

The American Covenant and the American Dream: Can We Restore Our Sense of Community?

July 2011 by John Winfrey

For generations we Americans have pursued a vision of a community in which all members respect each others' rights. This vision features a free-market economy augmented by a well-functioning democracy. The vision includes something we call "The American Dream." In this dream, citizens have "fair starts;" young people have adequate health care and education; and the economy functions sufficiently to provide a wide array of job opportunities.

As this American Dream has evolved, it has struggled to become more and more inclusive in terms of gender, race, and ethnicity. It has been a dream shared by all income classes, especially our growing and prosperous middle class. In my view, it has not been solely about getting ahead.

The American Dream is a covenant, both formal and informal. It is reinforced in our families and in our schools as we study our Constitution, as we sing our national anthem, and as we pledge allegiance to our flag. One formal example of our national covenant is the Employment Act of 1946. In it, Congress and the Administration pledged to use macroeconomic policy to pursue the goal of full employment, recognizing that the "free market" does not guarantee adequate job opportunity, especially during recessions.

The dream, recounted in countless stories of sacrifice and struggle for independence, has proven very resilient. No matter what the challenge, there has always been healing and a renewed sense of community.

Our present situation features a severe recession with high unemployment and two difficult military entanglements (with yet more armed conflicts arising). Still, these challenges don't compare with others we have overcome. We have come through them and become even stronger. But this time we seem to have lost our resiliency and hope. Worse yet, we are divided. We are in danger of losing our sense of community. Our middle class has been decimated, our democracy is dysfunctional, and many of our politicians and their strategists continue to spread distrust and polarization.

Will we be able to resuscitate our sense of community and our faith in the American Dream?

How will we respond to the present crisis? It all depends on restoring our mutual respect and community. In order for us to fix our dysfunctional economy, we must first fix our dysfunctional political system.

The Children of Light and the Children of Darkness

Reinhold Niebuhr (1892-1971) described a struggle between the Children of Light and the Children of Darkness.[\[1\]](#) The Children of Light share a mutual respect for fellow members of the community and work to help them realize their individual and social goals. The Children of Darkness, by contrast, are cynical and self-centered. They seek economic and political power and care nothing for their fellow citizens, much less the American Dream. According to Niebuhr

these differences have real consequences: “. . . for evil is always the assertion of some self-interest without regard for the whole, whether the whole be conceived as the immediate community, or the total community of mankind [sic], or the total order of the world. The good is, on the other hand, always the harmony of the whole on various levels.”[\[2\]](#)

Niebuhr argues that in a successful democracy and economy, individuals as well as the community require the freedom and the means to pursue their goals. This freedom is not a “freedom from” but a “freedom to.”

It is obvious that we must depend on government to play a part in fulfilling our individual and social goals. Our original understanding of American Individualism was shared by liberals and conservatives alike. It is well within our sense of community and our American Dream. Indeed, the basic tenet of the American Dream is that we can build a society where individuals are encouraged and enabled to pursue their own dreams and happiness. That is the individualism of Thomas Jefferson that we can call civic individualism. It features an idea of community where individuals can pursue individual goals as well as shared social goals. Government plays a role in accomplishing those shared goals.

Those Children of Darkness who use the term individualism to describe their anti-community, anti-American Dream ideology, are false prophets. Their ideology seems at root to be unadulterated greed and selfishness. They appeal to what is worst in us rather than what is best. Unfortunately liberals, moderates, and conservatives who still believe in the American Dream have been disenfranchised by those political strategists. They have successfully polarized us all. We no longer share a sense of community.

Niebuhr quotes scripture that refers to the children of this world as being more “wise” (i.e., more cunning) than the Children of Light. Our democratic civilization was built, not by the Children of Darkness, but by “foolish” Children of Light. The naïveté of the Children of Light can cause great harm. According to Niebuhr, “the result of this persistent blindness to the obvious and tragic facts of man’s social history is that democracy has had to maintain itself precariously against the guile and the malice of the Children of Darkness.”[\[3\]](#) Meanwhile, well-meaning but naïve state leaders treat their opponents with trusting mutual respect. They assume the Children of Darkness (or Wrath) will respond to reasonable arguments made in goodwill. They simply “never see it coming.”

Naturally all citizens feel vulnerable relative to the powers available to government. It can tax us; and it can spend our money. It can be inefficient and wasteful. It may help other groups of the community more than it helps our own. History has borne witness that our fears and suspicions can come true.

It is no wonder that many of us have lost our sense of community and our trust in the American Dream.

The American Dream and Allocative Efficiency

We depend heavily on a vigorous free market system of competitive markets, but that system

simply will not work without proper regulation and augmentation by government. To understand government's crucial role we need to understand the free market's strengths and shortcomings.

When the mixed system of free competitive markets is augmented by appropriate regulation and resource allocation by government, we attain what economists term, "allocative efficiency."

The free market model assumes that the system is populated only with perfectly competitive markets. Firms respond perfectly to the desires of consumers. When tastes change, resource allocation responds immediately. Resources are directed to their most profitable use. They produce an array of outputs that give consumers the most satisfaction possible. Thus, the word "allocative" refers to the allocation of resources so as to maximize our well-being. At the same time, "efficiency" refers to the power of competition to encourage firms to produce at the lowest cost possible.

Of course our actual economy is somewhat less than perfect. Our government needs to regulate and augment the economy in several ways if we are to attain allocative efficiency. One of our government's responsibilities is to encourage competition in free markets where possible; but where competition is not possible, the market cannot provide goods widely enough. We then rely on the public sector to intervene in various ways so that we approximate allocative efficiency. Thus, we term ours a "mixed economy."

Where our democratic government cannot nor will not aid our economic system in attaining allocative efficiency, we term the result a "government failure." Obviously, our political system does not always measure up to the ideal inherent in our American Dream.

Market Failures

There are several different ways our markets may depart from the ideal. Thus there are several ways government must respond. These "market failures" include: (1) pure public goods, (2) goods with both private and social benefits, (3) markets with imperfect competition (i.e., monopolies and oligopolies), (4) asymmetric availability of technical information, and (5) imperfect or unfair distribution of income. Finally our mixed economic system may experience (6) a system-wide macroeconomic failure such as our current Great Recession. Each of these difficulties requires a different sort of government intervention.

1. Public Goods

The classic case of a public good is national defense. The market failure is inherent in the nature of the benefits. There are two characteristics: (1) the benefits are not diminished by additional users and (2) there are difficulties in excluding those unwilling to pay. Providing national defense requires that we impose taxes which enable the government to organize and produce national defense. Everyone enjoys defense equally, and it would be impossible to ration its benefits.

Private goods, by contrast, require no such intervention. Since benefits are exclusive to the buyers, firms have incentive to produce and sell them for a profit. The market produces and rations them very effectively,

2. Goods with Important Social Benefits

Other goods have both private as well as social benefits. If left to the free market alone, it would only account for the private, excludable benefits and thus would produce a less-than-efficient supply. Consider the case of education. There are definite private benefits to every student and to his or her family. But there are also huge benefits to firms who hire educated workers. Education also complements the “covenant” we discussed as part of our American Dream. A necessary part of providing a wide range of opportunities is to start with proper educational opportunity. There are a multitude of social benefits to society as a whole as we become better educated.

Similarly, health care has both private and public benefits. Individuals and their families benefit directly so that even without public intervention some health care would be provided. How best for the government to intervene is a complicated question and different nations have developed a range of alternatives. Many nations—as well as, I contend, the American Dream—consider health care a basic right. Our government supports health care in many ways to include medical research and education, mental health, and various regulatory agencies. Here, as in every country, there is wide support for national health insurance. Here, until recently, our dysfunctional political system has denied Americans from realizing this basic part of the American Dream. Our difficulty in providing national health insurance is a prime example of our political polarization and our damaged sense of community.

3. Imperfect Competition: Monopoly and Oligopoly

In our utopian model of free market capitalism, “allocative efficiency” is dictated by competition among a large number of firms. In the real world some markets cannot support large numbers of firms, without which competition cannot guarantee efficiency. The term “economies of scale” refers to the market situation where the larger the firm the lower the cost. Thus, economies of scale can lead to a monopoly or a small number of firms. Depending on the situation, the government may be required to regulate the firm or firms or even to become the sole producer itself. Alternatively, the good or service could be produced by private firms contracted by and regulated by the government. In every case, the appropriate guidelines to be followed attempt to regulate the industry so that it will emulate the results of competitive markets and, thereby, achieve allocative efficiency.

4. Imperfections in Information

One of the more heroic assumptions of the utopian free-market model is that all the players have “perfect information.” In the real world, firms, input owners, consumer groups, and governments are willing to pay to fill in their informational gaps. The term asymmetric information is used to describe an unfair vulnerability of one of the parties—say consumers of prescription drugs. In many market situations the appropriate role of government is straightforward—to insure that all parties have the information necessary to make efficient decisions. In other situations, various moral considerations may complicate the role of government: How should insurance pools be organized for health care, hurricanes, floods, retirement, etc.? Is it fair to exclude those with higher risks? Alternatively, should the rates of those with higher risks be higher? Perhaps social norms will conflict with the private sector’s focus on profits. In summary, information failures in various markets require the government to intervene in order for allocative efficiency to be achieved.

5. Income Distribution as a Market Failure

Competition requires firms to pay workers and other input owners what they add to the value of the goods being produced (i.e., the value of their marginal product). Thus, income distribution is justified on the “to each according to his or her contribution” criterion. Of course we have other criteria of fairness as well.

More importantly, many of the market failures we encounter in actual “real world” markets create income distributions that do not reflect any of our criteria of fairness. For example, when monopolies are unregulated, they increase profits by restricting output and raising prices.

In general, we appreciate that income distribution in our economy is relatively fair, but there is still a need for “redistribution” by the government. The larger question is how are we to pay for the social goods and services provided through the public sector. Very generally, we want the tax to be related to the benefit: Do we get what we pay for?

Our society must depend on our representatives in government to redistribute the returns that occur during market transactions. As noted, the utopian model of competitive free markets distributes income according to “contribution.” Competition requires that input owners are paid according to how much they contribute to the final product. But even if our economy were populated with perfectly competitive markets—which it decidedly is not—our society recognizes several other moral values relating to distribution. At the very least, we require a social minimum safety net.

Society’s choices with regard to income distribution balance several moral values: to each according to contribution to society; to each according to effort or sacrifice; to each according to need; to each according to “rights” or other “merit.” For example, we feel strongly that veterans and the disabled and victims of natural disasters deserve special consideration.

We also consider two broad principles of fairness in taxation: the ability-to-pay principle and the benefit principle. Associated with the idea of “ability” is the idea of “equal sacrifice.” When programs have direct benefits to certain groups, it may be appropriate for them to pay more than the general public. In cases where all are assumed to benefit equally, such as with public goods, the ability-to-pay principle attempts to spread the costs fairly. The equal sacrifice principle takes account of the diminishing marginal utility of income. Since dollars mean less to those with greater income, they should pay more. This justifies a progressive tax structure. But our tax structure falls short both in terms of efficiency and fairness.

Very generally, our system of taxes and income distribution has failed to reflect our ideas of fairness and our social goals. Especially during the 1980s and more recently in the 2000s, the backbone of our mixed economy, the middle income class, has withered and is on the verge of extinction. This trend does great harm to our sense of community and the possibility of fulfilling the American Dream.

6. Our Macroeconomic Policy Failure

Our government is armed with powerful macroeconomic tools and the knowledge of how best to use them. Fiscal policy depends on the Administration and Congress to adjust taxes and spending

so that aggregate demand (spending by consumers, businesses, and government) matches our economy's capacity, or aggregate supply. Thus we have the ability to overcome short-term imbalances and maintain full employment, rapid economic growth, and little or no inflation.

Monetary policy is carried out by the Federal Reserve and ideally is coordinated with fiscal policy to achieve the same goals. The Federal Reserve controls the money supply (and thus interest rates) to influence investment and to some extent consumption. In long periods of our recent history we have had great success in applying macroeconomic policy. During the 1960s and the 1990s, we experienced long periods of economic growth, low unemployment, and low inflation.

During the 1970s, a new phenomenon, "cost-push inflation" proved less amenable to our policy tools. During the 1980s and again in the 2000s most of our difficulties were created by questionable practices in the financial sectors.

There are inherent tendencies in the banking, Wall Street and housing sectors of the economy that, if they remain unregulated, invariably lead to downward spending spirals. The market's usual self-equilibrating forces are overwhelmed.

The good news is that economists know how to turn around such downward spirals by using aggressive stimulus programs. The bad news is that our politicians are more interested in their petty partisan squabbles than carrying out their responsibilities, at which point market failure becomes government failure. Some politicians actually welcome huge deficits and unemployment since it gives them leverage to cut social programs.

When market failures and policy failures combine to create recessions, they endanger the American Dream since job opportunities are eroded. When unemployment is below 5 percent, workers become scarce and the wages and benefits of employees are bid up. The power of unions is increased. When unemployment is high, more power shifts to the employer. The threat of being fired is real and little resistance can be mounted when wages and benefits are cut. Health care insurance is ended. In the most egregious scenarios, firms have been allowed not only to end pension contributions but to raid their employee pension funds to strengthen the firm's profitability.

Political Failure

Those who no longer share our sense of community and the American Dream are using their power to undermine all of what our national community once held dear: public education, welfare, health insurance, Social Security, unemployment insurance, Medicare, our infrastructure of transportation and communication; and, of course, the protection of our environment. Their task is made easier by our government's failure in macroeconomic policy and regulation. Irresponsible risks were taken by those we trusted to run our major banks and investment houses. When the boom in our real estate markets came to an end, the stage was set for a worldwide depression. There was no legitimate excuse for this policy failure. Those responsible in the Federal Reserve and the Treasury have apologized to the public. Some of those responsible have somewhat redeemed themselves by admitting their failure and joining the bailout efforts and other attempts to salvage our economy. Still, it is ironic that the huge deficits are now being used

by those politicians responsible for the macroeconomic policy failure. Those who caused the recession are now using it to undercut our social programs and to block any further stimulus.

Would it be possible for us to use macroeconomic policies to overcome these difficulties? Certainly! Most economists would point out that more aggressive stimulus programs should have been employed. A successful stimulus would have already created jobs and reduced deficits. A quick recovery would have led to increased government revenues at every level, as it did in the late 1990s when huge deficits turned into huge surpluses overnight. What is missing now is a failure of will. Our sense of community is broken, and our government has become dysfunctional. The heroic responses of other generations seem well beyond our reach. Now our society, and more especially our government, has lost its ability to respond to our macroeconomic failures; and, in fact, many of those in power seem only intent on undercutting our basic social programs.

What Can Christians Do?

How can we restore the American Social Covenant, our sense of community, and the American Dream?

For Christians the term “covenant” is deep with meaning. We have received the gift of God’s covenant. God has showered us with undeserved Grace and Love.

The main theme of the Bible is the unfolding of God’s revelation and our understanding of how God is reconciling the world through love. God’s plan unfolds in the stories of creation, the promises to Noah and to Abraham, and the exodus experience. The new covenant given through Jesus completes our understanding of the inclusive nature of God’s love.

As Christians, our covenants with our neighbors as individuals and in community are made in grateful response to God’s covenant of grace to us. To the extent possible our covenants with others should reflect love and mutual respect.

As Christians, there is much we can do to help our fellow citizens renew their faith in our community. We Christians are called to be Children of Light and Inclusiveness. At their best all of our fellow Americans are Children of Light.

So we must go about healing our national community. We must reach out to all our fellow citizens. We must strive to lift the national discourse out of the depths to which it has been debased by the politicians and their strategists. Needless to say, this includes both Democrats and Republicans, all of those who share a sense of community and the American Dream.

We must take on the mantle of the Children of Light in its modern equivalent, becoming children of community, inclusiveness, optimism, and mutual respect. We must seek to renew and refine the American Dream to include those particularly Christian moral values of fair starts and safety nets. We must give special support for the disadvantaged. We must provide for second starts as well as first starts. Of course, Niebuhr would warn us to be a little less naïve and a little more wise than the classic Children of Light. We must reach out and that means making ourselves

vulnerable. But we must at the same time counter the most outrageous lies and dirty tricks of the political strategists.

We must form a truth brigade to expose and embarrass those who make a game of lying and twisting the truth. The campaigns of attack ads must be countered. To the Christian Community in Ephesus Paul wrote: “For once you were darkness, but now in the Lord you are light. *Live as Children of Light*—for the fruit of the light is found in all that is good and right and true. Try to find out what is pleasing to the Lord. Take no part in the unfruitful works of darkness, but instead *expose them*” (Ephesians 5:8-11, NRSV, emphasis mine).

We have some advantages over the big-lie approach. For example, consider the current claim that cutting social programs (unemployment benefits, Social Security, Medicare, national health insurance, and public education) is actually a way of creating more jobs. Such a claim is an embarrassment to our common sense. Even the most conservative estimates by reliable, bipartisan agencies, such as the Congressional Budget Office, vigorously refute that lie. But that does not stop the Children of Darkness from repeating it over and over.

Vigorous “watch dogging” may help clean up the public discourse. But a much more positive effort is also required if we are to restore the American Dream.

One way to lift our spirits is simply to tell the stories of how our nation has responded to adversity in the past. We must remind ourselves of the greatness of our past; there has been not just one “great generation” but many. Yes, we now face a great worldwide recession with our middle class decimated. But to quote FDR: “We have nothing to fear but fear itself.”

We have the means to restore our politics and our economy! And it all starts with a renewed sense of community.

The generation that faced the Great Depression, World War II, and the devastation of Europe faced much greater challenges than we face today. But they responded with a sense of community, built a new economy, and won World War II. In the post-war years, they responded to a recession and huge deficits by (1) creating the GI bill to reward our veterans and give them fair starts, and (2) by creating the Marshall Plan to help rebuild Europe. Part of Marshall’s genius was that he was able to overcome the usual political polarization in Congress by lifting our collective sights higher than ever before.

The generations of the 1960s were equally brave and optimistic. Furious civil rights struggles were waged and won. The assassinations of John Kennedy, Martin Luther King, and Bobby Kennedy (as well as many other civil rights advocates) certainly damaged our sense of community; but Lyndon Johnson and Congress forged ahead with civil rights legislation and the Great Society programs of Medicare, Medicaid, Head Start, and the Peace Corps. More recently, we are reminded by how we Americans respond to tragedies around the world.

These are the stories we must share with each other. We really are better than the political strategists would have us believe. The political strategists are false prophets. We must counter

them at every turn and renew our trust in the strengths of our fellow citizens and our community and our God.

John Winfrey is an economist. He and his wife Barbara live in Lexington, Virginia, and are members of the Lexington Presbyterian Church. For many years he taught economics and public policy at Washington and Lee University. His publications include Social Issues, the Ethics and Economics of Taxes and Public Programs (Oxford University Press) and Public Finance, Public Choices and the Public Economy (Harper and Row). He writes in the areas of Christianity, politics, and economics; especially focusing on our nation's social programs.

Notes

[1] Reinhold Niebuhr, *The Children of Light and the Children of Darkness* (New York: Scribner, 1944, 1960).

[2] Ibid, 9.

[3] Ibid, 18.