

Poor Civics, Bad Economics and Worse Outcomes

The plight of the U.S. economy has been variously described as a consequence of prolonged over-spending and under-saving, poorly conducted monetary policy and abysmal regulation, or increasing entitlements combined with tax avoidance. There is truth in each of these criticisms, and yet, the economic challenges facing the world's largest economy are eminently solvable. So what is preventing this?

Pundits say it is the vitriol of current politics; however, politics have always influenced policies. What has changed in the U.S. landscape, however, is the decline of civics, or the actions of individuals within a society that aim to maintain the basic institutional underpinnings of a country. In *Why Nations Fail*, Daron Acemoglu and James Robinson describe the failure of institutions as the downfall of nations. This unfortunately is what has gripped the U.S.; it is a case of blatant self-interests running roughshod over the common good.

Civics as once taught in American schools was in part based on the notion that government was entrusted by the citizenry to perform key public functions and that individuals as well had certain responsibilities to ensure a well-functioning state. Part of the deal was paying taxes; another was receiving only what one was entitled to; and yet a third was contributing to the common good. These old-fashioned notions have seemingly disappeared as individuals and firms claw for what they can get out of the very government that they often malign.

Emblematic of the expenditure problem are agricultural subsidies disguised as help for small farmers that actually benefit agro-business. Indicative of poor policymaking is the ethanol mandate that raises corn prices, but does nothing positive for either our energy or environmental policies. Epitomizing the revenue problem are the celebrated cases of Mitt Romney and Warren Buffet paying less than 15 percent of their income in taxes and of General Electric, one of America's most successful corporations, paying virtually no taxes whatsoever in the U.S. Perhaps it is time for the U.S. to shift to a VAT like almost all other advanced economies because current manipulation of the tax code has clearly gone too far.

The days in which a president could jawbone the corporate sector in the national interest are gone. The days of bipartisan agreement on some fundamental core principles are becoming rare. The days of collective action in the national interest are passing us by. And in the process, decisions that would improve economic welfare for most are eschewed in favor of the narrow interests of a few. The bottom line is that the current approach to civics is one that will cause a decline in national income for the majority of the population. This is already seen in the dramatically declining income share of the non-one percent.

Legislation seems to be firmly controlled by important lobbies, special interests, and the powerfully rich. Solutions that involve planning for and investing in the future are being systematically shelved in favor of short-term, appropriable gains. We see this in the area of climate change and energy, in the lack of a forward-looking infrastructure policy, in the area of health care cost containment, and most dramatically in the financial sector. Government has either been captured or is on its heels.

What will it take to reverse this trend? Reasonable, broadly centrist policies must win the debate against the extreme positions of fringe elements in both political parties. Bipartisan efforts must regain the upper hand; the practice of gerrymandering must end; and a more serious and civilized debate supported by independent commissions must be given prominence. For these efforts to succeed, a restoration of civics as a central tenet is indispensable. Without a re-grounding of what America stands for, the economic solutions chosen will continue to be poor ones. ■