest, which ultimately would restore full employment. Under this theory, the government's primary responsibility was to maintain the competitiveness of markets. This economic philosophy prevailed well into the twentieth century.

During the Great Depression of the 1930s, it became apparent that market economies were not going to correct themselves, at least not without massive economic deprivation and perhaps starvation. Unemployment rose to nearly 25 percent of the U.S. workforce. Governments in the U.S., Europe, and elsewhere in the world felt compelled to intervene in the economy to avoid political uprisings or outright revolutions.

John Maynard Keynes, a British economist at the time, argued that inefficient market performance during cycles of economic recession could be mitigated by government intervention in the economy. In his 1936 book, *The General Theory of Employment, Interest and Money*, Keynes outlined appropriate government monetary policies, to lower interest rates and provide incentives for investment, and fiscal policies, to increase government spending and provide public employment. Keynes' basic theories for moderating business cycles eventually became known as Keynesian Economics.

Franklin Roosevelt's New Deal policies of the 1930s were based on Keynes' theories. The government put more currency in circulation to reduce the cost of borrowing and investing money. Government public works programs provided jobs for the unemployed. The Social Security Administration provided income assistance for the elderly and disabled. The British government also created a variety of new social welfare programs to deal with their economic depression. Germany, Italy, and Spain resorted to massive military spending. All of these programs helped mitigate the crisis, but the Great Depression didn't end until all the world's major economies resorted to massive government deficit spending to finance World War II.

World War II set the stage for major government intervention in economies. Following the war, there were fears of a return to massive unemployment. More than 16 million Americans had served in the military during the war—more than 10% of the U.S. population. Millions of others had been employed to support the war effort. In an effort to avoid American troops returning to

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another Great Depression, Congress enacted the Employment Act of 1946. This Act brought partisan politics into economic policy, eventually allowing economics to dominate government.

The constitutional justification for this economic intervention hinged on the preamble to the U.S. Constitution which includes "to promote the general welfare" among the basic purposes of government. The Act stated that it is the continuing policy and responsibility of the federal government *"to coordinate and utilize all its plans, functions, and resources . . . to foster and promote: free competitive enterprise and the general welfare; conditions under which there will be afforded useful employment for those able, willing, and seeking to work; and to promote maximum employment, production, and purchasing power."* The Liberals in Congress had argued for a congressional commitment to "full employment" which would have defined employment as a political *right* and government responsibility. The Conservatives prevailed in limiting the Act to obligating government to promoting "maximum employment," suggesting that something less than full employment would be politically acceptable.

A government commitment to "full employment" did not become law in the U.S. until Congress passed the Full Employment and Balanced Growth Act of 1978. (Known informally as the Humphrey–Hawkins Full Employment Act). Rising unemployment following the Viet Nam war and rising costs of fossil energy, courtesy of the Organization of Petroleum Exporting Countries or OPEC cartel, raised the threat of another major economic recession. The Humphry-Hawkins Act explicitly instructs the nation to strive toward four ultimate goals*: "full employment, growth in production, price stability, and balance of trade and budget."* The Full Employment and Balanced Growth Act essentially gave the government ultimate responsibility not only for full employment but also for economic stability and continuing economic growth.

The Act states that the federal government will rely primarily on private enterprise to achieve the four goals but obligates government to intervene in the economy when deemed necessary to achieve its goals. It also mandates the Federal Reserve Board to establish a monetary policy that maintains long-run growth, minimizes inflation, and promotes price stability. The Act mandates the Federal Reserve to coordinate monetary policy with President's taxing and spending policies.

The Full Employment Act of 1978 was a reflection of the political climate at the time. The Great Society programs of the 1960s, championed by Lyndon Johnson, had been similar to the New Deal program of Franklin Roosevelt. Johnson's programs added direct government spending to address the related issues of *persistent poverty* and *racial injustice*. Many Conservatives in government, as well as many members of the general public, feared that such programs represented a political trend toward *socialism or communism*. The continuing Cold War between the U.S. and Russia contributed to the specter of communist encroachment into U.S. economic policies. The humiliating loss of the Viet Nam War in the late 1960s added to these fears.

With the election of Richard Nixon U.S. in 1968, U.S. politics had taken an abrupt turn to the Right. Nixon's election brought with it a return to a conservative, free-market philosophy of economic policy. The presidency of Jimmy Carter in 1776 was simply a political aberration sparked by Nixon's forced resignation rather than a change in the political climate. In earlier times, an act justifying government interference in economy would have been considered politically Liberal. However, the Full Employment Act of 1978 actually is very conservative in that it essentially mandates government to promote profitable private sector investments and continual growth in the private economy, while the government assumes the political risk of unemployment and economic instability. The American taxpayers absorb the economic risks while private investors reap the profits. If Conservatives couldn't keep government from interfering with the economy, they would simply use the government to grow the economy.

The presidency of Ronald Reagan took public support of the private economy to a whole new and different level, particularly the corporate economy. During the Carter years, the economy was characterized by a rare phenomenon called *stagflation*. Rising global oil prices during the 1970s had pushed production costs higher, slowing economic growth and increasing unemployment. The Federal Reserve had increased the money supply in an attempt to stimulate new investments. However, the resulting inflation in prices simply added to the economic uncertainty and the economy remained stagnant. High inflation rates kept interest rates high in spite of increases in the money supplies—loans could be repaid with "cheaper" dollars. Strong labor unions kept workers' wages from falling, which might have increased employment. Both unemployment and inflation persisted. Reagan opted for a very different approach to economic policy: supply-side economics—also called *Reaganomics* or *trickle-down* economics.

The basic strategies of supply-side economics are tax cuts and deregulation of private businesses. Reagan's tax cuts would give Americans more money to spend or invest and deregulation would add incentives for business investments. Increased tax revenues from a growing economy would more than offset tax cuts. Reaganomics simply added tax cuts, deregulation, and other pro-business tactics to the economic strategies previously used to carry out the mandate of the Humphry-Hawkins Act*: full employment, growth in production, price stability, and balance of trade and budget.*

In the early 1980s, the Federal Reserve sharply reduced the nation's money supply. This pushed interest rates well above the inflation rate—at the President's direction. Higher "real" interest rates, meaning interest rates well above inflation rates, sharply reduced investments and plunged the economy into a deep economic recession. U.S. exports dropped sharply, as high interest rates inflated the exchange value of the U.S. Dollar. Growing trade deficits exacerbated the economic recession, particularly for agricultural commodity producers who relied on export markets. The "farm financial crisis" of the 1980s followed. Reagan's labor policies effectively neutralized the power of the labor unions. This allowed businesses to cut benefits and freeze wages for existing workers and to pay lower wages to new workers. Most workers reluctantly accepted their new subservient relationships with their employers because many had maxed out their credit and they were desperate for jobs.

The economic recession of the 1980s eventually brought inflation and interest rates back to more reasonable levels. Unemployment also dropped back to normal levels as unemployed workers accepted whatever jobs they could get. However, lower middle-class tax rates failed to offset lower wages and less take-home pay of workers, which has barely outpaced inflation since the 1980s. Economic growth failed to increase tax revenues enough to offset tax cuts and the federal debt ballooned to new record levels. Admittedly, deregulation stimulated new economic growth by removing government restrains to natural resource extraction, environmental pollution, and economic exploitation of marginalized workers. However, the Reagan era economic recovery was largely due to Keynesian economics—primarily massive deficit government military spending fueled by an effort to pressure Russia into ending the Cold War.

The most significant change in the relationship between government and the economy during the Reagan era was a largely unnoticed by the news media and general public. U.S. Department of Justice lawyers quietly stopped enforcing antitrust regulations that had been designed to ensure "economically competitive" markets. In order for market economies to function in ways that "promote the general welfare," a relatively large number of small businesses or producers must compete for the same customers or markets. Only then, can consumers or buyers be assured that they are being offered the best possible assortment of products to meet their need at competitive market prices. When only a small number of producers share or dominate a given market, there is no assurance that other producers would not have offered their customers a better assortment of quality products at even lower prices.

The economists that dominated the Reagan Justice Department rationalized that the ultimate purpose of market economies is to give consumers products at the "lowest possible prices," even if doing so compromises "economic competitiveness." They reasoned that a few large corporate producers can achieve greater "economies of scale" than could a larger number of smaller independent producers. Larger producers would be able to produce a variety of products at lower costs and thus be able to offer lower prices to consumers. Walmart, Microsoft, and Amazon.com are examples of large corporations that have offered their customers assortments of products and product innovations at lower prices. The Reagan Justice Department focused primarily on prosecuting cases of illegal collusion or price-fixing and routinely allowed already-large corporations to merge with or to buyout their competitors.

It's debatable whether Reagan or Gorbachev deserves more credit for ending the Cold War between the U.S. and Russia. Regardless, President George H. W. Bush inherited the end of the Cold War and another economic recession, as military spending wound down toward peacetime levels. By the time Bill Clinton became President in 1993, Democrats as well as Republicans had abandoned the policy mandate of the Employment Act of 1946 "to foster and promote free competitive enterprise and the general welfare." The rallying cry of the Clinton presidential campaign was "It's the economy, stupid!"

Clinton's promise of a stronger economy helped him defeat George H. W. Bush in the presidential election. "Smart" politicians have since assumed the only political agendas Americans really care about are economic—mainly agendas that serve their own individual economic self-interests. The two Clinton administrations continued to give sustaining economic growth priority over the traditional constitutional responsibilities of government. Their Neoliberal economic agenda, including deregulation of financial markets, "free trade," reduced oversight of industry, and privatization of previous government functions.

The Reagan administration had deregulated the Savings and Loan Banks, allowing reckless, high-risk lending that made millions for some investors but eventually resulted in massive loan defaults. Government regulatory agencies stepped in and cleaned up the financial mess, costing American taxpayers more than $130 billion. The Clinton Administration deregulated the Commercial Banking System, allowing commercial banks to make highly risky and highly profitable real estate loans—supposedly guaranteed and ensured through new complex financial instruments. The ultimate result was the Financial Crisis of 2007-2008, which threatened the financial collapse of the global economy. Again, the government stepped with a major government bailout program. This time the cost to American taxpayers totaled nearly $1 trillion.

The Clinton presidency succeeded economically primarily because new digital technologies, including the Internet, microcomputers, and cell phones, were revolutionizing the U.S. economy. However, the *dot.com* economic hype eventually outpaced the digital economic reality. When the dot.com-bubble burst in 2000, President George W. Bush was left with the economic wreckage. However, the September 11, 2001 terrorist attack inspired a call for military action, which again resulted in deficit spending that succeeded in reviving the sagging economy. The speculative housing bubble propped up the economy until the Great Recession of 2007-2008.

The Obama presidency was left with that mess to clean up, again with massive deficit government spending to prop up a failing banking industry and over extended private economy. Except for the deficit spending, the economic policies of the Obama era were much like those of the earlier Clinton era, with an emphasis on negotiating "free trade" agreements and a willingness to compromise with Republications on a conservative economic agenda. The economic policies of both Republicans and Democrats have been for American taxpayers to bear the economic risks, while private investors reap the profits, of subsidized private investments.

When Obama was elected president in 2008, as the first African American President, the Republicans feared a return to more progressive government policies that might give social justice priority over economic growth. The Republic leadership in Congress vowed to make Obama a "one-term president" by effectively creating a dysfunctional government. They would simply attempt to block any new program the Obama administration attempted to put into place, creating the impression of a lack of presidential leadership. In spite of persistent opposition, the Democrats eventually were able to find a way to institute significant healthcare reform through the Affordable Care Act of 2010, which was arguably the only significant piece of progressive legislation of the Obama era.

Consequently, the intentionally dysfunctionality of government created by Republicans to nullify the Obama presidency played perfectly into the hands of an emerging corporate oligarchy. The only means of limiting or controlling corporate power is the collective power of the people working through the government. A dysfunctional government that no longer had the trust, confidence, or consent of the American people was powerless to control growing corporate economic or political power.

The Citizens United Supreme Court ruling in 2010 tightened the noose of corporate control around the neck of democracy, when the U.S. Supreme Court remover all restrictions on corporate contributions to political campaigns. This was but the latest step in a process of granting personhood to corporations that began with a Supreme Court ruling in the late 1800s. Corporations now have the same political rights as "real people" with far fewer responsibilities. Corporations have reaped huge economic returns on every dollar invested in influencing political decisions. More than $6 billion was spend by lobbyists at the federal level during 2015-2016 and lobbyists outnumbered legislators by 20 to 1. Business and industry lobbyists outspent all other lobbying by 34 to 1. This doesn't include spending on political campaigns, which totaled about the same amount as lobbying during the 2015-2016 period.

A growing lack of public confidence and trust in government left the U.S. vulnerable to the election of Donald Trump as President in 2012. Trump had neither the professional qualifications nor character historically considered as requisites for presidential candidacy. However, nearly half of the voters apparently didn't want someone with the qualifications or temperament typical of U.S. Presidents. Trump's reputation was that of a ruthless businessman who would do whatever it took to make money and accumulate wealth. Since the Reagan era, Conservative had been arguing that government should be run like a business; meaning that economic interests should dominate political decisions. Trump would have no patience with a dysfunctional Congress. He had promised to "drain the swamp" and would get the economy growing again, with or without the help of Congress. He would "build a wall" to keep out immigrants that steal American jogs. He would remove any remaining environmental or social restraints to economic growth and would "put American first" in all future trade negotiations. Thus far, he has succeeded in "running government like a business," his business, and he is clearly the CEO.

Corporations have gained ever-increasing political power as unrestrained corporate consolidation has remained the entrenched policy of Justice Departments of both Republican and Democratic administrations. Virtually every sector of the American economy is now dominated by a small number of large, multinational corporations. From an economic perspective, American consumers can no long be assured that they are receiving the assortment of goods and services that best meets their needs and wants at competitive prices. Americans get whatever corporations see fit to offer them as whatever prices they feel will maximize corporate profits. From a political perspective, Americans are losing, or have lost, control of both their economy and their government. The U.S. economy is longer capitalism; it is *corporatism*—an economy controlled by corporations. The U.S. government is no longer a democracy, it is a *corpocracy*—a government controlled by corporations. Our economy has stolen our democracy.

The current economic domination of politics and policy is not simply an accident of fate or an inevitable trend in political history. It has been carefully and skillfully orchestrated by corporate business strategists who have exploited a persistence of the *classical* economic theory of self-correcting markets. Corporate political contributions, donations to universities, and corporately funded "think tanks" have been successful largely because they promoted the persistent economic philosophy of self-correcting markets. Conservative, free-market economists have consistently argued for deregulation and privatization as logical means of sustaining full employment and economic growth. It's something of a mystery how the theory of self-correcting markets has persisted, since it has never worked in economic or political reality. Government deficit spending, typically military spending, is the only economic policy that has consistently stimulated economies during times of economic stagnation or recession.

The cornerstone of conservative political strategies has been tax cuts for corporations and wealthy individuals, removal of environmental regulations, and defunding social programs to stimulate private economic investment. Corporate lobbyist have succeeded in adding investment tax credits, direct payments for private business investments, and assurances that taxpayers will absorb any losses from risky corporate ventures to the *classical* conservative economic agenda.

Regardless, the political agenda of corporate America has been very successful—from a corporate perspective. Thus far, American taxpayers have been willing to bear the costs of major corporate blunders and to continue bribing corporations with taxpayers' money to locate or relocate to their communities in the name of "economic development." Corporate profits have persisted even during times of times of general economic recession, and the stock markets have quickly recovered from every economic slump. By one means or another, the taxpayers have consistently bailed out the private economy. Virtually every major political campaign in the U.S. now give prominence to the promises of candidates to create more good paying jobs and to promote economic growth.

If Americans are to regain control of their government—their democracy—and their economy, they must understand that corporate control of politics is rooted in a collective preoccupation of the American people with jobs, economic growth, and other economic self-interests. Admittedly, economic well-being in important, but economic policy is not the primary responsibility of government. The constitutional authority for government *economic* policy is found in one simple statement in the preamble to the U.S. Constitution, "*to promote the general welfare."* Whenever government economic policy fails to promote the general welfare, and instead serves the narrow interest of corporate investors, it is not a legitimate function of government.

The basic purpose government is clearly stated in the American Declaration of Independence. "*We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.--That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed."* The fundamental purpose of government clearly is to secure the "rights of all," including to define the political and economic boundaries of social justice within which individual are free to pursue their economic self-interests.

The specific purpose in forming the United States government was clearly articulated in the preamble to the U.S. Constitution. *"We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."* Nowhere is the "promotion of individual or corporate economic self-interests" mentioned among the purposes of framing the U.S. Constitution. Nowhere does the Constitution mention a commitment to ensuring "economic growth or full employment," unless doing so promotes the "general welfare"—not simply increases individual incomes or wealth.

Ultimately, the American people must come to understand that the people we elect to serve as President and members of the U.S. Congress are not responsible for serving the economic interest, or any other individual interests, of the people who voted for them—or even the interests of the people in their congressional districts. Our representative are elected to represent the individual *perspectives and opinions* of their constituents and constituencies regarding what is in the *best interest of the nation as a whole*, which may or may not be in the economic or other individual interests of their constituents. Representative democracy is not about electing representatives to compete for our "individual interests" in the political arena, but to represent our perspectives in a democratic process of deciding what is in the "common interest" of "general welfare" of our nation as a whole. To *establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty for ourselves and our posterity.*

This certainly is not the first time the American Democracy has been challenged by economic domination of the political process or the economic theft of democracy. In 1863, President Lincoln proclaimed: *"Fourscore and seven years ago our fathers brought forth on this continent a new nation, conceived in liberty and dedicated to the proposition that all men are created equal. Now we are engaged in a great civil war, testing whether that nation, or any nation so conceived and so dedicated, can long endure."* Following the Civil War, the consent of the governed was restored, the government regained its power to regulate the economy, and the nation has endured.

Now, once again, Americans are challenged by a conflict between using government to protect the economic interest of a few and its constitutional responsibility to secure the God-given, equal, and unalienable rights of all—to *life, liberty, and the pursuit of happiness*. Once again—if we Americans are to restore integrity to our politics and authenticity to our democracy—if this nation is to long endure—we the people must return our government to its constitutional responsibilities and priorities.