

Equality, Justice and Economic Levels in American Capitalist Democracy

[Paper No. 11 of the *Nehemiah Papers*]

I. M. Nehemiah © *December 2011*

I. M. Nehemiah™ and I.M.N.™ are reserved as trademarks. Other persons are prohibited from presenting materials as if they were the authors of this essay. All copyrights are reserved. Permission is granted to anyone for the reproduction of this essay or portions that are not taken out of context.

Equality and justice are not the same. Justice is fairness, while equality is equal-ness. To be fair does not mean the same thing as to be equal. But to be highly unequal in certain circumstances can be grossly unfair. In other words, we need to improve our understanding of equality and justice. And yes, this does relate very much to the issues that could prevent the impending decline of America.

All people are equal under God, can cast one vote in a democracy, and have unalienable rights to life, liberty, and the pursuit of happiness. I needed to say that. I believe that. But that does not mean equal incomes or equal prestige or even equal achievement of happiness.

The concept of equality has two serious problems that are closely related:

1. The first problem with “equality” is that people only desire it with those who have more than they do.
2. The second problem with “equality” is that people only desire that people with less than they have should rise up to their level.

People advocate bringing other people up to their level, or for themselves to rise to superior levels. Nobody is willing to move downward to the lower levels.

People are not equal. The most obvious inequalities are observed when individual persons are measured and then compared. These unequal attributes include intelligence, physical abilities, and socio-psychological skills. Slow learners with physical challenges and poor social graces do not become corporate executives, movie stars, great athletes, or eloquent speakers/politicians. The deck is stacked against some people early on and throughout their lives, while others have many favorable personal attributes that help them to succeed, even to become rich and famous.

People are not equal. Inherited wealth, powerful friends, and being in the right place at the right time give some people the upper hand either by birth or through gradual acquisition in life by hard work or luck or even cheating. The stories of the origins (and declines) of the wealth of a person or family are often colorful, even told in books, films and songs. The American stories reveal much about American capitalism and society, not all of which is very nice. For example, some families have extreme wealth that originated a few generations back with formerly legal (but now frowned upon) schemes involving monopolies, insider trading, unfair practices, and even drugs and slave traffic. Such was capitalism then, and the fortunes remain intact in the “old-money” families while the descendents of the then-disadvantaged have no recourse for adjustment.

People are not equal. But all deserve justice and fairness.

Fairness

What is fair? Fairness is mainly decided by society with guidance from its religions, laws and human compassion/caring. But society can be viciously “unfair” at times, even at opposite extremes. Consider the now-discredited experiments with communistic socialism that brutally stripped all assets from the wealthy and middle classes, only to reestablish inequality based on ideological power and influence. Consider also the outwardly capitalist democracies in developing countries that have created inhumane conditions for masses of people living in dire poverty while relatively few others have extreme wealth, at times even defended by America. The grossly lopsided Capitalism¹⁸ in dictator Somosa’s Nicaragua was held in higher regard by American leadership than the socialistic readjustments in (weakly democratic) Sandinista Nicaragua, even leading to illegal dealings exposed in former President Reagan’s Iran-Contra scandal.

Likewise, some sharp executives receive great salaries and even bonuses that create new personal fortunes while their companies progressively fail. They might resign or be fired when company stocks plunge, but they keep their fortunes. In the infamous Enron bankruptcy (and other less colorful cases), many executives retained millions of dollars while shareholders (including investment banks and pension funds) suffered extensive losses from their portfolios. Even worse, many Enron employees lost their jobs and most of the value of their retirement plans. Capitalism²⁰ as practiced today in America is not so great and wonderful as the wealthy people would like us to believe.

Just consider pyramid selling that enriched the first few and left the latecomers with dubious inventories until laws made it an illegal practice. And consider marketing and selling techniques that promote unnecessary purchases, even to (or especially to) the vulnerable, less-educated or elderly segments of society. And most credit card providers prefer that their cardholders carry a debt so they can apply very high interest to the overdue balance. These are examples of businesses earning large amounts of money by legally taking advantage of others while claiming to provide needed services. For some, maybe the services are useful. For many, certainly not.

Another interesting aspect of American capitalism is that the capitalist players (investors, corporations, land owners, *etc.*) want to keep the full profits and growth of the investment when times are good, including windfall profits and government subsidies. But when things go bad they call for the government to bail them out of trouble. Examples:

1) Many pension funds have been under-funded or “depleted” (robbed?) by corporations and even state governments, with the US government providing guarantees via the Pension Benefit Guaranty Corporation (PBGC). In the United Airlines pension bailout in 2004, the PBGC took charge of \$6.6 billion of the \$9.8 billion of unfunded accrued benefits.

2) Government subsidies are paid for farm production, with some years having great profits that the farmers get to keep, but in years when drought or blight or other hardship occurs, the assistance is massive.

3) The massive bailouts of selected financial institutions in recent years were done without financial penalties to the perpetrators, but many shareholders in the entities that were allowed to fail suffered immense personal losses.

All this is done under the name of Capitalism. I speak against it, but I do not favor Socialism. Rather, I seek significant changes in Capitalism²⁰ that is failing our nation.

I am not against the government programs; they are important to assure some stability in the naturally troubled world. But corporations, property owners and farmers should not be

allowed to rake in business profits and increases in property values without corresponding payment of taxes, profit-sharing or some other mechanism to cover past use and future availability of those stability benefits. We Americans like the security provided by our government, but we allow people and corporations to become very rich in good times (and not pay big taxes or profit-sharing) and then avoid the financial consequences when bad times come, even if caused by poor management by highly paid executives. Capitalism in America needs some fixing both at the top end where the assets are, and also at the bottom end where serious unfairness needs to be rectified.

People are not equal. But they all deserve justice and fairness.

What is fair? As I have said, fairness is mainly decided by the society (our democracy) in consultation with religion, laws and human compassion/caring (three of the Five Realms of Power). Tradition can be important, but tradition represents the past, and we know that the past is often different from the present. America needs to adjust its policies that relate to the very wealthy and the very poor. The old models of capitalism are not “gospel” that cannot be changed. Fortunately, America is not beyond hope. But we must open our eyes. There is unfairness in America, as discussed below. I. M. Nehemiah does not name individuals as examples, but we can look at examples like Enron and also at the data of our whole society.

Social Classes and Income Levels in America

Let’s consider some census-derived income numbers, generic names for status and classes, and estimates of assets. There are exceptions higher and lower in every classification.

Table of Social Classes and Income Levels in America

Social Status	Economic Class	Income Category	Dollar Income (household)	Assets (not income) (est. 10% growth/yr)	% of Pop.
Highest Third of American Households					
Elite	Super-upper	Ultra-rich	>\$500K to millions	\$20 million to billions	< 1%
<i>(Some of the Elite have modest income while having massive assets, and vice versa)</i>					
Exec/Prof	High-upper	Very rich	\$250K - \$500K	\$2 - \$20 million	~ 1%
<i>(Note: Top 20% of population has over \$90K household income, which equals 50% of total USA income.) (Educated guess: Top 20% of population owns over 85% of America’s net worth; top 5% might have 50%.)</i>					
Prof/Business	Low-upper	Basic-rich	\$70K - \$250K	\$100K - \$2 million	~30%
<i>(or Super-middle?)</i>					
Middle Third of American Households					
White Collar	High-middle	Well-to-do	\$50K - \$70K	Home plus investments	~15%
Mixed	Low-middle	Comfortable	\$30K - \$50K	~\$50K Home equity	~18%
Lowest Third of American Households					
Blue Collar	High-lower	Struggling	<\$30K	~\$10K - Vehicle, furniture	~13%
<i>(or Sub-middle?)</i>					
Poverty	Low-lower	Into poverty	<\$20K	About zero	~10%
<i>(Note: An individual earning less than \$10K per year, and a household of 4 earning less than \$20K are officially in poverty in America. They represent about 20% of US population.)</i>					
Welfare	Sub-lower	Marginalized	<\$10K (incl. Welfare)	Less than debts	~10%

Consider the people in the “sub-lower class” who are truly disadvantaged with very low below-poverty incomes, poor education, no health services, *etc.* It is proper and decent to want them to rise higher, with appropriate assistance such as “contractual welfare.” Note that I did not say “to be raised higher” via unrestricted handouts. These sub-lower class people are primarily recipients of welfare, but the benefits are rather meager and not resolving of the problems. In addition, many of the people in the lowest third of the socio-economic ladder are also “slow learners” in the lowest third of mental ability. Granted, many of them have successful lives. The endearing movie character, Forrest Gump, might serve as an exaggerated example, but he helps us understand these people. But for others of this class, the example must be altered to include “poor attitude,” as found in unkind and disagreeable people. These people can be extremely difficult to assist because their “rights” allow them to be nasty even to social workers and their own families (parents and adult children) who often want desperately to assist but are blocked even from interacting with the welfare agencies to assist their “loved ones in need.” This must be addressed.

A notch higher, people in the “low-lower class” are in poverty or on the edge. They generally have some low-paid employment, receive some benefits, have weak or no health insurance, live in poor neighborhoods with excessive violence, and attend poor schools. Their contributions to and eventual benefits from Social Security are low. Their taxable-income bracket is about zero percent. They are burdened with debts at high interest rates. Many do not manage effectively their meager income and assets.

Example: If one single person earns \$7.50 per hour, he or she earns \$15K annual gross wages and is not in poverty. But if that same person is in a household of four and supports a spouse and two children (or one child and a dependent parent), they are officially in poverty. A second job, or working spouse, can elevate them, but money is scarce for even some basic expenses. No savings. They face potential disaster if struck by job-loss, another pregnancy or illness. Their housing, neighborhood and schools are likely to be marginal.

Please note that I am not advocating handouts without requiring some responsibility. People who receive welfare assistance should behave “appropriately” with actions such as seeking employment and further education, including compulsory money-management instruction and monitoring. An American variation of “contractual welfare” would be appropriate. I am advocating serious efforts to overcome the causes of the poverty and help these people rise into the upper ranks of the lower class where they and their children can have reasonable lives and realistic opportunities for upward mobility if desired.

The moderate-income earners (those having \$30K to \$70K gross household incomes for the middle third of American households) are doing “okay.” They want more, but actually they could share some of their well-being and still live comfortably even in a smaller home, with an older car, and taking a more modest vacation. This “sharing” is already partially implemented in American life through taxation systems and voluntary donations to worthy causes. They complain about taxes, but they are willing to pay for needed schools and services in their communities. More taxes on them do not seem appropriate unless there is some nationally-defined need. This core of the middle class in America has “enough” for their pleasant lives, but many of them create their own problems because they save too little, spend too much on unnecessary items, struggle with credit card debt, are too self-indulgent, and do not see much (if any) increase in their net worth. Sure they would like to have more income and assets, but they also want security now and in the future. They will not move to the poor side of town. The national debt and personal debt are major threats to their well-being. The Nehemiah Postulates

about impending decline for America really concern them (or should), because a decline will have the greatest negative impacts on their lives and on their children's lives. They are vulnerable in part because they have been lulled by the prosperity of the past thirty years.

The basic-rich people are "doing quite well" and have household incomes of \$70K to \$250K per year. Some are starting their careers; others are ready for retirement soon. So much variation can lead to quibbling about definitions that is not appropriate for this discussion now. Just note that these people can purchase anything except the highest luxury items. If they want a boat, they can buy it. The same for extremely lovely homes, lavish vacations, private schools, fancy cars, or whatever else is highest on their priorities. But they cannot do all of those things at the same time. Many simply invest more and more. They appreciate ownership not just of their homes, but also of assets that have the best rates of return. They are benefiting from the current American Capitalism²⁰. Many have attained millionaire status, or could do so in their lifetimes.

In reference to Capitalism²¹

When discussing the very high-income people from \$250K to millions of dollars per year, there are factors in addition to basic wages. One could be called "windfall wages." How much is the value of an hour of a person's efforts? If a person receives one million dollars for a year of employment, that is \$500 per hour or \$4000 per day. There are executives and television personalities and sport stars receiving \$10 million per year, or \$5000 per hour for forty hours per week. Note that they do pay many dollars in taxes, but probably not over 25% of their income, after extensive deductions. They have major increases in their net worth every year. Perhaps they are worth that much (or perhaps not). The point here is that these super-rich people do exist, and they continue accumulating money year after year after year while also living extremely lavish lives. For some, the **increase** (only the increase) in their net worth from salaries in one year is more than the **total** income of many Americans in an entire lifetime. That is American Capitalism²⁰ today. I will not feel sorry for the very wealthy people regardless of how high their taxes could go. They have learned to play the capitalist system well and to utilize their existing wealth to gain more and more. It is in their best interest to prevent changes in the current system. In my opinion, the current system must be changed if the nation is to become better off, and not just favor the wealthy people.

A second factor about very wealthy people relates to accumulated assets that provide additional income or asset growth. Assume that a wealthy person has \$10 million in investment assets, excluding his or her million dollar house and luxury personal items. Even at only 5% growth, that places \$500,000 of increased net worth onto his or her financial statement every year. Many receive much more than 5%, and many have far more than \$10 million. There are numerous people with \$100 million or more in assets, called "hectomillionaires" (and sometimes referred to as "centimillionaires," despite the centi- prefix meaning 1/100, not 100, in the metric system), who are still far from the billionaire category or the "decabillionaire" level. Because America's tax structures are enacted by "serial incumbent" legislators who are subjected to great influence by money, the rich pay relatively low tax rates while their net worth climbs higher and higher. The gap between the rich and the poor in America is widening.

I do not say that the very wealthy people are bad or mean or crooked. Most of them are living according to the laws of traditional capitalist America. But I do say that when in America some children have substandard education and some elderly lack basic health care and some neighborhoods lack adequate police protection, a new look at fairness is required. It is only a

matter of changing the laws and making sure that the new laws are “fair” even for the very rich. And in terms of impact on their existing lavish life-styles, there would be virtually zero impact. Even if the after-taxes increase in net worth was cut in half for a very wealthy person, they would have no need to make any changes in their life-styles.

Does that sound harsh? Think again. Consider a person with a very high income and exclude in this discussion any increase (capital gains) in the value of the person’s assets like stocks, bonds and property. Assume this very-high-income person pays taxes at current rates and still has an **increase in net worth** (including purchases of additional stocks, properties, *etc.*) of one million dollars in one year because of income from work, employment, consultancies, *etc.* My suggestion is that **at least half** of the million dollars should be applied to the improvement of the national well-being. We will be discussing later what could be considered as “improvement of the national well-being,” but two clear examples are the improvement of substandard education and better enforcement of the laws in difficult neighborhoods. The high-income person would not suffer even the least of discomfort and would have greatly assisted the building of a better America. And if higher taxes cause them to lose the capitalist motivation to work hard, that is also okay because there are thousands of other very capable people earning far less now who would gladly take over those “unfulfilling” duties that some unpatriotic rich-guy or rich-girl does not want to do for a mere \$500,000 net salary. And for those with over ten million dollars increase, the rate should approach eighty percent going toward improving the nation and the world. The actual amounts can be debated and decided, but to maintain our status quo is to continue a path toward disaster.

This is an important part of Capitalism21. Could this be done? Certainly. Here are four ways:

A. Good: Just change the laws in America. A willing Congress and an understanding President could do that in five months. Enacted by Spring 2012.

B. Better: Even without any changes in laws, the stockholders of major corporations could change their internal rules about salaries and start putting some serious money into building a better America and a better World.

C. Best: The high-income people could decide that they can do very well without so much increase in net worth and consequently make massive donations into projects that they (or people they hire) decide would be appropriate pilots of what can be done to rectify the problems in America and beyond.

D. Better than best: All of the above in coordinated efforts. Why? Because the voluntary nature of B and C need to be backed up with nation-wide compulsion relating to those who refuse to do B and C.

Note to the rich folks: Do not worry too much. I do propose that rewards other than money should be forthcoming to offset the reduction of your grossly gross incomes. I do not ask you to like me. I just ask you to help change the course of American capitalism so that our great nation can continue to survive as a great, fair, and just nation. America made you great. Now it is time for your grateful response.

Here are some quick items to note:

1. Although I am proposing the “half-of-net-worth-increase” money be applied to building a better America and a better World, I did not say that the money must be taken as a tax. In the spirit of free enterprise, the very high-income persons are encouraged to select one or more targets of improvement from a nationally-prepared list of targets, and even to become

personally involved with the target project of choice. For those who decline, an obligatory “assessment” should be compelled by national law and implemented vigorously.

2. You think that still sounds harsh? Well, try living your life with a substandard education or in an unsafe neighborhood. THAT is harsh.

3. The objective is better equality of living up to but not much beyond the minimum standards of decency. Nehemiah Paper No. 13 discusses minimum standards.

4. Please remember that the writings of I. M. Nehemiah are about an impending decline of America. And the very wealthy people would also suffer with such a decline. To avoid the decline that is so close already, we need to change some of the fundamentals of our society. What is described above is merely a changing of some of the rules or laws of capitalism. It is a shift toward Capitalism²¹. Yes, America would very much still be a capitalist nation, but with more compassion in appropriate, sustained, and constructive ways.

5. This is akin to authorizing massive donations (to approved, non-religion-based projects for the national well-being) that could be taken into account with the donor’s yearly income tax filings.

6. This is not a free ride for the impoverished people. Standards and obligations will be set and imposed, as discussed in later Nehemiah Papers and elsewhere.

7. Consider also that the above model is also to be applied to the average high-income earners (the “basic-rich”) who could increase their net worth by \$50,000 in a year. They should contribute 50%, or maybe only 30%, even after living the great lives that they currently enjoy.

8. In our discussion we need to examine equality and the ways to make living conditions fair for all. But even more than that, we need to find fair and equitable ways that also avoid or prevent the impending decline of America. And also not destroy or undermine what is good in capitalism in America.

9. Expect resistance. But respond in terms of justice and the need for fairness in capitalist American society. Our future depends upon our success.

I am not sure if I am happy or sad to have ruffled the feathers of some readers. I hope that you will think and talk about what I have written. All I know is that

I. M. Nehemiah

Conscience for fairness