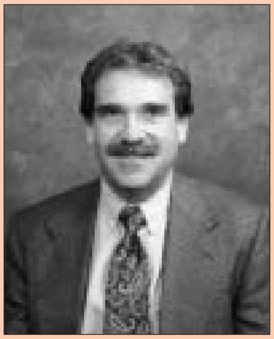
The angst of ownership

The USA is undergoing a profound change in how government, business, and workers relate to one another. This relational change has been dubbed the "ownership society." The use of the word "ownership" is attractive in that it reflects a number of important American values. Ownership is the reward for commitment, sacrifice, intelligence, and diligence. There is, therefore, a great fund of goodwill generated by the concept of ownership among Americans.

Ownership, however, can be burdensome in troubled times. Ownership, in fact, can become downright disastrous if it results in isolation from the community in times of need. Americans learned during the Great Depression of the 1930s that going it alone without the support of a caring government can be devastating to workers and society in general. Americans decided at that time, under the leadership of President Franklin Delano Roosevelt, that government, business, and the citizenry should undertake a tripartite effort to conquer "the nationwide frontier of insecurity, of human want and fear."

The end result of that concerted effort was a society that accepted limits to unbridled capitalism for the greater good. In other words, ownership was a shared responsibility. Fast-forward to 2005 and you have the hottest political debate of the past 50 years. Will the institution of Social Security, upon which older working-class Americans have depended for their retirement-era livelihood, be incrementally discarded as a socialist anachronism? More importantly, how should working-class Americans view their relationship with government and business as the global economy strips away profit margins and shreds the traditional safety net? One news commentator bluntly stated that the USA's core belief in the social contract and its faith in the private sector are now on trial. This rearrangement of how government relates to workers is, of course, not only a US problem. All countries and companies confront it as they position themselves to survive the intense pressures generated by global competition.

The concept of the ownership society is being translated by many as "You are on your own, for better or for worse." There is no longer a partnership in



facing the vicissitudes of life that grew from the shared national experience of the Great Depression. How are Americans reacting to the ownership society? Despite the appeal of returning to their ideal of rugged individualism, Americans are skeptical, at best, of going it alone.

There are three signals that the ownership society proposition is on shaky ground. First, the traditional backup of union membership with union benefits is becoming an outdated option. Second, Americans are poor savers and already flirting with significant debt. Third, the size of the US current account deficit and the weakening value of the dollar are frightening domestic and international financial markets. These factors make the US economy vulnerable and jeopardize the security of the American worker who will be increasingly on his/her own in the new ownership society. Despite the worries, experts point to one development that has been the saving grace for the US economy over the past decade — increased productivity. Can productivity make the ownership society a viable option for the USA?

The most recent instance of union helplessness was the decision by the federal courts to allow United Airlines to dump its union pension obligations onto the Pension Benefit Guaranty Corporation (PBGC), a government agency of last resort for pension defaults by the private sector. This will drastically reduce the amount of pension benefits each retired employee will receive, in some cases by as much as 80%. The US$9.8 billion default by United Airlines follows other recent defaults by companies in the steel and textile sectors. The PBGC itself is running a US$23 billion deficit and faces the bleak prospect of playing backstop to a projected US$450 billion pension shortfall. In addition, union membership in the USA has declined by 5% since President George W. Bush assumed office and over the past 20 years has dropped from about 20% to only 12%. Only 8% of the private sector is unionized. In addition, the decline in the number of "defined-benefit" pension plans tumbled from 112,000 in 1985 to about 45,000 today. Union pensions were at one time the financial backbone of the USA's retired middle class. Union pensions plus Social Security benefits gave retired Americans a chance to live out their lives in dignity. Now they will "own" their retirement with scant help from either the private sector or government.

The propensity for Americans to spend rather than save is well documented, and that abysmal savings rate is not reassuring. The spendthrift behavior of US consumers has been made possible in part by a home-refinancing frenzy that has allowed them to live above their means, at least temporarily. In many locales, the value of homes has jumped more than 100% in the past five years, allowing more than US$400 billion in refinancing cash to drop into the economy; that represents 25% of the USA's economic growth since 2000. On average, each refinancing allowed the homeowner to reap about US$27,000 in "free cash," of which about US$18,000 quickly found its way into the marketplace to boost consumer spending considerably. Looking down the road, however, the refinancing phenomenon is running out of steam. Estimates are that cash from refinancing will decline from US$96 billion this year to US$61 billion in 2006, a sizable drop from the US$139 billion total in 2004. With home equity on the slide, many Americans have forfeited their one safeguard against financial calamity. Coupled with reductions in corporate pensions and Social Security benefits, increased mortgage debt represents an unwelcome challenge to the economic security of Americans.

Ownership conveys independence. Independence requires financial solvency. The huge and growing US trade deficit and indebtedness to foreign investors give rise to questions concerning the concept of the USA as an ownership society. Even the housing refinancing boom has an element of dependency to it when you consider that approximately US$500 billion of mortgage-denominated securities are foreign owned. While profits of US companies remain stagnant on the home front, profits from overseas markets are impressive. The current account deficit continues to set record highs despite the weakness of the dollar, causing many analysts to shake their heads in bewilderment. In 2004, the deficit was US$665.9 billion, a 25% increase from 2003. US jobs, first routine tasks and then infotech positions, are also finding their way overseas. US firms will continue to increase their outsourcing; more than 90% of CEOs polled in Massachusetts would encourage Americans to accept outsourcing as a fact of life.

US workers might ask, "Ownership of what? Is there a silver lining to be found somewhere?" Well, things might become unhinged, the experts say, if rates of productivity increase were to recede or become negative as they did in the mid-1970s. But with productivity growth of 4.1% in 2004 and estimated long-term growth of 2.6%, US business should regain its momentum as profits increase and inflation remains low. With a great deal of fanfare, productivity is being spotlighted as the protective shield of the ownership society. If President Bush hopes to strengthen the economy (50% of Americans now say the economy is worsening) and escape the legacy of presiding over a country with the greatest income inequality since the Great Depression, he had better hope that Americans are fully behind the most important productivity campaign in the past 50 years.

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