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## Democracy Under Siege and the Case for Social Reform

Khang X. Vu  
*Dartmouth College*, [khang.x.vu.gr@dartmouth.edu](mailto:khang.x.vu.gr@dartmouth.edu)

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# Democracy Under Siege and the Case for Social Reform

**Cover Page Footnote**

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## Democracy Under Siege and The Case for Social Reform

The recent rise of populist governments and parties in modern liberal democracies can be attributed to growing discontent and miscommunication stemming from a socioeconomic class divide between the elites and the rest of the society – present not only in the U.S. but also in Europe and Southeast Asia. This phenomenon is resultant of large income disparity and political power among socioeconomic class. Compared to the era of the World Wars and the Cold War that followed, it is arguable that in the age of mass media, connectivity, and democracy, that society must be more equal. However, this is not the case. Statistics show that American minimum-wage workers' real income in 2017 is only two-thirds of what minimum-wage income was in 1968 (\$7.25 comparing to \$11.38 adjusted for inflation).<sup>1</sup> Additionally in 2017, the United States' Democracy Index dropped from 8.00 to 7.98 which is below the standard of a fully developed democracy, meaning common American people now earn less and have less political power and confidence in their government.<sup>2</sup> This contradicts the *de facto* notion that the standard of living for the average American has risen in the age of globalization. If no one is supposed to worry other than about their “next trip to the mall” as notable American political scientist, Francis Fukuyama, has implied in his vision of “the end of history,”<sup>3</sup> what could have possibly gone wrong during the process of post-Cold War globalization and democratization?

The answer to this question may lie in the system of globalization itself. The essence of globalization entails that every country should embrace free market economy principles and play on the same global playing field to ensure open trade for cheap access to goods and labor.<sup>4</sup> However, the freedom that Western companies have acquired from the “flat world,” which indicates that all economic competitors have an equal playing field, allows them to outsource domestic jobs to foreign countries, where the price of labor is much lower and regulations are not demanding.<sup>5</sup> Job offshoring degrades the value of domestic labors and neglects the training of future generations of workers, which together make American workers unable to compete with those of developing economies. The reason behind this skills gap is the declining education quality that American students receive comparing to those coming from other countries. American students' average scores on the Program for International Student Assessment (PISA) are much lower than European and East Asian students.<sup>6</sup> Labor force participation rate is only 76% for those with a high school diploma and 66% for those without a high school diploma while at the same time many domestic jobs that require special trainings are left unfilled due to the

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<sup>1</sup> Alan Manning, “The Truth About the Minimum Wage,” *Foreign Affairs*, <https://www.foreignaffairs.com/articles/united-states/2017-12-12/truth-about-minimum-wage>, Date Accessed (February 4, 2018).

<sup>2</sup> Nyshka Chandran, “US is no longer a full democracy, EIU warns,” *CNBC*, <https://www.cnbc.com/2017/01/25/us-is-no-longer-a-full-democracy-eiu-warns.html>, Date Accessed (February 4, 2018).

<sup>3</sup> Francis Fukuyama, in *The end of history and the last man* (Simon and Schuster, 2006).

<sup>4</sup> Thomas Friedman, in *The world is flat* (New York: Farrar, Straus and Giroux, 2005).

<sup>5</sup> *Ibid.*

<sup>6</sup> Drew Desilver, “U.S. students' academic achievement still lags that of their peers in many other countries,” *Pew Research Center*, <http://www.pewresearch.org/fact-tank/2017/02/15/u-s-students-internationally-math-science/>, Date Accessed (April 21, 2018).

decline of vocational education in the country.<sup>7</sup> This development exhausts the middle class' earnings and job prospects and redistributes the wealth to the elites, who can always enrich their own businesses by looking for alternative sources of labor elsewhere. As a result, the growing income inequality between the top and the middle class have been occurring in the top's favor since the 1980s with the top 1% now possesses 20% of national wealth while the bottom 50% only has 12%.<sup>8</sup> If the government does not interfere to channel some of national wealth to the middle class, the elites will make more money at the expense of the United States' overall decline in labor force participation.

Unfortunately, the weakening of the American middle class also shackles the strength of leftist political organizations, most noticeably the Democratic Party, whose budgets used to largely depend on donations made by low-income voters. At the moment, the elite 0.01 percent of the voting age sponsors one fourth of the Democratic Party's budget, which results in the Party tilting to the right of the spectrum and a decrease in political representation of the working class.<sup>9</sup> Robert Reich, former U.S. Secretary of Labor and American political commentator, describes this phenomenon in his book *Saving Capitalism* stating that many Democratic politicians have shown their support for corporations by passing pro-business laws that eliminated restraints on inter-state banking and gave more freedom for over-the-counter derivative contracts.<sup>10</sup> These policies undo much of Franklin D. Roosevelt's New Deal regulations and lift financial regulations imposed on Wall Street, permitting large corporations to increase their profits at the expense of the working class.<sup>11</sup> Due to such a striking disparity in earnings between the rich and the poor, it is inevitable that low-income voters cannot spend as much on political donations as corporations, resulting in a decline in their political representation. Reich also points out that many Democratic officials maintain close ties with corporations before and after their service in the government, which has contributed to the Party's dependence on corporations' business interest.<sup>12</sup> Furthermore, this is exacerbated by the Supreme Court *Citizens United v. Federal Election Commission* (2010) and *McCutcheon v. Federal Election Commission* (2014) rulings that eliminated the \$123,200 political contribution cap for corporations, equating them to individuals who are thereupon legally allowed to make unlimited contributions to their preferred political candidates and thus strengthening the

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<sup>7</sup> Rob Kaplan, "America Has to Close the Workforce Skills Gap," Bloomberg View, <https://www.bloomberg.com/view/articles/2017-04-12/america-has-to-close-the-workforce-skills-gap>, Date Accessed (February 4, 2018); Marc Tucker, "The Death of Vocational Education and the Demise of the American Middle Class," Education Week, [http://blogs.edweek.org/edweek/top\\_performers/2012/01/the\\_death\\_of\\_vocational\\_education\\_and\\_the\\_demise\\_of\\_the\\_american\\_middle\\_class.html](http://blogs.edweek.org/edweek/top_performers/2012/01/the_death_of_vocational_education_and_the_demise_of_the_american_middle_class.html), Date Accessed (April 21, 2018).

<sup>8</sup> Heather Long, "U.S. inequality keeps getting uglier," CNN, <http://money.cnn.com/2016/12/22/news/economy/us-inequality-worse/index.html>, Date Accessed (February 4, 2018).

<sup>9</sup> Thomas B. Edsall, "How Did the Democrats Become Favorites of the Rich?," The New York Times, <https://www.nytimes.com/2015/10/07/opinion/how-did-the-democrats-become-favorites-of-the-rich.html>, Date Accessed (February 4, 2018).

<sup>10</sup> Robert Reich, "The Decline of Countervailing Power," in *Saving Capitalism: For the Many, Not the Few* (Vintage Books, 2016).

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

collusion between tycoons and politicians.<sup>13</sup> Overall, the political-economic system implies that no matter which political parties are in charge of the White House, the working class has little say in the decision-making process. Consequently, it is unsurprising that the United States' Democracy Index score has declined, and has been moved by a populist anti-establishment political movement.

In order to counteract some of the disparities within the system of globalization, American policymakers should look to Japan as an example. Japan is a singular case wherein populism has failed in a liberal democratic country. Japan has protected itself from populist waves due to the government's focus on fostering an equally prosperous society. Income inequality is comparatively low and education is not segregated by socioeconomic status but is rather focused on nurturing an education that meets the needs of Japanese domestic industries. The Japanese pay gap between a CEO and a common worker is 67 times compared to 354 times in the United States.<sup>14</sup> Moreover, share of income made by the top 1% is only 10% comparing to 18% in the U.S.<sup>15</sup> These numbers can be attributed to the higher tax rate (45%) that Japan levies on high-income people as well as the inheritance tax (55%) on its citizens, which makes accumulating and preserving wealth across generations difficult.<sup>16</sup> In regard to education, Japan ensures that rich and poor students have equal access to schools and resources. Japanese schoolteachers are employees of the prefecture, not of a specific school as in the United States, which requires these teachers to be assigned to districts that need their capability the most after several years.<sup>17</sup> Moreover, teachers have to pass a standardized test before obtaining their licenses in order to ensure that each school district meets the national standard.<sup>18</sup> As a result, the Japanese high school graduation rate is 96.7%, its employment rate as a fraction of the population for males between 25 and 59 years old is 93.4% on average and for females between 25 and 59 years old is roughly 68.7%.<sup>19</sup> In terms of college-educated citizens, the employment rate increases to 97.9% among males and 83.6% among females.<sup>20</sup> This major difference in employment between the two genders is a consequence of culture, not a lack of resources and rich/poor discrimination. Low social inequality, assured equal education, and a low unemployment rate inhibit the rise of a dissatisfied and alienated working class and prevent the social fabric from falling apart under the influence of globalization.

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<sup>13</sup> Ibid.

<sup>14</sup> Stéphanie Thomson, "Think you know Japan? These 5 charts will make you think again," World Economic Forum, <https://www.weforum.org/agenda/2016/10/japan-explained-in-data-charts/>, Date Accessed (February 5, 2018).

<sup>15</sup> Ibid.

<sup>16</sup> Yuriko Koike, "Thomas Piketty's Japanese Tour," Project Syndicate, <https://www.project-syndicate.org/commentary/japanese-income-inequality-by-yuriko-koike-2015-03#BoE2bOr92PppWJU6.99>, Date Accessed (February 5, 2018).

<sup>17</sup> Alana Semuels, "Japan Might Be What Equality in Education Looks Like," The Atlantic, <https://www.theatlantic.com/business/archive/2017/08/japan-equal-education-school-cost/535611/>, Date Accessed (February 5, 2018).

<sup>18</sup> Ibid.

<sup>19</sup> Ibid, Morikawa Masayuki, "Labor Participation," in Postgraduate Education, Labor Participation, and Wages: An empirical analysis using micro data from Japan (The Research Institute of Economy, Trade and Industry, 2013), p.9, p.23.

<sup>20</sup> Ibid.

In an attempt to broach the topic of income inequality, American policymakers should begin by raising the quality of U.S. public education in order to bridge the gap between private and public schools. Currently, funding for public schools largely stems from federal, state, and local taxes, rendering schools vulnerable to changing government policies. On the other hand, private schools receive stable funding from tuition and grants, which allows these schools to provide a more consistent and regulated education – largely for children of the upper socioeconomic class. This divergence results in the long-term difference in graduating prospects and income between private and public school students.<sup>21</sup> Moreover, the *de facto* segregation between the rich and the poor during their formative years as a result of different educational backgrounds make the two groups unable to develop a sense of sympathy for one another, creating a scenario that people of dissimilar income levels view America from fundamentally different viewpoints. For instance, the 2016 Presidential election debate on the Trans-Pacific Partnership (TPP) reflected a facet of this issue. American big-business interests showed their support for the trade deal on the grounds that it would boost America’s exports and provide greater access to more diverse markets.<sup>22</sup> Unions opposed the deal because they claimed that the TPP would allow companies to outsource their jobs to developing countries. Unable to reach a consensus, the deal failed – largely at the expense of the U.S. reputation on trade and development prospects with allies and partners. Reich describes this as a social contention that the low-income class willing to sacrifice its own interests in order to prevent the rich from accumulating more wealth and corruption, which ultimately creates the possibility of an overall decline of the U.S. economy.<sup>23</sup> In other words, income inequality poses an existential threat to the foundation of the national egalitarianism, entrepreneurship, and U.S. global standing as a leader.

This adds further support to the case that the U.S. should adopt the Japanese taxation model in order to channel more resources to improving the quality of its educational system. The problem that is most urgent is not that U.S. workers are losing jobs but rather they are not trained enough to fulfill the high-skill jobs available. Low labor participation rate due to a lack of education disadvantages American workers more than job outsourcing and automation since it constantly puts the low-skill workers under intense pressure to keep their stagnant jobs and deprives them of a chance at upward mobility – socially, economically, and politically. Allowing the opportunity for fair wages and stable employment stemming from access to high quality education and skills trainings, workers satisfaction will drastically increase, and will increase tax revenue for all levels of government as an incentive to continue improving social programs. If the U.S. government can level the playing field between public and private education, it will increase socioeconomic equality and shatter the perception of a country divided into the rich and the poor. In addition, raising inheritance taxes for the top 1% would decrease their incentive to collude with politicians to pass pro-business legislations and permit the federal

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<sup>21</sup> Mark Dynarski, “Public or Private School? It Shouldn’t Matter,” Brookings, <https://www.brookings.edu/research/public-or-private-school-it-shouldnt-matter/>, Date Accessed (February 5, 2018).

<sup>22</sup> “TPP ENDORSEMENTS,” Office of the U.S. Trade Representative, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/january/Diverse-Coalition-American-Businesses-Farmers-Manufacturers-Call-for-TPP-Passage/>, Date Accessed (February 6, 2018).

<sup>23</sup> Robert Reich, “The Threat to Capitalism.”

government to better meet the needs of the working class. Opponents to this reform can argue that a significantly higher tax on the top may damage the competitiveness of U.S. products on the global market and reduce domestic innovation; however, data illustrates that even with such an increase, the Japanese example proves that maintaining its position – 2<sup>nd</sup> to the U.S. and ahead of growing economies like India and China – in the global economy is possible.<sup>24</sup> A higher tax at the top may minimally reduce U.S. international competitiveness but, as Reich has argued, a trickle-down economy will only enrich the top at the expense of the national economy; in essence only helping the rich have a bigger piece of a pie shrinking in size.

Friedman may be correct when he argued that the “flat world” would level the global playing field and make U.S. workers face more competition overseas. Thus, it is my contention that the way to address this is by enhancing the U.S. educational system through higher taxation for the top 1%, thereby ensuring a future workforce sustainably and able to meet new labor standards not only in the U.S. but also in other parts of the world.

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<sup>24</sup> Stéphanie Thomson, “Think you know Japan? These 5 charts will make you think again.”

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