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AMERICA'S SECRET COMPETITIVE ADVANTAGE IS A DIRTY SECRET

In the article "Why America needs an Economic Strategy" (BusinessWeek, October 30, 2008) Michael E Porter, Professor at Harvard Business School and a leading management thinker, identifies a set of seven unique competitive advantages for the United States to explain its pre-eminence in the global economy. Here is a brief summary:

The U.S. has an unparalleled environment for entrepreneurship and starting new companies. Second, U.S. entrepreneurship has been fed by a science, technology, and innovation machine that remains the best in the world. Third, the U.S. has the world's best institutions for higher learning that act as magnets for global talent, while playing a critical role in innovation. Fourth, America has the strongest commitment to competition and free markets. This belief drives the remarkable level of restructuring, renewal, and productivity growth in the U.S. Fifth, the task of forming economic policy and putting it into practice is highly decentralized across states and regions. Sixth, the U.S. has benefited historically from the deepest and most efficient capital markets of any nation, especially for risk capital. Finally, the U.S. continues to enjoy remarkable dynamism and resilience, with a willingness to restructure, take losses, and move on.

There is one more uniquely American competitive advantage that Porter has missed out completely. In fact, I would venture so far as to suggest that this is a critical, decisive advantage to be reckoned at the very top of this list. It has to do with the fact that in American presidential and congressional elections, about half of the electorate never turns out to vote.ⁱ And the unique competitive advantage arises from the fact that unlike in other Western democracies, the people who end up staying away from voting in the U.S. belong overwhelmingly to the poorest, least educated sections of its society.

Before getting into why this should become a competitive advantage, let's look at reasons why the poor in America either stay away from voting or vote in far lesser proportions than their numbers.

To begin with, in America, the rules governing voter-eligibility are determined by state, as well as federal, laws. Also, the actual conduct of the presidential and

congressional elections is left to the state governments and all eligible voters are required to go through a separate registration process prior to each election. Historically, many of the southern states have had a nasty record of officially and unofficially making it more difficult for blacks and poor whites to register and to vote. The means have varied and have included literacy tests, requirement for ownership of property, complex residency requirements, the grandfather clause, poll taxes etc. In fact, it was only with the Voting Rights Act of 1965 that state laws acting as barriers to voting in all federal, state and local elections were mostly overturned. In more recent years, there have been instances of selective purges of voter rolls, and “voter caging”—challenging voter registrations based on undelivered mail, often targeting specific neighbourhoods.ⁱⁱ

In the U.S., prisoners are not allowed to vote (except in the tiny states of Maine and Vermont). Since the U.S. now has the largest prison population of any country in the world—greater than in China or India, with between four and five times its population—this is more than two million of disproportionately black, poor and less educated people kept off the voting rolls. Blacks now make up 41 percent of all federal and state prisoners and 17 percent of black men have served time in federal or state prisons in their lifetimes.

Add to this the fact that even after serving their sentences many states continue to make it difficult, if not impossible, for ex-felons to vote. Three states impose a lifetime ban on voting by all ex-felons, even after they have fully completed their sentences, and another nine states either permanently disenfranchise felons or require them to go through a difficult and complicated process to get their voting rights back. With the sharp increase in convictions for crimes, the number of disenfranchised felons in the United States has shot up. More than five million offenders and ex-offenders (about 2.5 percent of the electorate) were excluded from the voting rolls in the 2004 presidential election.

As with the prison population, racial disparities in convictions mean that legal disenfranchisement disproportionately affects black males. Nearly 13 percent of all adult black men are disenfranchised; in states like Alabama and Florida, 31 percent of all black men are currently disenfranchised. Furthermore, these laws also mask a more subtle form of discrimination based on wealth and class. Many

states require ex-felons to pay all fees, fines, and restitution before restoring their voting rights; a burden that falls disproportionately on the poor, and effectively a “modern-day poll tax.”ⁱⁱⁱ Anthony D Romero (Executive Director, American Civil Liberties Union) writes, “This nation that prides itself on free and fair elections and voting shuts out more citizens from the democratic process than any other nation in the world. [...] While these policies have been in effect for many years, they affect a growing segment of the population, as the United States’ criminal justice system continues to convict and imprison more people than ever before, and now has the world’s highest rate of incarceration.”^{iv}

But aren’t felons dangerous criminals who murder and rape and rob people at gunpoint? Well, this is where it gets all the murkier. The reality is that the majority of felony convictions is not for crimes involving violence. For instance, a common felony conviction is for cheque fraud. Another common felony conviction is for the possession of narcotic drugs. Interestingly, among all the narcotic drugs, crack-cocaine (more common in black dominated inner city areas) has been singled out for particularly harsh punishment. Crack cocaine and powder cocaine are different forms of the same drug but under U.S. federal laws, distribution of just five grams of crack cocaine attracts a mandatory minimum sentence of five years; it takes 500 grams of powder cocaine to trigger the same punishment. In 2006, 82 percent of those sentenced under federal crack cocaine laws were black; only 9 percent were white, despite two-thirds of users being white.

There is also another angle to this business of felony disenfranchisement. Possibly no other developed country makes it so easy to own or possess a gun as the United States. In most American states, buying a gun requires neither a license nor registration. It is estimated that about a third of households possess a firearm and, in a country of 300 million people, there are nearly 200 million in circulation. The outcome can be perverse. The fact is, where both rich and poor alike have guns, it is unlikely that the well-off person would use his gun to hold-up a convenience store, get mixed up in an armed assault, or use it in the course of a robbery. On the other hand, depending upon how deprived and desperate he is, a poor person with a gun is far more likely to use it for a criminal purpose. And when he does that, he goes to prison on a felony charge and forfeits his vote. When he comes

out, he finds either that he is not getting his voting rights back or that it involves procedure so laden with hassles he cannot in fairness be bothered.

And then, Election Day in America (always a working Tuesday) is not a national holiday, unlike much of Europe (where voting takes place on weekends) or India.^v So, for those holding low-paying jobs where wages are counted by the hour, it actually costs money in terms of lost earnings to go out and vote—often after standing in line for hours. Moreover, it is also fairly common for the poor in America to juggle between two and more jobs. This means there is even less time to go out and vote. There have also been instances of partisan state government officials, typically in Republican ruled states—Florida in 2000, Ohio in 2004—placing fewer polling booths and voting machines in the poorer districts leading to longer queues and more poor people deterred from voting.

The upshot of it all is that in the U.S., voter turnout among the educated and well-off is always proportionately higher than among the poor. Even during the presidential elections of 2008 when turnout was high by past standards, and which saw extraordinary efforts by the Obama campaign to mobilize poor and minority voters, a CNN exit poll found that only 18 percent of those who turned out to vote, earned an income of less than \$30,000 per annum whereas 34 percent of American households belong to this category. In contrast, those who earned more than \$100,000 per annum constitute 16 percent of the households but made up 26 percent of all those who voted. From the standpoint of educational background, only 4 percent of those who voted had not completed high school (against a national average of 15 percent), while another 20 percent were just high school graduates. At the other end, fully 45 percent of the voters were either college graduates or had completed post-graduate study, against a national average for this category of 28 percent.^{vi}

This is a picture in stark contrast to India where the poor turn out to vote in droves and the educated middle-class often stays away. It is also very different from Western Europe (and even neighbouring Canada) where voter turnout for national elections is consistently high.

Why should all this amount to a competitive advantage for the U.S.?

One of the critical factors which determine the economic success of a country is how well it strikes a balance between its short term needs and long term requirements. Basically, short term interests veer towards more spending and consumption, while the long term interests lie in greater investment for the future and in shaping an environment conducive to creation of wealth.

Typically (and this would be true of just about any country) the poor and the disadvantaged would tend to have a short term outlook. Their interest would lie in having the government spend more (no matter how the money is raised or not raised) on generous social security and unemployment benefits, health care, public housing, subsidised food and transport, and all those entitlement programmes that would gratify their immediate needs. The poor would be less enthused by the investments (and sacrifice) required to advance the economic well-being of the country over the long term, or by the idea of conceding to the entrepreneurial class—the class that creates jobs and satisfies consumer needs—those fair incentives that underpin their efforts.

Why this should be so is not difficult to imagine. The path to prosperity that relies on creation of wealth is a slower (albeit surer) process compared to the immediate satisfaction to be had from its redistribution. However, over a period of time, redistribution unaccompanied by smart ideas to create wealth is also a well documented dead-end.

And yet, it is the short term considerations that hold sway in democracies where the poor vote in large numbers. A good example is India where populism and populist policies have always pulled in the votes with consequences that have not been pretty. In the southern Indian state of Tamil Nadu, the ruling party (the DMK) came to power by actually promising free colour television sets to the poor. Last year, the Central government announced (with an eye on impending elections) a massive waiver of loans taken by farmers from commercial banks, with the tax-payers picking up the tab. And this is something that happens in practically election after election. India's power distribution sector is largely in the hands of state governments and the country's power shortages are crippling. Yet, many states give it away for free (typically to farmers) invariably in fulfilment of a generous campaign promise. The broad economic failure of India's democracy over most of its 60 years in existence has never been much of a mystery.

Unsurprisingly, almost all those countries whose economies were transformed by free-market policies from the sixties onwards (particularly the so-called Asian Tigers) began as autocracies, where such impulses could be actively resisted during the crucial take-off stages of their economies.

In contrast, America's overriding economic success has much to do with what comes across, or what is best described as, a "national consensus", i.e. a broad agreement about the big picture that cuts across party lines, and built around old-fashioned virtues like respect for property rights, free trade and free markets, lower taxes, less intrusive government, flexible labour laws, and vitally, a culture that fosters individual responsibility and celebrates individual success. It is this consensus that allows employers in America to lay-off workers during a downturn with a minimum of fuss and without running afoul of the political establishment. And it allows the government the luxury to stand back as firms, big corporations, even entire industries, go belly up (well, this was true at least until the present crisis) as they lose their creative, competitive edge. The economist Joseph Schumpeter called it "creative destruction", and in America, more than anywhere else, it goes on largely unimpeded. Michael Porter writes: "While the U.S. economy has been a stronger net job creator than most advanced countries, the high level of job churn (restructuring destroys about 30 million jobs per year) makes many Americans fear for their future, their pensions, and their health care."^{vii}

In an op-ed column in the New York Times (March 4, 2009) titled "One France is enough", Roger Cohen applauds this facet of America's core strength which he contrasts with France: "Churn is the American way. Companies are born, rise, fall and die. Others come along to replace them. The country's remarkable capacity for innovation, for reinvention, is tied to its acceptance of failure. Or always has been. Without failure, the culture of risk fades. Without risk, creativity withers. Save the zombies and you arrest the vital."

The "American way" Cohen talks about is, to all purposes, an outcome of its "national consensus". And even as this American way has been critical to its extraordinary success, the evidence is compelling that it has been kept alive in large measure by keeping its poor away from voting. Simply put, if churn is indeed the American way, it surely helps that those who bear the brunt of it (the people

actually getting “churned”) and who have no reason to ever believe this should be the American way, don’t have a say in the process. And, given further that the actual means of denial of voice are a mix of the formal and the insidious, concealed in the fine print of a system otherwise known for its robust defence of liberty, most Americans genuinely believe that the outcome (the cherished “American way”) is America’s voice, when in truth, those with powerful reasons to protest were being held back at the doorstep all along.

How does Western Europe and Canada compare to America in this regard?

There is no doubt that when it comes to providing a minimum standard of living to its citizens, be it unemployment allowance or health care, Western Europe and Canada stand head and shoulders above the U.S. These policies are the outcome of a European consensus quite different from the American consensus. This consensus emphasises more frequent state intervention in economic matters, typically with extensive laws to protect labour and other vulnerable sections, a comprehensive social security net with socialised health care at its core, and a tax regime with a higher burden on the rich—all in the cause of a more equitable society.

Arguably, this alternative consensus could emerge in Europe because the national elections in these countries do not effectively (or insidiously) keep out the poor as they do in America. Churn is not the European way because somewhere along the way, those in the line to be “churned” could raise their voices against it. And because their voices would find an echo in the ballot boxes, the “American way” did not simultaneously become the “European way”. Indeed, it could not even cross the border to become the “Canadian way”.

And so, when right-wing political parties come to power in Western Europe, they do so with the implicit promise that the broad status-quo in these matters would not be disturbed. Britain’s National Health Service, so disdained by the right-wing in America, survived the 11 years under Margaret Thatcher.

All this, however, is not to suggest that America’s elections are deeply flawed because they deny vote and voice to a large section of its population. Not quite. As I mentioned earlier, the formal disqualifications (felony disenfranchisement) apply

to about 2.5 percent of the electorate, while the informal disqualifications are difficult to quantify with precision. The impact can still be significant because elections are often decided by narrow margins of one and two and three percentage points. What is consistently being nullified is the “swing” vote that could or would have tilted the outcome in ways more responsive to the concerns of the poor, perhaps, in favour of a European-style welfare state. In the controversial, closely contested presidential elections of 2000, Florida’s disenfranchisement laws barred over 600,000 non-incarcerated citizens from voting. And George Bush carried the state (and the Presidency) by 537 votes.

In election after election, a crucial swing vote—which, by definition, can swing only one way—is being systematically taken out of the equation. And arguably, this denial of say has been critical to sustaining that American consensus about the American way, which lies at the very heart of America’s extraordinary economic success.

Looking ahead, in the years to come, the ranks of America’s voters will be swelled by more and more poor immigrants from Latin America. In the 2008 elections, red states like Colorado and New Mexico, where there’s been an influx of Hispanic immigrants, went to the Democrats. Texas has more Electoral College votes than any other state except California. It is now reliably Republican but already its immigrant population has reached the 20 percent mark and it may not be long before even this state flips.^{viii} We are also likely to see increased grass-roots organisation by the Democratic Party and activism by liberal NGOs like ACORN that encourage greater registration and turnout of poor voters. What is more, some states have begun to rethink the terms of their disenfranchisement laws. Since 2005, Iowa has been automatically restoring the voting rights of ex-felons. In April 2007, Florida changed its laws and now allows some of them to vote. Since then, more than 130,000 Floridians have had their voting rights restored. Also, many states now allow early voting where voters can cast their ballots well ahead of Election Day, more to their convenience.

Put it all together, and this is what I believe will be the likely picture. From now on, America will increasingly swing towards the liberal values of the Democratic Party. The Republican revolution that began with Ronald Reagan in 1980 looks like it may have ended for now. A party identified with patrician interests could succeed,

and brilliantly at that, because they were able to co-opt a good chunk of white working class voters. They did this by appealing to religion, to the inherent social conservatism of this class, and to its latent racism. The high point of this strategy was the re-election of George Bush in 2004. It fell apart in 2008 because America's economy fell apart bringing to the fore an entirely different set of worries. When your job and your home are at stake, maybe what you strongly believe about abortion being another name for murder can wait.

Does this imply that once the economy is back on track, the old Republican coalition would re-emerge to take back power from the Democrats. Not so fast. America's voter demographic is in a state of flux. As mentioned earlier, the Hispanic vote is now a key constituency in many states, and this is only going to increase: every year about one million immigrants become American citizens. And with the poorer voters now turning out in larger numbers, the trend has begun to shift.

And so America appears headed towards an age where the default status—in reference to the party affiliation of its president—will be Democrat. This is not to suggest that a Republican will not become president any time soon. Only that a conservative Republican president will be the exception; getting a look-in when the default becomes a muddle, or otherwise fatigues the voters.

It is a future where America becomes fairer and more equitable—like Europe, but also less dynamic, not so fiercely competitive, and with more modest achievements to its credit—like Europe.

Endnotes:

ⁱ In the two latest U.S. Presidential elections (i.e. 2004 and 2008), turnout as a percentage of voting age population was higher than usual at about 58%. However, in the biennial congressional elections, it often dips below 40%. The full details including historical data for turnout are available at the International Institute for Democracy and Electoral Assistance (IDEA) website at : http://www.idea.int/vt/country_view.cfm?CountryCode=US

ⁱⁱ Perez, Myrna (2008). Voter Purges. Brennan Center for Justice at the New York University School of Law. Also, refer to the interview with the author published in The American Prospect on Oct.3, 2008 at: http://www.prospect.org/cs/articles?article=protecting_voter_rights

ⁱⁱⁱ Wood, Erika L. & Trivedi, Neema (2007). The Modern Day Poll Tax: How Economic Sanctions Block Access to the Polls. Clearinghouse Review: Journal of Poverty Law and

Policy (May-June 2007), 35.

(http://www.sentencingproject.org/doc/publications/fd_clearinghousereview.pdf)

^{iv} American Civil Liberties Union (May 2006). Out of Step with the World: An Analysis of Felony Disfranchisement in the U.S. and Other Democracies. Foreword, 1

^v In Austria, Belgium, France, Germany, Greece, Italy, Spain, Sweden and Switzerland, voting takes place on the weekend holidays, as also in Australia and New Zealand. In Canada, where voting takes place on Mondays, employees are entitled by law to a three hour break.

^{vi} CNN exit poll, Nov.04, 2008, details at:

<http://edition.cnn.com/ELECTION/2008/results/polls/#USP00p1>

^{vii} Porter, Michael E. (2008). Why America needs an Economic Strategy. BusinessWeek, Oct. 30, 2008.

http://www.businessweek.com/magazine/content/08_45/b4107038217112.htm

^{viii} Camarota, Steven A. (2007). Immigrants in the United States, 2007 – A Profile of America's Foreign Born Population. Center for Immigration Studies, Washington D.C.

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