AMERICA’S FRAGILE FOUNDATIONS

A Collection of Essays

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Dedicated to our parents:

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The search function available on Acrobat Reader is the best way to search the text by word or phrase. For that reason, no index has been provided.
Introduction

*America’s Fragile Foundations* is a collection of 103 essays, organized around 18 themes, that are drawn from a set of more than 250 essays written over the 2005 – 2018 period. It was necessary to do some copyediting mainly to the titles and in a few instances to the texts themselves. However, none of the original data were deleted or revised.

As we were selecting essays for this collection, we decided that there should be at least three essays to every theme. Accordingly, and with one exception, we ended up with 18 themes. Each essay typically runs about 800 to 1000 words in length. A few are much longer.

The essays bring an obvious conservative perspective to the subjects addressed without embracing libertarianism or individualism. Rather, they reflect a modern personalism that regards all human beings as having a sacred dignity that surpasses their instrumental value and cannot be taken away or diminished no matter the reason that may be given to rationalize setting that principle aside.

Together we hold fast to the right to life, individual freedom -- more so freedom *for* the purpose of becoming a better person rather than freedom *to do* as one pleases or freedom *from* restrains notably ones that are imposed intentionally -- and limited government because without the right to life, freedom *for*, and limits on the reach of government, the sacred dignity of the human person too often is threatened.

The authors bring to bear their own professional experiences, Meade as a pediatrician and Edward as an economist, and their personal lives as wife and husband with four adult children and 11 grandchildren. Since 1977 both authors have lived in northeast Louisiana and for that reason there are several references in the essays to Louisiana institutions, customs, and practices.

Many years ago a very wise mentor (to Edward) asserted in the introduction of his monograph on the adequacy of the benefit amount in unemployment insurance that this is where “the rabbit gets into the hat.” To the extent possible, we too embrace that kind of openness and explicitness, meaning that there is no way that we can separate ourselves from the principles, convictions, and values that we bring to the writing of these essays. And no way that we would want to do so.

There is no particular order to the presentation of 18 themes or to the presentation of the essays assigned to any given theme. The reader may choose to read them front to back, as with a full nine-course dinner, or may pick and choose from the vast array of subjects, as with a buffet line. *Bon appétite!*

Finally, we would be remiss if we did not acknowledge here and now that our friend Lyndon Dawson urged us years ago to bundle our essays into a collection in the hope of reaching a wider readership and making a difference. His advice was well-taken.
I. FREEDOM
The cyber attack on Sony, Representative Scalise’s appearance at a conference with links to David Duke, demonstrations in New York calling for the death of police officers, and the slaughter at the Paris offices of *Charlie Hebdo* have one thing in common – freedom of expression.

Sony’s release of a film that, just for laughs, depicts the assassination of Kim Jong-Un, the supreme leader of North Korea, on grounds of freedom of expression raises the following question. Would we accept the same argument if such a film were made by ISIS in which President Obama is assassinated, just for laughs?

The recent disclosure that Representative Scalise’s in 2002 addressed a white supremist group with ties to David Duke raises two questions. Is the freedom of expression of a U.S. congressman, or any American citizen for that matter, suspended when the public does not approve of the group to which that person freely chooses to express his views and opinions? Does a group that is considered unacceptable to most Americans forfeit its First Amendment rights to peaceably assemble and petition the government?

The demonstrators in New York calling for the death of police officers raise another question. Are there any limits on freedom of expression? The answer is obvious but at times gets lost in the heated public discourse.

Virtually everyone knows that a person cannot shout “fire” in a crowded theater. Freedom of expression does not protect hecklers and demonstrators at a public hearing. Newspapers are not free to publish material without first establishing the credibility of the source. Sworn witnesses are not free to tell a lie to a judge or jury or even testify to what they heard from someone else. Citizens and newspapers are not free to disclose national secrets to enemies of the state.

Freedom of expression with no limits can lead to social disintegration or strong-man rule.

The slaughter at the Paris offices of *Charlie Hebdo* at the hands of well-armed men who apparently objected to the way in which the publication represented their religion raises several questions. Does freedom of expression protect any and all cartoonists however provocative and incendiary their cartoons might be? Must the public tolerate the work of cartoonists on grounds that their freedom of expression is absolute? Are cartoonists allowed to knowingly antagonize a group by slamming their religious convictions? What purpose is served by the newspaper’s recent cartoon gleefully mocking the birth of Jesus? Is it just for laughs?
Supporters of *Charlie Hebdo* are likely to answer those questions differently than its critics. To illustrate, the *Huffington Post* published six cartoons by *Charlie Hebdo* cartoonists. Almost all of the hundreds of comments are supportive. Here is a small sample of three.

“*Religion is the most destructive force in humanity. The only thing I regret about my life is being forcefully exposed to the foul religions of the world.*”

“All religions need to be banned. They are silly fairy tales that people are brainwashed into believing.”

“All religious extremists are terrorists. It does not matter what the religion is.”

Only a tiny handful of the comments found the cartoons objectionable as in the following.

“What are all of you taught in schools and homes? … Hate and hypocrisy? Are these your western ideals and freedom?”

Supporters of *Charlie Hebdo* justify its attack on religion as satirical criticism. Its critics see the cartoons as willful mockery. Is its real purpose to attack the institutions that form the foundation of western civilization just for the amusement of its staff and readers? Just for laughs? Is it a newspaper or an adult comic book?

Whether intended or not, *Charlie Hebdo* drives a wedge between the different segments of the population where it circulates. Does it have a right to divide that population in the name of freedom of expression? Or does it have a duty to moderate its language in order to help unite the divided parties?

This difference in perspective can have tragic consequences. Supporters see the execution-style killings at the offices of *Charlie Hebdo* as evil. The law agrees. Its critics, at least the most extreme among them, see the killings as good. For them, the killings are fully justified.

What can the publication’s critics do to change its content and tone? First, they can ignore it. Second, they can picket its offices calling attention to its offensive cartoons. Third, they can launch their own publication focusing on the cartoons that cross the line from satirical criticism to hate speech. Beyond that, there is little they can do without breaking the law. Or perhaps they could place ads in *Charlie Hebdo* condemning it for ridiculing and mocking believers in order to whip up support among their readership?

For sure, critics may not take up arms and viciously attack the publication’s staff. They cannot firebomb its offices. Both are despicable crimes and rightfully punishable as severely as possible under the law. Their frustration, however, is likely to grow and the population further divided if *Charlie Hebdo* insists that the freedom of expression of its cartoonists is absolute.
Some would call any moderation of the tone and content of its cartoons self-censorship. Others would consider moderation as necessary to finding the golden mean between the extremes of absolute freedom of expression and none at all.

Nearly one hundred years ago Joseph Schumpeter asserted the following.

“The meaning of the struggle (between Christians and Arab Muslims) was not the spreading of the faith but the spreading of Arab rule – in other words, war and conquest for their own sake.”

For jihadists France is an ideal battleground to re-ignite the struggle. Christianity is essentially dead there and the Arab Muslim population is young, large, and growing. Gleefully mocking and ridiculing Muslims gives them even more reason to engage in war and conquest for their own sake.
Walter Leger, speaker pro tempore of the Louisiana House of Representatives, recently characterized the Louisiana Marriage and Conscience Act as a “perversion of the laws that been established to reflect the beliefs of a moral and religious people” and “bigotry enshrouded in religion.” He attacked the legislation for using “a religion founded upon the premise of ‘love thy neighbor’ to promote intolerance.” He called that use of religion “deplorable.” He asserted that the proposed law “threatens our nation’s core tenets of freedom and equality.”

Leger speaks as if religious liberty is not one of America’s core tenets and is not under attack in the United States: “Religious liberty by right should and ought to be protected, and it is.” Tragically, it is under attack with the HHS mandate on contraception, sterilization, and abortion-inducing drugs. With universities denying official status on campus to Christian student organizations that require leaders to be Christians. With forced removal of crosses used as roadside memorials. With the VA asserting that it may prohibit any spiritual or pastoral care practice that it deems detrimental to the health or safety of patients. With removal of Ten Commandments monuments from public property.

Leger is concerned that passage of this legislation would be harmful to the State’s tourism business that benefits from visitors who spend $10.8 billion annually. He belittles the bill on grounds that there are more important issues before the Legislature including a large budget deficit.

To eradicate the bigotry, intolerance, and threat to freedom and equality associated with the Louisiana Marriage and Conscience Act, would Leger support the following kinds of coercion?

Requiring the Knights of Columbus to rent their meeting hall to same-sex partners for their wedding reception.

Coercing a kosher delicatessen into serving pork products at a wedding reception.

Forcing an evangelical college to provide housing accommodations for students who are same-sex partners.

Compelling a private adoption agency with deep religious convictions to place children with same-sex couples.
Leger would be fully justified in using coercion if religious liberty were defined strictly as freedom of worship. He is not if it is construed to include freedom of conscience.

Would Leger promote bigamy and polygamy as permissible forms of marriage provided the partners love one another? Would he approve of sexual intercourse between teacher and student if they love one another? Would intercourse be acceptable between persons who truly love one another but are married to other partners?

Are Christians obliged to “love thy neighbor” in all circumstances? Are they required to accommodate to any wish, whim, or desire, even when it holds their conscience in contempt? Are they in all cases required to subordinate their conscience to the will of the legislature? What happens to the First Amendment right to petition the government when those rights are trumped by vocal opponents? What happens to freedom of conscience when coercion makes a person do something repugnant or remain silent?

Are same-sex couples allowed to construe their values as rights protected by law denying persons of faith the right, protected by the First Amendment, to express their own convictions in public because their values derive from a belief system? Are faith-filled persons free to worship as they please but denied any right to speak their conscience in the public square?

For many persons of faith, freedom of conscience has great meaning. Others find it convenient to treat their conscience like a sleeping dog that rests quietly in a corner. Is this what Leger requires of persons of faith? That they silence themselves lest they fall into bigotry, trusting all matters of conscience to the collective conscience of the legislature?

Leger insists that a person’s freedom of conscience is strictly a matter of a person’s heart and belongs in that person’s home but not in any business he/she may operate. He is saying that any person with religious convictions who operates a business could be coerced into silence. Any expression of religious convictions in a business could be discriminatory and bigoted. A frightened business person no longer may feel free to say to a customer “God bless you,” “I’m praying for you,” “missed seeing you in church last Sunday.” Or may feel the need to wipe off the ashes worn on Ash Wednesday before opening for business.

This is where coercion leads when religious liberty is defined strictly as freedom of worship. Not in one huge movement, but little by little. In this brave, new world you either accept the coercion as inevitable or rationalize remaining silent.

Deliberately using language such as bigotry, intolerance, and threat to freedom and equality are deliberately intended to silence persons of faith. So too the “religious crap” language (google it!) used by the head coach of the women’s basketball program at UCONN and many others to attack Indiana’s proposed legislation.
Did anyone in Germany in 1932 imagine that millions of Jews whose businesses were attacked and shut down later would be exterminated simply because they were Jews? Lutheran minister Dietrich Bonhoeffer was the exception not the rule in fighting these Nazi atrocities. They happened because millions of good Germans had been coerced into silence.

Does anyone in Louisiana today imagine that ridiculing and attacking believers for supporting the Louisiana Marriage and Conscience Act may lead someday to denying their freedom of conscience under the First Amendment?

Unthinkable? Perhaps not. It starts little by little with business. Consider the $135,000 fine imposed on a family business in Oregon for refusing to prepare a wedding cake for a same-sex couple. Notice the negative impact on the tourism business in Louisiana that Leger claims if the bill is passed. Thus, either align your conscience with the prevailing secular values or the state will shut you down for practicing bigotry, intolerance, and threatening freedom and equality. Then millions of good people in Louisiana will have to decide whether to remain silent or stand up and resist like Bonhoeffer.
There is more to the Supreme Court case involving Colorado baker Jack Phillips who refused to make a cake for the wedding reception of two gay men than freedom of religion and discrimination. Specifically, it’s also a matter of economic gain, freedom in economic affairs, and justice.

Every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved. Simply put, what is gotten in any exchange is more highly valued than what is given up. In this regard it is essential to differentiate between exchange value and use value. Exchange value is what is given up for the good or service that is exchanged. Use value is what is gotten, the usefulness of the good or service to the person who acquires it.

Under competitive market conditions, exchange value should not vary from one person to the next. The price paid for a specific cake in a bake shop is the same for everyone buying that identical cake. However, use value is not the same for every buyer because some persons derive greater pleasure from consuming the cake than do others. While exchange value is determined by market conditions at the time and place of the exchange, use value is determined by the value systems of the uniquely different persons involved in the exchange. Exchange value is tangible. Use value, on the other hand, is intangible. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up). Without that gain, the exchange cannot be carried out.

Gain-seeking behavior is rooted in self-interest. Indeed self-interest is both legitimate and necessary for conducting everyday economic affairs. More than 25 years ago John Paul II called attention to the importance of reconciling self-interest and the interests of society: “where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity.” The self-interest of Phillips who owns Masterpiece Cakeshop versus the interests of society as represented by the Colorado Civil Rights Commission.

Reconciliation depends importantly on buyer and seller meeting their duties under justice in the exchange process. Justice demands that they trade things of equal exchange value, and impose equal burdens on one another. In exchange for the cake, the buyer owes the seller the price they agreed to. In exchange for the money paid by the buyer, the seller is obliged to deliver the cake at the agreed time. Both buyer and seller must be free to act.

Coercion by either party invalidates the exchange. For that reason, practices such as human trafficking, piracy, armed robbery, and slavery are widely condemned. At the same
time and for the same reason, pharmacists, physicians, and other health care providers in some states are not required by law to provide certain services whenever it would violate their religious beliefs or conscience. When conscription is used to forcibly increase military manpower because the interests of society are more important than self-interest, many Quakers and Amish have refused to serve in combat and have been protected. Earlier this year, President Trump exempted the Little Sisters of the Poor from an HHS mandate requiring them to include contraceptives in the health plan they provide for their employees.

Notwithstanding cake-maker Jack Phillips’ deeply-held convictions about same-sex marriage, the Commission has charged him with discrimination in refusing to make a wedding cake for a gay couple even when that couple has other bakers they could turn to. The burden these charges have imposed on Phillips includes a significant loss of business and reduction of his work force. If, therefore, the Supreme Court holds that Phillips is being coerced by the Commission to violate his conscience, the Commission’s case charging him with discrimination is undermined.

What if the gay couple has no other baker to turn to? Should the Commission coerce a baker to violate his beliefs or conscience, deny him freedom in business affairs, in order to serve the interests of society as interpreted by the Commission?

Here it is necessary to differentiate between a need (a thing required for basic human well-being), and a want (a thing that is desired). Unless the Supreme Court identifies a wedding cake as basic to the couple’s well-being, it should find that the cake truly is a thing desired, and conclude that no one should be deprived of his freedom in order to satisfy someone else’s want. A Court decision that denies Phillips his basic right to act freely in business affairs and coerces him to violate his conscience ensnares bakers, along with butchers, candlestick makers, and others, in “a burdensome system of bureaucratic control.”

[a symbol]
The burning of books, according to the Holocaust Museum, refers to the ritualistic destruction of books or other written materials in public that originates from a cultural, religious, or political opposition to those materials. The burning of books in Nazi Germany comes to mind.

The destruction of works of art originates from the same kind of cultural, religious, or political opposition. Consider the destruction of the Buddhist statues by the Taliban.

In essence, there is no difference between burning books and removing them. Burning and removing originate from a cultural, religious, or political opposition. They are removed or burned because they have been judged offensive.

In the end which is worse, burning books violently in public or removing them quietly in the dead of night? Both have the same chilling effect: controlling what the public may read and what authors may write. Judging books offensive is a form of censorship. In addition, censorship has a ripple effect. It denies other authors the opportunity to rebut what has been judged offensive and removed. Burning and removing books is an attack on the First Amendment right of free expression. Tolerance is replaced by intimidation.

Destroying statues and removing them are the virtually the same for the very same reason. In the end they have been judged offensive thereby intensifying demands for their removal or destruction. What is sacred or beautiful to some is judged sacrilegious or ugly by others. That offense is sufficient to remove or destroy them, and as with books, constitutes an attack on freedom of expression. To those who are offended, force may be used because it is justified. Thus using force replaces reaching accommodation.

Four young girls died in a 1963 bombings of a church in Birmingham Alabama. In the 1990s many African-American churches in the South were set ablaze. Setting fire to a house of worship is an action that combines burning the house of God and destroying its sacred treasures. It originates in religious and racial bigotry. Bigotry also accounts for demolishing grave stones and defacing synagogues.

All the same, Martin Luther King pleaded repeatedly for nonviolent action to address racial bigotry. At times nonviolent action really works. Before the peaceful success of the Solidarity movement in Poland where not even a single pane of glass was broken, one way to protest Soviet oppression was to paint WWII Soviet tank monuments pink.

There would be no need to focus attention on removing books and statues as attacks on freedom of expression if all protests in America were grounded in MLK’s message, where
both sides respected each other’s position, and were committed to work through their
differences peacefully. Sadly too many protestors today use violence to force their will on
others.

Last summer we witnessed mobs of protestors clashing with one another over the
destruction and removal of certain Confederate statues in Charlottesville, Virginia and
Durham, North Carolina. Tragically, a few protestors/bystanders died in the mayhem. The
statues were judged offensive.

In May last year public officials in New Orleans ordered the removal of four Confederate
statues in the dead of the night because they were judged offensive. Those statues were
immediately and temporarily relocated to a public-owned yard where discarded police cars
and ambulances are dumped. The mayor’s office has not responded to a question
regarding the final disposition of those statues.

There are for sure appropriate limits to freedom of expression. Public safety is one that is
widely accepted in our country. No one has a constitutional right to shout “fire” in a public
theater. Obscenity is another. As with beauty, the problem with this limit is that obscenity
is in the eyes of the beholder. Put differently, “I know it when I see it.”

The latest protests in effect propose a third limit: being offended. If conservatives are
offended by the theory of evolution do they have the right to remove books on evolution
from school libraries and reading lists? If liberals are offended by public monuments
affirming the Ten Commandments, do they have the right to remove those monuments?

If some are offended by the baseball team in Cleveland calling themselves the Indians and
others in Washington are offended because the football team is known as the Redskins, do
those fans have a right to force their will on Cleveland and Washington to rename their
teams? Are we to infer that there is something inherently offensive in names such as the
Los Angeles Angels, Minnesota Vikings, Duke Blue Devils, Milwaukee Brewers, Pittsburgh
Pirates, and New Orleans Saints? When being offended becomes a legitimate limit on free
expression all of us end up on a slippery slope.

In 1994 Billy Graham admitted the following about his own personal ignorance and
intolerance. “Back then I preached with much more fire and vigor. Part of it was
youthfulness, part of it was intensity, part of it was conviction. And … part of it was
ignorance … I think I’m definitely more tolerant than back then.”
With the Republican and Democratic national conventions behind us, both of which were noteworthy for data massaging, bombastic rhetoric, and parsing around the central economic issues of the day, what are the cold, hard, facts of current economic affairs?

There is an abundance of data to choose from, which is both a blessing and a curse. Everything hinges on how carefully one picks his way through the datasets, selecting in some, selecting out others. And when the numbers don’t come out as one hoped for – they don’t support the partisan message -- there’s always the blame game.

To illustrate, the Democrats tell us that we have had 28 consecutive months of private-sector job growth. However, job growth was not statistically significant in March-April 2012 and May-June 2012.

Further, what the Democrats choose to leave out is that the 111.1 million private jobs in June 2012 -- the last month for which revised estimates are available -- nearly matched private payrolls in March 2005. In that sense, over the last 7 years for working men and women the US private economy has made no net progress. Consider also that today there are 4.5 million fewer jobs than in January 2008. In that comparison, the economy hasn’t yet recovered.

The Republicans tell us that today’s jobless rate of 8.1 percent is higher than the target rate the Democrats set when they passed the stimulus package in 2009. *True enough,* but it’s much lower than peak rate of 10.0 percent in October 2009 that the Democrats trace to the failed economic policies of the Bush presidency. However, the Dems don’t tell you that under Bush in October 2006 the unemployment rate stood at 4.4 percent.

The public debt today is $16 trillion. When Democrat Obama took office it was $10.6 trillion. When Republican Bush was sworn in for his first term it was $5.7 trillion. Obama added more to the debt in 4 years than Bush did in 8 years, *true enough,* but under Bush the debt nearly doubled.

The U.S. taxpayer rightly blames both political parties for running up the public debt but roughly half of all tax filers don’t pay federal income taxes so in the end it doesn’t matter to them. Whoever those “no pays” may be and whatever their party affiliation, they know that someone else will shoulder the burden of paying the interest on the debt and bringing it down.

The Federal Reserve stated recently that it “anticipates that inflation over the medium term will run at or below the rate it judges most consistent with its dual mandate” for price
stability and maximum employment. The overall consumer price index increased by 8 percent since January 2009 which on an annual basis, true enough, isn’t so bad. But prescription drugs are up by 15 percent, college tuition by 20 percent, and gasoline by 80 percent.

Household income in 2010 -- the most recent data available -- averaged $67,530, down $4,800 since the peak reached in 2000. Both political parties blame the other for these results. The Republicans blame the Democrats for the slide since Obama took office. The Democrats blame Bush for the slide during his presidency. True enough on both counts. But neither one, especially the Democrats, acknowledges that over the last ten years, mean household income for married couples that almost reached $91,000 in 2010 is more than twice the income of female-headed households, and that over the last 30 years female-headed households have increased at a rate 3-4 times faster than married-couple families. Washington partisans won’t admit that household income is down because there are many more female-headed households with only one wage earner. They’d rather play the blame game.

Mixed messages aside, in the November election much depends on what Americans want from their government. Is it security or freedom? The yearning for freedom that is given expression in the Declaration of Independence and the first ten amendment to the Constitution that Romney trumpets or the promises of security in the New Deal, the Fair Deal, and the Great Society that Obama stands for?


In July 2012, annual government social benefits to Americans amounted to $2.3 trillion, or on an annual basis $7,419 per person. Thirty years ago, these benefits totaled $342 billion. Does this mean that American are needier today or just more willing to accept what government has to offer? Or both?

Or do Americans truly cherish the freedom to live their lives with minimum interference from government? To speak their mind in the press? To practice their faith and gather in the public square to complain peacefully when their God-given rights are infringed? To own firearms and display the flag respectfully on their own property? To petition government when they are taxed unfairly? To be left alone? If that’s what really matters, they will back Romney.
II. HUMAN DIGNITY
Two videos made public in the past several days record chilling statements made by two senior physicians at Planned Parenthood about crushing unborn babies to harvest their body parts. Both are women, one is a graduate of Harvard Medical School, the other a graduate of SUNY Upstate Medical University. Both are board-certified in obstetrics and gynecology. Both are well schooled in human physiology. Both know full well that the unborn child they are killing – they seem to prefer “crunching” or “crushing” -- is not a camel or a cabbage. That child is a living, growing, developing human being.

Fifty years ago photos of the unborn child taken by Lennart Nilsson were published by Life magazine in a series called the “Drama of Life Before Birth.” One photo shows the entire child including head, arms-hands-fingers, legs-feet-toes, and torso at 16 weeks gestation. Another shows a child sucking his/her thumb at 18 weeks.

Forty-two years ago Roe v. Wade decided that the unborn child is not a human person worthy of the protection of the Constitution. Thus, it is entirely legal to abort the unborn and since then more than 50 million have been killed. That is the essence of the defense of this grisly practice mounted by officials of Planned Parenthood that seems to be embarrassed by the public disclosure of their involvement in the harvesting of body parts, especially the liver, for medical research. They reason along with their supporters that the body parts are needed for research purposes. The president of Colorado State University (CSU) has stated publicly that research involving fetal tissue is being conducted there for the purpose of better understanding and treating cancer, Dengue fever, HIV/AIDS, and diabetes. In another time and another place, such medical practices were called experimentation.

Located in California, Stem Express represents itself as “the only company of its kind to procure tissues and isolate cells for researchers’ individual needs.” The company offers new customers “10% off your first order up to $1,000.” CSU is one of many Stem Express customers.

The Nilsson photos, the much more recent evidence from ultrasound that shows the movements of the unborn child, and the public statements of the two Planned Parenthood physicians regarding specific human body parts that are harvested in the abortion process demonstrate conclusively that what is destroyed is not a blob of tissue, is not an appendage. It is a human being. If it were not so, why refer to what is harvested as human body parts?
Physicians have known for a long time what happens when an unborn baby is aborted. Now the general public knows the essential truth of what takes place in an abortion clinic.

This is an opportune time to debunk the “dilemma” involved in the special case of the pregnant woman whose life is threatened by her unborn baby. Who is to be protected? Who is to be sacrificed? The mother or the child? The answer, well-known throughout medicine, is that prior to viability the only way that the unborn child can survive is when the mother survives. After viability, the unborn child can be taken by caesarean section and placed in the care of neonatal specialists. There is absolutely no need to sacrifice the one for the other.

Having said all this, what is truly revealing about the two videos of the Planned Parenthood physicians is not the killing of the unborn child or the harvesting of body parts. It is the demeanor of the physicians involved. Desensitized? Matter-of-fact? Arrogant? Coarse? Some students of the Holocaust argue that the perpetrators were just ordinary members of a virulent anti-Semitic culture that rationalized killing as right and necessary.

Human experience alone tells us that the things a human being does often determines that person’s development. Good persons like Billy Graham and Mother Teresa are recognized and admired for their righteous ways. Evil persons like Eichmann and Mengele are known and feared for their wicked ways.

It’s not just the killing of the unborn that matters. It’s not just the harvesting of their body parts for research that matters. It’s what the killing does to those who are engaged in the process. The killing hardens them into human beings who see what they do as right and necessary reinforced by a culture of death -- physician-assisted suicide, mercy killing, murder-suicide, euthanasia -- that increasingly accepts some human lives as no longer worth living.

The Hippocratic Oath that I took upon graduation stated that “I will give no deadly medicine to any one if asked, nor suggest any such counsel; and in like manner I will not give a woman a pessary [a device inserted in the vagina] to produce abortion.” The revised Oath no longer contains those prohibitions. What once was deadly and forbidden is still deadly but no longer forbidden.
Aristotle knew as much about guns as he knew about Twinkies, diesel engines, and iPhones. *Nada.* So why do we turn to him on this hot-button issue of guns and gun control? It’s for two reasons. First, he instructs us on the four kinds of causes for change to take place. Second, he teaches us the importance of the Golden Mean.

The Golden Mean is the point reached by intelligent humans of good will who are forced to deal with two extremes. Extremes such as too much and too little. Too soon and too late. No access to guns and total access to guns. The issue at hand is to manage the discourse on guns and gun control in a way that is *morally* acceptable. The Golden Mean is reached when the parties involved have agreed to a moderate position somewhere between no access to guns and total access.

The no-access position is ruled out by the Second Amendment and by the specter of a police state that would confiscate all the guns held by private citizens. The complete access to guns leads to a Mao-ist state in which all power comes from the end of the gun and the powerful destroy the weak.

Finding the Golden Mean requires both Congressional Democrats and Republicans to moderate their rhetoric and political maneuvering, wherein the advocates of one side of the argument are willing to acknowledge that there is some merit to the other side. President Trump’s own harsh and harmful rhetoric must be moderated if we are to arrive at the Golden Mean.

The best chance for reaching the Golden Mean lies in everyone directly involved in the debate in Congress vowing to never attack with the intent of belittling another person’s character. This is a tall order for Congress that for years has been deeply divided along partisan lines where both sides have been posturing to the 24-hour media news cycle that they are right and their adversaries are wrong. The effect has been to push away from the Golden Mean by holding fast to an extreme position. The outcome too often is no action at all when action is most needed.

Following Aristotle again, there are four causes that must be in place to make change happen: material, formal, efficient, and final.

The *material* cause addresses the question as to what is it that is to be changed. In this instance it is human behavior, specifically from violent to peaceful. In the recent Las Vegas slaughter of innocent lives the media have chosen to show the violent behavior of the one gunman and the caring behavior of the many first responders including civilians in the
crowd. To reach the Golden Mean we must first know why certain human beings act violently. In this instance, why a 64 year-old man intentionally fired upon and killed so many people. Did he leave behind a manifesto or was he acting to perpetuate an evil spectacle?

The *formal* cause relates to how one determines when the change from violent behavior to peaceful behavior has occurred. Clearly there must be some movement away from violent behavior. In this regard we are reminded of the efforts of Martin Luther King to change human behavior through expressly nonviolent means. What this calls for is finding a way to moderate the human knee-jerk violent response to a violent attack in which both sides attempt to justify their use of violence on grounds that they are right and the other side is wrong. This is what we saw in Charlottesville. Removing statutes and monuments is futile because it does not *in and of itself* change human behavior for the better.

The *efficient* cause addresses the question as to who or what brings about change in human behavior from violent to peaceful. The answer is simple enough – you and me. Perhaps a cooling off period in which all private organizations voluntarily suspend protests, demonstrations, rallies, and public gatherings of all kinds for the next 90 days, and members of Congress put their fundraising activities on hold in order to find the Golden Mean.

In any case, we must reject the notion that some human beings are superior and others are inferior and that the superior ones have a duty to eliminate the inferior ones for the purpose of building a population of superior persons who produce superior children and thereby improve society. This was the Nazi way and the eugenics way. We have not yet rejected the eugenics way; American women have a constitutional right to destroy their own unborn babies. Freedom of choice pits the weak against the strong. And the strong prevail.

The eugenics way most recently has surfaced in an ACLU lawsuit demanding that Hawaii expand access to the abortion pill Mifeprex. NPR reported that one of the plaintiffs has stated that the State’s present law combined with its high poverty rates makes it difficult for impoverished women to access the pill. The cryptic message is that Hawaii must rid itself of the unborn babies of poor women in order to cleanse the gene pool. In the United States, according to the Guttmacher Institute, 75 percent of all women having an abortion in 2014 were from poor or low-income households.

Behavioral change from violent to peaceful requires recognizing that every human being, weak or strong, male or female, bright or challenged, white, brown, black, or yellow has a sacred dignity that cannot be compromised though practices such as human trafficking and human slavery, not to mention mass killings in entertainment venues and abortion clinics. Human behavior must respect that inherent dignity.
The final cause brings up the question as to the end that is to be achieved. The answer is an end to killing and most especially an end to mass killings. Quite often the end to be achieved is difficult to articulate. In this case, however, it is easy because we see the slaughter through news channels and are in general disgusted by the evil human behavior that triggered it.

Too often we are reduced to saying “somebody must do something.” This is true but it leads nowhere. We must recognize (1) the rights affirmed in the Second Amendment, (2) that changing human behavior is a very difficult undertaking, (3) that the only way to find the Golden Mean between no access to guns and unfettered access is through civilized public discourse where no one is deliberately demeaned, and (d) that all human beings have a sacred dignity that must never be compromised.

It’s human behavior that must change not gun ownership.
JOHN PAUL II ON HUMAN DIGNITY
IN ECONOMIC AFFAIRS
April 2005

To Pope John Paul II human beings are “materialized spirits” and as workers are resources to be applied to the production of goods and services. However, humans have worth not because they are useful toward some economic purpose but because every human is made in the image and likeness of God and is redeemed by the sacrifice of His Son, signifying that each has a dignity and worth beyond human measure. In mainstream economics and modern economic affairs, human value commonly is determined instrumentally. One’s own worth is determined by the value attached to one’s work.

To John Paul men and women alike are called to become all that they were meant to be by their Heavenly Father. In mainstream economics and everyday economic affairs, men and women are encouraged to link their personal development to the things they possess. In other words, to John Paul being is more important than having. The dominant view especially in modern western culture is having is all that matters.

Labor is more important than capital or, put more generally, humans are more important than things. Indeed, humans alone have rights because they are persons, because they are endowed with an intelligence and free will that differentiate them from all other creatures. Aquinas calls them “the crown of creation,” and no doubt John Paul concurs. In the world of economic affairs and conventional economics, intentionally and otherwise humans often are reduced from persons to things, objectified more and more in the workplace and the marketplace.

Human persons are more than the one-dimensional self-interested and self-absorbed individuals of conventional economics and contemporary western culture. They are two-dimensional persons with an identity as separate and unique individuals never to be taken simply as a cog in a machine or as totally subordinate to the whole, and at the same time united in solidarity with family, company, neighborhood, region, nation, and all humankind. To John Paul human existence always is coexistence. He replaces the modern world’s individualism and collectivism with personalism.

To John Paul materiality matters importantly to human nature, and material means are necessary to meet human material needs. To a large extent, mainstream economics and modern culture agree. However, John Paul warns that material means will not satisfy the nonmaterial needs of humans, and condemns the “consumerism” of advanced western economies for perpetuating that false and dangerous value. Consumption is good, he says, unless it leads to a life spent in the enjoyment of material things as ends in themselves.
Work has two main purposes: the objective purpose of transforming resources into goods and services and the subjective purpose of transforming the laborers who perform the work into more fully human persons. Further, he insists that it is the subjective aspect of work that is more important. Conventional economists and worldly humans affirm only the objective purpose of work.

Human work is the continuation of God’s Act of Creation that lasted six days and was followed by a day of rest. In like fashion, humans require a seventh day of rest to contemplate what they have done. Put differently, humans require both work and leisure to become more fully who they were meant to be; leisure has the positive connotation of input to that development. To the modern world, including the world of economics, leisure has only the negative connotation of time spent not working.

Human beings have a right to private property on grounds that a person has a right to what he/she creates with his/her own hands. This right is necessary to assure greater production, and in this regard John Paul is in agreement with mainstream economists and men and women of commerce and industry.

The material goods of the world are intended for the use of all humankind because all human life is precious and material goods are necessary to sustaining that life. Humans have a natural right to the material goods of the world and, just as means is subordinate to end, the right of private property is subordinate to that right. Here, John Paul is not in agreement with mainstream economics and the modern world of economic affairs.

Workers have rights in order to assure the preservation of their fundamental human dignity and access to the means necessary for their material survival, such as the right to associate, the right to strike, the right to a safe workplace, the right to a day of rest. To some extent, mainstream economics and others engaged in economic affairs also affirm these rights but more likely as legal rights rather than natural rights. In other instances, the two parties are much further apart as for example with regard to the workers’ right of ownership of the means of production, the right to suitable employment, the rights of the migrant workers, and the rights of mothers who work, all of that John Paul forcefully affirms and defends.

To John Paul respect for human rights is critically important to the economic development process. Further, more than justice is required to achieve development. Christian charity must be brought to bear by according preference to those most in need of help so that they are better able to acquire the material goods they need. To mainstreamers along with men and women of the world, economic development too often is construed as a problem to be resolved by the invisible hand of the market system with no mind to justice or charity.
III. GREAT AMERICAN EXPERIMENT
Some indicators that the Great American Experiment is in trouble.

The end of the Reagan Revolution.

Federal income tax filers who actually pay taxes are the latest minority.

The future of America is not European social democracy. It is Latin American political/military regime where land reform – who wants to work the land? - is not the issue. It’s income redistribution. California is approaching that status.

Medical marijuana for those who need it. Recreational marijuana for everyone else.

Secular state, where wealth is both worshiped, coveted, and seized by the federal government.

Federally funded abortion, including partial-birth abortion.

Religious liberty subordinated to human material need by federal mandate.

Intensified drug-related gang wars.

Physician-assisted suicide increasingly available.

Denial of health care services for the elderly by federal mandate.

Reduced reimbursement for physicians and hospitals by federal mandate.

Universal health care coverage by single-payer.

Amnesty for millions of illegal immigrants.

Growing number of sanctuary cities and states.

Higher minimum wage by federal mandate.

Increased use of bankruptcy to avoid personal responsibility for one’s decision-making.

Checks and balances replaced by rule from the White House.

Dependency replaces work.

More taxes, spending, debt.

More professional politicians, fewer public servants.

“Spin and “don’t bring a knife to a gun fight” are two important rules in politics.

More and more pollsters and strategists who live off of partisan politics.

More and more money poured into political campaigns.

States weakened by their unwillingness to manage their affairs sensibly and thus more likely to turn to the federal government for help.

Country controlled by a political ruling class in Washington increasingly isolated from America.

Birth rate falls below replacement.

A 5-4 conservative Supreme Court in any decision could turn into a 5-4 liberal Court.

Single parenthood becomes the norm.

Charitable organizations increasingly replaced by federal programs.

Means-tested social security retirement.

Means-tested Medicare eliminating the difference between that program and Medicaid.

Health-care provided by nurse practitioners.

Private venture capital replaced by government investments.

More spending on public education, more functional illiteracy.
With roughly 370,000 more votes in Florida, Iowa, Ohio, and Virginia, Romney would have been elected president. Put differently, if only 185,000 voters who in the end voted for Obama had cast their ballots for Romney, Obama would not be getting ready for a second term in the White House.

A total of 9,614,484 votes were cast for Obama in Florida and the other three states. Thus a switch to Romney of fewer than 2 percent of the votes cast for Obama in those four states and Romney is preparing to take the oath of office.

This presidential election demonstrates clearly that America is almost evenly divided between a land of opportunity and a land of entitlements. America is a land of opportunity as long as there is an incentive to work hard. It is a land of entitlements whenever politicians can persuade enough voters to cast their votes for them on the promise that they (the voters) will be taken care of. Land of opportunity rests on America the economic system. Land of entitlements is grounded in America the political system.

There is one legal limit on America the land of opportunity: taxes and regulation (another form of taxation). There is one legal limit on America the land of entitlements: the debt ceiling. In both cases, the limit is determined in Washington.

The debt ceiling represents no effective limit on America the land of entitlements because it is raised by Congress almost always without any real objection. The problem is with the limit based on taxes because the Democratic Party is seriously committed to raising taxes on the rich and they can succeed in imposing this limit if enough Republicans can be persuaded to approve higher taxes by promising to deliver cuts in spending in the future. The problem with Democratic promises is that too often they have been empty promises.

The only way out of this divided house is by growing the economic pie. A larger pie makes possible both a land of opportunity and a land of entitlements. But as we have seen higher taxes – no one knows for sure how much higher – impose a limit on America the land of opportunity. Why work harder, or at all, if much of one’s income is taxed away? Take the case of American doctors for whom higher taxes take the form of lower reimbursement for services rendered under Medicaid and Medicare. The doctor shortage is expected to rise to 91500 by 2020, thereby restricting access to care and undermining America the land of entitlements. Curbing opportunity effectively restricts entitlements.
High taxes reinforce two behaviors: tax avoidance and tax evasion. Tax avoidance can be addressed by closing loopholes in the tax code. Tax evasion – a kind of silent secession – can be reduced by IRS audits but cannot be eliminated. More and more taxpayers will find cash transactions attractive because with no receipts and no bank records the IRS cannot find a money trail to follow. But the more that it “lost” in the underground economy, the less that is available to support America the land of entitlements.

Where does that leave the Great American Experiment? At considerable risk because the land of entitlements has been drawing on more tax revenues while the land of opportunity can starve the land of entitlements by not paying taxes. As America learned most painfully more than 150 years ago, a house divided against itself cannot stand.

In the short term, this problem can be addressed by raising the debt ceiling, borrowing more money to support the land of entitlements without imposing higher taxes on the land of opportunity. However, this is not a long-term solution because the interest on the public debt -- $480 billion every year on a $16 trillion public debt at an interest rate of 3 percent – has to be paid by the land of opportunity. Borrowing more means paying more and taxing more.

In the long run, there is no other way to deal with this problem without public figures in Washington who have the courage to do what is necessary to keep the house from imploding even if it means they must sacrifice their constituents’ approval and personal political ambitions. The options are obvious to everyone in public office: reduce entitlements by resorting to a strict means test; raise taxes and vigorously audit tax returns; grow the economy in a sustainable way.

What isn’t self-evident, because rhetoric has replaced reason as the pathway to political success, is that there is no way to maintain America the land of entitlements without preserving America the land of opportunity. History and current events elsewhere in the world show clearly that it is not and cannot be the other way around.

A house divided against itself -- the land of entitlements at odds with the land of opportunity -- cannot stand.
Threatening to take the nation over the fiscal cliff is playing chicken with the American people. It’s the kind of deadly game that teenagers in souped-up cars used to play as a rite of passage from childhood to adulthood. It’s unworthy of President Obama and Congress whose sworn duty is defend the Constitution “against all enemies, foreign and domestic.” At the moment, neither political party is measuring up to that standard. They play chicken because it tells their constituent base that they are uncompromising when it comes to their core principles.

There are many ways around the lines in the sand drawn by President Obama who demands that the rich “pay a little more” and the Republicans who will insist that higher marginal tax rates imposed on the rich is a “jobs killer.” However, to avoid taking us over the fiscal cliff they must give up playing chicken and get down to governing instead.

Consider the following 12 suggestions arranged in two sets of six each, one relating to changes in federal tax revenues and the other to changes in federal expenditures. Clearly there are many more options. However, the more options the more opportunities for squabbling and driving the United States over the fiscal cliff. Under the present grave circumstances, iron-clad pledges must be set aside.

**Federal Tax Revenues.**

► Tie higher marginal tax rates to the national unemployment rate. The higher tax rates become effective only when the jobless rate falls below, say, 6 percent. The jobless rate was below 6 percent continuously from November 2003 through July 2008.

► Adjust the income threshold that defines “rich” to the cost of living at the city/regional level. BLS data indicate that in September the cost of living in New York, for example, was 19 percent higher than in Dallas. A threshold of approximately $297,000 in New York is the equivalent of $250,000 in Dallas.

► Eliminate the deduction for mortgage interest payments on a second house for a taxpayer with income above some threshold, say $1,000,000.

► Reject all amendments to the tax code that have the effect of reducing the taxes on certain types of income until the actual (not budgeted) deficit has been reduced to some level, say, $50 billion.
Due to repeated cuts in reimbursement for health-care services rendered that reduce their incomes and in effect impose higher taxes, exempt physicians from higher marginal rates provided their practices are open to Medicare and Medicaid patients.

Limit tax deductions to some fixed percent or amount of taxpayer income.

**Federal Expenditures.**

- Means test Social Security retirement and death benefits. Or means test retirement benefits until a person reaches a higher retirement age, say, 70. Allow benefits thereafter without means testing. Here and in the other instances noted below the means test is defined as income below 100 percent of the official poverty threshold.

- Require an upfront cash payment of some minimal or nominal amount from anyone getting primary-care services under the Medicaid program.

- Means test all extended unemployment insurance benefits that are paid by the states from monies supplied by the federal treasury.

- Eliminate all refundable tax credits except for federal taxpayers with incomes below the poverty level.

- Impose limits on future bank bailouts, clawing back payments already made above those limits.

- Reject all amendments to the tax code that have the effect of subsidizing enterprises and organizations including state and local governments until the actual deficit has been reduced to some level, say, $50 billion.

As an incentive for Washington to stop playing chicken with the American people, escrow all salary payments to the president, vice-president, cabinet secretaries, and members of Congress until a *permanent* solution is found for the fiscal cliff.

America faces a fiscal cliff precisely because some in Washington are threatening to take the entire nation over the cliff if they do not get their way. Some of those feel affirmed by the election returns and defend their position by claiming that elections have consequences. True enough. However, no one in public office, most especially the president, has a right to play chicken with the American people. Quite to the contrary, they have a duty to do everything in their power to preserve the *Great American Experiment.*

The U.S. Constitution was written in order “to form a more perfect Union, establish Justice, insure domestic Tranquility, … secure the Blessings of Liberty …” Playing chicken is a violation of the oath of office taken by members of Congress to defend that Constitution against all enemies. It’s time for them to practice that oath or resign so that...
their seats in Congress can be taken by others who will not subordinate the Constitution to election returns.
Three institutions are necessary to an ordered society: the family, private property, and the state. The family is indispensable because by preparing the next generation it lays the foundation for the future of society. Private property is indispensable because it guarantees the yield produced by its owner. The state is indispensable but only when it is democratically constituted because only that system of governance allows the people to participate in public decision-making.

The *Great American Experiment* is threatened today by changes taking place in all three institutions that sometimes are applauded as enlightened and progressive.

The latest Census Bureau information indicates that 73 percent of all American families are married-couple families. In 1959 it was 87 percent.

There are 62.6 million family households in which the head of the household is between 25 to 64 years of age. Of that number, 19.6 million have no children. Another 13.6 million family households have only one child under age 18. Thus, more than half of all young to pre-retirement age American family households have only one child or are childless.

Some of the younger families are still in their child-bearing years and may have additional children. But the latest figures on the fertility rate are not encouraging. Fertility has dropped to 1.86 births per woman, a rate that is well below the replacement rate of 2.1 that in the absence of immigration is necessary to keep the U.S. population from declining.

One significant indicator of the changing nature of the family and therefore of society in general is that there has been more than 80 percent increase in the birth rate of unmarried women since 1980 which is troubling because children born to unmarried parents are more likely to live in poverty and have poor developmental outcomes. Another is that 1 in 68 children are afflicted with autism – a complex neurodevelopment disorder that includes problems with social interaction.

Private property has a social dimension requiring the property owner to use it in a socially responsible way that often requires state intervention and enforcement. The powers at the disposal of the state include the power to tax, the power to regulate, and the power to seize. Notice the Obama administration’s proposal to increase the estate tax and its imposition of new regulations on the “coal ash” residue from burning coal to generate electricity. The power to seize through government condemnation by eminent domain involves not only real property but personal property such as patents, trade secrets, and copyrights.
Every year the Americans for Tax Reform’s Property Rights Alliances prepares an international property rights index that scores and ranks countries on the basis of three factors: legal and political environment, physical property rights, and intellectual property rights. The United States in 2014 ranked 17 of the 92 countries covered by the index. Canada, holding the ninth position, was ranked above the United States.

Two threats to a democratically constituted system of governance are of special interest. The first is the flood of immigrants entering the United States, many of them undocumented, from countries with no experience with democracy and the rule of law. Oftentimes they are fleeing from countries that for decades have been failed states or characterized by strong-man rule. If they are rushed through to U.S. citizenship they can become easy prey for demagogic politicians.

The second threat, one that the founding fathers understood and feared, is from a federal government that rules not by the judgment of the people as determined in the election process but by its own judgment as to what the people need and want. The use by the president of executive orders is just one way that the judgment of a political elite can crush even the will of Congress. Another is the politically-charged and abusive operations of various federal agencies as revealed most recently in the Internal Revenue Service, Veterans Administration, General Services Administration, and State Department.

A democratically constituted system of governance is necessary if citizens are to effectively participate in public decision-making. Limits on the size and power of the federal government are necessary to achieve such a system of governance. Without those limits – principally on the size of the federal budget, the scope of its regulatory control, the power of the president to initiate action on his own -- democracy becomes a sham. Those limits can be imposed only if states, counties, and municipalities, constrained by the requirement to balance their budgets, are willing to govern without looking to the federal government at every turn for the resources to address the needs and wants of their citizens as expressed through their direct participation in the public decision-making process.

A public debt in excess of $18 trillion is the price we pay for letting the federal government decide the important public issues of the day. That debt will get even larger as long as we are unwilling to actively govern ourselves.

The numbers of undocumented immigrant children with little or no experience in a democracy and the rule of law and the growing numbers of children with autism and other developmental problems, along with an erosion of private property rights and a federal executive with few limits, point to a weakening of the foundation of the American system of governance that allows the people to participate in public decision-making.
IV. MARRIAGE AND FAMILY
William Raspberry’s recent column on the breakdown of marriage among black Americans calls attention to a problem that has been festering for more than 40 years. As Raspberry reports, the problem first was highlighted by Daniel Patrick Moynihan in the mid 1960s though his voice was largely silenced by ideologues who charged him with attacking the black matriarchal family.

Raspberry’s argument about the effects of the breakdown of marriage among blacks is reinforced powerfully by statistical evidence as to the extent of poverty among black families in the United States. Further his argument applies today to white families as well. To put the issue squarely before the American public, broken families, whether black or white, are impoverished families.

Information about poverty in the United States is collected and analyzed once a year by means of a household survey administered by the Census Bureau. The most recently available data apply to 2003 based on a March 2004 survey. Information for 2004 will become available within the next 45-60 days. It is highly unlikely that the 2004 data will indicate a change in a trend that has been unfolding for many years.

An estimated 12.5 percent of the U.S. population, or 35,861,000 persons, were classified as poor in 2003. However, poverty varies widely across the population. For all whites the rate was 10.6 percent, whereas for all blacks the rate was 24.3 percent or more than twice as high.

The poverty rate among all families in the United States was 10.0 percent. The rate for all families is lower than the rate for all persons because some persons do not live in family households, though they may have roommates, and those persons are regarded as not pooling their financial resources. Persons in families, on the other hand, are regarded as pooling their resources. Pooling has the effect of bringing down the incidence of poverty, because everyone in the family is either poor or not poor, whereas in a nonfamily household, one person may be counted as poor while another in better financial circumstances is not.

Among all white married-couple families the rate of poverty was 5.0 percent. For black married-couple families the rate was 7.8 percent. Notice that the rate for all black persons -- 24.3 percent -- was almost three times higher. An intact marriage makes such a difference because it is now commonplace for both husband and wife to be working, and their dual incomes push total family income above the poverty threshold.
Female-headed families where there is no husband present are much more vulnerable to poverty. For all such families in the United States the rate of poverty in 2003 was 28.0 percent. To put this rate in context, it is higher than the rate of 18.5 percent for all families in 1959 -- the highest rate for all families since these data have been published. Among whites, the rate for female-headed families in 2003 was 24.2 percent. Among blacks it was 36.8 percent. Among white female-headed families with one child under age six the rate of poverty was 45.0 percent; among similar families with two or more children under six the poverty rate was 64.7 percent. The comparable figures for black female-headed families were 46.9 percent (one child under six) and 72.1 percent (two or more children under six).

Poverty is not just a matter of being stuck in a low-wage job. Persons and families enter poverty when the primary wage-earner dies or is injured, when there is a divorce or separation, or when there are additional family members to provide for as a result of the birth or adoption of a child or the taking in of elderly parents or other relatives. And they exit poverty through re-marriage, the primary wage-earner’s recovery from illness or injury, or as a consequence of some other important life event.

Additional information is available from the Census Bureau that shows the difference in income between poor families in the United States and nonpoor families, though the Bureau inexplicably does not highlight these data. Specifically, the average income of all poor families in 2003 was $67,386 below the average income of all nonpoor families. The gap was even wider-- $74,556 per year or $6,200 per month -- when nonpoor married couple families are compared to poor female-headed families.

Perhaps most telling of all, are these two pieces of information. First, all black married-couple families living above the poverty threshold earn on average $46,691 more per year than all white female-headed families living below that threshold. Second, the difference in annual income between poor black female-headed families and similar white families is a mere $862.

The lesson bears repeating: broken families, whether black or white, are impoverished families.
The Associated Press recently published a report highlighting the fall in birthrates around the world as a consequence of the Great Recession, notably in the United States, China, Japan, and Europe, and the dire implications for future economic growth. Our concern in the following is with the United States where the birth rate has fallen in 2012 to 12.6 births per 1,000 women ages 15 to 44. At the start of the severe economic slump in 2008 the birth rate was 14.0.

The decline in the U.S. birth rate is not a new development, however. From 1960 to 1968 it declined from 23.7 to 17.9 and from 18.4 to 14.6 between 1970 and 1976. It climbed to 16.7 by 1990 and has been dropping almost every year since. For whites there were more than 600,000 fewer babies born in 2012 than in 1960.

In the absence of immigration and higher labor force participation, fewer babies mean that in the years ahead there will be fewer workers in the labor force supporting a growing population of seniors whose Social Security retirement depends on the trust fund contributions from those workers and their employers. That’s the main reason that the surplus in Social Security trust fund, which was built up over the years by the baby boom generation, will be depleted by 2033. Thereafter, retirees are likely to see the benefits they were promised cut by 25 percent.

Several different data sets suggest that the problem runs much deeper than the Great Recession. Jobless rates (not seasonally adjusted) for married persons since 2008, both by gender and race, were much lower than for the rest of the civilian labor force. For white married women the unemployment rate peaked during the slump at 6.3 percent. Among white men who were married it reached a high of 7.6 percent. In April 2014, those rates had tumbled to 3.2 percent and 3.0 percent respectively. Before the severe economic contraction that started in 2008, the unemployment rates for black married men and women were below 4 percent. Today they are at or below 5 percent. In sharp contrast, the rate of joblessness among never-married black men was more than three times higher.

Since 1973 when these data first became available, the rate of poverty among married-couple families has ranged from a high of 7.6 percent in 1982-83 to a low of 4.7 percent in 2000. Among female-headed families impoverishment was at its low point at 25.4 percent in 2000. In 2012 the poverty rate for all married-couple families was 6.3 percent. For female-headed families it was roughly five times higher.

Other data indicate that median household income in 2012 for married-couple families was more than twice as high as for female-headed families: $75,694 vs. $34,002.
The demographic composition of the U.S. population is changing radically. Between 2000 and 2010, for example, there was a 5 percent decrease in the number of husband-wife households with children, and an 11 percent increase in the number without children. Thus, the low unemployment rates and high household incomes of married couples notwithstanding, such families increasingly are not having children. Today, married-couple families with children represent only 20 percent of all U.S. households. There are now more married-couple families without children compared to those who have children: 32.9 million vs. 23.6 million. Some of these families no doubt are empty-nest families who had their children many years ago and those children, now adults, have moved out and established families of their own.

Married-couple families are not alone with regard to childbearing. Over the same time period there has been a nearly 30 percent increase in the number of female-headed families without children and a 36 percent increase in the number of male-headed families without children.

Further there has been a 41 percent increase in the number of unmarried couple households since 2000.

One clear conclusion stands out: American families of every type are having fewer children. The Great Recession perhaps contributed to this decline, either directly through effect of joblessness on the financial wherewithal to support children or indirectly through the fear that one might become unemployed and suffer a loss of income, but this trend seems unlikely to change over the near term.

More importantly, the traditional married-couple family with children is a thing of the past. Fifty-five percent of all family households, whether headed by a female, male, or married couple, have no children. The long-term decline in the birth rate is indicative of a profound change in the composition of American households and the desire of American men and women to have children. It seems that some are putting the comforts of higher incomes ahead of children while others are coping with the lower incomes associated with broken families by not having children.

Where have all the babies gone? Gone to heaven, everyone.
Nearly 50 years ago Daniel Patrick Moynihan called attention to a problem among African-Americans regarding children born to single mothers. Moynihan reported that unmarried women at that time accounted for 24 percent of all African-American births and asserted that the African-American family was disintegrating in America’s urban ghettos. He was severely attacked and scorned for misrepresenting the African-American matriarchal family and its fundamental strengths.

In his report Moynihan contrasted the 24 percent of babies born to unmarried African-American women to the 3 percent born to unmarried white women. Today unmarried mothers account for 72 percent of all African-American babies born and 36 percent of all white babies. While the Census Bureau’s detailed annual report on U.S. income, poverty, and health insurance does not publish the poverty rate for families by marital status and race, it does tell us that for all married-couple families the poverty rate in 2011 was 6.2 percent. For all other families, it was 27.1 percent. Data for 2012 should be released shortly.

Median household income for all married-couple families in 2011 was $74,130. For all other family households with no spouse present, median household income was much lower. For male-headed households with no wife present, median income was $49,567. For female-headed households with no husband present the median was $33,637. These data are not available for married-couple families by race.

The Bureau of Labor Statistics also falls short when it comes to reporting the employment and unemployment status of persons who are married spouse present (MSP) compared to all other persons. To illustrate, the BLS monthly report on the household survey does not reveal that there were 78.5 million persons MSP employed in July 2013 and that since July 2001 their numbers have increased by only 311,000. Among all other persons, there were 65.8 million employed in July but their numbers mushroomed by 6.9 million since July 2001. We are not aware of any comment that the BLS has made on this significant socio-economic development.

The data on MSP employment, along with other data on their unemployment status and civilian labor force status, are retrieved only from the BLS website with software that inexplicably provides only partial access to the household survey database. The same data
for all other persons is arrived at by removing the MSP numbers from the data for all persons. The BLS website supplies no information on the civilian noninstitutional population; consequently there is no way to arrive at labor force participation rates for all MSP persons and everyone else.

The monthly household survey directly supplies information on the jobless rate for MSP; the rate for all other persons is arrived at by subtraction from the data for all persons. In July 2013, the rate for MSP was reported at 4.4 percent. Throughout the entire Great Recession, the MSP rate never climbed above 6.6 percent. For all other persons, however, the July rate was 10.7 percent which is higher than the jobless rate for all persons, married or not, that during the Great Recession peaked at 10 percent.

Notice how much more is revealed about U.S. labor force dynamics by the July unemployment data on MSP and all other persons (4.4 percent vs. 10.7 percent) than by the widely publicized and apparently less troubling data on male and female joblessness (7.7 percent vs. 7.0 percent). We have already achieved the Federal Reserve’s QE3 target of 6.5 percent for MSP but we have a very long way to go to achieve that target for the tens of millions of other persons.

The BLS published a report in April 2013 on the employment characteristics of families but it provides little to fill in the pieces missing in the monthly household survey. There is, however, one metric that is truly astonishing. In 16 million American families -- 20 percent of all families -- no one was working in 2012. Among all African-American families 25 percent had no one holding down a job. At the same time, in 96 percent of all married-couple families with children under 18 years of age, the mother, father, or both were employed in 2012. In 33 percent of the families maintained by the mother with children under 18 and no husband present the mother was not employed. These data were not available by race.

More than one million babies are legally aborted every year in the United States. African-American women account for approximately 37 of all legal abortions performed. A recent study published by the National Center for Health Statistics indicates that the cohort of women born in 1960, whose childbearing occurred largely after Roe v. Wade made abortion legal across the United States and who had completed their childbearing, had on average 2 births over their entire childbearing years. It follows that without immigration, the U.S. population will decline in the future, and with life expectancy increasing, there will be proportionately fewer working age adults to support a growing elderly population through Social Security retirement, Medicare, and Medicaid. Thus, the demographic logic behind the various mandates in Obamacare that in effect further compel the young to support the elderly.
We need more data more conveniently available. Ideally that data should be published in the BLS monthly household-survey report. Specifically, we need published data on the civilian noninstitutional population and the civilian labor force status for persons who are married spouse present and for all other persons by race. Further, we need a special report from the BLS on the huge differences over time between the employment total for MSP and for all other persons. In addition we need annual data on the work experience of family members by family type and race.

From the Census Bureau we need readily accessible information on the poverty rate and median household income for families by marital status and race.

Years ago Moynihan alerted America to the profoundly important issues surrounding marriage, childbearing, family, and economic well-being. It is up to us to pay heed. The married-couple family with children is the foundation of a stable and prosperous nation. Without it America is unable to support its elderly and dependent population. There will not be enough wealth or caregivers to go around.
The family is under attack and with it Western civilization. The attack comes from within the family itself and from without. The family is crucial to social order in the West because it functions as a primary force that limits the excesses that otherwise come from the practiced value that freedom means to do as one pleases.

Without limits, adult men are more likely to look for and find sexual comfort wherever available. Without limits, adult women are more likely to neglect their children while they pursue their own pleasures or worse yet put them in the care of a predator. Without limits, children learn firsthand that freedom means being free to do whatever one pleases. A family with no limits is no family at all just a grouping of persons who go their separate ways without any really caring for one another.

The American family, as with others throughout the Western world, is disintegrating because removing or pushing back on limits is justified in terms of inclusiveness, greater equality, or liberation. Abortion liberates the pregnant woman from an unwanted pregnancy. Same-sex marriage makes all co-habitating couples equal. Campus clubs, which were established to bring together students with the same religious convictions they learned from their parents, are forced to accept nonbelievers as members in order to promote inclusiveness or are driven off campus. Anyone resisting these developments is branded a bigot and to be silenced.

With the exception of persons who live entirely alone with no family ties whatsoever, an attack on a person is an attack on his/her family.

- No father present
- Incest
- Abortion
- Child pornography
- Child abuse
- Child sex trafficking
- Infidelity
- Adultery
Supporters of abortion assert that terminating a pregnancy is a woman’s *constitutional* right according to the Supreme Court’s decision in Roe v. Wade. Opponents object vigorously insisting that there is a higher law – “thou shalt not kill” – that governs and for that reason a woman has no *moral* right to kill her unborn baby.

Advocates of a woman’s right to an abortion like to bring up the special case of the pregnant woman whose life is threatened by her unborn baby. Who is to be protected? Who is to be sacrificed? The mother or the child? The answer they give is the mother.
However, the answer well-known throughout medicine is that prior to viability the only way that the unborn child can survive is when the mother survives. After viability, the unborn child can be taken by caesarean section and placed in the care of neonatal specialists. There is no strict need to sacrifice the one for the other. Additionally, as lawyers and elected officials know, hard cases make bad law.

The Court’s decision in Roe v. Wade rests on the proposition that the unborn baby has no constitutional rights because the baby is not a person. Critics of that decision assert that the Court is simply wrong, that it provided no convincing argument that personhood is activated once the baby is born. They argue that from the moment of conception the unborn baby is a human being because at conception the baby has all the human DNA material necessary for development through his/her entire lifetime.

Further, because no new DNA is added at the moment of birth, the nature of the unborn baby is essentially unchanged at birth and thus is no less a person before birth than after birth. By denying the personhood of the unborn baby, the Court engaged in an “exercise in raw judicial power.” The six assenting judges said in effect that the unborn baby is not a person, has no constitutional right to live simply because, in the end, they said that it is so. The terrible precedent set by Roe v. Wade is that the Court may declare that other human beings – the insane, the permanently and totally disabled, the terminally ill -- are not persons and therefore have no constitutional right to live.

Providing public funds for organizations that perform abortion is morally wrong because those funds are the means by which a morally wicked act is carried out. Paying for the abortion and performing the abortion are moral equivalents. The funds are the material cause making the abortion available. This conclusion applies in those cases where the federal funds provided are not to be used directly to provision abortions because no matter how the books are kept those funds are fungible. They displace other monies in the organizational budget to pay for abortions. Sleight-of-hand bookkeeping does not alter the fundamental wickedness of paying to kill the unborn.

Cutting off funds for an organization such as Planned Parenthood because it engage in performing abortions is morally justified unless it leads to shutting down the government and as a consequence human lives are put at risk. However, there is an important difference. Funding abortions has a clear and certain outcome: the unborn babies that are aborted are dead. Shutting down the government has an unclear and uncertain outcome: it is problematical at best as to whether those who are put at risk actually die. Until it can be shown that death has occurred, shutting down the government is not the moral equivalent of paying for or performing an abortion.

The Planned Parenthood case is complicated by the selling of body parts taken from unborn babies who have been aborted. It is argued that using these body parts for medical
research may lead one day to a good outcome such as eradicating cancer, Dengue fever, HIV/AIDS, or diabetes.

Even so, the wickedness of abortion cannot be dismissed by any good that might follow. Justifying abortion on the grounds that killing the unborn may, due to medical research, have desirable outcomes is wrong for one compelling reason. It is wrong to kill the unborn.

The remains of the unborn who are killed through abortion should be respected in the same way that we respect the remains of anyone who dies -- by providing a suitable resting place. Selling the body parts of an aborted baby is not the same as donating one’s body for medical research. First, the donor’s body is released for medical-research purposes with the consent of the donor or with the consent of those who must make arrangements for the disposition of the body. There is no consent on the part of the unborn baby and the mother is hardly in a principled position to give consent since she is the one who consented to killing her baby. Second, anyone who actively hastens the donor’s death, for example in a mercy killing, may face criminal charges. With Roe v. Wade there are no criminal charges for taking the life of an unborn baby through abortion.

In the end, the issue reduces to a woman’s constitutional right to abort her unborn baby vs. the commandment that killing is a wicked act. The most recent continuing resolution just puts off the issue until December 11. Then the harsh reality will set in again: whatever position an official takes on funding Planned Parenthood could terminate his/her political career.

New regulations issued several days ago by the Centers for Medicare and Medicaid Services include the provisions to establish “separate payment and a payment rate for two advance care planning services” offered by physicians and other practitioners to Medicare beneficiaries. CMS credits support for these new advance care planning regulations to the American Medical Association and other stakeholders.

CMS has been working on these new regulations for more than a year. The breakthrough came about when the AMA issued new billing codes that allow payment to a health care provider for a 30-minute discussion with a patient, family members, or surrogate about advance care planning. A second payment for an additional 30 minutes is allowed under a different billing code.

Advance care planning was raised when Obamacare was being debated in Congress but was cut out of that legislation. At that time, hard-line opponents insisted that such planning would lead to the establishment of “death panels.” Today that criticism has softened. Some refer to advance care planning as end-of-life counseling.
Ezekiel Emanuel, a powerful supporter of Obamacare and a long-time advocate for advance care planning, insists that such discussions left in the hands of untrained clinicians may defeat the very purpose of advance care planning. He urges that clinicians must be properly trained to lead such discussions. His own words on this matter are: “It would be wise to invest in optimizing and disseminating such training before [financially] incentivizing low-quality discussions of unskilled providers.”

When it comes to providing care for Medicare beneficiaries, Emanuel is concerned about other matters as well: “… more than 25% percent of Medicare dollars are still allocated to care for patients in their final year.” He knows full well that, depending on the accuracy of their cost estimates, the Medicare trustees project that the trust fund will be depleted by 2022 or 2030 and that payments must be reduced at that time to levels that can be covered by income tax and premium revenues. In other words, the money simply will not be there to provide the care that has been promised.

For years, one remedy has been to reduce reimbursement to providers for health care services rendered that at times has dropped below one-half of what they are billing. As a consequence, some providers have refused to accept new patients with no other coverage than Medicare, thereby reducing access to care.

A second remedy, one that Emanuel has championed for years and is implied in his reference to the Medicare dollars spent in the last year of life, is to restrict care at the end of life. Costly aggressive interventions would be replaced by relatively inexpensive palliative care that makes the patient comfortable.

A third remedy, already in place in California, Oregon, Vermont, Washington, and Montana, is physician-assisted suicide. Medicare spending can be “painless” reduced by helping patients choose death. Implied in this remedy is the proposition that there is a life not worth living. Thus, death is the answer. Could it be that the training programs for unskilled providers that Emanuel has been advocating would be constructed around that proposition?

In much the same way that Americans have accepted access to abortion as a woman’s constitutional right and therefore morally good, more and more Americans are being conditioned to accept suicide as morally good.

After more than 40 years of access to abortion services in which tens of millions of unborn babies have been killed, we see more clearly the unintended consequences of the Supreme Court’s decision in Roe v. Wade. Today there is an insufficiency of working-age adults to support Medicare spending on the elderly, making physician-assisted suicide ever more acceptable.
A culture of death doesn’t just happen. It has strong advocates who argue that abortion and physician-assisted suicide are morally good. It is good for pregnant women to be freed of burdens they cannot bear. It is good that the elderly are freed of a life that is not worth living. Death is deliberately wrapped in a mantel of freedom assuring that it is accepted as good: *freedom of choice, freedom to die.*

The next stage in the evolution of a culture of death will be to make dying a duty.
It is no secret that parents, teachers and school administrators, pediatricians, and public officials including the police for many years have been gravely concerned that being born and raised in poverty are serious obstacles to the growth and development of the child and make the process of becoming a mature, responsible adult more difficult and hazardous. Statistics on poverty among children only heighten this concern. In 2006, the most recent year for which these data are available, the poverty rate among all children under age 18 was 17.3 percent. Among pre-school age children, the rate hovered around 20 percent. Further, there were 5.5 million children living in families with annual income below one-half of the official poverty threshold. For a family of four with two children under 18 the fifty-percent threshold means living on $200 a week.

Our primary interest in the following is not to re-examine the financial conditions of children growing up poor in the United States as commendable as that enterprise is on its own merits. Rather our attention focuses on certain obstacles to the development of children into mature, responsible persons whether those children are classified as poor or not. In the main we concentrate on four obstacles: home, health, school, and neighborhood. Our analysis is based on the dual proposition that in the United States (a) there are large numbers of children – millions in some instances – whose development is not assured and (b) their numbers include many children in families with incomes above the poverty threshold.

HOME AND HEALTH

*Home.* In 2006 there were approximately 49.7 million children, representing 67 percent of all children under age 18, who were living with both parents. What is troubling in terms of child development is that 3.4 million children were living with neither parent and another 8.7 million were living with a never-married parent. We were not taken aback to learn that an estimated 7.7 million children belonged to single-parent families with incomes below poverty. However, we were surprised to note that many more children – a total of 12.9 million -- lived in single-parent families with incomes above the poverty threshold. An estimated 3.7 million children, disproportionately from nonpoor families, at one time or another have lived at least one month apart from their parents.
The problem for the single-parent, whether the family is poor or not, is how to be a provider and a parent at the same time. Without a spouse, that burden no doubt is greater for many though in fairness some single parents can afford child care and housekeeping services, have extended family members who lend a hand, and take better care of their children than families where both parents are present. Even so, the sheer numbers of children in single-parent families – 20.6 million -- suggest that some children are held back in their growth and development even in families with incomes above poverty.

Information gathered in 2004 – the latest such data available – show that many parents spend more time than they anticipated in caring for their children. Specifically, parents stated that 10.4 million children in families above the poverty threshold required more time than they expected. Adding in the number of such children in poor families boosted the total to 13.1 million children. When asked about how hard their children were to deal with, parents in nonpoor families stated that they had 2.9 million children who were harder to deal with than other children. Asked about whether their children do things that bother them, parents in families above the poverty line said that they had 2.8 million such children. Parents in nonpoor families also stated that they have 1.3 million children who make them angry. These data on the feelings of parents toward their children are consistent with the very serious problem of child abuse and neglect in the United States.

In 2004 there were 1.9 million children between 1 and 5 who were never read to in a typical week, with children in nonpoor families outnumbering their counterparts in poor families. Among children ages 3 to 17 there were 9.1 million who had no limits set on their weekly TV viewing. Here too most of the children with no such limits were from families above the poverty level. Indeed more than half were 12-17 year olds in nonpoor families.

Nearly two-thirds of all children under 18 (46.2 million) received benefits from a public entitlement program in 2004. By far the largest entitlement program was the school lunch program which reached 34.4 million. The second largest was Medicaid which paid benefits for 21.4 million children. Though these entitlement program data are not readily available by poverty status, it is clear that the school lunch and Medicaid programs provide benefits to many more than the 12.9 million poor children in the United States.

Health. Data gleaned from a 2001 Census Bureau survey – the most recent data available – provide some insight into the health status and health services utilization of children under age 18. In terms of health status, more than 95 percent of these children were reported in excellent, very good, or good health. An estimated 1.8 million children were reported in fair or poor health. It is important to note that these data are based on answers supplied by the household respondent to questions raised by the Census enumerator and not on the judgment of a health-care professional.
Other data on health services utilization tend to confirm that children by and large are not experiencing unmet health care needs. For instance, roughly 95 percent of the children whose health was excellent, very good, or good were not hospitalized in the preceding 12 months. These data are especially instructive because only a physician can admit a child to a hospital. For the same reason, so too are the data on prescription drug utilization. As expected, children in poor or fair health were more likely to use prescribed medications than those in better health.

These data alone do not indicate the efficacy of prescription medications for two main reasons. First, some children in poor health with for example a chronic asthma condition or diabetes need prescribed drugs simply to assure that their health does not deteriorate further. The drugs they need and use cannot transform them into healthy children. Second, prescribed drugs are administered to some children who momentarily are sick perhaps with an ear infection or diarrhea and as with children in poor health those drugs help assure that their health does not deteriorate further. Nonetheless, unlike children in poor health the prescribed medications administered to these children along with the body’s normal healing processes help transform them back to healthy children.

A 2006 Census Bureau study provides information on the extent of disabilities among children 5 to 15 years of age. There were an estimated 2.7 million children with a sensory, physical, mental, or self-care disability. More children by far were beset by a mental disability than any other type. This finding applies to poor and nonpoor children alike. Even so, given the much larger population of children in families above the poverty threshold, there are 2.5 times as many nonpoor children as poor children with a mental disability. We note once more that these data are based on answers supplied by the household respondent to questions raised by the Census enumerator and not on the professional judgment of a health-care specialist.

**SCHOOL AND NEIGHBORHOOD**

*School.* In terms of sheer numbers, what is most striking about the 2004 Census Bureau on the academic performance of school-age children is that 16.2 million changed school at least once in their school years with nonpoor children greatly outnumbering poor children by more than 4:1. A total of 4.3 million 6-17 year olds were grade repeaters and 2.8 million 12-17 years olds had been suspended from school. Here as well children from families above the poverty threshold outnumbered children from families below that threshold. These data for 2004 are the most recent available.

Among the entire school-age population, 2.2 million children were said to not like school, 2.5 million were not interested in school, and 1.8 million did not work hard in school. In all three cases, nonpoor children outnumbered poor children by at least 4:1. Overwhelmingly,
public-school children, respondents said, were assigned to a school that was not their school of choice.

Concerning extracurricular activities -- sports, clubs, and lessons including music and language -- nonparticipation was above 50 percent, with nonpoor children greatly outnumbering poor children. To illustrate, among the 49.3 million 6-17 year old youngsters, 26.9 million did not participate in sports, 31.9 million took no part in clubs, and 33.2 million children did not take lessons. More than half of these children were from families with incomes above the poverty line. In terms of outings taken in the last month, the record is much better. A total of 1.9 million children of the 47.9 million children ages 6 and 11 did not have any outings.

Neighborhood. The same 2004 Census Bureau survey reported information on the neighborhoods where these children live that points to serious obstacles to their growth and development. For example, a total of 33.9 million of the 73.1 million children under age 18 agreed that there are people in their neighborhood who might be a bad influence; 15.0 million agreed that children are kept indoors due to dangers lurking outdoors.

Whether one refers to neighbors helping neighbors, people watching other children, people one could count on, or adults who would help, the number of children expressing disagreement ranged from 8.8 million to 13.3 million, with nonpoor children outnumbering poor children in every instance. Finally, 10.3 million disagreed that there are safe places in their neighborhood to play.

SUMMING UP

The data reported herein from Census Bureau sources – in every instance the most recent data available – confirm the second part of the dual proposition stated at the outset: there are millions of children in families with incomes above the poverty threshold whose growth and development are not assured. In the following, we draw attention to the following four conclusions organized along lines of the four obstacles identified in our introductory comments: home, health, school, and neighborhood.

First, the 20.6 million children in single-parent families suggest that some children are held back in their growth and development even in families with incomes above the poverty threshold. Further, regarding obstacles in the home, parents of families with incomes above the poverty line stated that 10.4 million of their children required more time than they anticipated and that 1.3 million children made them angry. An estimated 6.0 million children had no limits imposed on their TV viewing, with nonpoor children outnumbering poor children by 5:1.
Second, with regard to health obstacles to growth and development, the Census data suggest with few exceptions that American children are generally in good health. Specifically, the general health status of more than 95 percent of all children was reported as excellent, very good, or good. The data on health have to be handled with great care because they are based on information provided by the household respondent and not by a health-care specialist. For children ages 5 to 15, there were 2.7 million who were said to have a sensory, physical, mental, or self-care disability. The most common disability by far was mental disability which beset 2.5 times as many children in nonpoor families than in poor families.

Third, with respect to school, there were 1.8 to 2.5 million school-age children who did not like school, were not interested in school, or did not work hard in school. Nonpoor children outnumbered poor children by 4:1. Further, 26.9 million 6-to-17 year olds did not participate in sports, 31.9 million did not take part in clubs, and 33.2 million did not take lessons such as music or dance. Overwhelming, nonparticipating children in families above the poverty line outnumbered nonparticipants from families below that line.

Fourth, regarding the neighborhoods in which they live, 33.9 million of all children under age 18, according to the household respondent, agreed that there were neighboring people who might be a bad influence and 15 million who agreed that children are kept indoors to protect their personal safety. Smaller numbers, but still as many as 10.3 million were said to disagree that neighbors help neighbors, people watch other children, that there are people one can count on, adults who would help, or safe places to play.

Perhaps more than any other findings, these data on the neighborhood coupled with the data on extracurricular activities indicate that for many children, whether poor or not, there is little support in their growth and development outside their own family.
V. WORK AND PAY
The minimum-wage issue always brings into play two principal factors: the need of the wage earner and the ability of the employer to pay that minimum. This much is clear. Beyond that, the issue becomes murky.

For example, does a higher minimum wage lead to more unemployment?

YES, if what the employer gives up in the form of a higher wage is greater than what that employer gets in return from the work output of the employee. That negative outcome tells the profit-minded employer to dismiss the employee.

NO, if the higher minimum wage is below the wages the employer already pays to the lowest-paid worker. However, if the higher minimum compresses the employer’s workforce pay structure such that wages for higher-paid workers must be raised, the employer’s profits could be squeezed or product prices increased.

YES, if the monies paid under a higher minimum wage otherwise would have been used by the employer to improve labor productivity allowing the employer to increase what is gotten from the work effort of even the lowest-wage workers.

NO, if the higher minimum is passed on to the consumer in the form of higher prices for the goods and services produced. In that case, the higher minimum is paid not by the employer but the consumer.

YES, if the monies paid under a higher minimum wage otherwise would have been used to expand operations and would have compelled the employer to hire additional workers.

NO, if the employer is willing to absorb the higher minimum without increasing prices. An employer with a large workforce and only a few workers impacted by the higher minimum is more likely to do this than an employer with a small workforce and several workers under the higher minimum.

Besides raising the minimum wage, there are other ways to address the needs of the low-wage worker. Access to food stamps, reduced or free school lunches, and surplus commodities helps alleviate hunger. Entitlement to public housing or subsidized housing helps address the need for shelter. Eligibility for Medicaid helps cover the cost of providing needed health care services. The earned income tax credit offers tax relief to low-income earners based on the amount of their income and family size. In some cases this credit takes the form of a cash benefit for those tax filers who paid no income tax at all.
Even so, raising the federal minimum wage and making it apply across the entire nation is a very attractive way to deal with the needs of low-wage workers. With a simple stroke of the pen, the president can make it possible for untold numbers of workers to better provide for themselves and their families. Unlike the other options, the higher minimum wage does not require additional federal government spending.

The problem with a federal minimum wage applying across the length and breadth of the United States is that it has a different impact on large firms vs. small firms, established firms vs. startups, firms that operate on thin profit margins vs. others that enjoy larger margins, those that are labor intensive vs. those that are capital intensive, those that find it easier to pass a higher minimum on to their customers vs. those whose customers will rebel against higher prices.

It makes sense to take those differences into account and phase in a higher federal minimum over time in several steps than to mandate its implementation all at once. Or exempt firms for which the higher minimum has a severe and demonstrable impact. In the past, it has been suggested that any hike in the minimum wage should be smaller for teenage workers whose general lack of work experience means that they are less productive than adult workers.

Given the different cost of certain goods and services that are essential to human well-being, such as housing in San Francisco vs. Natchez and food in New York vs. Savannah, along with the different abilities of employers to pay a higher minimum without any negative impacts, it makes sense to let states and local government adjust the federal minimum within limits in accordance with the values of their citizens. They are much closer than the federal government to the needs of low-wage workers and the financial circumstances of their employers and therefore better positioned to respond to those needs and circumstances.

Better yet, given the universal consensus among economists of vastly different persuasions on monetary and fiscal policy, rather than mandating a higher minimum wage the federal government could enable higher wages by promoting greater productivity through tax credits tied to profit-sharing plans that are linked directly to productivity gains, or to on-the-job training programs that open up promotional opportunities for low-wage workers.

Perhaps most of all what is needed is greater courage on the part of corporate boards of directors that authorize enormous bonuses for senior managers. If they have the ability to pay additional millions for those on the high end of the compensation scale they should be able to better provide for the needs of the many at the low end.
WORK AND EARNINGS
INCOME INEQUALITY AND POVERTY
1980 – 2010
September 27, 2011

Success in America typically is measured in terms of work and earnings. Failure, on the other hand, often is gauged in terms of income inequality and poverty. Census Bureau data released earlier this month provide insight into the success/failure of the American dream since the Reagan revolution.

WORK. Over the last 30 years, there has been an enormous increase in the number of persons with substantial work experience. According to the Census Bureau, between 1980 and 2010 the number of men with some work experience during the year has risen from 64.9 million to 81.2 million. Among women the increase was even greater, from 52.0 million to 72.2 million.

Most of this increase has involved persons working year round, full time (YR-FT). Among men in 2010 there were 56.4 million with YR-FT jobs, a gain of approximately 14.5 million since 1980. For women the number with YR-FT work climbed by 19.8 million to 42.8 million.

Significance: notwithstanding the glum and doom associated with the Great Recession, the U.S. economy has produced millions of additional jobs for both men and women since the Reagan Revolution.

EARNINGS. The earnings improvement record is vastly different for men than for women. Among women with some work experience, real median annual earnings over the last 30 years have risen by 59.1 percent. For men the increase has been only 3.9 percent. Among those working YR-FT, the price-adjusted advance among men was only 1.8 percent. For women, it was 30.9 percent.

Significance: even though women still earn less than men, the real annual earnings gap has narrowed for YR-FT workers from $18,681 in 1980 to $10,784 in 2010.

There is a substantial difference in annual earnings for government vs. private-sector YR-FT workers. Among men with YR-FT jobs in 2010, working for the government amounted to an additional price-adjusted $7,047. For women the gap was $7,988. Comparing men who work YR-FT in the private sector and women with YR-FT jobs in the government sector, the gap shrinks to $2,281.
Significance: both in terms of job security and earnings, it pays to work for the government.

INCOME INEQUALITY. The Gini index of income inequality is a commonly used measure that takes on a value between 0.0 for total income equality and 1.0 for total income inequality. According to this measure as applied to household income and reported by the Census Bureau, inequality has risen from 0.403 in 1980 to 0.469 in 2010.

Some of that overall movement toward greater inequality occurred during the Clinton years, rising from 0.454 in 1993 to 0.462 in 2000. The Gini index in both 2001 and 2008 stood at exactly 0.466 and, notwithstanding the current political rhetoric to the contrary, was lower in six of the eight Bush years than in 2010.

Significance: recalling the words of the late Senator Daniel Patrick Moynihan, you’re entitled to your own opinion but not your own facts.

POVERTY. Since 1980 the population of persons living in poverty has climbed from 29.3 million to 46.2 million, pushing up the poverty rate over the last 30 years from 13.0 percent to 15.1 percent. Seventy-one percent of this surge has taken place in families headed by a female and among unrelated individuals, even though in 2010 they accounted for only 33 percent of the overall U.S. population.

Though largely overlooked by the media, the annual price-adjusted income gap between poor and nonpoor families has risen from $68,500 in 1988 when these data first were made available to $78,401 in 2010. Put differently, persons living in nonpoor families have on average $6,533 per month more to spend on their material needs and desires. For persons living in married-couple families above the poverty compared to persons in female-headed families below the poverty threshold, the gap widens to $7,264 every month.

Significance: escaping poverty in America depends on finding a good paying job and a steadfast spouse, both requiring a willingness to make a commitment that in a world of a hard-nose, bottom-line calculus and changing sexual mores increasingly is seen as old-fashioned and out-of-date.

Is America still the land of opportunity? For the many who are committed and faithful the American dream is a reality or within reach. Countless others, however, do not understand the connection between commitment and fidelity on the one hand and success and the American dream on the other hand. They see success and the American dream as social entitlements rather than personal opportunities. Even as they struggle with failure, they do not see the wisdom of the traditional values re-affirmed in the Reagan revolution that point the way to success.
Working moms are a unique labor force resource in that quite often they combine working and providing the principal care for their families especially for their young children. How they are able to do that is a testament to their work skills, organizational talents, and unbounded energy.

Many years ago moms were considered secondary wage-earners in the family. Today in roughly two-thirds of all married-couple families moms with children under age 18 are employed. In 70 percent of all female-headed families moms with children of that age are working. A cautionary note: a woman who heads such a family may be a mother with children under 18 years of age or someone else such as an aunt or sister of the mother or the children’s grandmother.

These data are drawn from the BLS’s “Employment Characteristics of Families – 2014” released in April and from the same report for earlier years.

Over the last ten years, there has been an overall decrease in the number of married-couple families with children under age 18 in which the mother is employed. In 2014 there were 15.3 million such families where mom was employed. Ten years earlier, there were 16.6 million married-couple families with children under 18 in which there was a working mom.

In only three percent of all married-couple families with children under age 18, both parents were not employed. Similarly neither parent held a job in three percent of married-couple families with children under age 6. There has been no change in these numbers over the last ten years.

In 31 percent of families headed by a woman with children under age 18 the moms were not employed. In an estimated 38 percent of female-headed families where there were children under 6 years of age, the moms did not hold a job. For these types of families the proportion of moms not working has crept upward since 2004.

Coupled with the long-term increase in the number of families headed by a woman where so many mothers are not employed it should come as no surprise that U.S. median household income of late has been falling.

Sixty-one percent of all moms with children under age 3 were employed in 2014 or unemployed. Labor force participation among moms who were married spouse present (MSP) was slightly lower than that but somewhat higher for non-MSP moms. In 2004 the labor force participation rate for all moms with very young children was 58 percent. Thus,
while labor force participation for the entire U.S. labor force has been falling over the years it has been rising even among the 3.3 million mothers with children under age 1.

Even with very young children working moms are full-time workers. For those with children under age 3, the number working full time is 2.5 times greater than the number working part time.

Beyond the special burden of providing care for their children, working moms are at a clear labor-force disadvantage especially when they have very young children. For moms with children under age 3, the jobless rate in 2014 was 8.1 percent.

There is a huge difference, however, in unemployment between MSP moms and other moms. For MSP moms the rate of unemployment was 4.5 percent. For non-MSP moms it was 3 times higher. Over the last ten years, there has been very little improvement in the jobless status of moms with children under age 3, whether MSP or non-MSP.

There is one trend that is particularly significant for American family life and social order. Since 2004 the number of non-MSP mothers in the population with children under age 3 has been rising at the same time the number of MSP mothers with children in those ages has been falling. Will this trend continue? If it continues, what impact will it have on children in the most critical period of their development, especially those who are being raised without a caring father? Will they be loved and nurtured or neglected and abused? Will they develop into caring adults or gang bangers? Will they have a long life filled with the joys of grandchildren or end up graveyard dead at the hand of rival gang banger?
Since the onset of the Great Recession, the media have taken note of a decline in U.S. labor force participation from 66.0 percent in 2007 to 62.9 percent in 2014. For the most part, media commentary runs along these lines: discouraged with poor job opportunities many U.S. workers have simply dropped out of the labor force. Some commentators have added that the decline is attributable to the retirement of the baby boomers born immediately following WWII who reached age 62 in 2008.

Using data from the Bureau of Labor Statistics website, Mayo Research Institute takes a more intense look at the labor force participation (LFP) of white men and black men 20 years of age and older since 1980, a period long enough to reveal significant trends. This focus reflects the simple fact that for years men have been the primary breadwinner in the American family.

Among white men LFP in 2014 varied greatly by age ranging from 23.6 percent for 70-to-74 year olds to 91.9 percent for 35-to-39 year olds.

Except for men 60 years of age and older, LFP in every 5-year age group has been falling time and again since 1980 and fell to its lowest level in 2014. To illustrate, for 25-to-29 year olds it dropped from 95.2 percent in 1980 to 88.6 percent in 2014. For 45-to-49 year olds it fell from 94.2 percent to 88.8 percent.

LFP among black men also varies substantially by age and has been dropping for every 5-year age group since 1980. For example, among 30-to-35 year olds it plunged from 91.4 percent to 84.7 percent. In every 5-year age group without exception participation in 2014 was lower for black men than for white men.

As suggested by the media, some of this consistent across-the-board decrease in LFP is attributed to the Great Recession where workers discouraged by the lack of job opportunities drop out of the labor force. However participation was at or near new lows five years after the end of the Great Recession in 2009.

Among white men, one overriding development has taken place over the last 35 years: a much larger increase in the number of never-married white men (62 percent) than those who are married spouse present (14 percent). The BLS website does not provide comparable data for black men.
However, Pew Research Center reported recently that among black men 25 years of age and older 36 percent were never-married in 2012. Pew did not report comparable data for white men.

Never-married men in general do not have the same responsibilities of married men and may not have the same need to work in order to provide for their dependents. Mayo Research Institute is convinced that the decline in LFP since the end of the Great Recession is not so much a short-term economic phenomenon but a continuation of a long-term social and demographic development.

The *Current Population Survey* regularly reports several reasons for nonparticipation in addition to discouragement: school attendance, caring for family members, disability, and retirement.

Notwithstanding the statements of the media regarding the retirement of the baby boom generation, LFP for older men was *higher* in 2014 than in 1980. For example, among 65-to-69 year old white men, the rate climbed from 28.7 percent to 36.6 percent. For white men 70-to-74 years old, it increased from 14.9 percent in 1987 to 23.6 percent in 2014. The increases for black men in those age have been similar but not of the same order of magnitude.

It follows that the decline in LFP since the onset of the Great Recession is NOT DUE to the heightened retirement of older men whether white or black. There are other factors that likely have a bearing on nonparticipation that are not reported by the *CPS*. Whether married or not, nonparticipation may reflect an avoidance of wage garnishment or employer random drug screening of workers or comfort with the safety-net benefits available. In addition, a nonparticipant may be lying to the Census enumerator because that person is engaged in illegal activity that across the entire U.S. economy is estimated at approximately $2 trillion per year.

Furthermore, the official nonparticipation estimates could reflect untold numbers of immigrants who in fact are working but do not have a green card. The *CPS* provides no information on the immigrant status of persons living in the United States.

Current estimates of the increased nonparticipation of working-age men raise serious questions regarding how they will be supported in the years ahead. Will their work experience qualify them for Social Security benefits and Medicare? If not, will they turn to Medicaid and other forms of public assistance?

If in fact they have been supporting themselves, whether by legal or illegal means, will they set aside enough for their retirement years? Will they find a way to qualify for disability benefits? Who will look after them in their old age? Their spouse? Their children and grandchildren?
The lesson is this. If able-bodied men don’t work, family life – one of the essential pillars of civilization -- is disrupted, and a dysfunctional family threatens the entire civil society.
By now anyone paying attention to the media including those sources reporting on the pay differentials between men and women who play professional soccer knows that across the board women are paid less than men. The number most often cited is women are paid 79 percent of what men are paid. The problem according to equal-pay-for-equal-work advocates needs to be fixed.

However, rival groups who are not persuaded that the 79 percent represents a real pay differential argue there are many important differences between men’s work and women’s work such as the dangers involved in offshore oil drilling, for instance, and power line repair, occupations that are dominated by men. That argument fortified with other pay-related factors including differences in educational attainment and years of work experience has been ongoing for decades. We do not intend herein to try to set it straight.

Rather our concern is that buried in the very same Census Bureau data that produced the 79 percent pay differential is a trend that is most disturbing. Since 1973, a starting point often used today to evaluate trends in pay, the inflation-adjusted median earnings of women who work year round, full time climbed from $30,182 in 1973 to $39,621 or 31 percent. Even so their pay in 2014 is well below the $50,383 earned by men with the same year-round, full-time work commitment.

Nevertheless, between 1973 and 2014 inflation-adjusted median earnings of men working year round, full time, has fallen by 9 percent. No doubt much of the decline in their earnings is due to the long-term loss of good-paying manufacturing jobs.

Whatever the reason for this long-term trend, the equal-pay-for-equal-work issue that is a thorn in the side of millions of working women must not be allowed to drive a wedge between them and the millions of men for whom there has been a serious deterioration in earnings. America needs to find better ways to stimulate economic growth that treats millions of women fairly and doesn’t leave millions of men behind.
The right to form a union derives from the more fundamental human right to form an association of like-minded persons that in turn is based on the social nature of all human beings. The right of association is not an absolute right, otherwise society would be powerless to restrain groups such as street gangs, cartels, pirates, and conspiracies. The right to associate therefore is a limited right.

The right to bargain collectively is embedded in the Wagner Act of 1935 that requires the employer to bargain in good faith with the union as the representative of the employer’s workforce. The union becomes the lawful representative of the workforce through a certification election that is supervised by the National Labor Relations Board. A decertification election allows the workers to remove a union that previously was certified as their lawful representative.

In the end the real power of the union derives from its willingness to strike. This power is balanced by the employer’s real power to lock out the workers. Collective bargaining is intended to avert those extreme measures.

Since it originates in the right to associate, collective bargaining is not an absolute right. It may not be used to destroy the employer. A union clearly cannot justify imposing wages, hours, and working conditions on the employer that have the effect of forcing that employer out of business. Common sense alone would dissuade a union from destroying the employer who provides the jobs its members depend on, though in the heat of the moment common sense might not prevail.

Similarly an employer cannot justify initiating action to bust the union even when it is able to find and hire replacement workers. Otherwise no union could survive unless it were willing to subordinate itself to the employer, to become a company union, a union in name only.

The right of unionized public employees to bargain collectively is today’s hot-button issue. This right plainly is not an absolute right. It depends on the restraints the union is willing to impose on its own activities. Principally this means that it must not bargain in a way that contributes to a fiscal crisis. It may not persuade a public executive – perhaps by offering support in the next election -- to sign off on an agreement that imposes unreasonable burdens on the taxpayer to pay the costs of whatever benefits are specified in that agreement. Though such an agreement may not meet the legal requirements of a
conspiracy, it borders on conspiracy in that it uses questionable means to achieve a lawful end.

The union has no right to subordinate the interests of the taxpayer to its own interests. The interests of the two are bound together and neither one has the right to destroy or subordinate the other. If the taxpayer acting through the legislative process breaks that bond by threatening to limit the scope of collective bargaining or removing it entirely the union can respond with a work stoppage. If the union breaks that bond by imposing unreasonable burdens on the taxpayer the taxpayer can appeal through legislative action. This is what is happening today in Wisconsin and appears to be unfolding in other states.

Amid all of the heated words and rhetoric on the street and in the media, cooler heads must prevail. It is the duty of the legislative body working with the public executive to sort through the difficult issue as to when a collective bargaining agreement involving public employees imposes an unreasonable burden on taxpayers and how best to resolve the thorny issues involved. This work cannot be done when legislators deliberately absent themselves from the legislative process.

A remedy must be reached that falls in the golden mean between the extremes of protecting full collective bargaining rights on the one hand and tearing up those rights on the other. Here’s a suggestion that could work as a temporary remedy. Suspend collective bargaining rights until cooler heads in the legislature, executive, and unions are able to fully address the budget crisis including any unfunded liabilities in public pensions and health insurance. Restore those rights when the crisis has passed and economic conditions allow the executive to be more accommodative to the needs of public employees without imposing unreasonable burdens on current and future taxpayers.

Wisconsin historically has been at the forefront of worker rights. The state can reassert its leadership in this domain if it can amicably find the elusive golden mean. Cooler heads must prevail.
Even the casual observer of economic affairs knows that economic policy depends critically on the quality of economic analysis which in turn is grounded in the accuracy of the information used in that analysis. Three pieces of information are of particular concern: wages, production, and labor supply. On the national level the first and third are the responsibility of the U.S. Bureau of Labor Statistics (Labor Department). The U.S. Bureau of Economic Analysis (Commerce Department) is responsible for the second. The Board of Governors of Federal Reserve System and the President’s Council of Economic Advisors are the key players in shaping economic policy. The serious student of economic affairs knows that for nearly the last 30 years the Board of Governors has played the dominant role. For reasons relating to the fear of detection, the large numbers of illegal immigrants in the United States are having unaccounted for effects on wages, production, and labor supply.

Wage Data. Monthly data on wages are analyzed and released to the public based on information collected by the Bureau of Labor Statistics in its National Compensation Survey. Included in the NCS are business establishments and state and local government agencies that are selected to represent economic activity in 152 areas across the United States. This area structuring allows the BLS to publish estimates of wages for the United States, for regions of the country, and for selected areas. Not included in the selection process are the self-employed, persons who set their own pay such as proprietors and partners in unincorporated businesses, volunteers, unpaid family workers being paid token wages, persons receiving long-term disability compensation, and U.S. citizens working abroad. The monthly estimates are subject to the usual sampling and nonsampling errors. Sampling error relates to the fact that only a portion of the entire universe of employers is being surveyed. Nonsampling error derives from a failure to collect information from the establishments and agencies included in the sample. The BLS publishes this monthly information in both nominal-wage and real-wage form.

Production Data. Four times a year the BEA surveys employers nationwide on the production of goods and services. This information is released to the public in final form three months after the close of the quarter to which the information refers. The raw data are used to produce two estimates: GNP and GDP. Gross national product is an estimate of the goods and services produced by all U.S. companies operating in the United States or in other countries. Gross domestic product is an estimate of the goods and services produced by all companies operating in the United States whether they are U.S. or foreign owned. Both estimates are adjusted to remove the influence of changing prices so that the estimates reflect only changes in production denominated in constant dollars. Today the preferred
measure is constant-dollar GDP because it relates to production within the United States that is more directly responsive to U.S. monetary and fiscal policy. Some employers deliberately underreport production because they are engaged in illegal activities such as tax evasion. No reliable estimates are available on the extent of production in the underground economy.

**Labor Supply Data.** The U.S. Census Bureau collects and processes information on employment and unemployment on a monthly basis from about 60,000 households that are selected at random. The collection instrument is known as the Current Population Survey (CPS). This information is transmitted to the BLS for analysis and release to the public on the first Friday of the month following the month in which the data are collected. The large sample – between 120,000 and 180,000 persons are surveyed every month – assures a very small margin of error. Two estimates derive from the CPS: the number of persons employed and the number unemployed. The sum of the two is called the labor force. The unemployment rate is calculated as follows: unemployed ÷ labor force.

At first glance, this tool seems to be designed to elicit information on the well-being of workers. However, it was designed to provide monthly information that complements the quarterly information on production, and to proxy for GDP/GNP information in the months when that information is not available. The CPS was launched experimentally in the late 1930s and has been collecting monthly information on the labor supply since the early 1940s. Other estimates of employment are available from the Current Employment Survey (CES) based on responses from a very large sample of employers selected at random. The CES is narrower in scope than the CPS because it does not include the self-employed, unpaid family workers, agricultural workers, or private household workers.

In June and July Mayo Research Institute inquired of the BLS regarding the counting of illegal aliens in the CPS and the CES. Here is the Bureau’s reply:

Neither the establishment [CES] nor household [CPS] survey is designed to identify the legal status of workers. Thus, while it is likely that both surveys include at least some undocumented immigrants, it is not possible to determine how many are counted in either survey.

... it is not possible to estimate their number and, therefore, we do not make any adjustments to [the CES] data.

Your question talks about adjustments [to the CPS estimates] if any for undocumented aliens who deliberately misrepresent their labor force status. Since no questions are asked about their legal status, there is no way of knowing if there are any misrepresentations and who the illegal aliens are.

We asked the BLS about any adjustments to the wage data for the presence of immigrants who are working illegally. This is the Bureau’s response:
The NCS does not use any means to adjust wages for illegal workers. We simply ask the company to tell us how many employees they have, their job duties and title, and how much are they paid and over what period of time.

The BEA response in July to the Institute’s questions regarding the impact on GNP/GDP estimates of undocumented immigrants working illegally could not have been more succinct:

BEA makes no estimates of the underground economy or any illegal activity.

One general conclusion necessarily follows. The federal government’s official statistics on wages, production, and labor supply do not fully take into account the millions of illegal aliens working in the United States. Four other more specific conclusions also follow though not with absolute certainty. First, wages on average are lower than reported by the BLS because illegals work at lower rates of pay than do others in the labor force doing the same work. Their lower acceptance wage is what makes them attractive to employers. Second, GDP is higher than is reported because at least some of those who employ illegals do not fully report the production derived from their work efforts for fear of public disapproval. Third, employment no doubt is higher than estimated whether the data come from the CES or CPS because employers and householders have good reason to underreport the employment of those who are working illegally. Fourth, because fear of detection may lead some of the undocumented to answer the CPS in ways that lead them to be classified as not in the labor force when in fact they are jobless, the total number of persons unemployed may be higher than what is reported by the BLS every month.

The quality of the information on wages, production, and labor supply is not likely to improve unless the issue of illegal immigration is addressed satisfactorily. Until then, the task of doing the analytical work necessary to properly inform economic policy-makers remains more problematical and the findings from that work more questionable.
Several days ago Hillary Clinton proposed offering a federal tax credit to *incentivize the senior managers* of private companies to share their profits with their workers. Details are sketchy but Clinton’s proposal appears to be structured as follows.

• A 15 percent tax credit whenever a company makes a profit-sharing payment to a middle-income worker. A business that pays out profits of $5000 to a worker qualifies for a $750 tax credit. Under such a tax credit the net impact on the profits of the company amounts to -$4250 (-$5000 + $750).

• Profit-sharing payments are capped at 10 percent of a worker’s regular pay. A worker at a participating firm who earns $40,000 would qualify for a payment of up to $4000.

• Smaller firms would qualify for a larger percentage tax credit.

• Tax credits for larger firms would be capped to avoid raiding the Treasury.

• No tax credit for profit-sharing payments to higher-income workers.

• A participating firm would qualify for tax credits for no more than two years.

The Clinton proposal is subject to change as her presidential campaign rolls on. Let us for the moment, however, take the proposal at face value. Is her proposal profit-sharing? It IS in the sense that profits are shared. As we understand it, her proposal is a redistribution scheme that encourages senior management to take money from shareholders and give it to workers. It is a win/lose scheme. Under her 15 percent tax credit proposal, every dollar paid to workers comes from 85 cents taken away from shareholders. The other 15 cents is taken from the Treasury.

Clinton’s proposal IS NOT profit-sharing in the sense that the proposal does not forge a link between the profits of the company and the productivity of the company workforce in a win/win arrangement that does not obligate the Treasury. That kind of arrangement is known as gain-sharing and works as follows. Gain-sharing *incentivizes the workers* of a private company by offering to share according to a schedule any gains (added profits) derived from improvements they make to the production process that lead to greater efficiencies and lower production costs.
Gain-sharing works by paying the workers more whenever they produce defect-free units using fewer hours of labor inputs than previously. The gains achieved are estimated by comparing the number of hours it takes to produce output under the old production process to the number of hours it takes to produce the same output under profit-sharing.

To illustrate, in a company with weekly output of 100 units utilizing 60 full-time workers who are paid $15 per hour ($600 per week), a 10 percent reduction in labor hours worked to produce 100 units cuts weekly labor costs by $3600 (the gain). With a 50-50 gain-sharing formula, each worker receives gain-sharing pay of $30 per week (5 percent of $600) or $1560 on an annualized basis. The shareholders get the other 5 percent: $1560 for each of the 60 full-time workers.

By providing gain-sharing pay only for defect-free units the workforce soon comes to the realization that quality is a necessary part of productivity.

There is one important condition that helps incentivize workers. Companies that implement gain-sharing should protect the workforce from dismissal due to a reduced need for labor inputs. Any workers who suspect that improved productivity may lead to their dismissal are likely to resist the full implementation of gain-sharing.

Clinton’s proposal is a win/lose scheme for redistributing earnings from shareholders to workers with the Treasury adding a sweetener. There is no incentive for anyone at the company to improve productivity or quality. Further, the workers are not engaged actively in managing the affairs of the company. They participate as silent partners who passively await their share of the profits as their reward for doing nothing more than what they’ve been doing all along.

A gain-sharing plan, on the other hand, incentivizes the workers to increase productivity and quality by participating in the hands-on management of the company and splitting the gains they have achieved with the shareholders in a win/win arrangement. The Treasury does not have to sweeten the deal because the very logic of gain-sharing provides all the necessary incentives.

Clinton’s profit-sharing proposal is not a good idea because it is inferior to gain-sharing, is entirely unnecessary, and drains the Treasury for no good reason. What she could do instead is visit private companies with gain-sharing plans that reward workers for on-the-job performance. A much better idea is for Clinton to visit Lincoln Electric in Cleveland where in 2013 the average worker received a $33,029 bonus raising total compensation for the year to $81,366. In its very long gain-sharing history Lincoln Electric never has laid off a worker.
VI. VIRTUES AND VICES
Since Aristotle, four virtues -- justice, courage, moderation, and prudence -- have been looked upon as centrally important to the development of the honorable person. Justice is rendering to others that which is owed. Courage is firmness in the face of difficulty and constancy in the pursuit of the good. Moderation restricts the attractiveness of pleasures and provides balance in the use of created goods. Prudence prompts one to select the best means to achieve a good end. The four are commonly referred to as cardinal virtues. Our concern in the following is with the role of these virtues in economic affairs.

Justice is the mid-ground between rendering too much to others and rendering too little, between favoritism and ripping off. Courage is the golden mean between the vices of cowardice (too little) and rashness or recklessness (too much). Moderation is the mean between gluttony and extreme self-denial, between workaholism and sloth. Prudence helps us discern excess and deficiency in other areas, enabling us to locate the mean though not activating us toward that mean. Thus, prudence is fundamental to the other virtues (Rickaby, pp. 5-8; Kraut, pp. 5-7).

We refer to the four as practical virtues because as Schall states (pp. 414-415) they relate not to thought or truth but to practical human action. Moderation and courage are always inward-directed, toward self; justice is outward-directed, toward others (Schall, p. 410). Following Aquinas, prudence is not rational self-interest unless it is tempered by justice and friendship or love (Finnis, p. 20). It involves both the end sought and the means to attain that end, calls for reason rather than impulse, and takes counsel from others in the selection process (Elmendorf, p. 4). Prudence, therefore, is both inward- and outward-directed.

Justice is, to quote Schall (pp. 419, 409), “a very cold virtue,” “the most terrible of the virtues.” Strictly speaking, justice results in a condition wherein no one owes anything to anyone else. Schall (p. 412) describes this condition as an “isolated hell.” The remedy, he states, is found in the virtues of gratitude, benevolence, and charity.

... relationships of justice, by themselves, are quintessentially impersonal. We get what is due -- no more, no less. This indifference to the person to whom we are just or who is unjust to us is what I meant earlier in suggesting that gratitude, benevolence, and charity are needed in addition to justice. We must be just even to our enemies, to those who hate us, to those we do not know or care to know (Schall, p. 419).
The virtue of forgiveness is another remedy for what is lacking in the virtue of justice. Forgiveness is the golden mean between enabling irresponsible financial behavior and crushing the human spirit under an unbearable load of debt. Forgiveness by definition must be given freely by the one who holds the debt claim. The physician who does not charge an impoverished patient for care that is rendered, the landlord who allows a single mother who has lost her job and cannot pay the rent to remain in her apartment with her children, the neighbor who does not accept reimbursement for school uniforms purchased for the children next door living with their grandmother who survives on a small monthly pension check exemplify the true meaning of forgiveness. In every instance, forgiveness involves a need that otherwise would not be met.

Bankruptcy reform\(^1\) in 2005 strikes a new balance between the extremes of too much and too little, moving clearly away from wiping out too much debt. While it provides relief for persons, families, or organizations that are unable to meet their obligations under justice, bankruptcy is relief that is legally coerced. In a bankruptcy judgment, creditors are forced to give up all or part of any claim to what is rightfully theirs. Bankruptcy is not forgiveness, it is cancellation. Writing off debt that is uncollectible, including debt that has been assigned to a collection agency which has not been able to get the debtor to make payment, is not forgiveness. It is acquiescence because, even though there is no legal coercion, writing off forces the creditor to concede that the underlying claim will not be honored. Debt that has been legally cancelled or written off may reflect expenditures for things which were truly needed such as hospital care or auto repair or for things that were wanted at the time of purchase but not strictly needed such as designer clothes or high-definition television. To repeat, the true measure of forgiveness in economic affairs is relief for what is owed that is given freely.

Debt that is cancelled through bankruptcy or written off as uncollectible impacts the firm’s cost of doing business, its profitability which is troubling to the owners/shareholders, and may lead to higher prices which would be harmful to its paying customers. In the extreme cancelled and written-off debt could force the firm out of business which is harmful to all of its stakeholders. Similar consequences may follow from debt that is forgiven though such outcomes are less likely because the creditor is not being coerced to cancel or write off debt.

In economic affairs, justice, courage, moderation, and prudence operate in the limiting mode. Justice limits ill-gotten gain (in a routine exchange one agent gets too little because the other agent takes too much). Courage limits evil from occurring when a person such as a whistleblower knows what to do in a difficult situation and is willing to confront that difficulty. Moderation limits excess in work, consumption, and leisure. Prudence limits recklessness in allocating resources toward some given good. All four virtues are learned

\(^1\) Bankruptcy Abuse Prevention and Consumer Protection Act.
(from others, on one's own) and therefore can be taught (to others). Children become aware of and learn justice first in large measure because family controversies often swirl around questions of justice (Schall, p. 410). “She messed with my drawing.” “He broke my watch.”

We conclude with some extended remarks on the virtue of justice because justice is so fundamental to economic affairs. Every exchange between economic agents – buyer and seller, producer and supplier, employer and employee, borrower and creditor – necessarily involves economic gain for both parties. What is gotten must be greater than what is given up. Otherwise, exchange collapses. However, limits on the amount of economic gain are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of commutative justice, distributive justice, and contributive justice.

The principle of commutative justice limits ill-gotten or excessive gain because what is gotten and what is given up in the exchange are what were freely and openly agreed to before the exchange took place. For example, the ill-gotten gain for the employer who operates a sweatshop is the added profits from denying his/her workers their due. The ill-gotten gain for the employee who embezzles is money that rightfully belongs to the employer.

The principle of distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly.

The principle of contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the insider trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

Justice, courage, moderation, and prudence are essential to an efficient, orderly, and peaceful economy. Mainstream economics asserts that these matters are addressed through the “invisible hand of the market.” Personalist economics argues that the “invisible hand” fails whenever economic agents have not learned and acquired the practical human virtues or do not practice them faithfully.
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In addressing the decision-making process regarding economic affairs, mainstream economics draws attention to the cost -- known as opportunity cost -- of whatever the economic agent cannot do or cannot have when he/she makes a decision even in those cases where the agent is not explicitly aware of this cost. To illustrate, the opportunity cost when a producer decides to use barley to produce coffee is that the same barley cannot be used to produce whiskey.

Without dismissing the importance of opportunity cost, personalist economics is more inclined to look at the decision-making process in terms of its ethical dimensions. There are many instances, for sure, when the choices made are ethically neutral. For example, the decision to paint the exterior of one’s house with white paint versus some other color has no ethical content. That is, one color is not morally right and another morally wrong. However, the decision as to what you should pay a person to work for you very likely has an ethical dimension. Thus, deliberately withholding the pay until the work has been completed and paying the worker less than what was agreed to is unethical even though the work was done to your exact specifications.

Are decisions regarding ethical issues in economic affairs entirely arbitrary, depending completely on the whims, fancies, feelings, opinions, attitudes, and values of the persons making those decisions? Or, are there objective standards that apply in economic affairs rendering ethical decision-making reasoned, defensible, and alike from one person to the next except in extenuating circumstances? Overwhelmingly mainstream economics argues that ethical standards are essentially relative, that they differ from one person to the next, and therefore are outside the limits of legitimate inquiry for economic science. Moreover, the market system sorts out all conflicts between economic agents including ethical disputes and for that reason there is no need to concern ourselves with ethics and ethical issues.

Our view is that there are certain objective ethical standards to be applied in economic affairs, and that those standards originate ultimately in the human experience. Thus, shoplifting is destructive of retail trade because clearly it is unreasonable to expect a shopkeeper to operate his/her store when customers are entirely free to take whatever they want from the shelves and exit the store without paying. Indeed, not punishing the shoplifter assures that few if anyone would be so foolish as to become a merchant and expect to earn a living. To teach and reinforce the ban on shoplifting, it is necessary to have laws and enforcement officers to assure that shoplifting is punished.
To address the lawyer’s role in economic exchange which includes finding remedies for failures or breakdowns in exchange due to human imperfection, it is best to begin by defining justice. Justice is the virtue of rendering to another that which is owed. More specifically, in economic affairs justice is expressed in terms of three principles: commutative justice, distributive justice, and contributive justice. There are just three principles of economic justice because there are only three modes of human interaction in economic affairs: person to person, superior to subordinate, and member to group. Commutative justice sets forth the duty of buyer to seller in the marketplace and worker and employer in the workplace. Distributive justice defines the duties of the superior to his/her subordinates whether that interaction takes place in the marketplace or workplace. Contributive justice sets down the duties of the member to the group in interactions occurring in the workplace or marketplace.

**Economic Gain: Profits, Consumer Surplus, and Economic Rent.** Before moving on to commutative justice, it is instructive to address first what happens in a market exchange. Every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up. To illustrate, a person shopping for shoes finds a pair priced at $118. In deciding to purchase the shoes that person asks ‘Are they worth $118 to me?’ If the answer is affirmative, he/she buys the shoes. If the answer is negative, he/she turns away. If that person is not sure, he/she turns away but may return later to buy the shoes provided they are worth the $118 that must be given up to acquire them. In a complicated transaction such as the purchase or sale of property in which mineral rights are involved the buyer or seller might consult with a lawyer to assure that he/she is well-informed as to precisely what is gotten and what is given up.

As with mainstream economics, personalist economics differentiates between exchange value and use value. Exchange value is what is given up for the good or service acquired through exchange. Use value is what is gotten, that is the usefulness of the good or service to the person who acquires it.

Under competitive market conditions, exchange value should not vary from one person to the next. The price paid for the same dog food in a supermarket is the same for everyone buying that brand of dog food there. However, use value is not the same for everyone who buys that dog food because some persons are more deeply attached to their dogs and derive greater pleasure from feeding and caring for them than do others. While exchange value is determined by market conditions at the time and place of the exchange, use value is determined by the value systems of the uniquely different persons involved in the exchange. Exchange value is an objective piece of information. Use value, on the other hand, is a subjective human experience. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up).
Without that gain, the exchange cannot be carried out. However, without a limit to that gain and its origins, some persons are able to take more than their due while others are left with less. Mainstream economics brushes aside the problem of exploitation and victimization with the invisible hand argument: every economic agent in the pursuit of his/her own self-interest serves the good of all through the invisible hand of the market. Introducing justice is unnecessary and threatens the value-free nature of mainstream economics. Personalist economics rejects the invisible hand on grounds that its appeal to magic and rhetoric is no substitute for a call to reason and substance. Personalist economics accepts a value-laden economics as the price for aligning economics more closely with economic reality.

In the workplace, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the clerk’s labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker’s profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more useful than the time and effort involved in working. Without that gain (known among economists as economic rent) the clerk would not accept the job.

The gain to the worker or the owner of natural resources that are used in the production process may be enhanced further by the generous employer/producer who pays more (adds more to economic rent) than is absolutely required perhaps in the expectation that his/her generosity will be repaid by more diligent workers and more careful suppliers, thereby adding to the employer’s profits. The model employee or supplier is one who contributes more to profits than is normally expected.

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided what is gotten (the price paid by the customer) is greater than what is given up (the bread itself, specifically the cost to produce the bread), thereby adding to the baker’s profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker’s customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer (consumer surplus) can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer’s gain is greater than initially expected.

Thus, profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is (1) the gain that comes from the producer’s buying inputs in the resource market for use in the production process, and (2) the gain that derives from selling the finished goods in the product market. Thus the producer’s
profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.

However, regarding economic rent and consumer surplus, the gain originates in exchange that takes place in a single market. For the worker and the owner of natural resources, economic rent originates in exchange in the resource market. For the consumer, it is exchange in the product market that gives rise to consumer surplus. Though the language used in mainstream economics for these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three are necessary to that process. In their absence, exchange tends to break down.

Nevertheless, there must be limits to profits, consumer surplus, and economic rent in order to prevent one party from taking advantage of another and to assure that market exchange serves all economic agents fairly and effectively and not just those with the power and will to turn gain into excess. Later on we will see more specifically that those limits are grounded in the duties that economic agents owe one another under the three principles of economic justice. Whenever agents fail in those duties remedies are available through litigation. The faithful practice of justice, in other words, prevents the ill-gotten gain. Litigation, on the other hand, compensates for ill-gotten gain. In a perfect world, litigation would not be necessary. The extensive use of litigation bears witness that the invisible hand does not sort out all conflicts because economic agents are not perfect human beings.

Commutative Justice. The principle of commutative justice states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties: to exchange things of equal value and to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to give up possession of the good or service in question. For the buyer, the burden is to give up possession of the money necessary to buy and take possession of that good or service. For the worker, the burden is performing the work required by the employer. For the employer, the burden is paying the worker the wage they agreed to.

At first glance, exchanging things of equal value implies that there is no gain involved. On closer examination we see that this is not the case. Exchanging things of equal value means that what is exchanged is of equal exchange value, not equal use value. As indicated previously, exchange value refers to (a) the price paid to purchase a good or service and (b) the wage or price paid to hire a worker or natural resource to produce that good or service. Use value is what is gotten, that is the usefulness of the good or service or resource to the person who acquires it. The two taken together result in economic gain under the following condition:

\[
\text{gain is realized when use value} > \text{exchange value.}
\]
Whereas use value cannot be influenced by the other party to an exchange, exchange value at times can be determined directly by the other party. In those cases, restraint may be necessary. However, when a market is reasonably competitive, exchange value normally does not fluctuate markedly from day to day and is the same or nearly the same for all buyers on the same day. Competition in other words reduces the control that any single buyer or seller has over price, keeps the market price close to the cost of production, and allows a reasonable profit margin but not undue profit. Thus there may be little need for personal restraint. Gain under these circumstances can be represented as follows:

\[
gain \text{ justified when } use \text{ value } > exchange \text{ value restrained by competition.}
\]

A problem arises, however, when the market does not impose this restraint, and agents are free to act, more or less, without restraint. Action of this type can occur when the producer fixes the price through a cartel or when the buyer is simply ill-informed about the market price and overvalues the product or service offered for sale. In such cases, the gain of the seller is ill-gotten because it is based on taking advantage of the buyer. Unrestrained action may involve a buyer who has an opportunity to enhance his/her gain when the seller is unaware of the true value of the product or service offered for sale. This could happen, for example, in a flea market where the seller offers a book for sale at a low price unaware that the book is a very valuable first edition, or when a widow offers property for sale which she has grossly and innocently undervalued. Commutative justice in all such cases informs both parties that the only justifiable gain is one that does not deprive the other party of the gain that is rightfully his/her.

The following simplification expresses the nature of the gain that is justified under these conditions: gain is justified when use value > exchange value restrained by faithful adherence to commutative justice in a situation where competition alone does not provide the necessary restraint.

Another example may be instructive in driving home this argument. A market price that is determined entirely by the producer -- in the extreme by a monopolist -- violates commutative justice because the margin of profit inflates the price and effectively manipulates exchange value, yielding ill-gotten gain for the monopolist. In this case, the buyer who needs the monopolist’s product or service has no option other than to buy from the producer who controls the price.

From time to time we may not know precisely the exchange value of a specific item such as a Rolex watch but we very likely know that it does not sell for the same price as a Timex watch. Anyone attempting to sell a watch that is represented as an authentic Rolex for, say, $49 should be suspected of (1) selling a Rolex watch that is stolen, (2) selling a watch that actually is a counterfeit or a “knockoff,” or (3) selling a genuine Rolex but having no real appreciation for its true worth. Commutative justice means that selling stolen goods is
unjust because the seller has no right to sell what does not belong to him/her and the buyer has no right to buy and take possession of a watch that belongs to someone else. Such practices are not unjust because they are illegal. Rather, they are illegal precisely because they are unjust.

Misrepresenting a “knockoff” as the genuine article is unjust because the seller is deliberately deceiving the buyer. Finally, and with one exception, buying a good at a price well below its current market price is unjust because the buyer has no right to exploit the seller who is unaware of the watch’s real value. There is, however, no such exploitation when the seller is fully informed as to the good’s real value and freely sells it for less. In that case, the good exchanged is in part a gift.

There are other sources of information about what equal means in a marketplace or workplace exchange. They include information available through family members, friends, co-workers, neighbors, and others including lawyers who consult for a fee. There are published sources of information as well such as Consumer Reports, newspaper advertising, and electronic exchanges such as E-Bay.

At times, the things exchanged at the very moment the exchange is executed are not of equal value, such as when a house is sold and the buyer makes only partial payment in cash but takes possession of the entire house at the time of closing. To simplify this example, we assume that the buyer does not obtain a mortgage from a third-party lender such as a bank. Rather the seller offers to lend the buyer the unpaid balance by allowing the buyer to make regular payments over time until the balance is paid in full. Notice at closing, the buyer’s immediate burden is to make partial payment in cash to the seller. The seller’s burden is to surrender the whole house, and accept the buyer’s written promise to pay the balance in the future. Under those circumstances, the seller faces the risk that the buyer may not be faithful to his/her promise to make payments in the future until the balance is paid in full. And the seller must wait until payments are made and at closing forgoes the use of that money had he/she insisted instead on payment in full. Consequently, the seller/lender is justified in requiring the buyer/borrower to repay more than the amount of money that was borrowed. Indeed, the seller/lender is justified in charging interest in order to equalize the burdens involved.

The precise amount of interest that equalizes the burden is problematical. However, we know by experience that a rate of interest of 100 percent is excessive because it imposes an undue burden on the buyer/borrower. Similarly, a 50 percent rate of interest is excessively burdensome. However, in 1981 banks across the United States were charging their most credit-worthy customers an average of 21 percent on loans and as much as 35 percent for other higher-risk borrowers. Today, credit card companies commonly charge 18 percent annual interest and, even though some cardholders are not able to pay their credit charges,
most cardholders do pay what they owe. We conclude that a rate of interest of roughly 20 percent is reasonable and in general satisfies the requirements of commutative justice.

There are several specific ways in which commutative justice may be violated in the marketplace. Shoplifting is one, and issuing a bad check is another. Loan sharking -- charging excessive interest -- and price gouging that may take place in an emergency such as a hurricane are two more examples. Counterfeiting, whether it involves paper currency or “knockoffs” violates commutative justice as does the bait and switch scheme.

In the workplace there are several ways in which commutative justice may be violated. We enumerate here only two: expense padding and sweatshop. Expense padding means seeking reimbursement from your employer for personal expenses incurred when you have been traveling on official business. Or it may be seeking reimbursement for legitimate business expenses but those expenses have been inflated or padded. A sweatshop is an employer who cheats his/her workers in terms of wages, hours, or working conditions. Paying less than the minimum wage or the wage agreed to, forcing employees to work very long hours without rest or compensation, operating a workplace that violates the local building code or that is generally unsafe are ways in which an employer “sweats” his employees in order to reduce labor costs and add to profits.

At times, buyers are overwhelmed by their indebtedness and simply are unable to pay what they owe under commutative justice. At times, they may have acted foolishly spending beyond their means with credit cards, or they may have been ill-informed regarding a sub-prime mortgage, not realizing that they could not afford the house they agreed to buy. At other times, they may be unable to pay their regular monthly bills because of the death or disability of the family’s primary wage-earner or they may be weighed down by huge medical expenses due to a catastrophic illness. The legal system provides some relief from their obligations under commutative justice in the form of bankruptcy. The services of a lawyer, perhaps even a specialist in bankruptcy law, very likely would be required to sort through the options available to the person who is unable to handle the financial burdens he/she has taken on. In such cases, the virtue of mercy trumps the virtue of justice. This relief, however, is not cost-free. The merchant or provider who holds bad debt does not get all so as to he/she anticipated when the exchange took place, is deprived of the gain he/she is legally entitled to, and may compensate for that loss by raising his/her prices or fees, forcing others who are entirely innocent in the matter to pay the true cost of bankruptcy relief.

_Distributive Justice._ The second principle of justice -- distributive justice -- defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens of the members of the group under his/her supervision in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to
take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees. Single parents in general shoulder heavier child care responsibilities than married parents. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. For example, a superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have “less upside potential” than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

The Civil Rights Act of 1964 accorded special legal protection against discriminatory practices to women, African Americans, native Americans, Jews among others. In 1968 persons 40 years of age or older were included in the “protected class”; 22 years later persons with disabilities were included. Even so, false stereotyping is the means by which discrimination persists and flourishes today in the United States. By assigning negative characteristics to a person based on what is taken to be common characteristics of the minority group to which that person belongs, false stereotyping essentially blames the victim for certain character defects and thereby rationalizes treating that person differently. Thus a specific minority person is branded as shiftless, boisterous, drunken, or is labeled as practicing odd religious rituals and the like. For those reasons and others, it becomes much easier to treat that minority person differently than others. Our language itself conveys and reinforces such false stereotypes, notably by the “n” word and the “b” word. Unless and until it is exposed false stereotyping attributes the discrimination to the victim rather than the perpetrator, justifying the discrimination on the basis of an alleged defect in the character of the victim.

Discrimination and the government intervention required to address it are evidence that the market system in which each economic agent in the pursuit of his/her own self interest also serves the common good through the invisible hand is not always sufficient to resolve important conflicts in economic affairs.

Two especially noteworthy violations of distributive justice are kickbacks and harassment. A kickback is the ethical equivalent of a bribe. A bribe is a payment to a superior in the expectation of special treatment. The payment precedes the special treatment. A kickback
is a payment for special treatment wherein the payment follows the special treatment. A contractor bribing a state highway official in order to influence that official’s decision as to which contractor is to be awarded a construction contract makes payment beforehand. A contractor kicking back to a highway official promises beforehand to make payment after the deal has been closed. Either way the public servant is rewarded for putting personal gain before the common good. Harassment is the practice of a superior exacting special sexual favors from a subordinate, or touching or addressing him/her in ways that are disrespectful in exchange for a favorable performance evaluation, a raise, a promotion, job assignment, or the like.

The principle of distributive justice has application in the marketplace too, but here the issues are not as serious as in the workplace. In the marketplace, it is the merchant or shopkeeper who is the superior because he/she is the one who must treat his/her customers with fairness. There are several ways in which this is done. We examine one. A merchant who makes rain checks available is saying in effect that when an item is put on sale at a very favorable price, he/she will treat all customers alike even those who come to the store after the supply of that item has been exhausted. Under those circumstances, the merchant re-orders the item in such quantities to satisfy all customers who have been issued a rain check.

The key to understanding how the merchant meets his/her obligations under the principle of distributive justice is that while the specific terms of sale differ across different promotional practices -- limit 3 to a customer, rain check available, sale price effective as long a supplies last -- once a specific practice is put in place there is no difference in the way those terms are applied to any customer. Further, though some customers may not be able to take advantage of the favorable opportunities afforded by the merchant, due perhaps to their lack of transportation, their infirmities or disabilities, their being away from home on business, the merchant’s duties under distributive justice extend only to those who actually enter the store, provided the merchant has made an effort to properly inform his/her customers of the opportunities and to maintain the usual store operating hours.

As we observed already with commutative justice, an ill-gotten gain can be had when the superior fails in his/her obligations under the principle of distributive justice. For example, discrimination in the workplace can yield an ill-gotten gain to the employer who resorts to paying some workers less than others for work of the same kind and quality. Favoritism in the marketplace in which the offending purchasing agent is rewarded with a kickback represents a similar ill-gotten gain. Here, too, the law offers a remedy for market failure though a powerless plaintiff may find that legal representation is expensive, the litigation process tedious and drawn-out, and the outcome problematical. Because economic agents including lawyers, judges, and juries are imperfect human beings, even this remedy may fall short of what is needed to completely right the wrong.
Contributive Justice. The third and last principle of economic justice is contributive justice that lays down the obligation of the member to the group to which that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues -- a duty -- is the usual requirement for the persons joining and remaining active in a membership organization. Failure to pay membership dues typically reduces a person to inactive membership status enjoying fewer benefits of membership as compared to those in good standing.

There are several powerful examples as to how contributive justice is violated in the marketplace and the workplace. We mention only two. In the workplace, industrial spying and sabotage violate contributive justice because the person who appears to be a loyal and productive member of one business establishment actually is faithful to a rival organization and seeks to undermine the effectiveness of the first establishment by stealing secrets and disrupting its work. Is it a violation to hire a person from a rival establishment and then pick his/her brain for whatever information he/she might be able to share with the new employer? It does, if that person surrenders proprietary information, that is information to which the former employer can claim a clear property right such as a secret formula for making a product.

In the marketplace, insurance fraud violates contributive justice because if a fraudulent claim is not detected by the insurance company, payment is made to the insured party that drives up the cost of the insurer who may pass those additional costs on to all policy holders in the form of higher premiums. The Coalition Against Insurance Fraud estimates that insurance fraud costs Americans about $80 billion every year or $950 per family (see www.insurancefraud.org). Here, as well, the law provides some relief by defending propriety rights and prosecuting insurance fraud, but for reasons cited previously the harm done may not always be fully undone.

To repeat, limits on the amount of gain in the form of profits, consumer surplus, and economic rent are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of commutative justice, distributive justice, and contributive justice. Specifically, commutative justice limits ill-gotten or excessive gain because what is gotten and what is given up in the exchange are what were freely and openly agreed to before the exchange took place. For example, the ill-gotten gain for the employer who operates a sweatshop is the added profits from denying his/her workers what is due them. The ill-gotten gain for the employee who embezzles is money that rightfully belongs to the employer.

The principle of distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers
less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly. The principle of contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

In closing, in a perfect world in which all economic agents are fully-informed, free to act, and faithful in practicing the three principles of economic justice, the market system alone would be sufficient to assure the economic gain of each party in every exchange, that what is gotten is more highly valued than what is given up. Economic agents, however, are imperfect human beings and at times are able to grab hold of gains that are not rightfully theirs. The business of the lawyer is to try to remove the imperfections that produce the ill-gotten gains or find some remedy that compensates the victims for their losses.
Discrimination, false stereotyping, and affirmative-action have divided Americans as to their fundamental fairness for years. The principle of distributive justice requires the person with superior workplace responsibilities to distribute the benefits and burdens of the group under his/her supervision among its members in some roughly equal fashion.

This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees. Single parents in general shoulder heavier child care responsibilities than married parents. Persons of different faiths may observe different holy days. Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child while the same permission might be denied to a married worker with a spouse who stays at home to look after the children. An orthodox Jew may not be required to work on Saturday whereas persons of other faiths might have to work on that day.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have “less upside potential” than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Immigrant workers may be treated differently because they dress differently or speak with heavy accents. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

The Civil Rights Act of 1964 accorded special legal protection against discriminatory practices to women, African Americans, Native Americans, Jews and persons of other faiths, and persons born in other countries. In 1968 persons 40 years of age or older were included in the “protected class”; 22 years later persons with disabilities were included. Even so, false stereotyping is the means by which discrimination persists and flourishes today in the United States. By assigning negative characteristics to a person based on what is taken to be common characteristics of the minority group to which that person belongs, false stereotyping essentially blames the victim for certain character defects and thereby rationalizes treating that person differently. Thus a specific minority person is branded as
shiftless, boisterous, drunken, or is labeled as practicing odd religious rituals, having too many babies, speaking a foreign language, enjoying strange foods, emitting a body odor or foul breath, wearing bizarre clothing, and the like. For those reasons and others, it becomes much easier to treat that minority person differently than others. Our language itself conveys and reinforces such false stereotypes: the “n” word, the “b” word, “redneck,” “hick.” False stereotyping is especially insidious because until it is exposed false stereotyping attributes the discrimination to the victim rather than the perpetrator, justifying the discrimination on the basis of an alleged defect in the character of the victim.

Discrimination and the government intervention required to address it are evidence that the law of nature -- every economic agent in the pursuit of his/her own self interest also serves the common good through the invisible hand -- is not always sufficient to resolve important conflicts in economic affairs.

“Equal pay for equal work” is a requirement under distributive justice. It means that persons doing the same work, with the same on-the-job-performance of their assigned duties, are to be paid the same wages. “Equal opportunity” too is a requirement under distributive justice. It means that persons of equal experience and qualifications are to be afforded the same chance to be hired and promoted.

“Affirmative action” is controversial because some argue that it is necessary to right past injustices while others assert that it is reverse discrimination. The ethical principle of the double effect is instructive regarding affirmative action because affirmative action -- the hiring and promoting of persons in the protected classes over others -- has two effects, one positive and one negative. The positive effect is the good that is done for the person(s) hired or promoted. The negative effect is the bad that is experienced by those who are passed over in the hiring or promotion process. The principle of the double effect says that: (1) the good effect must be greater than the bad effect, otherwise the superior/decision-maker is doing more harm than good; (2) the bad effect must not be intended. That is, the superior/decision-maker must not intend to bring harm to the person(s) being passed over, but recognizes that there is no way to hire or promote one or two from an applicant pool without passing over everyone else.

Because affirmative action practices typically involve these two effects, and the scope of those effects very likely differ from one situation to another, the basic fairness of affirmative action practices must be addressed on a case-by-case basis. In some cases affirmative action may pass the test of fairness constructed on the principle of the double effect and in others it could fail that test. Though it would be much simpler if the fairness of affirmative action could be settled once and for all, there is no other way to proceed.
Three times in the last 25 years financial markets have been severely shaken due to an underlying failure on the part of human economic agents acting recklessly in financial affairs. In the 1980s it was the savings and loan debacle. In the 1990s it was the bursting of the dot.com bubble. In the 2000s it has been the subprime lending crisis.

In the late 1970s savings and loans were deregulated in the expectation that freed of the government restrictions that limited their activities to the home mortgage market, they would transform into and compete with private commercial banks thereby reducing the cost of financial services to the banking public. The transformation was successfully completed and savings and loans did indeed begin competing with banks across a wide range of services.

Savings and loans however were not prepared sufficiently to step outside the home mortgage market. Prodded by extremely high interest rates – in 1981 the prime rate of interest across the United States was 21 percent – savings and loans began making risky loans in the anticipation of the substantial revenue stream from higher interest earnings. Loan officers were rewarded with commissions based on the number of loans they were able to add to S&L loan portfolios, earning them the designation “go-go” loan officers. The virtues of moderation and prudence (due diligence) were replaced by excess and shoddy background work on prospective borrowers.

Failure was inevitable as borrowers were not able to meet their obligations and defaulted, mainly in the farm belt and the oil patch where heavy borrowings and lower-than-expected prices produced a cash-flow crisis and financial disaster. Default and foreclosure followed. For many savings and loans the losses from bad loans were so severe they were forced to close. In 1988 alone the number of failed savings and loans reached 185. Funds in the Federal Savings and Loan Insurance Corporation which insured deposits at savings and loans were exhausted making payments to depositors in collapsed savings and loans and forcing the federal government to bailout the FSLIC. Shareholders in the failed institutions suffered the loss of their invested monies, employees at those institutions lost their jobs, depositors lost any deposits in excess of the insured limit, and the federal taxpayer was burdened with an estimated $124 billion bailout of the FSLIC.

The failure was a human failure in thinking that it is possible to operate successfully without regard for moderation and due diligence.

The glitzy business plans of information and biotechnology entrepreneurs fueled by cash from venture capitalists looking for the next big innovational breakthrough contributed
powerfully to a stock market climate that pushed stock prices ever higher in the 1990s on
the expectation that the United States was on the verge of a new economic expansion in
which a range of new goods and services so visionary in their conceptualization would
create an immediate and huge demand and generate profits for so-called dot.com
enterprises. Alan Greenspan, chairman of the Federal Reserve System, warned in late 1996
that an irrational exuberance was gripping the market and unduly driving up asset values.

Nevertheless, stock prices continued to rise with many traditional companies participating
in the bull market and contributing to it by acquisitions and stock splits making their
shares more attractive to new investors. They were ably assisted by market analysts who
without declaring their own personal holdings issued public reports that were favorable
though at times based on flimsy evidence thereby driving prices up even further and
increasing the value of their holdings.

The bear-market downturn that began in early 2000 took many small investors by surprise
and wiped out a significant part of their investment portfolios forcing them to put their
retirement plans on hold. Even today, the share prices of many of the companies listed on
the technology-heavy NASDAQ have not recovered fully from that ruinous bear-market
downturn.

As with the savings and loan debacle, the prospect of reaping huge financial gains enticed
investors to set aside the very moderation and due diligence that could have insulated them
from the irrational exuberance that led to their huge investment losses.

This summer a third collapse was triggered by deep-seated problems in the subprime
lending market in which prospective homebuyers with poor credit records had access to
adjustable rate mortgages in which initial monthly payments were set low in order to get
them to sign the mortgage contract but were increased after that initial period to make
those mortgages more attractive in the re-sale market. Banks and other financial
institutions became loan originators passing the risk of default to investors who were
attracted by the prospect of higher returns though they were not always well-informed
about the risks.

Default and foreclosure followed when these homebuyers no longer could afford the higher
monthly payments. Selling their homes under foreclosure triggered a sharp decline in
housing values and wiped out homeowner equity even for those who were not subprime
borrowers and others whose homes were mortgage-free. Financial institutions holding
assets based on bundles of subprime mortgages in default have been forced to write off
those assets as worthless, leading to a drop in the value of their shares of stock.

Once again we see the financial market severely shaken by practices which set aside
moderation and due diligence for the prospect of greater financial gains.
The ancient Greeks taught that justice, courage, moderation, and prudence are centrally important to human development and well-being. Their insights endured in the West until Enlightenment philosophers argued instead that backed by the “invisible hand of the market” to sort out all human conflicts individual freedom and self-interest are sufficient in conducting economic affairs. Think of the economy as a car equipped with the shock absorbers of moderation, prudence, justice, and courage to stabilize it when it hits a bump in the road or hole in the pavement. Remove those shock absorbers and the car becomes unstable when it hits the same bump or hole, bouncing up and down and becoming even more unstable at higher speeds. Driven by the IT revolution and globalization which have quicken the speed of financial transactions, financial markets are more volatile which even seasoned financial analysts can neither predict nor explain. The market in effect is telling us that the Greeks got it right.
At first glance, the parable of the vineyard in which every worker is paid the same seems to contradict our personal workplace experience where everyone is paid according to his own contribution to whatever product or service is being produced. We know at least instinctively that strict justice demands of the worker a full day’s work for a full day’s pay and requires of the master a full day’s pay for a full day’s work.

To reconcile this apparent injustice with our human understanding of Christianity the preacher may argue that the pay schedule of the master of the vineyard focuses not on the contribution of the individual worker but on his basic needs. In other words the preacher is teaching that caring trumps justice and everyone should be paid the same. But that argument fails because such basic needs as food, shelter, and clothing are different for different workers because some have more dependents than others.

The practical virtue of justice properly applied is cold and calculating in that once its demands have been met in the workplace nothing more is called for. Justice does not demand that injured workers have their jobs and pay protected by others who take up their work while they recuperate. But that is what caring workmates often do. This seems to be a reasonable fall-back position for the preacher who may be troubled by the different basic needs of different workers.

Caring, however, is not the answer precisely because this Scripture reading is a parable, that is a brief allegorical story that is intended to teach some truth that Christians might not otherwise fully understand and embrace. The Scripture begins with “the kingdom of heaven is like a landowner who went out at dawn to hire laborers for his vineyard.” The truth to be understood and embraced is not a matter of justice. It’s about mercy and forgiveness. All those who confess their sins and beg for mercy and forgiveness enter the Kingdom of Heaven whether they have been faith-filled for their entire lifetime or have come to the Lord at the very last moment. Consider the good thief, Dismus, who admits that he is a criminal and asks the crucified Jesus next to him to remember him in the Kingdom, The Lord assures him that he will enter paradise that very day.

What happens to those who do not turn away from their sinfulness and never ask for mercy and forgiveness? This is, for sure, a profound mystery. Are they cast into hell by a just Lord or have they been punished for their sins during their life on earth and thereby forgiven by a merciful Lord? All we can say with certainty at the moment is that we will know more about this mystery later.
The wedding feast at Cana, where Mary tells her Son that the host has run out of wine, is a lesson in caring and meeting a need. It is not a parable. It’s a strict rendering of what actually happened and is to be taken directly as truth. Likewise, the unmet need of the disciples whose efforts have failed to land any fish is remedied by a caring Lord who tells them to cast their nets on the starboard side of the boat.

There are many such renderings and parables in the Scriptures that challenge preachers and all Christians to understand the lessons that Jesus is teaching either directly or allegorically. The preacher who interprets the parable of the vineyard or unmet need is well advised to read Isaiah 55 once more: “Let the scoundrel forsake his way, and the wicked his thoughts; let him turn to the Lord for mercy; to our God, who is generous in forgiving.”

The Scriptures are telling us that one does not have to be perfect to enter the Kingdom of Heaven. Even a criminal can enter paradise provided he truly repents and asks for forgiveness.
Fraud in the payment of unemployment insurance benefits in Louisiana, based on information supplied by the Louisiana Workforce Commission, amounted to $23.1 million in 2008 and reached $27.0 million in 2009.

UI fraud across the entire United States, according to the U.S. Department of Labor, amounted to $1.2 billion in calendar year 2008 the latest year for which this information is available nationwide. California led in the nation with $260 million in fraudulent payments. Louisiana posted a fraud rate of 11.7 percent in 2008, the highest in the nation and more than 4 times higher than the national average.

The U.S. fraud rate has fluctuated over a narrow range from 1.90 percent in 2001 to 2.81 percent in 2008. Nationwide, UI benefits payments in 2008 amounted to $41.6 billion.

These figures, which are based on very small samples of claims that each state unemployment insurance agency is required to audit every year, represent underestimates of fraud because they do not reflect the amount of undetected fraud. Further, the amount of fraudulent payments does not represent monies actually retrieved by state agencies. Thus, in 2008 an estimated $1.2 billion dollars in overpayments were charged against the accounts of U.S. employers thereby adding to the cost of production and making it more difficult for them to compete.

There are several reasons for fraudulent UI payments including base period wages, the nature of separation from last job, and whether the claimant is able and available for work. However, there are only two types of violators: working violators and nonworking violators. Working violators are claimants who are drawing UI benefits even though they are employed. Nonworking violators are claimants who are getting benefits even though they are unable to work, unavailable for work, refuse work, left their last job voluntarily, were dismissed from their last job due to misconduct, or on strike.

In Louisiana, the worst offending state in 2008 in terms of fraud rate, overpayments were estimated at $15.3 million. In Texas the overpayments total was smaller than in Louisiana, even though Texas paid out 7.5 times more in total benefits.

The Louisiana fraud rate in 2009 dropped to 5.71 percent, but with $472.4 million paid in benefits in 2009, fraudulent payments climbed to $27.0 million in 2009.
From its very beginnings in the mid-1930s, unemployment insurance has been a federal-state program with the principal responsibility in the hands of the states. Each state writes and interprets its own laws, regulations, and policies, and for that reason one must be careful in comparing UI experience, including fraud, state to state.

The table below shows 2002-2009 fraud rates for the United States and for Louisiana and the neighboring states of Texas, Mississippi, and Arkansas. Without comparing one state to another, we observe that in Texas the fraud rate has been low and falling even lower and in Mississippi it has ranged between 3 and 5 percent. No clear trend has emerged in Arkansas. In Louisiana the rate bumped upward after Katrina until 2009 when it retreated to 5.71 percent Even so, the 2009 fraud rate remains well above the 2002-2005 rate.

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Louisiana</th>
<th>Texas</th>
<th>Mississippi</th>
<th>Arkansas</th>
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<td>2.51</td>
<td>3.46</td>
<td>3.37</td>
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<td>3.56</td>
<td>1.11</td>
<td>3.32</td>
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<tr>
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<td>2.32</td>
<td>0.80</td>
<td>3.53</td>
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<td>2005</td>
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<td>3.45</td>
<td>3.34</td>
<td>4.36</td>
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</tr>
<tr>
<td>2006</td>
<td>2.71</td>
<td>7.42</td>
<td>3.25</td>
<td>3.46</td>
<td>4.77</td>
</tr>
<tr>
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<td>6.26</td>
<td>2.53</td>
<td>4.80</td>
<td>4.77</td>
</tr>
<tr>
<td>2008</td>
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<td>11.67</td>
<td>0.98</td>
<td>3.36</td>
<td>5.01</td>
</tr>
<tr>
<td>2009</td>
<td>*</td>
<td>5.71</td>
<td>0.82</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

* information available on Labor Department website in August 2010. p: preliminary estimate.

The next table shows for Louisiana the number of insured unemployed, the Louisiana UI agency’s own estimate of the amount of fraudulent payments, Mayo Research Institute’s re-estimate of fraudulent payments based on substituting the U.S. fraud rate for the Louisiana rate, and the amount of additional fraudulent payments in Louisiana due to its higher-than-average rate of fraud.

We call attention, first, to the very well-known surge in the number of insured unemployed in fourth-quarter 2005 due to Hurricane Katrina and the huge increase in fraudulent payments in the following year. From 151,500 in fourth-quarter 2005, insured unemployment dropped to 48,600 in first-quarter 2006 and then to 22,400 in the following quarter.

We also take note of the little-known penalty that Louisiana employers pay for fraud in the UI program. If the fraud rate in Louisiana had matched the national average for 2002-2009, Mayo Research Institute estimates that Louisiana employers would have saved roughly $53.1 million in UI taxes.
Two elements enter into the way in which the UI program is perceived by the public and how it develops in the future: fraudulent payments and the need of the unemployed. We have seen in recent months the need of the unemployed used to justify extending benefits for some workers to 99 weeks through large federal appropriations. At the same time, little attention has been paid to the extent of fraudulent payments, which increase as benefit duration is extended thereby undermining support for the program.

The Louisiana state agency should be doing more to prevent fraud from occurring by intensifying the training of claims-takers and claims-examiners in fraud detection and by providing them with sufficient time to scrutinize the claim itself and the claimant. A perfunctory routine at this stage of UI operations creates an environment that contributes to fraudulent payments. Perhaps the Texas agency could teach Louisiana how to make sure that UI benefits are paid only to those for whom they are intended.
VOTER FRAUD, VOTER SUPPRESSION

November 17, 2018

Voter fraud and voter suppression have one thing in common. Either one, if true, undermines the most fundamental premise of the democratic system, that human beings are sufficiently intelligent, honest, and have the will to govern themselves. The numbers on voter participation over the years, along with manipulative advertising that embodies lies and half-truths and is commonplace in political campaigns, leads us to question two parts of that premise: the intelligence and the willingness of the typical American voter.

Nevertheless, our concern in the following is with the third part. As to honesty, every two years, one of the principal political parties tries to convince the American public that the problem is voter fraud, the other that it is voter suppression. In close elections, the one predictably uses voter fraud to contest the vote count, the other just as predictability uses voter suppression for the same purpose. In the end, one party wins and the other loses but the American public’s confidence in self-governance is eroded. Tragically, far too many are interested only in the outcome and not the process.

Years ago, the Daley machine in Chicago is reported to have urged the locals to “vote early, and vote often.” Today, voter fraud and voter suppression are manifestations of the same kind of win-at-any-cost scheme. Far too many of us really do not want self-governance. What we really want is control of the outcome. To the extent that the political parties are successful in using devious means to produce the desired vote count, what we are left with is only the appearance of self-governance. The parties determine who is seated in Congress and the White House, not the American people.

Voter fraud takes various forms. A vote cast by someone who is not a citizen or is not registered to vote. A vote cast by a person without proper identification proving that he/she is the person who appears on the roll of registered voters. A vote cast by someone who with forged documents is misidentified as another person who is registered and entitled to vote. Votes cast by the same person who appears on the roll of registered voters in more than one voting place. Votes cast illegally by one of the workers with access to the voting machines. Fixing voting machines in ways that under- or over-count votes cast. Mail-in ballots and absentee ballots that are completed and returned by someone other than the person who requested the ballot. Provisional ballots that are accepted without any evidence that the person casting the vote is in fact registered to vote.

Those who deny voter fraud argue that there is no evidence establishing that fraud has actually taken place. One of the flaws in this argument is that fraud by definition is hidden and difficult to detect even when a serious effort is made to find it. A second flaw, and
directly related to the first, is that fraud can occur in two places, the polling place and the counting place. Fraud that happens in the counting place can be perpetrated by the persons working there who for political reasons have a stake in the outcome or are paid to fix the count. Fraud in the polling place can occur even when there are impartial observers. It is even more likely when there are no impartial observers.

When millions of votes are cast at the state level where votes are counted, and given the law of large numbers, it is very unlikely that there is not a single case of voter fraud. We recommend that in very close elections any re-count be audited by an independent accounting firm. That audit would be the final determinant of who won a majority of the votes cast and if a runoff election is necessary. If just one vote is identified as fraudulently cast the responsible person(s) should be referred to the district attorney for possible indictment. Oversight of the auditor would be assigned to the state supreme court.
THE MASTERS IN AUGUSTA,
THE MESS IN WASHINGTON
April 19, 2017

The Masters has been played in Augusta for more than 80 years. Only the best players in the world are invited or qualify to play.

What a gorgeous setting. The course has been prepared with the greatest care. Fairways and greens are beautifully manicured and the azaleas are in bloom. The Masters is a thing of special beauty. Along the Tidal Basin and in the Washington suburbs the cherry blossom trees are in full bloom but they cannot hide the ugly political landscape.

But that’s only the beginning. The Masters is about the people. The golfers who must conduct themselves on the course as gentlemen. Never pouting or whining when they shank a tee shot or blow a four foot putt. In a high-anxiety tournament, they must master their emotions. It’s a tradition at the Masters. The winner is presented with a green jacket that is worn with singular pride. In sharp contrast, members of Congress resort to bullying their adversaries, routinely attacking and maligning them without any sense of shame. It’s a tradition in Washington.

In Augusta young and talented golfers compete intensely for the green jacket. The galleries sometimes are so silent that all that one hears is the chirping of the birds on the course. In Washington party politicians run from competition defaulting to the way things are and always have been. Governing means for instance passing a continuing resolution on the budget that allows them to shy away from taking a stand on unresolved issues. Old men and women bicker endlessly, even in matters of little concern to the American public. The result is gridlock.

The galleries at the Masters are filled with people who came to watch – they never shout or cheer while a player is concentrating on his next shot. They applaud respectfully when a player has done well. They cheer wildly when the last player in the run for the green jacket has finished the fourth and last round. Even the announcers broadcast in hushed voices so not to interfere with the golfers. What you see so wonderfully displayed is a culture of active but respectful competition. In Washington what you see is a culture of a grinding, self-destructive competition that reduces to just talk and no action.

In Washington notably on cable television paid political party strategists shout their talking points and interrupt one another for the purpose of blaming the other party for all that is wrong in America. In Washington disrespect, lying, and money rule. At the Masters respect, truthfulness, and performance rule.
In Washington and elsewhere, once a group has established its rulers, those rulers gradually substitute their own particular good for the general good of the group as the norm of group action. Some call this the iron law of oligarchy. Nothing better demonstrates the self-centered behavior of U.S. senators and representatives than this law. In 2011, a nonelection year, members of Congress hosted more than 2,800 fundraisers. Because federal law prohibits the use of public buildings for soliciting donations or receiving payments senators and representatives *while in session* make countless numbers of fundraising phone calls at a nearby privately owned building where they also hold private fundraising events. Clearly, in Washington the particular good of getting re-elected has replaced the general good of serving the American people.

In a presidential election year the common wisdom asserts that America is divided along geographic lines. Democrats control voting on the west and east coasts. Republicans tend to predominate in middle America. Red states and blue states. Wisdom is taken for granted in Washington. It belongs to old men and women in the Senate or the House of Representatives as a right they were granted in the last round of elections. Year in and year out in Augusta, wisdom is the duty of the management, players, and fans, helping make the Masters an extraordinary sports event. It’s more than a pity that our nation’s capitol doesn’t function more like Augusta. It’s a tragedy that threatens self-governance.

In the end human motives and behavior make a difference. In Washington strictly partisan politics twists members of Congress like a corkscrew. In Augusta golf demands that everyone involved follow a code of conduct that assures that the best man wears the green jacket.
VII. LIFE AND DEATH
New regulations issued several days ago by the Centers for Medicare and Medicaid Services include the provisions to establish “separate payment and a payment rate for two advance care planning services” offered by physicians and other practitioners to Medicare beneficiaries. CMS credits support for these new advance care planning regulations to the American Medical Association and other stakeholders.

CMS has been working on these new regulations for more than a year. The breakthrough came about when the AMA issued new billing codes that allow payment to a health care provider for a 30-minute discussion with a patient, family members, or surrogate about advance care planning. A second payment for an additional 30 minutes is allowed under a different billing code.

Advance care planning was raised when Obamacare was being debated in Congress but was cut out of that legislation. At that time, hard-line opponents insisted that such planning would lead to the establishment of “death panels.” Today that criticism has softened. Some refer to advance care planning as end-of-life counseling.

Ezekiel Emanuel, a powerful supporter of Obamacare and a long-time advocate for advance care planning, insists that such discussions left in the hands of untrained clinicians may defeat the very purpose of advance care planning. He urges that clinicians must be properly trained to lead such discussions. His own words on this matter are: “It would be wise to invest in optimizing and disseminating such training before [financially] incentivizing low-quality discussions of unskilled providers.”

When it comes to providing care for Medicare beneficiaries, Emanuel is concerned about other matters as well: “… more than 25% percent of Medicare dollars are still allocated to care for patients in their final year.” He knows full well that, depending on the accuracy of their cost estimates, the Medicare trustees project that the trust fund will be depleted by 2022 or 2030 and that payments must be reduced at that time to levels that can be covered by income tax and premium revenues. In other words, the money simply will not be there to provide the care that has been promised.

For years, one remedy has been to reduce reimbursement to providers for health care services rendered that at times has dropped below one-half of what they are billing. As a consequence, some providers have refused to accept new patients with no other coverage than Medicare, thereby reducing access to care.
A second remedy, one that Emanuel has championed for years and is implied in his reference to the Medicare dollars spent in the last year of life, is to restrict care at the end of life. Costly aggressive interventions would be replaced by relatively inexpensive palliative care that makes the patient comfortable.

A third remedy, already in place in California, Oregon, Vermont, Washington, and Montana, is physician-assisted suicide. Medicare spending can be “painless” reduced by helping patients choose death. Implied in this remedy is the proposition that there is a life not worth living. Thus, death is the answer. Could it be that the training programs for unskilled providers that Emanuel has been advocating would be constructed around that proposition?

In much the same way that Americans have accepted access to abortion as a woman’s constitutional right and therefore morally good, more and more Americans are being conditioned to accept suicide as morally good.

After more than 40 years of access to abortion services in which tens of millions of unborn babies have been killed, we see more clearly the unintended consequences of the Supreme Court’s decision in Roe v. Wade. Today there is a insufficiency of working-age adults to support Medicare spending on the elderly, making physician-assisted suicide ever more acceptable.

A culture of death doesn’t just happen. It has strong advocates who argue that abortion and physician-assisted suicide are morally good. It is good for pregnant women to be freed of burdens they cannot bear. It is good that the elderly are freed of a life that is not worth living. Death is deliberately wrapped in a mantel of freedom assuring that it is accepted as good: freedom of choice, freedom to die.

The next stage in the evolution of a culture of death will be to make dying a duty.
Several days ago a State Department spokesperson asserted that “we cannot kill our way out of this” referring to the murderous activities of ISIL and its affiliates. True enough: killing is not the answer. Living is. However, in order to live it is necessary to stop the killers, to destroy the criminals.

The gun crews on U.S. Navy ships facing suicidal attacks by Japanese kamikaze pilots knew what they had to do. Marines on Guadalcanal knew what they had to do to stop Japanese banzai attacks. American air crews knew what they had to do when faced with suicidal Luftwaffe pilots committed to ramming U.S. bombers. G.I.s in Korea knew what they had to do when hordes of Chinese soldiers attacked them at places like the Chosin Reservoir and Pork Chop Hill.

The lesson of human history is that preserving and protecting human life at times requires stopping the killers by means of extreme force. Western democracies did not stop the Nazi shooting of Jews and others in open pits and gassing them in death camps before millions of defenseless human beings perished. Western democracies did not stop the Japanese rape of the Chinese people and thousands of others as they conquered huge swaths of the Far East. Nor did they stop Soviet tank forces crushing the freedom-loving people of Hungary and Poland. Whatever horrid ideology prompted those deliberately murderous attacks, their ultimate purpose was territorial control through elimination of anyone standing in opposition and brutal intimidation of the remaining population into silence.

Whatever ghastly ideology prompts ISIL’s wanton and brutal killing of prisoners, hostages, and Christians, their purpose is similar to the Nazis, the Japanese, and the Soviets: territorial control through the elimination of anyone standing in their way and the silencing of everyone else. So-called moderate Muslims understand full well that to speak out is to sign their own death warrant. The caliphate is not about spreading the Muslim religion. As with street gangs, it’s about seizing territory in order to wield power. The larger the territory, the greater the power. The greater the power, the more likely the murderous regime will endure.

ISIL-led butchers are too young, too disinterested in history, to know what the Third Reich and the Empire of Japan looked like in 1945, to what lies ahead for them. Nations that endure are not built on murder and mayhem. They are built on the much firmer ground of the rule of law, the family, the sacred dignity of all human beings, and fundamental human rights including freedom of speech and freedom to practice one’s religious beliefs.
The State Department spokesperson who asserted that “we cannot kill our way out of this” insisted that what is needed is economic development. She too has a problem with history. The Marshall Plan to rebuild Europe was implemented in the aftermath of WWII. It did not prevent that war or replace it. It was addressed to its effects.

There is no other way to deal with nations led by fanatical criminals who in the end value their own death over life. Remember the pictures of Hitler in 1945 embracing German boys in uniform and urging them to stand fast against their enemies all the while knowing that they were too young to understand the futile task set before them? Or the suicidal leaps from cliffs of Japanese civilians on Okinawa? It’s not just that they are committed to killing their enemies. They are committed to killing themselves for some higher purpose.

If the West remains aloof from the killing of the defenseless in the Middle East it could face the prospect of trying to stop the killers in Europe and North America. Consider the message being sent by ISIL. “We will put a sledge hammer to Michelangelo’s David and the Bruges Madonna, slash Da Vinci’s Mona Lisa and Rembrandt’s The Night Watch, tear down the Statue of Liberty and Arc de Triomphe, burn the rare book collections at the Library of Congress and the British National Library, demolish Notre Dame Cathedral, the Great Synagogue of Europe, and the underground salt cathedral of Poland. Convert Cambridge, Oxford, and the Sorbonne to religious schools.

We have seen this scourge before. It is personified in the madness of Hitler, Stalin, Pol Pot, Hirohito, Mao, and others, all of whom acted on the premise that social reconstruction is served best by killing those who oppose their vision. ISIL is based on the same premise. Thus, for them killing is not evil, it is good because in their mind it leads to a new and enduring social order. ISIL succeeds when the war-weary people of West are unwilling to stand in their way or are prepared to look the other way in the hope that they will be allowed to survive. It is time once again to stop the killers.
Supporters of abortion assert that terminating a pregnancy is a woman’s constitutional right according to the Supreme Court’s decision in Roe v. Wade. Opponents object vigorously insisting that there is a higher law – “thou shalt not kill” – that governs and for that reason a woman has no moral right to kill her unborn baby.

Advocates of a woman’s right to an abortion like to bring up the special case of the pregnant woman whose life is threatened by her unborn baby. Who is to be protected? Who is to be sacrificed? The mother or the child? The answer they give is the mother. However, the answer well-known throughout medicine is that prior to viability the only way that the unborn child can survive is when the mother survives. After viability, the unborn child can be taken by caesarean section and placed in the care of neonatal specialists. There is no strict need to sacrifice the one for the other. Additionally, as lawyers and elected officials know, hard cases make bad law.

The Court’s decision in Roe v. Wade rests on the proposition that the unborn baby has no constitutional rights because the baby is not a person. Critics of that decision assert that the Court is simply wrong, that it provided no convincing argument that personhood is activated once the baby is born. They argue that from the moment of conception the unborn baby is a human being because at conception the baby has all the human DNA material necessary for development through his/her entire lifetime.

Further, because no new DNA is added at the moment of birth, the nature of the unborn baby is essentially unchanged at birth and thus is no less a person before birth than after birth. By denying the personhood of the unborn baby, the Court engaged in an “exercise in raw judicial power.” The six assenting judges said in effect that the unborn baby is not a person, has no constitutional right to live, because in the end they said that it is so. The terrible precedent set by Roe v. Wade is that the Court may declare that other human beings – the insane, the permanently and totally disabled, the terminally ill -- are not persons and therefore have no constitutional right to live.

Providing public funds for organizations that perform abortion is morally wrong because those funds are the means by which a morally wicked act is carried out. Paying for the abortion and performing the abortion are moral equivalents. The funds are the material cause making the abortion available. This conclusion applies in those cases where the federal funds provided are not to be used directly to provision abortions because no matter how the books are kept those funds are fungible. They displace other monies in the
organizational budget to pay for abortions. Sleight-of-hand bookkeeping does not alter the fundamental wickedness of paying to kill the unborn.

Cutting off funds for an organization like Planned Parenthood because it engages in performing abortions is morally justified unless it leads to shutting down the government and as a consequence human lives are put at risk. However, there is an important difference. Funding abortions has a clear and certain outcome: the unborn babies that are aborted are dead. Shutting down the government has an unclear and uncertain outcome: it is problematical at best as to whether those who are put at risk actually die. Until it can be shown that death has occurred, shutting down the government is not the moral equivalent of paying for or performing an abortion.

The Planned Parenthood case is complicated by the selling of body parts taken from unborn babies who have been aborted. It is argued that using these body parts for medical research may lead one day to a good outcome such as eradicating cancer, Dengue fever, HIV/AIDS, or diabetes.

Even so, the wickedness of abortion cannot be dismissed by any good that might follow. Justifying abortion on the grounds that killing the unborn may, due to medical research, have desirable outcomes is wrong for one compelling reason. It is wrong to kill the unborn.

The remains of the unborn who are killed through abortion should be respected in the same way that we respect the remains of anyone who dies, by providing a suitable resting place. Selling the body parts of an aborted baby is not the same as donating one’s body for medical research. First, the donor’s body is released for medical-research purposes with the consent of the donor or with the consent of those who must make arrangements for the disposition of the body. There is no consent on the part of the unborn baby and the mother is hardly in a principled position to give consent since she is the one who consented to killing her baby. Second, anyone who actively hastens the donor’s death, for example in a mercy killing, may face criminal charges. With Roe v. Wade there are no criminal charges for taking the life of an unborn baby through abortion.

In the end, the issue reduces to a woman’s constitutional right to abort her unborn baby vs. the commandment that killing is a wicked act. The most recent continuing resolution just puts off the issue until December 11. Then the harsh reality will set in again: whatever position an official takes on funding Planned Parenthood could terminate his/her political career.
Paul Greenberg’s recent column on Senate Bill 1520, the Human Cloning Ban Act, exposes once again the gradual drift in America toward a culture of death and despair in which death is embraced and life is cast aside.

Death is the answer for violent crime. Death is the answer for a failed marriage. Death is the answer for a job lost. Death is the answer for terminal illness. Death is the answer for a broken love affair. Death is the answer for looting. Death is the answer for an unwanted pregnancy. Death is the answer for terrorism. Death is the answer for a life devoid of meaning. Death is the answer for angry words exchanged in traffic.

Increasingly, death is formally embraced in the law of the land: capital punishment, “shoot to kill,” justifiable homicide, abortion, physician-assisted suicide, temporary insanity. Television and motion pictures sensationalize and rationalize killing and mayhem by such contemporary fictional characters as Dirty Harry, Rambo, Martin Riggs, James Bond, Crocodile Dundee, and Jason Bourne, and by such real human beings as Jack Kevorkian, Lt. William Calley at My Lai, various law enforcement agents who attacked and killed the Branch Davidians in Waco and the Randy Weaver family in Ruby Ridge, Francine Hughes who burned her abusive husband to death with gasoline, and Roswell Gilbert who shot to death his stricken wife.

Senate Bill 1520 adds a new twist to this cultural drift toward death and despair. It bans implanting the cloned embryo in a uterus or its functional equivalent but not creating the embryo. Stem cells taken from the embryo may prove to be effective in treating many different human diseases and debilitating conditions. However, scientists know full well that adult stem cells and stem cells taken from the umbilical cord following birth already are being used for this purpose, and for that reason it is simply unnecessary to clone embryos in order to promote this kind of experimental research and treatment.

What cloned embryos are uniquely suited for is implanting and creating human life, an exact copy of another human being. Strictly speaking the ban on implanting the cloned embryos in Senate Bill 1520 can be lifted by Congress through action taken later that would win favor among legislators on the grounds that since it is possible to design human life according to some biological blueprint that would eliminate certain human defects and diseases it is a moral imperative to do so in the name of human progress and well-being, just as the ban on physician-assisted suicide has been lifted in Oregon and elsewhere in the world in the name of relieving human suffering.
Implanting cloned embryos, however, means that human life is the product of a manufacturing process and as with other manufactured products is subject necessarily to careful quality inspection in order to assure that those who do not measure up are removed. And, as everyone in high-tech manufacturing knows, quality control drives quality improvement. Once again death is the answer to defective human beings as it once was with Nazi medicine.

A new branch of medicine emerges that we might call manufactrics that is driven by the same logic as physician-assisted suicide that could be called terminatrics. In legal reasoning and terminology all of this could be permitted on the same argument used in Roe v. Wade. Defective human beings are not entitled to the full protection of the law because they are not persons in the eyes of the law. Thus, the prohibition on taking their lives that has been in place for centuries need not be upheld.

Whenever human life no longer is regarded as sacred, even when it comes with such serious defects such as spinal bifida and hydrocephalus, human history teaches that ways will be found to destroy it and to justify the destruction.
VIII. HURRICANE RECOVERY
REBUILDING LOUISIANA’S DEVASTATED
CITIES AND PARISHES

November 2005

The need to cut spending, however, derives straightforwardly from a gaping hole on the tax revenue side due to the huge loss of the tax base brought on by those two crippling hurricanes. It’s the tax base that needs to be fixed and the only way to accomplish that end is to reconstruct the private sector of the economy so that once again it functions effectively and is able to shoulder its share of the State’s fiscal burdens. The reconstruction effort necessarily requires finding ways to assist private businesses in returning to the hurricane devastated areas because those businesses face the following harsh economic reality: without a demand for what they produce, there is no incentive, no economic gain, to be had in returning.

This general axiom applies across the board whether it is a private company that provides rental housing but has massive costs to restore hurricane-damaged units to service, a coffee shop that cannot replace its staff because the shortage of labor has driven up wage rates, a physician’s private practice that cannot regenerate itself because its patients have not returned to their damaged home sites. What these businesses need, and what the state alone can provide, is some temporary relief from the burden of taxes so that they can eke out the necessary gain to re-start their businesses and thereby begin to rebuild the tax base. Without that kind of assistance, the owners of these businesses may see no authentic opportunity to return to their former locations and may decide that they’re better off elsewhere. The details of the tax relief package should be left to those who are able to make a compelling case for that need. At the same time, a way must be found to turn back those who would opportunistically use the current emergency to enhance their own personal fortunes.

Symbols are important in the reconstruction effort. Whether one is a professional football fan or not, the Saints football team is an example of a business that needs assistance to return to New Orleans. Its return to the City would be a hopeful sign that New Orleans is on the mend. However, the current owner seems less inclined to assist in the recovery of New Orleans than to relocate the team to some other city for his own personal advantage. A way must be found to return the Saints to New Orleans with the present owner or find a new owner who is committed to keeping the team there. A special temporary tax incentive package may be necessary to keep the Saints in New Orleans.

Other symbolic gestures would boost morale among those who are struggling to get New Orleans and other distressed areas back on their feet. The mayors in cities that have...
collected windfall gains in sales tax revenues due to the spending of evacuees, might consider contributing a portion of those gains to a special fund dedicated to the rebuilding effort. Ministers across the state might form an alliance to help rebuild places of worship in the hurricane-damaged areas. State university presidents might take a temporary cut in their salaries with the proceeds earmarked for state universities in the ravaged areas. State university athletic departments untouched by Katrina or Rita might consider sharing facilities and contributing the savings to the reconstruction of sister departments in the wasted areas.

Louisiana is noteworthy for numerous world-class companies that originated here with private resources, hard work, and entrepreneurial vision. Five come to mind because each one is located in or near the hurricane devastated areas and has been officially recognized for outstanding achievements. Edison Chouest Offshore in Galliano is a high-tech offshore vessel services company with customers that include the National Science Foundation and the U.S. Navy. John E. Chance and Associates in Lafayette was first in developing a GPS system for positioning oil rigs in the Gulf of Mexico. Stuller Settings also in Lafayette is the largest producer of custom jewelry products in the United States. Wemco located in New Orleans innovated the Tabasco necktie. Cameco Industries in Thibodeaux is an important manufacturer of specialized heavy-duty harvesting equipment. John Chance, Cameco, and Wemco continue to operate under different ownership, while Edison Chouest and Stuller Settings function as originally constituted.

None of these companies relied significantly on university research to forge their development and navigate the gale-force winds of entrepreneurial change. To become and remain successful these companies have had to evolve over time as market conditions change. The State is well-advised to recognize that conditions have changed radically for businesses operating in the devastated areas and provide the assistance they need to adapt to those changed conditions.

Louisiana might well consider at least temporarily “outsourcing” very costly university research and graduate degree programs and focus its attention on designing incentives to bring those researchers and graduates back to Louisiana and to embrace the research programs that offer results which can be turned into commercially successful products or services. Notice the extent to which “outsourcing” already is willingly embraced across a wide spectrum of services: M.D. Anderson in Houston and St. Jude’s in Memphis, Disney World in Orlando and Six Flags near Dallas, Wall Street and Broadway in New York, ski resorts in Colorado and Utah, summer vacation homes to the Florida panhandle and the South Carolina coast, countless public and private colleges and universities across the United States.

It is foolish for the State of Louisiana to expend its limited resources trying to duplicate those facilities and institutions. Instead it should commit itself to helping re-start the
beleaguered Louisiana businesses that in the past were vital to the State’s economy and that are foundational to the State’s economic re-development.

In a time of crisis long-term considerations necessarily are subordinate to short-term needs. The need in Louisiana is clear. The question to be answered is ‘Do we have the wisdom to sort out what’s best, setting aside some favored projects for the emergency assistance required to get the State back on its feet, and the courage to resist the opportunists who never hesitate to put their own interests ahead of the riveting needs of others?’
Two major principles inform the decision to provide temporary housing for Louisiana residents whose homes were destroyed or severely damaged by Hurricanes Katrina and Rita. The first is their need for housing that cannot be met through the private sector of the economy which urges the community to intervene and find suitable housing for them. Second, in acting in a public manner the community must be mindful than it must avoid doing more harm than good. The first principle prompts us to act, the second cautions us to proceed carefully.

No thoughtful, caring person would argue that all of the tens of thousands of applicants for FEMA housing assistance should be dismissed out of hand and told to fend for themselves. Surely among them are many who have acted responsibly in this matter but simply do not have the personal or family resources to secure their own housing without the help of the community. The single most telling difference between them and the rest of us in Louisiana is that their homes were destroyed while ours were spared. Their need is clear and present and provides a compelling justification for public intervention.

FEMA’s customary practice of calling for an environmental assessment before siting temporary housing units affirms the second principle that cautions us to proceed carefully, to avoid any harm that might result from a hasty decision based on poor or incomplete information. It follows that any assessment undertaken should provide the full range of information that the community and local public officials require to assure that in making their final decisions to provide temporary housing for the needy they avoid doing more harm than good.

The problem with FEMA’s environmental assessment is that it is much too narrowly constructed. For example, the assessment of one current proposal to provide emergency temporary housing for upwards of 1,500 persons in as many as 500 trailers on a 64 acre site in Lake Charles does not provide sufficient information on the harm that might result in three specific areas: traffic, hazardous materials, and safety and security. The following refers only to the problems regarding safety and security. We quote directly from the FEMA assessment document.

No concerns anticipated. The contractor would place fencing around the site perimeters to protect residents from trespassers and provide a barrier to surrounding properties. The contractor would post appropriate signage and fencing to minimize potential adverse public safety concerns. Appropriate signage and
barriers should be in place prior to construction activities in order to alert pedestrians and motorists of project activities and traffic pattern changes.

Nowhere in the assessment does FEMA even acknowledge that the children and adults who use the new and elaborate public recreation facilities that abut the proposed site would be required to traverse the entire length of the site to access those facilities because there is only one access road to the facilities and the proposal would place FEMA trailers on both sides of that access road. This safety issue is compounded by the fact that the facilities have lighted fields of play which means that children and adults will be accessing them after dark when visibility along the access road is reduced.

Further, and potentially much more significant, is the assessment’s failure to even indicate that there is a public elementary school that abuts the proposed trailer site and the potentially serious safety and security problems for the children, staff, faculty, and parents who attend, work at, or come to the school.

By now the public is fully aware that there is a serious sex offender/child predator problem in Louisiana. The Louisiana online registry of convicted sex offenders/child predators indicates that there are, for example, 612 such offenders living in Calcasieu Parish alone. In Orleans Parish more than twice that many are registered. Late last month a report prepared by the Associated Press stated that the federal Administration for Children and Families matched more than 2,000 applicants for disaster assistance with the names on sex offender registries in Louisiana, Mississippi, and Alabama. The AP quoted Wade Horn, assistant secretary for children and families, U.S. Department of Health and Human Services, as saying in a letter to Texas Governor Rick Perry “I am greatly concerned that known sex offenders who may have relocated to your state may take advantage of their anonymity and harm children once again.”

Louisiana law (R.S. 15:538) states the following.

> no sexual offender, whose offense involved a minor child, shall be eligible for probation, parole, or suspension of sentence unless, as a condition thereof, the sexual offender is prohibited from … (b) physically residing within one thousand feet of any public or private elementary or secondary school, day care facility, playground, public or private youth center, public swimming pool, or free-standing video arcade facility.

The same 1000-foot prohibition applies to “any sexual offender whose offense involved a minor child, and who was placed on probation or was paroled prior to August 15, 2004, and is on probation or parole as of August 15, 2005…”

A lengthy article in the Washington Post last September described conditions at a FEMA trailer park in Charlotte County Florida designed to accommodate 1,500 Hurricane Charley evacuees in 500 trailers on a 64 acre site.
“FEMA City is now a socioeconomic time bomb just waiting to blow up,” said Bob Hebert, director of recovery for Charlotte County, where most FEMA City residents used to live. “You throw together all these very different people under already tremendous stress, and bad things will happen. And this is the really difficult part: In our county, there’s no other place for many of them to go.”

The unhappy consequence is that FEMA City’s population has barely declined -- its trailers are occupied by 1,500 check-out clerks, nurse’s aides, aluminum siding hangers, landscapers and more than a few people too old, too sick or too upset to work. A not-insignificant number of illegal immigrants and ex-convicts live there as well.

Based on his experience with this trailer park, Herbert offered this advice on providing public housing assistance in the wake of Hurricanes Katrina and Rita.

“Don’t make big camps with thousands of people, because it doesn’t work. It makes a bad situation and, for many people, actually makes it worse.”

Common sense alone tells us that in order to limit any harm before it happens -- harm such as an innocent child who is enticed into a car by a child predator and molested, or an elderly woman whose purse is snatched by teenagers with nothing to do -- it is necessary to limit the number of persons housed at any one site. Ten sites with 50 trailers for 150 evacuees are vastly superior to one site with 500 trailers for 1,500 evacuees. The thorny challenge for the community and for public officials is to resist the initially easier remedy of building a large temporary housing site because experience shows that a site of that kind in the end does not provide suitable, safe housing for the needy. Rather it deteriorates into a fenced camp that warehouses the most dependent and vulnerable of all in an environment that some at the Charlotte County Florida site described as a prison.
THREE FEDERAL PROGRAMS OFFER ASSISTANCE TO EVACUEES

January 2006

Testifying before the Senate Homeland Security and Government Affairs Committee last month, Scott Wells who served as FEMA’s federal coordinating officer in Louisiana for Hurricanes Katrina and Rita compared the cost and the effectiveness of providing housing evacuees with temporary housing in trailers or mobile homes quite unfavorably to a FEMA program that supplies direct cash assistance to those in need.

Temporary housing is not cost effective or customer oriented. It can cost up to $90,000-$100,000 per mobile home for a group site (total costs for site preparation, hauling and installation, and cost of home) and $30,000-$40,000 for a travel trailer. Families can stay in this temporary housing for up to 18 months, but then they are required to leave. If we gave them the maximum of $26,200 [already available through FEMA’s Katrina Disaster Housing Assistance Program; see the following], many of these families would have the resources to find permanent housing immediately. This would allow them to quickly get on with rebuilding their lives and afford them an immediate permanent housing solution. It also saves the U.S. taxpayer hundreds of thousands of dollars.

Three federal programs offer assistance to those in need of housing without having to put them into FEMA trailer parks. Two of the programs are administered through HUD. The third is under management by FEMA. It is the FEMA program that Scott emphasized in his Congressional testimony.

One HUD program (Program I) is directed toward persons who were displaced by public housing, voucher participants, families from other HUD-assisted programs such as Section 8 housing, and persons who were homeless before Hurricane Katrina and were directly affected by that hurricane.

The other HUD program (Program II) is directed toward persons who were living in a Katrina-impacted area, were sleeping on the street, in emergency shelters, in transitional housing or in one of three specific HUD-assisted housing programs.

Both Program I and Program II assistance is administered through local public housing authorities but is not available to anyone residing in FEMA-supplied housing such as a trailer. Assistance in searching for suitable rental housing and cash for utility deposits are provided under both programs.
The FEMA program is intended for all homeowners and renters who were not in HUD-assisted housing prior to Hurricane Katrina and are not residing in FEMA-supplied housing.

Programs I and II provide rental assistance through a voucher system that requires no family contribution towards rent provided the rent does not exceed fair market value. The lease under both programs terminates automatically after 18 months.

FEMA’s Katrina Disaster Housing Assistance Program provides an initial payment of $2358 which is equivalent to the national fair market value for a three-month period. Afterwards, the local fair market value determines the amount of rental assistance for a maximum of 18 months. The maximum payable for this kind of assistance is $26,200 per person or family.

Over the years we have learned the hard lesson that massive public housing projects simply do not work. All across the United States large blocks of these projects have been torn down in an honest and open acknowledgement that they have failed the persons and families housed there, others living nearby, the cities where they were located, and the general taxpaying public. Large FEMA trailer parks repeat those mistakes as has been documented recently in a Washington Post article on a trailer park in Charlotte County Florida. The FEMA cash assistance program avoids those mistakes by making it possible for evacuees to find suitable permanent housing through the private sector which for all its flaws has a much better track record for providing housing than the public sector.
IX. THE UNIVERSITY
Although the full extent of the damage is not known even now, the twin natural disasters of Hurricanes Katrina and Rita unmistakably delivered a severe blow to the Louisiana economy, coastline and wetlands, business establishments, infrastructure, educational institutions, hospitals and nursing homes, and every other organization and agency that depends on public financing. In addition to the hurricane-force winds, drenching rains, storm surge, and flooding that were spawned by Katrina and Rita, these two hurricanes left in their wake a very serious State budget crisis on both sides of the financial ledger: (1) an eroded tax base that is not producing the expected tax revenues; and (2) unmet human and other needs that cry out for public support. Public officials throughout the State, not just in the immediately impacted areas of New Orleans, St. Bernard Parish and Jefferson Parish, and Lake Charles and Cameron Parish are confronted by what is perhaps the most difficult task in the State’s history of finding other revenue sources, increasing expenditures, reallocating already appropriated funds to higher-priority needs, or all three.

The need to set priorities, along with the limits imposed on the State budgeting process by nondiscretionary spending, means that some areas of spending, principally health care and higher education, likely face the heaviest funding cuts. Our comments are restricted to higher education.

Before Katrina and Rita struck the State, appropriations for higher education in Louisiana for fiscal year 2005-2006 totaled $1.332 billion. The three largest items in the budget are $169 million for the State's flagship university LSU in Baton Rouge, $126 million for the LSU Health Sciences Center in New Orleans, and $124 million for TOPS which is the State’s tuition assistance program for undergraduate students. The fourth largest single item in the higher education budget is $81 million for the LSU Center for Agricultural Sciences and Rural Development. The other state universities in Louisiana operate with much smaller appropriations. For example, University of New Orleans is budgeted for $57 million, $28 million is appropriated for McNeese State University in Lake Charles, and Nicholls State University in Thibodeaux is budgeted to receive $26 million.

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2 Tuition payments, funds from federal government sources, and self-generated revenues are not included in these figures. Information obtained from the Center for the Study of Education, Illinois State University that compiles data supplied by cooperating state agencies. While the data available from the Center may not reflect the most recent revisions, they no doubt accurately show the universities and programs that receive the largest appropriations.
Conservative estimates put the deficit in the budget for all State agencies and programs at roughly $1 billion. In September a freeze was imposed on higher education budgets across the State, followed by cuts of 3 percent and 5 percent announced in October. Deeper cuts are likely to be forthcoming when the state legislature convenes. State universities can be expected to resist further cuts with every means at their disposal, pleading that their budgets already are cut to the bone.

There is a powerful element of truth in their defensive posture. Universities are expensive enterprises that year in and year out are becoming even more costly to operate. Cutting back means not just reducing the waste that is present in virtually every large organization but also reducing support for instructional, research, and service programs. In the hardball world of private enterprise, it means downsizing. Thus, for higher education in Louisiana, the question becomes ‘Where best to downsize’? A few questions suggest where the budget hammer might fall.

Does it make sense to provide nearly $125 million in tuition grants to undergraduate students and at the same time expand and enhance very costly graduate and professional degree programs by siphoning faculty resources from undergraduate degree programs? The siphoning takes the following forms: (1) reducing undergraduate course offerings from, for instance, every semester to the fall or spring semester only; (2) cutting back the number of sections of introductory courses and putting more students in the remaining sections; (3) assigning heavier teaching loads to faculty who teach at the undergraduate level in order to assign much lighter teaching loads to faculty who teach graduate-level courses and are expected to publish their research findings.

At one state university, for example, one section of introductory economics has 117 students enrolled, while one graduate level course in economics has 4 students enrolled. At that same university, some full-time, fully-credentialed faculty are teaching three courses per term at the undergraduate level while others are teaching only one at the graduate level. At times, graduate faculty with the lighter teaching loads even are paid overloads to boost their workload from one course to two courses per term.

The undergraduate program in effect has become a cash cow for the graduate program. Further, many of the graduate students are foreign nationals. Overwhelmingly, the undergraduate student population is Louisianan. Does it make sense to ask the Louisiana taxpayer to sacrifice the quality of the undergraduate educational experience of the many sons and daughters of Louisiana parents in order to support the graduate experience of the few sons and daughters of parents living in other countries who shoulder none of the State’s crushing fiscal burden?

This siphoning has the following effects on undergraduate students: (1) with course offerings scaled back, completing an undergraduate degree program in four years becomes
more difficult and therefore more costly for the student; (2) with faculty teaching heavier undergraduate workloads, improving the written communication skills of undergraduate students becomes even more difficult because that work is most demanding of all; and for the very same reason (3) counseling and mentoring undergraduate students which also is time-consuming is ruled out by the faculty teaching undergraduate students because those activities matter little or not at all in annual faculty performance evaluation. In addition, to the extent that introductory undergraduate courses are taught by graduate students for whom English is a second language, teaching undergraduates how to write well becomes even more problematic. Mentoring and counseling too become more problematic because graduate students typically lack the experience necessary to be a good mentor.

Senior administrators will defend costly graduate and professional degree programs on grounds that they enhance the prestige of the university and that the grants and contracts which are landed by the faculty assigned mainly to research pay for much of the cost of supporting that faculty. Graduate and professional students will defend these programs on grounds that they would be required to pay much more at universities elsewhere in the country. Local businesses will defend these programs on the premise that what’s good for the local university is good for the local economy. Faculty will defend these expensive programs because they drive up their salaries, provide a pool of obedient assistants for the menial tasks involved in university research, and trim teaching workloads.

Who will challenge this strong coalition of special interests? Who will insist that the very first priority of the financially strapped state universities in Louisiana is to provide instruction at the undergraduate degree level that is not compromised for the sake of graduate and professional degree programs? Who will stand up and assert that, notwithstanding the recent successes of LSU football against the best in the country, Louisiana simply does not have the financial resources to elevate its graduate and professional degree programs to the status of the top universities in the region -- Rice, Duke, Vanderbilt, Emory -- much less the best in the country?

Some will retort that this is a defeatist, provincial attitude. We argue instead that leaner can be stronger, smaller can be better. And if we are wrong, the proof lies in the same kind of standard that is applied to Louisiana grade schools and high schools: standardized test scores for those who are awarded bachelor degrees from state universities in Louisiana compared to the scores of the graduates of other state universities.

The following 15 suggestions, reflecting more than 25 years on the faculty at one of Louisiana’s state universities and having taught more than 7,000 undergraduate students, would reduce costs, release faculty for more important work, improve instructional quality especially as to written communication skills, or all three.
• Eliminate puff courses such as social dancing, bowling, and racquetball that students use to inflate their grade point average.

• Privatize university bookstores, student housing, and janitorial services.

• Cut out courses that orient freshmen students to the university campus who for years were able to do this on their own.

• Abolish cash bonuses for faculty publications in elite journals.

• Hold fast to the requirement that a course is offered only if 10 students are enrolled.

• Require everyone on the faculty to teach at least 2 courses per term or buy out their teaching assignment with monies from contracts or grants.

• Call for TOPS students to reimburse the State for any courses taken with a failing grade.

• Hire retired faculty on a part-time basis to teach courses that otherwise cannot be taught without hiring much more costly new faculty.

• Establish a master teaching track for qualified undergraduate faculty who would teach 3 courses per term and assign substantial term papers but would not have to maintain a research and publication record.

• Demand that every state university operate on the semester system to reduce the additional costs of operating on the quarter system, such as 3 instead of 2 pre-registration advising weeks, mid-term attendance reports, final exams, graduation ceremonies.

• Insist that honors graduate (cum laude, magna cum laude, summa cum laude) complete a supervised senior thesis.

• To assure that the senior thesis is a substantial research enterprise, require the faculty to submit every year their supervised senior theses for outside double-blind review.

• Prohibit undergraduate students at selective-admissions universities from completing their science, English, and math requirements by transferring courses taken at open-admissions universities.

• Continue to promote faculty as indicated by their performance, but maintain them at their current pay until the budget crisis is over.

• Require all state university athletic departments to operate in a way that assures that they do not draw funds from the university budget to cover their operating deficits.
The just concluded session of the Louisiana state legislature approved $31.2 million in additional funding for faculty salaries at state universities – a five percent increase overall. The Board of Regents then decided to allow university presidents to allocate those funds according to the different needs of their universities. The good news is that the Regents are not micro-managing university decisions from which they are too far removed to do the job effectively. The bad news is that merit pay is a value-laden issue which depends critically on the values of the administrators making the decisions.

The leading question in this matter is: ‘How to define and measure merit in a way that minimizes any arbitrariness in the decision making process?’ This means finding ways to judge faculty performance in terms of three main tasks: instruction, research, and service. In what follows our attention is focused on instruction and research because they are clearly more important than service.

Performance as an instructor often is measured by an instrument that is completed by students and asks them to grade their instructor along several dimensions including whether the instructor begins and ends class on time, is properly prepared for the class, gives reasonable exams. The problem with this instrument, which is administered toward the end of the course, is that it is well known both anecdotally and empirically that one of the most important correlates of evaluation scores that derive from student responses is the grade a student expects from the instructor. Also well known is that instructors can raise grade expectations by easing back on what is demanded of students, thereby raising the evaluation score and in turn his/her performance evaluation. Connecting all the dots, the easier the instructor’s grading scheme the greater the likelihood of qualifying for a merit pay increase.

Research in general is measured in terms of the number of articles published in professional journals and the placement of those journals in a scheme that ranks them according to some prestige measure. These rankings are generated from faculty input in which there is a powerful incentive to expand the list of the top-ranked journals in order to enhance one’s publication record. For example, the number of top-ranked economics journals at one Louisiana state university has tripled in the last 20 years. Merit pay in other words can be impacted by pushing the lesser journals in which one publishes into the top ranks. But there are two other serious problems in measuring faculty performance in research. Knowing that the number of articles published influences one’s performance evaluation means that there is an incentive to add a colleague’s name to one’s own work in
an arrangement that is reciprocal. “Your work counts on my publication record, my work counts on your publication record,” and unless there is an adjustment in the performance evaluation process for number of co-authors, every co-author listed gets full credit for that publication. In other words, double-counting or worse is built into such performance evaluation systems. The other serious problem is that unless the practice is explicitly forbidden, a faculty member can curry favor with his/her own department head by adding the head’s name to any paper in submission to a journal in return for a better performance evaluation.

There are other problems in the administration of any merit pay that warrant further scrutiny in a state like Louisiana where salaries in general are below regional averages. Below-average salaries force administrators to recruit new faculty from the ranks of those who recently completed their doctorates from less-than-prestigious doctoral programs because they can be hired at salaries that are lower than the salaries offered to graduates from more prestigious programs and lower than the salaries that would be paid to other candidates with more experience. At the same time, however, because these new hires are younger they generally are more mobile than their older faculty colleagues they are more willing to relocate for higher salaries at other universities with greater financial resources. A further anomaly is that at times the younger newly hired faculty are paid more than the older more experienced faculty on grounds that it is necessary to pay the new hires the market rate. If two members of the faculty merit the same percentage increase, the new hire often gets a bigger boost in pay than the more experienced faculty member, even if both serve side by side in the same department and both get the same performance evaluation from the same department head.

This system resembles the farm system in baseball coupled with free agency for prime-time players. To illustrate, business faculty salaries at farm-system schools such as University of Louisiana at Lafayette and Louisiana Tech are roughly $75,000-$100,000 below Texas Tech and Arkansas. Thus junior faculty in the farm system hone their skills and develop their resumes expecting that their enhanced performance qualifies them for both merit-pay increases in the short term and an opportunity in the longer term for better-paying positions “in the big leagues.” Those who stay either find a way to get their salaries boosted by exploiting the flaws in the performance evaluation system or have other reasons for not leaving such as deep family roots in the area or an especially attractive professional position for one’s spouse. Those who stay can boost their salaries by as much as 25 percent by moving into administrative positions, and some do just that. If they stay long enough, higher pay in administrative positions translates into higher retirement pay.

The faculty who remain and are assigned to full-time instruction and research are the hard-core of any university. If they are demanding in the classroom and do not succumb to the practice of reciprocal co-authoring they may find that their performance evaluation does not qualify them at all for merit pay or makes them eligible for smaller increases than
their more ambitious and clever colleagues. Further, the longer they stay and the older they get, the more easily they can be passed over for pay increases because administrators know they will stay rather than leave even though the older faculty for years save their universities the very substantial expense of recruiting new faculty to replace them.

Two problems merit further comment. First, merit pay that is based on a flawed performance evaluation system is not authentic merit pay. It is more accurately characterized as get-ahead pay, or as the once popular bumper sticker proclaimed “I got mine …”. Second, get-ahead pay in a state with below-average salaries even when performance evaluation is not flawed works effectively only in the short run because faculty who are motivated by higher salaries will relocate where the pay across the board is better. The answer to the first problem is to fix the performance evaluation system. The answer to the second problem is to build into the salary administration system a reward for faculty who stay and form the hard-core by remaining active full time in the classroom and in research.

Several years ago a state appellate court judge asked the attorney for several plaintiffs in an age discrimination lawsuit against a Louisiana state university this question: ‘Isn’t the practice of paying younger relatively inexperienced faculty members more that older more experienced faculty justifiable in terms of the parable of the vineyard?’. That question utterly misinterprets and misapplies that parable as a lesson about justice in this world when in fact it’s a lesson about mercy and love in the next. Unfortunately this blunder can be repeated by administrators whenever the language of the parable is replaced with the rhetoric of the invisible hand of market forces as the foundation of the university’s performance evaluation and salary scheme.

Merit pay is a two-edge sword. Properly employed, the additional funds can help make wage and salary administration at state universities more equitable. However, even with the best intentions in the legislature, when merit pay is mishandled, the same bump in pay could make a flawed system even more dysfunctional.
PAY BOOST FOR UNIVERSITY FACULTY:
IS MORE BETTER?
May 2007

Last year the Louisiana state legislature approved $31.2 million in additional funding for faculty salaries at state universities. This year Governor Blanco has proposed a similar bump in pay for state university faculty. As in 2006, the additional funds are to pass through the Board of Regents directly to university presidents who are to be given free rein in allocating those funds without any guidance from the legislature or the BoR. This agreement avoids the pitfalls of micromanaging large institutions from afar. It rests on the dual premise that more is better and that university administrators know better than anyone else how best to allocate the additional monies and have the courage to make the right decisions even when those decisions are not the most popular ones with the university’s various constituencies.

The 2007 round of pay increases is intended to raise average faculty salaries in Louisiana to the southern regional average. Moreover, it will contribute to the state’s economic development because, as the conventional wisdom goes, universities are engines of economic development. If the $30 million is divided equally among the roughly 7,100 university faculty, everyone regardless of rank, tenure, or discipline would get about $4,200. If not, some faculty would get more than $4,200 possibly even a lot more, and others less perhaps a lot less. A few probably would get nothing. Whatever factors a university decides to use in its allocation scheme – equal shares, merit pay for better performance, length of service, demands of the marketplace – the statistical outcome will be the same. Louisiana faculty salaries on average will increase by approximately $4,200 and the Louisiana average will creep closer to the regional average provided other southern states at the same time do not raise faculty salaries at their universities. As in a horse race, any university behind most of the other universities in the region must run faster in order to catch the pack.

Using the mean average can be misleading in the sense that the average increase is the same whatever extreme measure is used. Notice that the average increase is $4,200 whether everyone benefits by getting an equal share or the monies are allocated entirely to a select few. Notice, however, that enhancing the salaries of a select few, if the few are already among the highest-paid faculty who merit the increase or who otherwise might leave for better-paying positions elsewhere, means that the pay gap widens between them and the

\[ \text{Total funds for faculty salaries} \div \text{number of faculty}. \]

3
lowest-paid, and in that sense the many are relatively worse off than before the bump in pay. The detailed budget information necessary for anyone on the faculty to see how the additional faculty salary funds were allocated at his/her university and therefore how he/she fared against university colleagues is readily available in a public document that every university must deposit in its library collection. For that reason, the state legislature should instruct the BoR to demand of universities data showing the following.

I. How many continuing faculty:

(a) were above the target regional average (TRA) last year and are above the TRA this year even had they not gotten a pay increase;

(b) were above the TRA last year but would have fallen below the TRA this year without a pay increase;

(c) were above last year’s TRA but below this year’s TRA even though they got a pay increase;

(d) were below last year’s TRA but above this year’s TRA because they got a pay increase;

(e) were below the TRA both years whether they got a pay increase or not.

II. How many continuing faculty got no pay increase in the current year or the preceding year.

III. How many newly hired faculty were paid a salary above this year’s TRA and how many below that TRA.

As noted above, salary administration at the university depends critically on the wisdom and courage of the senior administrators. Rewarding loyalty – taking care of cronies – is a powerful temptation especially when the BoR imposes no guidelines. Term limits might be helpful in controlling this abuse. At the department level, instead of serving at the discretion of the dean, rotating the position of department head every three years or every five years by vote of the faculty would put this sobering thought in the mind of every department head: next year I might be reporting to the very person who this year is reporting to me. Similar limits might be imposed throughout the entire administrative structure, including the university president. Even so, there is no real substitute for an administrator of wisdom and courage.

Two other reforms that might be instituted relate to performance and how it is evaluated. First, since professional publications are a critical aspect of faculty performance, no administrator should co-author with a person who is a direct report. Without that constraint, faculty and administrators who put personal ambition above all else can cut an
agreement to add the administrator’s name to a publication making him/her appear more productive in terms of scholarly output in exchange for a more favorable performance evaluation for the actual author. Take away that constraint and the very concept of merit pay is corrupted.

Second, the weight assigned to any given publication in a performance evaluation should be the inverse of the number of co-authors. Thus, a single-authored publication would be given a weight of one in that person’s performance evaluation. A publication with four co-authors would be weighted \( \frac{1}{4} \) in the performance evaluation of each one of the four co-authors. Without this reform, friends add one another’s names to their publications even when there has been no substantive research collaboration. Otherwise, and this has been happening for years at one Louisiana university, the same publication is weighted as one in the every co-author’s evaluation and in the extreme double-, triple-, quadruple-counted in the statistics reported by the department, division, college, or university.

Is more better? Yes, probably, if administrators are prudent and courageous. No, most likely, if they are personally ambitious above all else and use cronies to help them achieve those ambitions. This is where the BoR can make a difference. The Regents can insist on detailed statistical information that reveals how monies, especially monies for faculty and administrator salaries, are being allocated and they can carefully review and approve any system in place to measure performance evaluation. In this regard, the BoR might bear in mind the unfortunate ending of the statistician who drowned in a river with an average depth of three feet.
The precipitous drop in the price of oil once again is creating a crisis in Louisiana. On the revenue side, the State budget depends heavily on royalties paid on the oil produced in Louisiana. The lower the price, the smaller the royalty revenues. On the expenditure side, the hands of Louisiana officials are tied as to where cuts can be made, with the burden falling mostly on health care and higher education.

Advocates and lobbyists for both constituencies predictably will argue that all of the fat has been trimmed from their operating budgets and that further cuts seriously threaten their ability to offer essential services to the public. In the following, we focus entirely on higher education.

Higher education is expensive for several reasons. First, American culture insists that every youngster should have access to a college education. However, many 18 year olds are not able to function effectively at the college level and have to be accommodated in various ways. Open enrollment and low admission standards get them into college and grade inflation, along with easy courses like bowling and ballroom dancing, helps keep them there. Other help for struggling students is available at on-campus counseling centers and through administrative offices that specialize in retention.

Spending on those who are not ready for college drives up operating costs with little or no return to the taxpayer. For all the good that it does for capable students TOPS enables some of those who are not good candidates for a college education to enroll and attend. Enrollment and retention matter.

Second, to compete successfully for students colleges and universities are systematically replacing dormitories with apartments, and adding or upgrading sports and wellness centers. Comfort and conditioning matter.

Third, a campus that has grown haphazardly over the years requires serious reconstruction in terms of entrance archways, quadrangle, clock tower, trees, shrubs, and flower beds, fountains, ornamental fencing, lighting, benches, dedicated brick walkways, all of which drive up operating costs. Appearances matter.

Fourth, many colleges and universities understand the importance of successful athletic programs, and actively pursue costly program upgrades in terms of recruitment and facilities. Winning programs in football and men’s basketball draw tens of thousands of
fans and lead in some cases to participation in generous television revenues. Consider Saturday night in the fall at Death Valley. Entertainment matters.

Fifth, university administrators very often are smitten by the promise of enhancing the institution’s reputation by adding cutting-edge programs. What’s an engineering school without an advanced-degree program in biosystems engineering? A business school without a business incubator or entrepreneurship center? A school of nursing without a doctoral degree program? A school of physical and biological sciences without state-of-the-art lab facilities? Colleges and universities are driven inexorably in the direction of academic program expansion. Reputation matters.

Sixth, cities and towns across the State are eager to host and vigorously support a college or university campus because they know that those institutions are engines of job growth and income without the nasty side-effects of environmental contamination. Development matters.

Graduate degree courses typically are taught by faculty with doctoral degrees, making those courses very expensive especially when they have small enrollments. To deal with the stress on the budget undergraduate courses, with very large enrollments, often are taught by low-paid graduate students for whom English may not be their native tongue. Parents expect and pay for a quality education for their sons and daughters who are taught by graduate students who in turn free up doctoral-degree faculty to teach those very same graduate students and direct their research. One reason that undergraduate students are not completing their degree programs in four years is that the undergraduate courses required for graduation are offered less frequently, perhaps once a year instead of two or three times a year.

Further, as more and more doctoral-degree faculty are needed to cover graduate-degree courses, faculty salaries rise in order to recruit and retain that faculty leading over time to higher salaries for the department heads and deans who supervise them. Teaching loads are reduced to allow that privileged faculty time to complete the research needed to get published in peer-reviewed journals. Ironically, a faculty member with an impressive publication record becomes much sought after by other colleges and universities.

Many academic programs are subject to accreditation from outside organizations in which course content, course sequencing, student qualifications, and faculty credentials are scrutinized. It’s a real challenge to operate accredited programs on the cheap and it’s downright embarrassing to lose accreditation. Accreditation matters.

Common sense tells us that the State cannot continue to finance a system of higher education that promises more than it can reasonably deliver. Limits are necessary, especially on approval for new degree programs, every one of which adds to operating costs. Under this kind of regime, some programs would be dropped and some Louisiana
undergraduates would have to leave the State to pursue their desired graduate degree. However, the vast constituencies for which enrollment and retention, comfort and conditioning, appearances, entertainment, reputation, development, and accreditation matter will fight to maintain State spending on higher education. Given their numbers, they are likely to prevail.

The harsh reality of Louisiana’s ever-growing educational establishment is that additional taxes are necessary to feed the system, especially when the State’s oil and gas business hits a bump in the road. To sell the new taxes to the public, legislators and other public officials may call them investments. Recalling what has been said about a rose, a tax by any other name is still a tax.
The current Louisiana state budget crisis forces the higher education establishment to rethink its priorities and to ratchet down its vision as to what higher education in the state cannot be. For sure, it cannot be constructed around the image of such prestigious and rich-in-resources universities as Harvard, Chicago, Cal Tech, Johns Hopkins, Duke, and Stanford. What it can be depends critically on the limited resources available in Louisiana and how well those resources are put to work.

In the following we recommend 28 steps that can help re-align public university budgets to the harsh reality of a serious shortfall in state tax revenues. Three are revenue-enhancing remedies; the rest are cost-cutting. They are based on 30 years experience on the faculty of one of Louisiana’s public universities. No faculty positions and no academic programs would be cut. No hikes in tuition are suggested. Even so, there are no simple remedies, no way to avoid a “big hurt.”

- Put to work unpaid retired faculty to mentor and advise students and to teach courses that cannot be handled by the active faculty.
- Require all active nine-month faculty to teach at least two courses per term unless they replace dollar for dollar their instructional costs from outside funds such as contracts and grants. Additionally, and with no exceptions, require all faculty to teach at least one undergraduate course per academic year.
- Call for all department heads to teach at least one course per term.
- Reduce by 10 percent the pay of any faculty member earning more than $100,000 per year subject to the limit that he/she is not reduced below the relevant Southern average for that position.
- Charge university presidents rent for any housing that is provided by the university and withhold any stipend for other housing owned or rented by presidents.
- Demand that athletics to be self-sustaining without any state funding by 2013.
- Reduce all commencement exercises to one a year – spring – and allow students the option of having their diploma dated as of the completion of their program of studies and receiving it by mail.
- Privatize campus bookstores and all student housing, terminating all university personnel employed in those areas.
● Eliminate all campus police forces and turn the policing function, including enforcement of parking regulations, over to local police departments.

● Require all faculty with 40 years of service or more to take retirement, but allow them to continue teaching if they so desire.

● Eliminate all costly services to professor emeriti -- office space, telephone, stationary, travel, secretarial assistance, computer -- allowing them to retain and use the honorary title.

● Eliminate all work-study jobs for students.

● Deny tuition refunds to students who drop a course more than two weeks after the first day of classes.

● Privatize all building and grounds functions, including campus janitorial services.

● Privatize all remote campus parking.

● Eliminate student health services, including counseling services. Let students find those services through their own personal physician, public health clinics, or other health care providers.

● Provide no fees and reimburse no expenses of invited speakers, including commencement speakers.

● Approve no new course offerings without fully matching reductions in spending (PAYGO) in nonacademic areas.

● Offer and accept for credit highly specialized courses such as Sanskrit for English doctoral degree students that not available on campus through distance learning arrangements with other public universities in Louisiana where those courses are available.

● Eliminate puff courses such as social dancing, bowling, and racquetball that students use to inflate their grade point average.

● Cut out courses that orient freshmen students to the university campus who for years were able to do this on their own.

● Raise parking permit fees and parking fines for students, faculty, staff, with higher fees and fines for personally designated parking.

● Abolish cash bonuses for faculty publications in elite journals.
• Hold fast to the requirement that an undergraduate course is offered only if 10 or more students are enrolled.

• Establish a master teaching track for qualified undergraduate faculty who would teach at least three courses per term and assign substantial term papers but would not have to maintain a research and publication record.

• Demand that every state university operate on the semester system to reduce the additional costs of operating on the quarter system, such as three instead of two pre-registration advising weeks, mid-term attendance reports, final exams, and end-of-term reports.

• Continue to promote faculty as indicated by their performance, but maintain them at their current pay until the budget crisis is over.

• Require all scholarship students including those getting TOPS to reimburse the State in full for the cost of any courses taken with a failing grade.

Higher education is becoming like public elementary and secondary education. More and more resources are ploughed into public universities yet many students graduate without critical thinking skills, competencies in writing including grammar and spelling, and any background in handling ethical issues. Further, in some cases, degree programs are glaringly deficient because students are encouraged to substitute courses from outside their major for the reason that the required course in their major is not available.

Does it matter to anyone that greater emphasis on undergraduate completion rates too often means that courses are dumbed down to allow marginal students to graduate? That with all the hype surrounding the BCS championship and March Madness universities increasingly are becoming part of the sports entertainment complex?

In the words of the immortal Dirty Harry Callahan, a university’s “got to know its limitations.”
THE UNIVERSITY:
ACADEMIC INSTITUTION OR SPORT FRANCHISE?
October 27, 2014

Look no further than the current scandal at the University of North Carolina regarding courses and grades that were manufactured to raise grade point averages and keep marginal student-athletes eligible in revenue-generating sports principally football and basketball. If you think the scam is limited to UNC, you’re in denial, are not paying attention, or value the university strictly for its sports entertainment and are willing to pay whatever it takes for the team to win.

Add in the problem of lawlessness among some of the student-athletes recruited principally if not entirely for their prowess on the gridiron or hardwood, the payments under the table from boosters to assure that the university gets the most promising teenagers coming out of high school, the selling of autographed memorabilia by student-athletes with strong name-recognition, the routine jumping into the professional ranks after 1 or 2 years, and what you get is not a university with an academic mission and reputation but a sports program attached by a flow of cash to a university that pays its coaches much more to win than its faculty to teach and mentor.

Do you really think that a stadium seating 100,000 is the mark of a truly great university? That it’s ok for a big-time program to inflate its won/loss record by seducing an over-matched, mid-major program to sign on to its schedule for big bucks? That lucrative contracts to telescast games are not the reason that universities actively shop their sports programs to conferences that have the widest audiences and relocate them when the price is right? That universities don’t vigorously promote their athlete heroes for various national awards such as the Heisman Trophy.

To paraphrase Lord Acton, money tends to corrupt and lots of it tends to corrupt even the finest.

What should be done? What can be done? For many, those are truly foolish questions since the corruption has set in already and is widely if silently accepted. The big-time university has become a sports franchise. For others, however, they continue to be relevant because not every university has been corrupted though the opportunities to grab on to the big bucks assure that corruption is like a virus lurking just beneath the surface.

Corruption calls for radical action, for selling big-time football and basketball programs – coaches, athletes, the entire package -- to interested investors, creating a farm system
similar to what works so well in baseball. When was the last time a university was corrupted by its baseball program?

Teams in football and basketball farm systems would play one another just as they do in minor league baseball with the best athletes qualifying for the NFL and NBA just as they have been doing for years with MLB. Athletes would be paid and would not have to attend college. Thus no need for the university to find devious ways to keep them eligible. Universities that have not become sports franchises would continue to operate football and basketball programs as long as they steer clear of corrupting influences.

Farm-system games could be played in university football and basketball facilities. After all, those facilities are among the finest sports venues in America. A university could sell its facilities to investors or lease them. In either case, a big corruption-free financial windfall for the university.

Thorougly corrupt programs would be forced to divest their programs. Others could do so voluntarily. Universities with big-time programs known to operate on the margin would find themselves under greater scrutiny facing the prospect of forced divestiture especially if they are attractive to investors.

Students, alumni, and friends of the university with a sports program it has spun off would find the competition further enhanced because the athletes would not be distracted by the demands of class attendance, exams, and reports. They would concentrate entirely on developing their athletic talents. No need to give up tail-gating parties, no need to stop cheering for favorite teams and players, no need to give up home games.

For years high-school athletes with special baseball talents have been able to choose freely between two pathways, one that leads directly into the world of professional sports, the other that leads to the world of university academics with opportunities to develop their athletic talents free of corrupting influence of the big bucks that govern big-time football and basketball. Further, the 18-year old who chooses professional sports but does not succeed has not tossed aside the option of enrolling in college at some later date. And if he chooses the academic world and does not succeed he still can move on to professional sports.

The university that has freed itself from the seductive influences of maintaining a sports franchise is better positioned to help authentic student-athletes make the right choice. There likely will be no assistant coaches barging into faculty offices begging for a passing grade for a star athlete who claims his job is on the line if that star is declared ineligible. No more need to fudge entrance requirements to admit high-school All-Americans.

In the SEC and Big Ten alone there are at least ten big-time football programs where the sports-franchise virus probably has infected the university. How long will it take for the
public to recognize that the virus undermining UNC as an academic institution has taken hold elsewhere? Unlike banking institutions, America’s universities are not too big to fail.
20 ELITE UNIVERSITIES GET $2.3 BILLION IN STIMULUS AWARDS
May 17, 2010

The $787 billion stimulus package was sold to Americans in early 2009 as support for “shovel-ready” infrastructure improvements. Even so, generous awards have been made to hundreds of the nation’s colleges and universities. Those awards have taken the form of grants, contracts, and loans and have been justified as investments in the higher education infrastructure.

Using Recovery.gov to retrieve information on the recipients and amounts of those awards, Mayo Research Institute focused on the top 20 elite universities and discovered that a total of $2.3 billion was awarded to those top-drawer institutions with Michigan topping the list at $203.6 million. The eight Ivy League universities alone got a total of $716.3 million. Brown is not listed below because its $26.7 million award did not put it in the top 20.

<table>
<thead>
<tr>
<th>University</th>
<th>Millions</th>
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<tbody>
<tr>
<td>Michigan</td>
<td>203.6</td>
</tr>
<tr>
<td>Stanford</td>
<td>195.0</td>
</tr>
<tr>
<td>North Carolina</td>
<td>165.2</td>
</tr>
<tr>
<td>Harvard</td>
<td>145.6</td>
</tr>
<tr>
<td>Johns Hopkins</td>
<td>137.3</td>
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<tr>
<td>Penn</td>
<td>130.5</td>
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<tr>
<td>UCLA</td>
<td>124.9</td>
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<tr>
<td>Columbia</td>
<td>122.3</td>
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<tr>
<td>Cal Tech</td>
<td>121.5</td>
</tr>
<tr>
<td>Duke</td>
<td>119.5</td>
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<tr>
<td>Emory</td>
<td>109.7</td>
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<tr>
<td>Cornell</td>
<td>107.7</td>
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<tr>
<td>Yale</td>
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<td>MIT</td>
<td>99.4</td>
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<td>Washington St. Louis</td>
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<tr>
<td>Northwestern</td>
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<tr>
<td>USC</td>
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<tr>
<td>Chicago</td>
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<tr>
<td>Dartmouth</td>
<td>44.3</td>
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<tr>
<td>Princeton</td>
<td>37.7</td>
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<tr>
<td><strong>TOTAL Top 20</strong></td>
<td><strong>2284.4</strong></td>
</tr>
</tbody>
</table>

We could not find information on the amount awarded to Virginia or California-Berkeley.
The $2.2 billion total does not include other elite universities that received stimulus awards such as Rice ($22.7 million), Carnegie Mellon ($26.9 million), and Georgetown ($20.7 million) because their awards were not big enough to break into the top 20 list. Other less prestigious universities that in some cases received more generous awards than some of the top 20 elite universities, such as football powers Florida ($112.0 million) and Ohio State ($91.8 million), are not included in the top 20 list of elites.

Nor does the list include funds awarded to university systems such as the University of California Regents that got $985.0 million and the California State University Systems that received $716.5 million.

We note with special interest the $153.5 million award to the Association of Universities for Research in Astronomy headquartered in Washington DC.

Universities typically find it easy to grow larger in terms of enrollment, facilities, and degree programs. Downsizing is an entirely different matter. The Louisiana Legislature is struggling to find funds to “backfill” the nearly $300 million in stimulus awards that will not be available to higher education in the coming fiscal year. Other states no doubt face a similar problem. They are learning the hard lesson that stimulus awards can be a mixed blessing. And the American taxpayer is discovering that even prominent private universities with billions in their endowments have a voracious appetite for the easy dollars doled out by the federal government.
X. HEALTH CARE SYSTEM
As a serious student of economics, Dr. David Brailer no doubt learned very early on that in a market system every transaction entered into freely and knowledgeably either results in economic gain for everyone involved or is not completed. The estimated gain for private insurers and Medicare (not to mention Medicaid and employers who shoulder the cost of health care insurance) from the implementation of his medical internet initiative ranges from a conservative $120 billion per year to a staggering $600 billion (Business Week, October 31, 2005). However, if the medical internet produces no gain for providers, Brailer’s scheme fails Economics 101. Unless, of course, it is forcibly imposed on them.

Leaving aside the issue as to who pays for the estimated $150 billion startup costs, providers face the higher costs of operating and maintaining the system without any balancing financial return thereby further eroding the gain required to provide health care. In addition, who decides what’s best for patients? What norm is most important in deciding what’s best -- safety, effectiveness, or costs? How does the medical internet system differentiate patients who faithfully follow a program of care from those who depart from that program, and how is that behavior versus the quality of the care linked to patient outcome?

Taking at face value the statement in the BW article that “the economist in Brailer came to see medicine as driven by incentives that bred complacency, if not greed,” is Brailer saying that the gain for many providers is excessive and should be reduced and that he can build a system that rewards the competent and caring provider and penalizes the complacent and greedy ones, and that protects patient privacy without independently examining patients directly?

The private insurer and the employer see the cost first hand and know how that cost bears directly on their gain but do not accept any direct responsibility for safety or effectiveness. For years, they have been vigorously (some would say ruthlessly) driving down reimbursement below the charges billed by providers, reducing gain and thereby undermining Brailer’s premise that savings can be achieved throughout the health care system by reducing excessive gain. Medicare and Medicaid administrators also see the cost first hand and know that cutting reimbursement to the wealthy few who provide health care is politically easier than forcing the many who are less prosperous to contribute more to Medicare or pay higher taxes to support Medicaid. The result is that access to care has become more restricted as more and more physician providers, aware that their financial viability is threatened by a system wherein reimbursement does not cover the cost of providing service, refuse Medicare and Medicaid patients who then turn to the much more
expensive hospital emergency room for primary care because hospitals are not free to refuse service

Total quality management is successful in making more and better goods and services available to the public at more affordable prices not by eroding the gain to the producer but by cutting the cost of production, and allowing the price to fall as the cost of production falls thereby preserving the gain necessary for the producer to continue operations. TQM is a positive-sum strategy. In Brailer’s medical internet proposal, the cost of providing health care is cut by forcing providers to accept less for their service and thereby eroding the gain -- judged at the start to be excessive -- that is necessary for them to continue providing that service. The medical internet is a zero-sum strategy.

From the perspective of economic theory, Brailer is not proposing more competition to make health care safer, cheaper, and more effective but more monopsonistic-like wherein a single buyer -- the payment provider -- dictates price driven by the greater gain for that provider to be gotten from lower reimbursement. At bare minimum, Brailer has to demonstrate that his scheme improves reimbursement and collection rates for physicians who otherwise are being forced out of practice or required to work even longer hours to produce the gain necessary to keep them engaged in providing service. With reimbursements shrinking and collection rates eroding, how does introducing Brailer’s medical internet which adds more cost to the private practice of medicine help motivate the physician to supply the information required when the overall system at best promises to reward the caring and competent and punish the complacent and greedy and at worst may punish the caring and competent who are honest and play by the rules and reward the complacent and greedy who are clever and devious enough to manipulate the system for personal advantage. Who then monitors the data streaming into the medical internet to assure that the information reported is accurate and complete, and who pays for quality control of the data that are critical to the system?

Quite apart from the financial side of the proposed medical internet, what will it do to physicians on the cutting edge of patient treatment? Will it encourage or dampen new treatment modalities that offer promise of successfully treating patients who heretofore have not been treated effectively with the state-of-the-art modalities? In what way is the information that would become accessible to the physician via the medical internet any better than the articles published in peer-reviewed medical journals already available in large numbers of medical libraries that for decades have been the mainstay of continuing education and professional development? The present system with links already established to the internet, coupled with the good search engines, e-journals, and backed up with experienced medical librarians provides ready and inexpensive access to the current knowledge base in virtually every specialized field in medicine.
Information systems do not save human lives. Nor do they improve the quality of care or cut the cost of that care. What every practicing physician knows is that it is experienced, competent, committed, caring providers, at times taking risks in the treatment of a patient who is not responsive to the standard treatment modalities, who are capable of achieving those results. The reason is simple: health care is not about things that can be controlled and standardized in a manufacturing process. Rather health care reduces most fundamentally to human beings who are unique persons, in part mysteries even to themselves, who must be respected first before they can be treated and who when treated may not respond in ways that are as statistically predictable as the results from using techniques devised by Deming for achieving zero defects in manufacturing.
Health care in the United States is like the Infiniti M35 luxury sedan -- arguably the best in the world\(^4\) but increasingly out of reach for many Americans. To hold down those costs private insurance companies, especially those that underwrite health insurance policies for the employees of American companies, have been reducing the reimbursement paid to the providers of health care. Medicare and Medicaid have long since adopted the same strategy.

As a consequence, health care providers including hospitals and physicians have been laboring under a system that all too often does not provide enough reimbursement to cover the cost of making that service available. Providers of all types are beset with no pays, turn their overdue accounts to collection agencies to retrieve at least some of what is owed them, and are handed bankruptcy judgments that deny them what is needed to continue providing care. Hospitals for too many years have been bleeding cash, depleting reserves, and finding it ever more difficult to get the financing required to continue.

To cope with that problem many hospitals have been shifting the cost from nonpaying patients to paying patients, in some cases dumping patients, and curtailing the range if not the quality of the care available. Physicians are refusing service to patients who are unable to demonstrate ability to pay, notably Medicaid patients. In many instances of late they have been setting up free-standing specialty hospitals where they can be more selective as to the patients they admit because these facilities function without emergency departments – the huge open door to care for Americans without the means to pay for what they need. On top of all of that, providers face the threat of huge malpractice judgments whenever they fall short of delivering care that meets community standards for that care.

In the extreme, hospitals are being sold, services realigned, and physician practices closed in a process that elsewhere is referred to as the “shakeout.” This “shakeout” is an ongoing process that is having a profound impact on access to care.

There are less expensive, acceptable alternatives to the Infiniti M35. There are none to the U.S. health care system unless Americans are willing to pay more for the care they expect or demand less. The additional monies can come only from two sources: higher insurance premiums or government support. Cutting reimbursement is not the answer in the absence of effective cost-cutting measures by providers that do not compromise quality of care. Would that health care were more like computer manufacturing: cheaper and better year in and year out. Unfortunately, high-tech in medicine equates to high cost.

Efforts to reduce the cost of providing expensive inpatient care by emphasizing preventive medicine and greater responsibility for the choices that effect a person’s health and well-being such as what one eats and how active a life style one maintains come to naught in this “shakeout” unless reimbursement covers the reduced costs. However, should we expect insurance companies and employers who provide health coverage to their employees to pass up the opportunity to rein in their own costs by further cuts in reimbursement? Should we expect state and federal officials to pass up the prospect of finding a measure of relief from rising Medicare and Medicaid costs through continuing rollbacks in reimbursement?

As the “shakeout” continues, access to care narrows not just for nonpaying patients but for paying patients as well because in the years ahead there will be fewer providers able to survive financially in a system that is driven by ever lower reimbursement. For example, for years there have been well-publicized chronic physician shortages in rural areas due in part to better financial opportunities elsewhere. Less well known by the public is that there are unfilled residency positions at U.S. medical schools in, for instance, pediatrics because today’s medical students are savvy enough to know that pediatricians keep extraordinarily long hours and compared to their professional colleagues in other subspecialty areas are among the lowest paid. If the “shakeout” continues, who will care for the children not yet born if not other providers with less formal education and training than pediatricians who are less expensive to retain?

The U.S. health care system is financially broken, is plunged in a downward spiral that cannot be reversed without a addressing the driving force behind that spiral – partners in the system whose self-interest is directly linked to lower reimbursement. The “shakeout” will continue until the necessary remedy is put in place and like the Infiniti M35 the remedy cannot be purchased on the cheap.
Won over by the forces of individual freedom, deregulation, and globalization, economic agents today increasingly avow a way of thinking that measures economic performance in financial terms alone, especially short-term profits and return on investment, often to the exclusion of other considerations such as employment security, environmental protection, workplace safety, corporate governance, truth in lending, and living wages, not to mention the much broader considerations of world poverty, hunger, and disease.

Quite apart from the effects that it is having on the structure of the global economy, the new financial way of thinking is also changing the rules and the codes of ethics according to which ordinary companies conduct their affairs on a day-to-day basis. This development has become deeply embedded in mainstream economics today largely due to long years of unstinting advocacy by Nobel laureate Milton Friedman who is widely known and respected for his libertarian views and who adamantly insisted that the company’s one and only objective is to produce a profit for its owners/shareholders.

The enshrinement of short-term gain as all-important, which we refer to as financialization, increasingly is evident even in the U.S. health care system. This development takes the form of chains of proprietary hospitals acquiring publicly owned but financially strapped hospitals which they must turn around in order to keep faith with their shareholders, ordinary employers struggling with ever-higher health care costs and private insurance companies holding down health insurance premiums by denying claims or cutting reimbursement to health care providers.\(^5\) In a practice known as “cherrypicking” free-standing surgical centers admit paying patients and turn away nonpaying patients who have no option other than the emergency rooms of full-service hospitals.

Included in the financialization of the health care system is the “no new taxes” mentality of state and federal legislators responsible for oversight of the Medicare and Medicaid programs which deal with ever-increasing health care costs by the same means employed by private insurers – cut reimbursement to providers or worse yet deny claims for reimbursement. Financialization leads at times to physicians refusing to accept Medicare

\(^5\) Hospitals in turn shift to their paying patients the cost of providing services to nonpaying patients and patients for whom reimbursement is insufficient to cover their costs.
and Medicaid patients, especially when the reimbursement does not cover the physician’s out-of-pocket expenses.

The financialization of health care at times draws in others not directly involved in the health care system. To illustrate, recently in Louisiana a publicly owned hospital with revenues insufficient to cover its expenses was purchased by a proprietary chain for more than $80 million. After covering its indebtedness, about $50 million was left for assignment to a newly-established local health care foundation to support projects that would provide health care that otherwise would not be available to the public. Driven by financialization, the local parish (county) government insisted and got a $5 million share of the $50 million threatening to bring legal proceedings to block the sale unless its demands were met. Those monies will be used by local officials for whatever services they so choose.

What is not so readily visible are the other aspects of the financialization of health care that are having devastating effects on access to care and its quality. One way is a reversal of the time-honored practice of subspecialists taking call for unassigned patients admitted to the emergency room in need of a subspecialist such as an orthopedic surgeon to set a broken bone or a neurosurgeon to manage severe head trauma. This reversal has been carried out by subspecialists joining a surgical center, or even forming one of their own, that effectively sidesteps those patients by simply not offering emergency care. The justification for this reversal is evident in the following question: ‘Why should I (a subspecialist) leave my office with 40 paying patients in the waiting room, all of whom have to be rescheduled, in order to look after a nonpaying patient who has been admitted to an emergency room whom I do not know and who does not know me?’

It is a matter of public record, for example, that a patient in Louisiana was transported by ambulance more than 150 miles from one city to another for a broken thumb because the orthopedic surgeons in the sending city simply refuse to see patients in the emergency room. More recently, two children were transported 100 miles from Monroe to Shreveport because Monroe surgeons would not accept the children as their patients. Both needed an appendectomy in the middle of the night. This reversal even involves patients already admitted to a hospital, at times in critical or intensive care units, and under the care of a hospitalist who needs a subspecialist consult such as a neurologist but cannot find one available locally or willing to take the time for a consultation, especially in the middle of the night. The hospitalist is forced to transfer that patient to another hospital where the subspecialists are either on staff or willing to consult even knowing beforehand that they may never be paid for that consultation.

Financialization forces primary-care physicians to close their office-based practices because a combination of nonpaying patients and inadequate third-party reimbursement has made it increasingly difficult to cover even their fixed costs. In some cases, self-employed office-based physicians are not even able to pay themselves a salary; they survive...
precariously on the care they render to patients they admit to hospital. Knowing full well how important primary-care physicians are to admissions, hospitals are employing them directly to assure a stream of inpatients to protect their bottom line, even though caring for patients in a hospital is more expensive than treating them in an office or clinic.

Financialization is turning the practice of dermatology into cosmetology. The plain fact is that treating facial wrinkles, removing body hair, eradicating tattoos, directly selling various creams and gels pay more than treating facial cancers, psoriasis, and eczema simply because patients are willing to pay out of pocket to improve their appearance. This trade is so lucrative that physicians trained in areas other than dermatology, and even those with no medical school training at all including those who are referred to as medical aestheticians (licensed skincare specialists), are opening clinics to provide what today is being called aesthetic dermatology.

Financialization even extends to the time-honored practice of professional courtesy where one physician looks after a professional colleague without charging the usual fee. Today the physician very well might ask ‘Why should I provide office-based treatment for a colleague that costs me $51 out-of-pocket and at the same time forego the usual $50 office fee?’ Financialization clearly denounces professional courtesy.

Financialization is forcing formerly full-service hospitals to quietly close units such as pediatric intensive care units and drive off highly-skilled specialists such as pediatric neurosurgeons because they are a financial drain on hospital resources and at the same time to ballyhoo other units such as cardiac care units because they turn a profit. Another less-well-known practice that is rationalized by financialization and is known as “dumping” is the stabilizing and transferring to other hospitals of patients who show up in the emergency room and are in need of inpatient care but are not able to pay for that care.

There is an instructive parallel as to what is happening today in health care in what began happening 30-40 years ago in Catholic elementary and secondary education. For decades American Catholics, including poor immigrant families, had access to quality educational instruction because Catholic schools were staffed overwhelmingly by nuns, priests, and brothers who with little regard for their own financial well-being dedicated their lives to educating children. The vocational crisis in the American Catholic church has seen the closing of countless Catholic schools during this period, narrowing access to a Catholic education to all but those who are able to pay the substantial tuition necessary to hire teaching staff from among the laity. What in the past was given in Christian charity has been replaced to a large extent by the first principle of exchange in routine marketplace and workplace transactions: for both parties what is gotten must be more highly valued than what is given up. In other words, both parties must experience economic gain. Otherwise exchange collapses.
In health care today, financialization means that what is gotten by the provider must be more highly valued than what is given up. Thus the practice of professional courtesy makes no sense to the provider because nothing tangible is gotten in exchange for the service rendered (given up). Similarly, for the physician who refuses Medicare or Medicaid patients where the service rendered is not fully reimbursed (what is gotten in exchange is less than what is given up). Financialization explains why subspecialists refuse to accept unassigned patients who present in the hospital emergency room and refuse to consult with professional colleagues. Financialization is driving up the cost of health care and narrowing access to care because increasingly the services rendered have to pass the exchange test: what is gotten must be more highly valued than what is given up. It appears quite likely that financialization has become an integral part of U.S. health care and quite unlikely that the system will revert to the old ways of selectively providing care without expecting payment in return.

Financialization -- the putting of short-term gain ahead of all else – little by little is destroying health care in the United States because too many Americans are unable or unwilling to pay for what is arguably the most advanced health care in the world because they regard that care as an entitlement. Thus financialization is turning the exchange principle – what is gotten must be more highly valued than what is given up – on its head: what is gotten by the patient is taken with little or nothing given up.\(^6\) The U.S. health care system is financially broken.

Two reports, one by the National Resident Matching Program and one by the World Health Organization, are indicative of the brokenness of the U.S. system. The NRMP which matches medical students to residency positions reported that only 42 percent of the available family residency positions in 2007 were filled by U.S. medical school seniors. The rest were filled by international medical graduates, osteopaths, and other types of applicants. In internal medicine, U.S. graduates filled 56 percent of the available residency positions. In obstetrics/gynecology the fill rate for U.S. graduates was 73 percent; pediatrics had roughly the same fill rate. Between 1997 and 2005 the number of residency positions in pediatrics dropped from 464 to 376. Even so, nearly nine percent of the pediatric residency

\(^6\) We do not include in financialization other practices all of which are fundamentally unjust if not at the same time illegal: the fraud perpetrated by patients and providers who file false claims, patients who file legitimate claims and are paid by their insurance company directly but do not pay their providers, and providers who defraud one another in a complex system of accounting that allows a physician in practice together with others who provide services to the same patient to post the entire insurance payment for that patient to his/her personal account denying the other consulting physicians their due. Also not included is a scheme by which a physician in practice with others draws a salary beyond what he/she actually earns by direct patient care but does not reimburse his/her associates.
positions in 2005 remained entirely unfilled. While interest in these primary care specialties is falling, the so-called “lifestyle” residency programs – dermatology and anesthesiology – are filling more than 90 percent of the available positions with U.S. graduates.

In what some regard as a misleading report, the WHO stated in 2000 that the United States ranked 1st among 191 nations in terms of health care expenditures per capita, 37th in terms of health care performance, and 54-55th in terms of how the financial burden of the system is shared.

Further evidence of the brokenness of the system is found in a 2005 report on personal bankruptcy and health care in which the investigators examined a cohort of households filing for bankruptcy in five federal judicial districts and estimated that roughly 50 percent experienced medical bankruptcy even though about 75 percent had health insurance coverage at the onset of their health-care problems.

The broken U.S. health care system is like an old car that at one time was a top-of-the-line muscle car but due to neglect has been reduced to a beat-up wreck that limps along belching blue smoke from its tailpipe. If the owner is a person of means, the remedy is simple enough. If not, the solution is to pour more oil into the engine in the hope that somehow it will continue running. In time, however, the engine will die and the car will stop running. Similarly, we can continue to pour more money into health care without improving performance as the WHO report suggests and even adopt universal health insurance coverage without making health care affordable as the bankruptcy study indicates. Driven by financialization, the system will limp along until it collapses and then it will become clear to all that the problem is systemic.

References


HEALTH CARE SPENDING AND PROFITS

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The public discourse on the high and rising cost of health care at times triggers an attack on profit-making enterprises especially pharmaceutical companies. Critics assert that if we could only get profits out of the system, costs would be much lower. A review of U.S. health care expenditures may shed light on the part that profits play in health care costs.

National health expenditures in 2005 amounted to $1.988 trillion. Roughly 45 percent of those expenditures are funded from public sources principally Medicare and Medicaid. The largest single category of expense is hospital care at $612 billion. Data for 2004 indicate that only 15 percent of all U.S. hospitals operate as for-profit institutions and taken together they account for just nine percent of all hospital care expenditures.

The nursing home business is largely in the hands of for-profit organizations but the number of homes has been declining since 1999. Though their numbers are quite large alongside the number of hospitals, on average they have fewer beds than hospitals and therefore expenditures at nursing homes – $122 billion in 2005 – represent only six percent of national health expenditures. Monthly charges at for-profit nursing homes are lower than at other types of nursing homes.

The second largest category of health expenditures is physician and clinical services – $421 billion in 2005. Mayo Research Institute found no national data on the extent to which physician and clinical service enterprises operate as for-profit businesses. However, two comments are relevant though presented without statistical support.

First, many physicians establish their practices as business enterprises in a way that allows them to draw a regular monthly salary and, after meeting their other financial obligations, to divide any surplus at the end of the year among the practice partners. Physicians who are employed in the practice but are not partners do not share in this distribution. This surplus does not represent profit in that it originates in the services provided by the physicians. It and their regular salaries are properly considered compensation for services rendered.

Second, due to severe problems with reimbursement from private and public health insurers, many physicians who are paid 50 percent or less of what they charge for their services increasingly are closing their office-based practices and are finding paid employment with hospitals where they are designated “hospitalists.”

7 Throughout we employ the most recently available data.
After hospital care and physician/clinical services, the third largest category is prescription drugs that added $201 billion (10.1 percent) to national health expenditures in 2005. Most of these funds no doubt went to for-profit pharmaceutical companies, and critics assert that caps imposed on prescription drug prices would do much to reduce the cost of health care. The opportunities for earning profits are considerable. So are the risks and the cost of developing new drugs. Tufts University Center for the Study of Drug Development stated in late 2006 that it takes eight years for the typical biotechnology product to move from the development stage through the regulatory phase and costs $1.2 billion, with the cost about evenly split between the preclinical stage and the clinical stage. Sales that fall short of $1.2 billion mean that the company takes a loss on a product even if it proves to be clinically safe and effective.

Further, many of the large pharmaceutical firms are investor owned. Market valuation toward the end of November 2007 for Johnson and Johnson, for instance, was $191 billion, for Pfizer $157 billion, and for Merck $125 billion. Who will buy out the current stockholders if price caps also lead to a call for transforming these companies into nonprofit enterprises? As nonprofits would they be more successful in developing new products? Would they be more efficient and able to reduce the cost of product development below what it would have been had they remained profit-making companies? What would the public do if pharmaceuticals decided to halt the development of new drugs and switch to other product lines?

Critics also assert that it is unethical to profit from human suffering. Quite true. However, is there anything unethical in making a profit producing products and services that help relieve human suffering? Should we condemn Bayer for producing at a profit its hugely successful over-the-counter drug aspirin? Is General Electric to be condemned for the profits it makes in selling high-tech diagnostic equipment? Is for-profit IASIS Healthcare to be condemned for rescuing community-owned Glenwood Regional Medical Center in West Monroe, Louisiana that for years had been hemorrhaging cash to the point of almost forcing it to close its doors permanently?

Students of economics 101 learn that for any transaction to take place both parties must experience gain: what is gotten is more highly valued than what is given up. Remove that gain and the exchange collapses even for a nonprofit business unless it is subsidized to the point where its income (what is gotten) at least covers the cost of production (what is given up).

How, then, do we tackle the problem of rising health care expenditures which climbed from 5.2 percent of GDP in 1960 to 16 percent in 2004? Surely not by cutting reimbursement because over the long term cuts in reimbursement drive providers out of the health-care system: what is gotten is less highly valued than what is given up. Cutting reimbursement leads to cost shifting where paying patients are charged inflated prices to cover the cost of
providing services to nonpaying patients. It also leads to a narrowing of access to physician care. In the extreme, cuts in reimbursement leave nothing in compensation for providers who take seriously their duty to pay in full their own financial obligations to their employees, suppliers, and others. Certainly not by eliminating for-profit companies, especially in pharmaceuticals, though curbing excess profits – profits above what are necessary to retain them in the health care system – likely would bring down the cost of health care.

Since U.S. health care is governed by market forces, there are in general two options: the demand-side option and the supply-side option. On the demand side we have heard for years that more must be done to prevent the onset of disease and injury such as wearing seat belts, exercising, eating healthy foods, and cutting out cigarettes. The growing problems of obesity and sexually transmitted diseases, to name just two serious health disorders, indicate that the demand option is not working, at least not well enough to cut health expenditures. That leaves the supply side option. One possibility is to deny access to certain very expensive procedures. Insurers are doing that already and are facing great resistance from the persons they insure. Another possibility is to concentrate research and development on those products and clinical modalities that reduce the cost of treatment today without compromising quality of care or outcomes. We’ve done it successfully with cheaper and better computer hardware, with more fuel efficient and safer automobiles and aircraft, with lower-cost telecommunications, with inexpensive and lightning-fast online systems for selling equities, buying books, and trading second-hand goods, with energy-saving appliances and insulating materials, with wider use of reprocessed materials in new products such as flooring and counter tops. And many more.

It’s time to try this alternative with renewed vigor in health care especially hospital care. Nanotechnology for one might contribute that kind of creative energy if it can transition from a basic to an applied science and then profitably to commercial products. It simply does not make sense to banish for-profit companies from health care when it has been firmly established for many years that the profit motive is one of the principal forces driving innovation.

Sources: U.S. Centers for Medicare/Medicaid Services.
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Cram-down is the expression used today to describe the forced easing of mortgage terms in order to rescue a homeowner from default and foreclosure. In brief, cram-down is a court-ordered reduction of the balance owed on a home mortgage allowing the homeowner who has filed for personal bankruptcy to reduce his/her monthly payment and forcing the mortgage holder to write off a portion of the unpaid balance.

Cram-down is a fundamentally unjust practice because it forces the mortgage holder to accept less from the homeowner than they both agreed to originally and voluntarily and to which they committed themselves in a written contract. Commutative justice states that the parties to any exchange agreement are ethically required to exchange things of equal value and impose equal burdens on one another. With cram-down the mortgage holder is forced to accept a new contract where the benefits and burdens shift in favor of the homeowner. It’s the coercion that offends our sense of justice.

On the other hand, cram-down is defended as necessary to protect the homeowner who presumably has been making a good-faith effort to keep up with his/her monthly payments but simply is overwhelmed financially. In the end, cram-down is doubly unjust when the loss to the mortgage holder is greater than gain to the homeowner. At best cram-down is an act of mercy which silently and coercively redistributes income from mortgage holders to homeowners.

Cram-down has been a regular practice in health care financing for years. There are three basic types of cram-down in health care. The first type involves third-party payers, including private health insurance companies and public insurers such as Medicare, along with public welfare programs such as Medicaid and SCHIP (State Children’s Health Insurance Program), which often do not fully reimburse health care providers including hospitals, physicians, and others for services rendered. To illustrate, it is not unusual for a third-party payer to force the provider to accept one-half or even less of the charges submitted for services rendered to a specific patient.

The second type involves patients who present at a hospital emergency room and must be treated under the provisions of a 1986 federal law which fines a federally-funded hospital and physician up to $50,000 for refusing to admit a person in need of emergency care even if that person has no way of paying for the services rendered or refuses to pay. In some cases, the hospital may stabilize and transfer such a patient -- a “no-pay” to another facility in a practice known as “dumping.”
The third type closely resembles mortgage cram-down in that the patient who cannot pay seeks relief through bankruptcy.

In addition to dumping, there are at least four other responses to cram-down from health care providers. First, they refuse to accept or consult on patients whose third-party payers are well known for cram-down. Second, they run large numbers of patients through their office-based practice to compensate for cram-down thereby in effect running a “Medicare/Medicaid mill.” Third, they close their office-based practice and retire or in some instances become hospitalists hired and paid by a hospital to render care to patients in their area of specialization. Fourth, they reduce their work effort by quietly walking away from parts of their overall practice to which for years they volunteered their support or accepted as a part of their duty even when the reimbursement did not cover their costs.

One of the first bills passed by Congress and signed by President Obama was H.R. 2 which extends health coverage to an additional 4.1 million children who previously were not covered by SCHIP. Obama is reported to have said that this expansion is “a down payment on my commitment to cover every single American.” In other words, it is a big step toward universal health care.

The added cost of SCHIP which allows states to get full access to federal matching funds to cover children in families with incomes up to three-times the poverty threshold ($63,000 for a family of four) is to be paid from a 62 cents increase in the federal tax on cigarettes and similar increases on other tobacco products. Even before H.R.2 was passed, SCHIP was known for cram-down. It likely will retain that reputation among providers under the expanded coverage.

The increase in the tax paid by smokers and users of other kinds of tobacco products may not yield the estimated $30 billion in additional revenues over the next five years because the cigarette business for years has been plagued by counterfeit cigarettes and counterfeit federal tax stamps which are sold to merchants attracted by the wider profit margins available selling counterfeit products to an unsuspecting public. The increase in the tax makes counterfeiting even more lucrative. Actual federal revenues from this source which fall short of the expected $30 billion could intensify cram-down.

To cope with cram-down some providers are transforming their practices so that their patients are seen by a nurse-practitioner rather than a physician without necessarily changing their fee structure. Access to care is provided though it may not be the same quality of care available from a physician. This option is attractive because hiring and paying a nurse-practitioner instead of a physician, at the same time maintaining the same fee structure, reduces the financial impact of cram-down.

Cram-down is a form of forced income redistribution. Private insurers do it to hold down their expenses and thereby offer coverage at lower premiums. Public payers, both state and
federal, do it to hold down budget deficits and to avoid having to raise taxes to cover the additional cost of expanded coverage. Universal health coverage, as promised by the Obama administration, will lead to more cram-down, more restricted access to quality health care, and more income redistribution unless steps are taken to provide the necessary revenues to cover the costs of that care. Without the funds to arrest cram-down, universal health coverage does not fix a financially broken health care system. Quite the contrary, it violates the first principle of health care: do no harm.
XI. MEDICARE, MEDICAID, AND SOCIAL SECURITY RETIREMENT
The surplus in the Social Security retirement trust fund will be exhausted by 2037. By then, there will be roughly 78 million Americans 65 years of age or older and the tax revenues earmarked for the fund will be sufficient to pay only three-quarters of the benefits promised under the current system.

The surplus in the Medicare hospital insurance trust fund will be exhausted by 2017. By then there will be approximately 55 million Americans 65 years of age or older. In 2037 Medicare benefits under the present system will pay an estimated 50 percent of the scheduled benefits.

The drain on both funds origins from two sources: a flood of baby boomers reaching the age of eligibility for benefits and older persons living longer. Life expectancy at birth for men will rise from 74 years in 2002 to 81 years in 2050. For women life expectancy increases to 87 years in 2050 from 80 years in 2002.

Current and projected federal budget deficits will add trillions to the current public debt which stands at $11.2 trillion. Based on an average interest rate of 3 percent, financing a $15 trillion debt will cost American taxpayers approximately $450 billion every year. At 4 percent, the cost of servicing that debt climbs to $600 billion.

At the present time, at least 41 percent of Americans get a full refund or more (through a refundable tax credit) or pay no tax at all.

What to do?

Scrub the budget of waste and eliminate programs which serve no public purpose.

Cram down interest rates through the Federal Reserve.

Increase federal income taxes and Social Security/Medicare taxes.

Reduce Social Security benefits by changing the formula which increases benefits every year on the basis of wage increases to one based on price increases.

Increase the age of eligibility benefits for Social Security/Medicare benefits.

Means-test Social Security/Medicare so that benefits are paid strictly on the basis on demonstrated need rather than presumed need.

Deny Medicare benefits whenever the cost of a specific procedure > the benefits to a given
There is a downside to each of these remedies. To illustrate, lower interest rates encourage private borrowing and spending and stoke inflationary fires. Years of Potomac watching tell us that scrubbing the budget doesn’t work because every item in the budget has its own backers in Washington and elsewhere including interests outside the United States. Means testing Social Security/Medicare wipes out the property right which beneficiaries claim on the basis of their own payroll deductions and the matching contributions in their name by their employer. Bringing cost/benefit analysis to bear on treatment decisions immediately disadvantages older senior citizens for whom any benefits are reduced by their shorter expected lifetime.

There is another solution already in limited use in two states. Reduce life expectancy through assisted suicide which today is legal in Oregon and Washington. Legislative and judicial initiatives already are underway in Alaska, Arizona, California, Hawaii, Maine, Michigan, Montana, New Hampshire, Vermont, Wisconsin, and Wyoming.

As we witnessed with the legalizing of abortion in the 1960s and early 1970s, what became acceptable in a small number of states soon became the law of the land through the Court’s decision in Roe v. Wade which expanded the meaning of the right of privacy under the due process clause of the Fourteenth Amendment to include the right to an abortion. Will the same kind of legal reasoning based on empathy for those who are dying make assisted suicide legal across the entire United States? With the new justice whom President Obama is about to appoint to the Supreme Court, we may learn the answer to that question a lot sooner than we think.

The current working-age generation faces two enormous challenges. First, how to pay for the huge increases in the public debt? Second, putting aside the question as to how to pay for the still-to-be fleshed out universal health care plan, how to fix and pay for Medicare and Social Security retirement, two systems which essentially are broken? Inevitably, to make the numbers work, Americans will have to settle for less or be willing to pay more. The American dream of living better than one’s parents and grandparents may be over for generations to come.
In 1935 the Social Security Act addressed three sources of unmet need: (1) growing old and no longer being able to work; (2) becoming orphaned and being too young to support oneself; and (3) losing one’s job and being cut off from a regular paycheck. Our principal interest in the following is with the retirement program established to help meet the needs of the elderly.

SSA set up a single federal program for the retired with its own trust fund into which matching contributions are made by employers and employees and out of which benefits are paid. To qualify for full benefits a person must be 65 years of age (66 for anyone born in 1943 or later) and have worked and made contributions into the trust fund for at least 40 quarters. The fund operates on a pay-as-you-go basis. The monies paid in benefits to the current generation of beneficiaries come from the contributions made by the current generation of employers and employees.

In general there is a correspondence between wages, contributions, and benefits. The more one earns and contributes, the larger the benefits. The program operates on the presumption that every elderly person who is eligible for retirement benefits is needy. No one is required to demonstrate need. The program, in other words, is not means tested. In addition, benefits are paid until death and are adjusted every year according to changes in national wages.

At times the SSA trust fund has had more money flowing in through contributions than flowing out through benefit payments. This surplus has been used to purchase U.S. government securities creating a third stream of monies – the interest paid on those securities – into the fund. However, in the years ahead the trust fund will be severely strained to pay benefits to a retired population which due to the baby boom of 1946-1960 will bring much larger numbers of persons to age 66 beginning in 2012. A further strain will be added by the increased life expectancy of the elderly which means that the typical retired person will receive retirement benefits for a longer period of time. At the same time there will be fewer workers contributing to the fund. These dynamics set up the conditions for the depletion of the surplus in the trust fund, according to the trustees, by 2037.

In 1965 the SSA was amended to extend protection to the elderly in need of health care through the Medicare program that operates with its own trust fund supported by contributions from workers, employers, and the elderly. Payments are made to health-care providers to reimburse them for the cost of services rendered to the elderly. This trust fund is even more severely strained due to the high cost of modern medicine and the fact that most health care costs occur in a person’s last year of life. One way this strain is being
handled is through low reimbursement to which some physicians have responded by refusing to accept persons on Medicare especially when the cost of providing the service is greater than the reimbursement. Federal law makes it difficult and costly for hospitals to refuse service to anyone including Medicare patients, so the cost of treating Medicare patients that is not fully reimbursed often is shifted to other paying patients. As with SSA retirement, Medicare is based on *presumed* need. No *means test* is applied.

The elderly who receive monthly SSA retirement checks have their Medicare premiums deducted automatically every month. The amount they are charged for Medicare protection depends on their annual income as declared on their federal income tax return. The higher the income, the higher the premium. The SSA website states that seven percent of SSA beneficiaries are not protected from paying a higher Medicare Part B premium and therefore are vulnerable to having their retirement benefit reduced. Those who are not protected include higher income beneficiaries, persons newly entitled to Part B in 2010, and everyone under Parts C and D. The Medicare Hospital Insurance trust fund will be depleted by 2017.

As a consequence, SSA retirement has become less a social insurance program and more a social assistance program. The higher the declared income, the lower the retirement benefit. Mayo Research Institute knows of at least one retired person whose Medicare premium in 2010 is greater than his retirement benefit and who is billed by SSA for the difference. His SSA retirement benefit has been reduced to zero. This is the beginning of *means-testing* SSA retirement through the back door of a stealth-like Medicare tax.
The public discourse on the scope and impact of the federal budget deficit typically ends with an acknowledgment that unless the Big Three entitlements – Social Security retirement, Medicare, and Medicaid – are slashed there is little that can be done to rein in the deficit that in FY 2010 amounted to $1.294 trillion. Americans have become so dependent on those entitlements that cutting them is painful.

Understandably, senators and representatives who delight in taking care of their constituents resist telling them that the free lunch is over. They trim a little bit here and a little bit there in a partisan dance they call the Continuing Resolution that gives the appearance that they are hard at work but fools no one. A pampered and dependent America has elected a paralyzed and dependent Congress that is afraid to tell us that we are stuck behind a budget deficit 8-ball.

Some 65 years later the greatest generation has been replaced by the servile generation. For years we prided ourselves on our backbone. Now we are spineless and all too willing to require future generations to pony up for the handouts, entitlements, and tax breaks we cling to today. We behave like spoiled brats who party and leave behind a pile of trash for others to clean up. The generation that includes our children and grandchildren may look back and think of us as the narcissistic generation.

To get a better handle on the budget deficit task before us, consider the following four scenarios, all of which are simple direct changes to the federal budget for FY 2010 and none of which has an indirect impact on the economy or touches the Big Three entitlements. We sidestep the usual complexity required in budget analysis in order to drive home the point that the United States is mired in a budget deficit crisis. The Treasury Department’s Citizen’s Guide to the 2010 Financial Report of the Government supplied the budget information.

Scenario 1. Eliminating such often criticized agencies as the Departments of Energy, Education, Housing and Urban Development, Environmental Protection Agency, Small Business Administration, Agency for International Development, and the Postal Service reduces the deficit from $1.294 trillion to $1.122 trillion.

Scenario 2. Tossing out every department and agency of the federal government except Defense, Health and Human Services, Social Security Administration, Treasury, Veterans
Affairs, and interest on the public debt – let’s call them the “protected agencies” -- slashes the deficit to $283 billion.

Scenario 3. Adding to Scenario 2 the removal of all tax credits including the Making Work Pay Credit, the First-time Homebuyers Credit, and the Earned Income Tax Credit cuts the deficit to $173 billion.

Scenario 4. Tagging on to Scenario 3 a suspension of all tax refunds, with the exception of the $366.1 billion refunded to individual income tax filers, leaves a budget deficit of $70 billion.

It follows that just by juggling the figures in the federal budget the $1.294 trillion deficit can be reduced to $70 billion without touching the Big Three. All it takes is gutting the federal government.

It also follows that with the $70 billion deficit under Scenario 4 restoring any “unprotected agency” such as the Departments of State and Homeland Security means that dollar for dollar cuts must be made in the budgets of the “protected agencies” in order to maintain the deficit at that level.

Another option, however, is available. If no cuts are made on the spending side of the budget, federal tax revenues would have to climb from the $2.440 trillion collected in FY 2010 to $3.734 trillion in order to achieve a zero deficit. With current tax revenues representing roughly 16 percent of current GDP, the U.S. economy would have to increase annual output from the current $14.861 trillion to approximately $22.404 trillion, a 50 percent increase in an economy that in a good year sees GDP climb by roughly 5 percent.

There is one other option. Continue to run deficits, pay the interest on the debt by inflating the currency, and continue our narcissistic ways.

We have not seen a budget crisis like this in our lifetime. With the exception of the last option that manages the debt by inflating the currency, getting out from behind the 8-ball requires uncommon courage and moderation.

Courage on the part of elected officials in Washington to tell the American public that, even at the risk being defeated in the next election cycle, the co-dependency that has brought on this crisis must come to an end. Moderation on the part of all Americans if we are to break this co-dependency and survive as a strong, free, and honorable nation.

We need the ordinary, everyday heroism of our parents and grandparents who 60-70 years ago made the sacrifices necessary to protect and preserve our nation as strong, free, and honorable and who today we celebrate as the greatest generation.
If it is not amended to remedy deep cuts in Medicaid spending, Governor Jindal’s proposed budget for FY 2010 will have deadly consequences for pregnant women in Louisiana and their babies. This warning has been expressed in a detailed report sent earlier this month to Jindal bearing the signatures of 21 pediatric specialists and 13 OB/GYN specialists in northeast Louisiana.

The crux of the problem is that the FY 2010 budget effectively limits reimbursement for charges in a neonatal intensive care unit to $150,000 per baby which is less than one-half the average cost for a NICU baby. Some of the babies born in northeast Louisiana and requiring intensive care will continue to be admitted to the unit at St. Francis forcing the Medical Center to shift any unreimbursed expenses to private insurers and paying patients. The report sent to Jindal estimates that St. Francis stands to lose $2.5 million in annual revenue under the stricter reimbursement limit. Other babies will be transported to LSUS exposing them to additional life-threatening risks in transit.

Due to the inevitable cost shifting, the stricter cap on reimbursement amounts to a hidden tax for hospital services imposed by a Louisiana state government which tells the public it is committed to no tax increases. It is, in a word, hypocritical.

Transporting already very sick babies 100 miles from Monroe to Shreveport is much more troubling. Louisiana already ranks dead last in infant mortality (10.4 per 1000 live births). For African-Americans infant mortality in Louisiana is even higher (14.0 per 1000 live births). The reasons are complex and vary from one mother/baby to another. However, three factors stand out: prenatal care, age of the mother, and health insurance coverage. One of every five pregnant women receives no prenatal care. In Louisiana, the birth rate for 15-19 year old mothers (57.5 per 1000 live births) is sixth highest in the United States. One of every four women of childbearing age in Louisiana has no health insurance protection. The picture is even worse for African-Americans especially in northeast Louisiana.

Louisiana also has the highest rate of premature births in the United States. Babies born prematurely typically are low-weight babies and low birth weight is a leading cause of infant mortality and the primary factor in even more deadly outcomes for African-Americans. Further, low-weight babies who survive are at risk as adults for several chronic diseases including coronary artery disease and Type II diabetes.
Intervention through an NICU like the one at St. Francis is extremely expensive. There simply are no meaningful savings to be squeezed from digitizing medical records or rolling back administrative overhead. Slashing Medicaid reimbursement for neonatal care to keep from raising taxes or to avoid pushing NICU care ahead of other worthy items in the FY 2010 budget means even more babies will die in Louisiana who could have been saved. Tragically, none of their grieving mothers and fathers is likely to know why their baby was lost. State legislators will know. Are they and Governor Jindal willing to tell those parents that the fault lies in the wheeling and dealing necessary to forge agreement on the State budget? Not likely, we think, because courage like that is rare indeed in elected officials.
Two lessons from the blistering discourse just concluded on the debt ceiling. Language matters. Social Security and Medicare are untouchable.

The Social Security retirement trust fund, according to the 2011 report of the program’s trustees, will be exhausted in 2038. At that time current benefits will be paid from current tax contributions. However, the trust fund already is encountering serious financial problems. Benefits paid in 2010 amounted to $577 billion while net payroll tax contributions totaled $545 billion. The cash deficit was covered mainly by interest payments from the fund’s holdings of Treasury securities purchased in the past with the fund’s excess cash. With no changes in this program, anyone born after 1972 will not receive the full retirement benefits currently promised.

The Medicare Hospital Insurance trust fund will be exhausted in 2024. The current plan is to deal with this financial crisis by further cutting reimbursement to hospitals. Inevitably access to care will be restricted or possibly denied entirely or the quality of care will diminish. These outcomes will immediately impact anyone Medicare-eligible who was born before 1959 including many baby boomers.

The falling birth rate in the United States means not only fewer workers to support the retiring baby boomers but also fewer adult children to assist their baby boomer parents in times of need. The boomers increasingly will be dependent on the public safety net for assistance. Baby boomers with children have a legitimate worry that their children and grandchildren will be saddled with the burgeoning cost of the public debt, Medicare, and Social Security retirement. Childless baby boomers have no skin in the Social Security retirement game unless they live beyond 2038. Add to them the millions who pay no income taxes and there is little support for addressing the public debt and Social Security retirement. With or without children, boomers do have skin in the Medicare game.

These entitlement programs are untouchable for another reason. The discourse in Congress fosters disagreement. Watching Congressional speeches on C-SPAN, especially the debate in the House of Representatives, reveals a terrible lack of civility that divides rather than unifies. Consider the language used most recently in Congress: “they are acting like terrorists,” “he has moved to the dark side,” “the deal is a Satan sandwich,” “fat cats,” “they’re taking us back to the 19th century,” “they’ve been holding Congress hostage.” Not to mention the harsh and destructive language in the media, especially cable TV, where “strategists” from the Republican and Democratic camps routinely batter one another.
So what’s happened to the civility that President Obama called for immediately following the deadly shootings earlier this year in Tucson, Arizona? Language matters: it can heal and it can hurt. Congress will not soon set aside the hurt inflicted this summer.

Presidential leadership on volatile issues such as the debt ceiling, the public debt, and entitlements where the various interested parties are deeply divided is not a matter of setting down a detailed plan that those parties buy into. Rather, leadership involves bringing the parties together and helping them find common ground amid their differences in order to reach agreement. The president must set aside his role as head of his political party and focus on agreement and not his personal “big deal” agenda. The president must become a mediator or step aside and appoint someone else. Someone who is widely known and respected for an ability to forge agreement in especially difficult circumstances. Someone who sides with none of the parties at the table.

The president should have been striving to get an agreed bill that he would have signed whatever its provisions even if it did not reflect his own preferences. He should have taken this position well before the discourse degenerated into rival talking points expressed in uncivil language, scapegoating, posturing, scare tactics, and demonizing. In a time of crisis, the American people deserve better than in-your-face language.

Don’t expect the Super Committee to reach agreement. The deep divisions in Congress persist and there is no one clearly able and willing to mediate differences. Instead, expect the same outcome as with last year’s Bowles-Simpson report that Obama disowned before the ink was dry. Cuts projected into the future are meaningless whenever they require future Congresses to approve those cuts. The only cuts that truly matter are the ones that are linked to permanent changes in the entitlement programs. And because they have been untouchable in 2011 those programs very likely will remain untouchable in the elections next year.

Pity the president who in little more than 12 years, possibly sooner, has to deal with the American people who have become outraged that Medicare is broken and the president who in roughly 27 years has to admit that the promised retirement benefits cannot be delivered.

Just as the cost of repairing a leaky roof increases the longer one puts off those repairs, the longer that Medicare and Social Security reforms are put off the more costly the reforms become with every passing year.

In the end, will reform require the kind of rebellion Thomas Jefferson spoke of nearly 225 years ago?
EXPANDING ACCESS TO HEALTH CARE
AND REDUCING COST
September 6, 2013

ObamaCare is based on the proposition that it is possible to expand access to health care and reduce the cost of care without compromising quality or denying service. There are four defects buried in that proposition giving it as much chance of enduring as a juggler has of safely keeping four running chain saws in the air simultaneously.

The first defect in ObamaCare is that expanded access to care is not assured by federal mandate because individual physicians cannot be forced to provide access to new patients. One very important reason for individual physicians denying access to new patients is that reimbursement from government programs and private insurers is below the cost of providing care. Does the federal government force WalMart to accept $41.99 from a customer for an item that cost the company $52.50 to put on the shelf?

The second defect is that patients who are denied access to care through a physician’s practice end up in a hospital where they must be seen and where the cost of providing care often is greater than in a clinic or private practice. Expanding access to care and reducing its cost are fundamentally at odds because reducing reimbursement does not cut the cost of providing that care. It simply squeezes the health care provider and expects that provider to continue offering care.

ObamaCare’s third defect is that expanded access does not assure access to the entire range of health-care services available. Many procedures such as a double lung transplant are so expensive due to the number of highly-trained health care specialists necessary to provide care that even cutting reimbursement to the bone does nothing to reduce the cost of that care. Under ObamaCare expensive care will be denied selectively to senior citizens because their life expectancy is not long enough to fully pay for that care from their taxes.

The fourth defect is that expanded access does not assure access to quality care. Increasingly, private patients are being seen by nurse practitioners rather than by physicians, thereby reducing the cost of seeing that patient because nurse practitioners are not as well paid as physicians. The compromise to care derives from the fact that nurse practitioners do not have the specialized training that physicians are required to have in order to become board certified. Would you rather have the airliner you’re flying on cleared by a master mechanic or an apprentice?

To address the quality issue, there is a strong movement in health care toward “evidence-based medicine.” EBM has evolved from clinical epidemiology in which health care
treatment is based on the current best evidence regarding the treatments that work. It is defined as “the use of mathematical estimates of the risk of benefit and harm, derived from high-quality research on population samples, to inform clinical decision-making in the diagnosis, investigation or management of individual patients.” The effectiveness of the various treatment regimens available for any given diagnosis is expressed in strict numerical fashion. Simply put, a regimen with an assigned value of 10 is superior to one with a value of 59. Under EBM, the practitioner would be expected to use the treatment with the lower score and conceivably would not be fully reimbursed or reimbursed at all for recommending a treatment with a higher score.

“Evidence-based” is found more than 30 times in the Affordable Care Act. With that kind of emphasis from Obamacare, EBM is bound to become the community standard for care and any practitioner who does not use it or otherwise departs from its strictly internal logic could face serious consequences in a malpractice lawsuit. Or that practitioner may not be board-certified if he/she does not pass the EBM section on the certification exam. Pediatricians preparing for this fall’s board certification exam in child abuse are expected to master EBM essentials.

Since EBM identifies the treatment regimen that works best for any given diagnosis, there is no compelling need to see a physician. A nurse practitioner, perhaps even a registered nurse, will do. Thus the cost of care is reduced without compromising quality provided the patient’s condition has been correctly diagnosed, and the patient matches well to the underlying population sample from which the mathematical estimates have been derived.

Couple EBM with electronic medical records that use the scroll-down-the-page-till-you-find-the-correct-item-to-check system and the future of health care in the United States comes into focus. Welcome to the brave new world of medicine by the numbers.
IS SOCIAL SECURITY A PONZI SCHEME?

September 14, 2011

By slamming Social Security as a Ponzi scheme, Texas Governor Rick Perry has brushed against the third-rail of American politics. Will his presidential campaign survive this high-voltage shock or succumb? More to the point, is Perry right or is he engaged in dangerous political rhetoric?

The Securities and Exchange Commission defines a Ponzi scheme as follows:

... an investment fraud that involves payments of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors and to use for personal expenses, instead of engaging in any legitimate investment activity.

How does Social Security compare to a Ponzi scheme as identified by the SEC?

Ponzi Scheme: High investment returns with little or no risk; positive returns regardless of market conditions.

Social Security: High, low, or no returns depending on age at time of death and amount deducted for Medicare premium (net return = zero when Medicare premium > monthly retirement benefit).

• Ponzi Scheme: Unregistered investments.

• Social Security: Surplus monies in trust fund invested in “special-issue” Treasuries.

• Ponzi Scheme: Unlicensed sellers.

• Social Security: Participation mandated by Social Security Act.

• Ponzi Scheme: Secretive/complex investment strategies.

• Social Security: Quiet/simple investment strategy.

• Ponzi Scheme: Paperwork issues.

• Social Security: Trustees prepare annual report.

• Ponzi Scheme: Difficulty receiving payments.
Social Security is no more a Ponzi scheme than a Chihuahua is a Great Dane. A Ponzi scheme is a private financial enterprise. Social Security is a public retirement program. Participation in a Ponzi scheme is voluntary. Participation in Social Security is mandated. A Ponzi scheme recruits both persons and organizations to participate. Social Security enrolls only persons. A Ponzi scheme provides no backstop in the event of failure. Social Security is backed by the full faith and credit of the federal government. A Ponzi scheme is illegal with the schemers subject to fine and imprisonment. Social Security is legally grounded in the Social Security Act of 1935. Ponzi schemes come and go. Social Security has worked for more than 75 years.

However, just as a Chihuahua and a Great Dane are alike in that both are canines, Social Security and a Ponzi scheme are alike in several significant ways. Both set up a system of individual accounts. Both establish an earmarked fund for monies received and payments made. Both make promises that are difficult to keep. Both recruit in order to survive. A Ponzi scheme recruits by promising very attractive returns. Social Security recruits by mandating that virtually all private sector workers and employers participate.

Both deny participants any role in investment strategizing. A Ponzi scheme operates in secret lest investors discover that their monies are not being invested but are being siphoned off to support the lavish lifestyles of the principals behind the scheme. Social Security quietly invests surplus funds in “special-issue” Treasuries that are not marketable to the public and are used to manage a federal budget deficit brought on by a federal government that is living beyond its means.

Both operate on a pay-as-you-go basis. A Ponzi scheme makes payments to existing investors by recruiting new investors. Social Security makes payments to retired workers from the contributions made by and for the current generation of workers.

Both are unsustainable and fail under the same set of circumstances. A Ponzi scheme fails when the monies gotten from new investors are insufficient to pay what has been promised to existing investors. Social Security fails when the contributions by and for the current generation of workers are insufficient to pay the benefits promised to the current generation of retired workers.

Is Governor Perry right? Is Social Security a Ponzi scheme? Yes, if you judge the two as essentially alike especially with regard to sustainability and the risk of failure. No, if you consider their sustainability and risk of failure as fundamentally different.

However one answers that question, Perry is helping elevate the issue of Social Security’s sustainability and risk of failure in the public discourse. For too many years, Congress and
the president have avoided addressing the inherent weaknesses of Social Security for fear of offending elderly voters and being turned out of office. By the trustees’ own best estimates, left unattended Social Security will fail, will not be able to keep its promises, in roughly 25 years. And if indeed failure comes, it won’t matter whether it’s called a Ponzi scheme or just another broken government program.
SOCIAL SECURITY’S SLOW DEATH SPIRAL
March 1, 2010

The trustees of the Social Security retirement program estimate that by 2037 all of the assets in the trust fund – more than $2.2 trillion in special U.S. securities – will have been redeemed to pay retirement benefits which cannot be paid from payroll taxes. With no assets left in the fund and with tax revenues insufficient to pay scheduled benefits, beneficiaries in 2037 will be paid 75¢ for every $1 promised.

Virtually everyone familiar with the retirement program knows that there are only two remedies for this shortfall: raise taxes or reduce benefits. Neither one has friends, both have enemies. Thus, the program for years has been known as “the third-rail of American politics” – touch it and you’re politically dead.

The Social Security Administration’s chief actuary in 2009 estimated the internal rate of return for different types of workers at different earnings levels under the present tax/benefit schedule. The internal rate of return is the rate a worker would have to receive on contributions into a savings account to accumulate a balance to match SS benefits. We present the actuary’s estimates for (a) very low, medium, and maximum annual earnings – indexed to wages in 2007, (b) one-earner and two-earner couples, and (c) persons reaching age 65 in 2038. Indexing wages to 2007 means that the internal rates of return are real rather than nominal. The estimated rates of return assume that workers enter the labor force at age 21, work until retirement at age 65, both wife and husband are the same age and married at age 22.

<table>
<thead>
<tr>
<th>Rate of Return</th>
<th>One-earner couple</th>
<th>Two-earner couple</th>
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</thead>
<tbody>
<tr>
<td>Very low annual earnings ($9,662)</td>
<td>6.13</td>
<td>4.50</td>
</tr>
<tr>
<td>Medium earnings ($38,651)</td>
<td>4.10</td>
<td>2.36</td>
</tr>
<tr>
<td>Maximum earnings ($85,885)</td>
<td>2.51</td>
<td>0.77</td>
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The rate of return under the present tax/benefit benefit schedule is lower for couples with higher earnings because the formula used to calculate benefits is weighted in favor of low-earnings workers. It is lower for two-earner couples for the same reason – the formula is weighted in favor of one-earner couples. A higher internal rate of return, however, does not mean a higher monthly benefit. The monthly benefit amount in general is higher for beneficiaries with higher earnings.
The SSA actuary also calculated the rate of return based on (a) increased payroll taxes and (b) decreased benefits. We present those rates for one-earner and two-earner couples reaching age 65 in 2038 with maximum earnings compared to the rates with no change in the tax/benefit schedule.

<table>
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<tr>
<th></th>
<th>One-earner couple</th>
<th>Two-earner couple</th>
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<tbody>
<tr>
<td>No change in tax/benefit schedule</td>
<td>2.51</td>
<td>0.77</td>
</tr>
<tr>
<td>Increased payroll tax</td>
<td>2.51</td>
<td>0.77</td>
</tr>
<tr>
<td>Reduced benefits</td>
<td>1.95</td>
<td>0.17</td>
</tr>
</tbody>
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The viability of SS retirement depends on persons with higher earnings subsidizing benefits for persons with lower earnings. The dilemma is that the program will not be able to pay scheduled benefits after 2037 unless taxes are increased or benefits are decreased, and high-earners care enough to subsidize low-earner benefits even though those high-earners might have achieved a higher return if they were free to invest their SS contributions in private investment accounts. This is especially difficult for the self-employed who pay the full 12.4 percent payroll tax.

The following table shows rates of return across generations -- grandparents, children, and grandchildren – for one-earner and two-earner couples. These estimates confirm the complaint by adult grandchildren that even with much higher annual earnings they will not be able to recoup from SS retirement what their grandparents are getting.

<table>
<thead>
<tr>
<th></th>
<th>One-earner couple</th>
<th>Two-earner couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grandparents born in 1920: $9,662 earnings</td>
<td>9.05</td>
<td>6.39</td>
</tr>
<tr>
<td>Child born in 1949: $38,651 earnings</td>
<td>4.40</td>
<td>2.39</td>
</tr>
<tr>
<td>Grandchild born in 1973: $85,885 earnings</td>
<td>2.51</td>
<td>0.77</td>
</tr>
</tbody>
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Why should any sensible person support cutting benefits now when the rate of return in the future would be even lower for persons born after 1949 regardless of annual earnings? And why should anyone support raising taxes when the rate of return would be even lower for persons born after 1985 regardless of annual earnings? In the extreme, under the higher tax scenario for single males with maximum annual earnings who were born after 1973 those rates turn negative!

SS retirement’s slow death spiral might not be reversed even with the life-support of higher taxes or lower benefits. To explain, why wouldn’t higher-income couples facing even lower rates of return deliberately hide income to reduce their payroll tax liabilities, particularly if
they are self-employed? Wouldn’t that reduce SS and federal income tax revenues, further draining the trust fund and adding to the budget deficit and the public debt?

It’s time to scrap this failing program born in the Depression, and start over.
XII. HAVES AND HAVE-NOTS
While talking heads on cable TV jabber away on the latest economic data, routinely disregarding the differences between headcounts of the population and estimates based on sample surveys, four questions regarding work and living standards have been largely neglected.

Are the rich getting richer and the poor poorer?

Is income inequality greater for white compared to black households?

Are women getting ahead in terms of workplace earnings?

Is anyone finding work in a weak economy?

► Across the board, mean household income adjusted for price-level changes according to the Census Bureau was lower in 2010 than in 2000. For instance, for the poorest 20 percent of all households mean household income in 2000 was $12,860 compared to $11,034 in 2010. For the richest 20 percent mean household income in 2000 was $180,129 compared to $169,633 in 2010. Across all five quintiles, the decline in household income started in 2006-2007.

Extending the comparison back to 1970, 1980, or 1990, household income was higher in 2010 whether reference is made to the poorest 20 percent of all households or the richest 20 percent. To illustrate, while real household income for the richest 20 percent climbed by 56.1 percent since 1970 and their share of total household income has increased from 43.3 percent to 50.2 percent, real household income for the lowest 20 percent has risen by 10.5 percent.

Similar findings apply to the top 5 percent of all households. To illustrate, the minimum constant-dollar household income to qualify as super-rich fell from $188,175 in 2006 to $180,180 in 2010. The last time this threshold was below $180,000 was in 1998.

Though some pundits and academics are preaching that the “rich get richer and the poor get poorer,” the latest data from the Census Bureau indicate clearly that, with the exception of the last three to four years, over the long haul even the poorest U.S. households are better off in absolute terms. Further, most recently rich and poor and middle-income households alike have taken an income haircut.

► For blacks and whites alike, household income inequality has increased appreciably since the late 1960s. However, Census Bureau data show that in 2010 household income
inequality was greater among blacks than among whites. Specifically the Gini coefficient (GC) for black household income in 2010 was 0.486; for whites it was 0.461. Further, in every year since 1967 when this data series begins, household income inequality was greater for black households than for white. This difference by race has been so substantial and persistent that one has to go back to the mid-to-late 1980s to find a GC for black households low enough -- closer to equality -- to approximate the GC for whites in 2010.

One important reason for the higher income inequality for black households is that there has been a very large increase in the number of blacks in female-headed households (no spouse present) where typically one finds only one wage earner. Since 1969 when these data first are available from the Census Bureau, there has been a 55 percent increase in the number of persons in all black families while there has been a 257 percent jump in the number of persons in black families headed by a female.

► While median annual earnings adjusted for price-level changes have increased by only 2.3 percent for working men since 1970, working women have seen their annual earnings climb by 94.1 percent. Among those working year round, full time, the price-adjusted advance among men was only 6.2 percent. For women, it was 38.5 percent.

► A special data set prepared and released by the Bureau of Labor Statistics indicates that there were 6.2 million persons not employed in August 2011 who were classified as employed in September. At the same time, 5.5 million who were not counted among the unemployed in August were classified as unemployed in September, and another 6.4 million in the labor force in August who dropped out in September. Thus, even though the establishment survey indicates that with the return to work of 45,000 striking telecommunications employees there was no statistically significant change in the number of payroll jobs between August and September, and the household survey for September points to no change in the jobless rate, 18.1 million persons changed labor force status over that period.

Included among the 18.1 million were: (a) younger persons leaving a temporary job to return to school, older persons entering retirement after years of work, and adult children on leave of absence from work to care for a dying parent; (b) workers who quit their job because it made them miserable and others who were fired because they were miserable workers; (c) discouraged workers who stopped looking for work because there is no suitable work available in their area; (d) persons who found work quickly after losing their job and others who finally found a job after months of looking; (e) the formerly sick who are well enough to resume working, persons returning to civilian life after military service, and mothers of newborn infants coming back to their job after maternity leave; (f) new college graduates entering the labor force for the first time as young professionals.
Are the rich getting richer, the poor getting poorer? It depends. Over the last ten years, the poor are getting poorer, but the rich are not getting richer. Going back to 1970, however, both the rich and the poor are doing better.

Is income inequality greater for white or black households? No. Household income inequality is higher for blacks due importantly to the growth of single-earner, female-headed households.

Are women getting ahead in the workplace? Yes. Given the long-term hollowing out of the U.S. manufacturing sector that has eliminated countless high-paying jobs for men, the surge in women’s earnings deriving from the growth in the service sector has made it possible over time to improve living standards for millions of American households.

Is anyone finding work in a weak economy? Yes. Even in a weak economy and notwithstanding the conventional wisdom to the contrary, millions of persons unemployed or not in the labor force in one month are employed in the following month.

Lesson: don’t always accept as fact what the talking heads on cable TV say about work, earnings, and income inequality. Some of them are paid to repeat the talking points handed them by their party bosses. Others are academics with an ideological ax to grind. Others are sincere but haven’t done their homework.
For years a human disaster had been stirring in New Orleans until finally it was exposed by the fury of Hurricane Katrina. Before Katrina, the Crescent City for all its charm was home to tens of thousands of Americans who lived in poverty and for whom crime, drugs, isolation, dilapidated housing, functional illiteracy, chronic disease, and a crumbling city infrastructure were daily routines. This human disaster, it must be noted, is not unique to New Orleans. In 2004 the poverty rate was close to or higher than the New Orleans rate in Atlanta, Baltimore, Buffalo, Chicago, Dallas, Detroit, Long Beach, Memphis, Miami, Milwaukee, New York, Philadelphia, and St. Louis [ACS, pp. 16-17]. The problems exposed in New Orleans lie dormant in virtually every big American city and raise the question ‘Are they a sign of indifference, neglect, market failure, discrimination, or personal dysfunction?’

After Katrina, President Bush called on Americans to address these problems as vigorously as Katrina’s natural disaster. The false rumors and misinformation about the human disaster in New Orleans that spread across the United States in the immediate aftermath of the hurricane underscore the importance of beginning with accurate information. The following data are national in scope and we hope will help contribute to the public discourse.

**FAMILY INCOME GAP**

In 2004 the *mean* income deficit -- the amount that a poor family’s income falls short of the official poverty threshold -- for all poor families was $7,775. The mean income surplus for all nonpoor families was $61,481. It follows that the sum of those two estimates -- $69,256 -- represents the average (mean) difference in income between poor and nonpoor families or simply the family income gap. In current dollars, this gap has increased by $32,101 since 1988. In constant dollars (2004 = 100), the increase has been $9,927 (see Table 1). Put differently, since 1988 the real income of poor families has been falling further behind the real income of nonpoor families by nearly $620 every year. The recession of 1991-1992 is reflected in a narrowing of the income difference between poor and nonpoor families. Between 1993 and 2000 -- the period marking the longest expansion in U.S. economic history -- the real family income gap grew by $1,220 every year.

**WHY THE FAMILY INCOME GAP IS WIDENING**

The family income gap has been widening because improved employment opportunities have worked especially well for those better positioned to take advantage of them, those
who already are better skilled, more talented, more mobile, better connected, more willing to work longer, harder, and smarter in order to qualify for better jobs and advancement.

Table 1. *Mean* Family Income Gap:
Difference Between All Poor Families and All Nonpoor Families, 1988-2004

<table>
<thead>
<tr>
<th></th>
<th>Current Dollars</th>
<th>Constant Dollars 2004=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>$37,155</td>
<td>$59,329</td>
</tr>
<tr>
<td>1989</td>
<td>39,898</td>
<td>60,780</td>
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<tr>
<td>1990</td>
<td>41,056</td>
<td>59,338</td>
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<tr>
<td>1991</td>
<td>41,963</td>
<td>58,200</td>
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<tr>
<td>1992</td>
<td>43,374</td>
<td>58,399</td>
</tr>
<tr>
<td>1993</td>
<td>46,543</td>
<td>60,844</td>
</tr>
<tr>
<td>1994</td>
<td>48,423</td>
<td>61,721</td>
</tr>
<tr>
<td>1995</td>
<td>49,801</td>
<td>61,728</td>
</tr>
<tr>
<td>1996</td>
<td>52,310</td>
<td>62,979</td>
</tr>
<tr>
<td>1997</td>
<td>55,613</td>
<td>65,454</td>
</tr>
<tr>
<td>1998</td>
<td>58,245</td>
<td>67,500</td>
</tr>
<tr>
<td>1999</td>
<td>60,814</td>
<td>68,954</td>
</tr>
<tr>
<td>2000</td>
<td>63,247</td>
<td>69,381</td>
</tr>
<tr>
<td>2001</td>
<td>65,072</td>
<td>69,408</td>
</tr>
<tr>
<td>2002</td>
<td>65,212</td>
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<tr>
<td>2003</td>
<td>67,386</td>
<td>69,181</td>
</tr>
<tr>
<td>2004</td>
<td>69,256</td>
<td>69,256</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau, *Poverty in the United States.*

But there is more at work here than greatly improved job opportunities. Persons and families transition into and out of poverty due to significant life events such as a marriage, divorce, separation, death, birth, injury, and disease. Marriage, for example, may involve withdrawing adult wage earners (the bride and the groom) from two families of origin perhaps plunging both families below the poverty threshold, and creating a third family that itself may have income below the poverty threshold. Death of a wage-earning spouse
could reduce the surviving family members to poverty, and re-marriage could lift them out of poverty. Retirement, especially if forced due to a permanent disability, could drop income for an older married couple below the poverty threshold. Similarly the birth of a child in a family with no improvement in income could plunge that family below the poverty line.

Large numbers of persons and families enter or exit poverty from one year to the next. The latest information from the Census Bureau’s Survey of Income and Program Participation indicated that among persons who were not poor in 1996 a total of 7.6 million had entered into poverty by 1999. At the same time, nearly twice as many exited poverty. A total of 14.8 million persons who were poor in 1996 exited poverty by 1999. Family status is a significant factor in both the entry into and exit from poverty. The 1996-1999 entry rate for persons in married-couple families was 1.9 percent. For other family types the entry rate was 6.8 percent. The 1996-1999 exit rate for persons in other family types was 39.4 percent. For persons in married-couple families the exit rate was 59.7 percent [Iceland, pp. 4-8]. One obvious reason for these differences is that married-couple families are more likely to have two or more adult wage earners than other family types.

RACE AND TYPE OF FAMILY

The mean income gap for poor compared to non poor families in 2004 was much greater for white families ($70,860) than for black families ($49,724). It was even higher ($78,187) for white married-couple families living above poverty than for black female-headed families living below poverty. The difference became much smaller ($16,705) when white married-couple families that are nonpoor are compared to similarly circumstanced black married-couple families (see Table 2). Female-headed families account for 51 percent of all poor families, and for 57 percent of all those poor families with an income deficit of $8,000 or more.

Four other findings from the 2004 report on poverty are noteworthy. First, there is an income gap of more than $75,000 between white married-couple families that are living above poverty and poor female-headed families whether white or black. Second, black married-couple families that are above poverty have incomes more than $60,000 greater than the incomes of both poor black female-headed and poor white female-headed families. Third, there is little difference -- about $73 per month -- between poor white female-headed families and similarly circumstanced black families. Fourth, comparing 2004 to 2000, the overall family income gap widened by about $3,727 between nonpoor white married-couple families and nonpoor black married-couple families.
Table 2. Mean Family Income Gap:
Difference between Poor Families and Nonpoor Families by Family Type, 2000 and 2004
(current dollars)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2004</th>
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</thead>
<tbody>
<tr>
<td>All families</td>
<td>$63,247</td>
<td>$69,256</td>
</tr>
<tr>
<td>All white families</td>
<td>64,992</td>
<td>70,860</td>
</tr>
<tr>
<td>All black families</td>
<td>46,029</td>
<td>49,724</td>
</tr>
<tr>
<td>Nonpoor white married-couple families compared to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>poor white female-headed families</td>
<td>70,201</td>
<td>77,307</td>
</tr>
<tr>
<td>poor black female-headed families</td>
<td>70,436</td>
<td>78,187</td>
</tr>
<tr>
<td>nonpoor black married couple families</td>
<td>12,978</td>
<td>16,705</td>
</tr>
<tr>
<td>Nonpoor black married-couple families compared to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>poor white female-headed families</td>
<td>57,273</td>
<td>60,602</td>
</tr>
<tr>
<td>poor black female-headed families</td>
<td>57,458</td>
<td>61,482</td>
</tr>
<tr>
<td>Poor white female-headed families compared to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>poor black female-headed families</td>
<td>185</td>
<td>880</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, *Poverty in the United States.*

THREE REMEDIES

The statistics on poverty for 2004 point to three remedies. The first remedy is a year-round full-time job. Only 3.8 percent of the families with at least one year-round full-time worker were living in poverty. *Among poor female-headed families, 82 percent had no year-round full-time workers.*

The second remedy is two or more wage-earners in a family. Only 2.3 percent of the families with two or more workers were officially classified as poor. For families with two or more persons working year-round full-time, the rate of poverty was 0.5 percent. *In poor families headed by a female, only 5.4 percent had two or more workers, and virtually none had two or more year-round full-time workers.*
The third remedy is a husband and wife living together. The rate of poverty for married-couple families in 2004 was 5.5 percent. If there is one worker in a married-couple family, the poverty rate is 10.1 percent. With two or more working in a married-couple family the rate drops to 1.8 percent. Among female-headed families with no workers, the poverty rate is 67.5 percent. With two or more workers, the rate of poverty for female-headed families is 5.8 percent.

Poverty remains a serious problem even after the longest economic expansion in U.S. history, suggesting at least for married-couple families that the poverty rate likely will not fall further in the future. Indeed, a rate of poverty of 5 percent for all married-couple families could be the lower limit because even in the best of times such families will experience death, birth, disease, injury and thereby at times fall below the poverty line. Similarly, a rate of poverty of 25 percent could be the lower limit for all female-headed families because, in addition to experiencing the significant life events of death, birth, disease, injury, 9 of 10 such families even in the best of times were one-worker or no-worker families.

As Daniel Patrick Moynihan pointed out prophetically in the mid 1960s and is confirmed in no uncertain terms by the latest nationwide data, the long-term disintegration of the black family is a human disaster that Hurricane Katrina exposed again for all to see. The annual income of poor black female-headed families is more than $60,000 below the income of nonpoor black married-couple families. However, this disintegration and consequent disaster no longer is confined to black families. The annual income of white families who are poor and headed by a female is more than $77,000 below the income of white married-couple families who are not poor. Indeed, as the data indicate, there is very little difference in the income of poor white families with a female head and similarly circumstanced black families.

Effectively addressing this disintegration in a culture that increasingly approves of little or no long-term commitment between marriage partners likely will prove much more difficult than repairing Katrina’s physical damage.
REFERENCES


IT’S NOT BLUE STATES VS. RED STATES,
IT’S CLASS WARFARE
November 11, 2009

Political pundits are fond of interpreting voting patterns in terms of blue states (Democrat), red states (Republican), purple states (toss-up). There is a truth and significance to that way of analyzing election returns. Elections matter in part because governments at the state and federal level are becoming more powerful and access to that power is all-important. Being a governor, member of Congress, not to mention president, provides opportunities to distribute the largesse of government to one’s friends and supporters and to use the government’s regulatory powers to take from some and give to others. The old cliché “to the victor goes the spoils” hasn’t lost its any of its cynical though very practical meaning since it emerged 180 years ago. Indeed, it has become even more relevant today due to the enormous increase in government budgets and the reach of regulatory agencies.

All that said, there is another division which has deepened and intensified of late. It is the clash between two economic classes: the haves and the have-nots and their allies, the libertarians and the progressives. The haves and libertarians are united over freedom -- the freedom of individuals to keep what they have and the freedom from government meddling in their affairs. The have-nots and progressives have joined forces over equality -- equality not just in political affairs but equality in economic affairs, equality of opportunity and increasingly equality of outcome.

Taxes matter to the haves and libertarians because they take away what is rightfully theirs. Entitlements matter to the have-nots and progressives because they provide what they regard as rightfully theirs. In defense of freedom, the one class says “no” to government. In support of equality, the other says “yes.” Notice how effectively Obama used “yes we can” to get elected and to advance his agenda. Notice too how tea-party supporters have employed “kill the bill” to stand in the way of further government intervention in health care.

But the evidence regarding the deepening and intensification of class warfare is not limited to slogans. To illustrate, according to IRS data the top one percent of all individual income taxpayers paid a total of $450.9 billion in 2007 compared to $94.5 billion in 1986. Their share of the total taxes paid rose from 25.8 percent in 1986 to 40.4 percent in 2007. Over the same period, the bottom 50 percent of filers paid $8.6 billion more in taxes, but saw their share of the total taxes paid drop from 6.5 percent to 2.9 percent. The Tax Foundation estimates that 41 percent of the American population pays no federal income taxes at all. Even so, progressives complain that the haves are being enriched by the Reagan and Bush tax cuts and are not paying their fair share.
By reducing what a taxpayer owes, tax credits encourage activities such as homeownership thought to be in the public interest and over time encourage others to demand similar treatment for what they regard as in the public interest. Refundable tax credits do all of that plus for those with a credit that is greater than the taxes owed, a refund is payable by Treasury. A refundable tax credit, in other words, redistributes income from those who pay taxes to those who do not. Little wonder there is growing support across the United States for expansive federal tax and spend policies.

The $787 billion stimulus package is rushed through a Congress confident that there are many have-nots and progressives to support it because it promises to save or create millions of jobs and many fewer haves and libertarians who oppose it on grounds that they will have to pay the taxes necessary to service the increase in the public debt or are convinced that their freedoms are being eroded by big government.

The same battle is being waged on health care reform with the same sharply drawn skirmish lines: the have-nots and progressives are promised access to affordable, quality health care which in the end will be paid for by the haves and libertarians in the form of higher taxes and further loss of freedom. The town hall meetings last August dramatically revealed the anger on both sides that is fueling this class warfare.

“To the victors goes the spoils” has morphed into “we won, you pay.” The haves and libertarians are demonized for holding up progressive legislation and for that reason the have-nots and progressives feel fully justified in playing legislative hardball to accomplish their ends. Notice how President Obama last summer demonized physicians by telling two totally fabricated anecdotes about a pediatrician and a surgeon who he alleged put their own financial gain ahead of their patients’ health and well-being. Persons in the know about these matters quickly condemned him for misleading the American public in the hope of winning their support for health care reform. In addition, the have-nots and progressives revel in the efforts of a pay czar to cut senior executives at firms which took federal bailout funds down to size by sharply reducing their bonuses.

To bolster the ranks of the have-nots and progressives, entitlement programs extend benefits to persons at 200, 300, and 400 percent of the official poverty threshold. For instance, the Census Bureau reported that in 2008 there were 3.2 million persons getting Medicaid benefits whose stated annual income was greater than 400 percent of poverty, averaging $130,859. At the 500 percent level, there were 2.0 million receiving assistance through Medicaid. This group reported average annual income of $153,523, roughly half of whom said they had private health insurance in addition to Medicaid. Further, 1.6 million of the 2.0 million stated that they were in excellent, very good, or good health.

This class warfare likely will continue as long as candidates for public office win by attacking their opponents and the spoils for winning are so immense and so highly coveted.
There is a lesson here on the 20\textsuperscript{th} anniversary of the fall of the Berlin Wall. The very same kind of Marxist class warfare dynamic which gave rise to the Russian Revolution and then spelled the downfall of the Soviet Union and its Warsaw Pact allies is at work in the United States today.

As Lincoln famously said, “a house divided against itself cannot stand.”
If President Obama’s commitment to “middle-class economics” is to have any chance for implementation it must be grounded in the proper data and values that are defensible. The proper data relates to income. Defensible values relate to what is fair, what is just.

With regard to the proper data, we have selected Census Bureau income data for households. Selecting defensible values is much more difficult because fairness depends on the value system of the person who uses that concept. Obama’s position as to what is fair seems to be that high-income households have too much and low-income households have too little justifying schemes that take from the one and give to the other. Our preference regarding values is to replace fairness with unmet need.

The problem with unmet need is how best to define it. However, once we look at actual data on household income we are in a better position to argue if the present income distribution reflects unmet need that is growing or diminishing. Looking carefully at the data has the effect of ruling out opinions about unmet need that are extreme or unreasonable. For example, we know from years of experience that a good major league baseball hitter has a batting average of .300 or higher and a good pitcher has an earned run average of 3.00 or lower. No one hits .500 for the season or has an earned run average of 0.00.

Data on median household income is a good proxy for the financial condition of the middle class because half of all households are below the median and half are above.

In constant dollars median income for all U.S. households has risen from $51,121 in 1987 to only $51,939 in 2013. These data points suggest that the unmet need of the middle class has not been diminishing.

There are, however, very large differences in median income depending on the number of earners in the household. For households with no earners median income in 2013 was $19,996. For the one-earner household it was $43,916. Two-earner households had median income of $85,049. Median income in households with three or more earners exceeded $100,000.

Thus, for households with no earners median income in 2013 was almost $32,000 below the figure for all households. For those households one could argue that there is much unmet need. The median income for households with two earners today is slightly more than $33,000 above the all-household figure. For those households, along with the three-and four-earner households, one could argue there is little unmet need.
The disaggregated data draws into question the argument that the entire middle class has been burdened with growing unmet need for years and calls for a revision to Obama’s middle-class economics. Is there unmet human need in a system that provides one-half of all households with two earners income above $85,049 and one-half of all households with three or more earners incomes above $100,000?

There are an estimated 29.1 million no-earner households in the United States today. It seems reasonable to provide federal benefits to these households on grounds that they are needy if their income is below the poverty level and if the adults are severely disabled, are caregivers for others in the household, are too old to work, lack the cognitive capabilities to function effectively in the workplace, or have looked for work but are unable to find work.

Providing benefits to the middle class can be achieved according to the White House by “reforming the tax code to help middle-class families get ahead, tripling the child care tax credit, expanding child care assistance, encouraging state paid leave initiatives, ensuring access to quality, affordable health care … bolstering job training so that it leads to careers, expanding access to child care and early education, supporting and rewarding work, and helping families save for retirement.”

The question as to providing benefits to the nearly 46 million one-earner households is more difficult to answer. Half of them have income above the $43,916 median. The 2013 poverty standard for a family of four including two children under 18 is $23,624 suggesting that at least half of these households are living well above the poverty level. The rest might qualify for benefits if they meet the conditions set forth for the no-earner households.

An estimated 52 million households, which include all of the no-earners and half of the one-earners, could reasonably be identified as needy and therefore might qualify for federal benefits. Is it reasonable, however, to require the roughly 71 million other households with higher incomes to support the 52 million with lower incomes?

Obama’s middle-class economics puts the burden of any redistribution scheme on the backs of top-earning households by eliminating “what may be the largest single loophole in the tax code – a provision … that lets wealthy households avoid taxes on hundreds of billions in capital gains each year” by raising “the top capital gains and dividend rate for high-income households to 28 percent” and by reforming “financial sector taxation to make it more costly for large, highly-leveraged financial firms to finance their activities ….”. Obama also proposes taxing the oversea earnings of U.S. companies that already have paid taxes on those earnings in the foreign countries where they operate. This is what Obama means by everyone paying their “fair” share.

Is it reasonable to require the 4.6 million households with income above $100,000 -- income sufficient to be included in the top 20 percent of all households -- to support the 52 million households who could qualify for benefits on the basis of their unmet need?
There is another way to raise household income. More jobs that pay better than the current minimum wage and the suggested higher minimum of $10 or $15 per hour. Working at a year-round full-time job at $15 yields pre-tax income of only $31,200. Two such jobs in the same household produce income of $62,400 which is well above the $51,939 median for all households.

The problem is that productivity across the entire U.S. economy has been spotty over the last 15 years and the gains from productivity have not been widely shared with the labor force. Some of the gains take the form of lower prices or higher profits. If a person who was earning $15 per hour 15 years ago had his/her pay tied directly to U.S. business sector productivity improvement hourly pay today would have been nearly $20. However, real compensation, which removes the gains shared with consumers and employers, in addition to inflation, would have risen from $15 per hour to just $16.37. A person working year round, full time at that pay would have earnings well below the $51,939 median household income. Obama’s middle-class economics mentions productivity only once and ties it to immigration reform.

Work, coupled with steady year-to-year productivity gains, is an effective remedy for low income households but only when two persons in the household are working. For liberals, Obama’s middle class economics is appealing because it offers higher incomes through redistribution without any incentives to improve productivity. For conservatives it is unacceptable because it imposes most of the burden of additional support for the needy on a small number of high-income households.

Obama’s middle-class economics does not unite America. It pits the have-nots and skirts the issue as to who will pay for his own projected federal deficits in FY 2015 and FY 2016 in excess of $1,000,000,000,000 (trillion).
Buried deep inside the bowels of the Census Bureau report on income, poverty, and health insurance coverage in 2012 is a remarkable milestone number: 100 million Americans live in households where one or more persons are receiving public assistance. Put differently, nearly one of every three Americans live in a household where someone is getting public assistance.

Ten years ago the number of Americans in households dependent on public assistance was 71.6 million. Public assistance here refers to means-tested cash or noncash assistance including school lunches. It does not include social insurance programs such as Social Security retirement, Medicare, and unemployment insurance that are not directly means-tested.

No number demonstrates more clearly the increase in American dependency than the rise in the number of persons in households getting Medicaid -- from 53 million in 2002 to 79.5 million last year. Today, there are more persons living in households getting Medicaid than were getting all kinds of public assistance including cash, school lunches, Medicaid, food stamps, and public or subsidized housing 10 years ago. Little wonder that state government budgets today are being crushed by the cost of providing their share of Medicaid support. And little wonder that they are cutting Medicaid reimbursement to health care providers.

Of the 100 million Americans in households getting some type of public assistance, 63.4 percent are NOT classified as poor. For a family of four, with two children under age 18, the official poverty threshold in 2012 was $23,283. Even more shocking, 32.9 million persons in households getting public assistance have incomes ABOVE 200 percent of poverty.

Among men in households getting public assistance, there are more living above 200 percent of poverty than below the official poverty threshold: 16.5 million compared to 15.2 million. There were the same number of women as men receiving some kind of public assistance in households above 200 percent of poverty, but more women -- 19.5 million -- who live in households classified as poor.

These data do not tell us if there is a growing permanent underclass living in households that depend on public assistance year in and year out or if Americans are successful in escaping dependency only to be replaced by others who become dependent for reasons
largely outside their control such as changing economic conditions or unforeseen health-care needs.

If in fact there is a large and growing underclass of dependent Americans what does that say about America as the land of opportunity? Is America becoming a land where the very concept of poverty has become unhinged from need, where entitlement replaces effort, where gambling supplants entrepreneurship? Where millions of hard-working Americans still depend on labor markets to support themselves and their families, where a select few depend on the largely unpredictable ups and downs of financial markets, sometimes amassing immense fortunes, and where growing numbers of others depend on the working class and the investor class to provision their needs?
Income redistribution enjoys wide appeal in part because the public has been conditioned to accept the proposition that whatever income gains one person achieves come at the expense of someone else. Therefore it is reasonable for the federal government to redistribute those gains to the truly deserving and intervene more aggressively in economic affairs to promote economic opportunity. These assertions and arguments have been used most recently by President Obama himself, perhaps to deflect attention from the troubled launch of Obamacare.

Two metrics seem to support Obama. Median household income fell by 6.6 percent between 2000 and 2012. Over this period only four states -- Louisiana, North Dakota, South Dakota, and Wyoming -- and the District of Columbia reported statistically significant increases in median household income. The biggest hit was taken by Michigan (-19.1 percent). Second, over the same period the share of income received by households in the highest quintile of income distribution rose from 49.8 percent to 51.0 percent. Gains for the top five percent, however, were less impressive: from 22.1 percent to 22.3 percent.

Two metrics undermine the claim that economic opportunities in America are diminishing. First, household income data *per se* do not take into account changes during this period in household composition. In 2012 married-couple families made up 73.2 percent of all families. In 2000 they accounted for 76.7 percent of all families. In 1973 a total of 85.0 percent of all families were married-couple families.

Married-couple families are more likely than other families to have two wage-earners. Thus, the drop in median household income reflects significantly an increase in the number and proportion of households with a single wage-earner and a decrease in income that necessarily follows. Put differently, a stable marriage provides opportunities for economic advancement that are not readily available to those who are not married.

An estimated 93.7 percent of all married-couple families in 2012, compared to 73.3 percent of other families, were above the official poverty thresholds. On average, nonpoor married-couple families had incomes that were $82,430 above the poverty. Nonpoor female-headed families had incomes that were $38,676 above poverty.

Second, real hourly compensation has been on the rise. The national index for real hourly compensation (2009 = 100.0) climbed from 92.1 in 2000 to 100.3 in 2012. The rise in output per hour, which made the improvement in real hourly compensation possible and would have resulted in an even larger increase were it not for the Great Recession, was more impressive: from 80.2 in 2000 to 105.3 in 2012. By reducing the cost of production, these
gains helped dampen inflationary pressures in the economy and at the same time contributed to a surge in profits.

Other decisions originating in Washington came into play to undermine the claim that government intervention is necessary to address income inequality and beneficial.

The Federal Reserve itself applied downward pressure on incomes from certificates of deposit, bonds, and similar financial instruments by its policy of suppressing interest rates through quantitative easing.

The North American Free Trade Agreement made it easier for U.S. employers to reduce the cost of production and raise profits by relocating high-wages manufacturing jobs to Mexico.

Huge increases in disability insurance and unemployment insurance payments have reduced the incentive to look for work even when the earnings from a job might have provided more income. In this regard, notice the drop in labor force participation for persons 20 years of age and older from 68.2 percent in November 2000 to 65.8 percent in November 2012.

The boom in home ownership made possible by sub-prime mortgages backed by Fannie Mae and Freddie Mac put families into homes they could not afford, reducing their ability to relocate where jobs were available until they could figure out how to sell their homes in a declining market or deal with foreclosure.

Three other factors play a role regarding the accuracy of income distribution data and the significance of that data over time. A 2011 estimate by Fiege and Cebula put the annual amount of income not reported to the IRS at $2 trillion. The incentive to underreport is obvious and powerful: it reduces taxes paid and boosts eligibility for entitlement benefits.

Income distribution comparisons made over time do not take into account mobility across income classes. For any quintile in the distribution, it matters greatly if many of the households remain in that class with the passage of time or transition to another class.

Income share is not the same as or as important as income amount. When national income of $1 trillion is divided equally across 100 million households, each quintile gets 20 percent and every household has income of $10,000. When national income of $10 trillion is divided such that the poorest quintile gets 5 percent, those 20 million households have average household income of $25,000. The key, as any student of economics will affirm, is to grow the economy.

Consider how the self-destructive behavior of teenagers who drop out of high school impacts their chances for economic advancement. The most recent annual data indicate that more than 511,000 ninth-to-twelfth graders dropped out of public school. Their grim
job market prospects for finding steady, well-paying jobs have been well documented for years. Consider as well the international ranking of American students in reading, science, and math. Among 15-year-olds tested in 34 countries, Americans in 2012 ranked 17th in reading, 21st in science, and 26th in math.

Finally, what matters much more than income share is income amount. In 2012, a nonpoor married-couple family had annual income $92,791 higher than the income of a poor female-headed family. Any government redistribution scheme to wipe out such enormous differences likely would touch off a rebellion. The answer lies in the formation and maintenance of stable and loving married-couple families. Even then, other factors such as sickness, death, and natural disasters are likely to negatively impact family income.

Economic opportunity begins in the home. Any failure there originating in underachievement in school or other self-destructive behavior cannot be fixed in Washington.
ARE THE RICH GETTING RICHER,
THE POOR GETTING POORER?

August 25, 2014

The latest data on household wealth from the Census Bureau indicate that in inflation-adjusted dollars median net worth of the typical U.S. household dropped from $73,874 in 2000 to $68,828 in 2011. The losses, however, were shouldered entirely by the bottom 60 percent of all households. Net worth increased for the top 40 percent. Ominously, for the bottom 20 percent, net worth dropped from $905 to $6,029. Thus the conclusion that the rich are getting richer and the poor are getting poorer.

In drawing that conclusion there are several major problems. First, the Census Bureau estimates net worth from on information supplied by its Survey of Income and Program Participation that interviews a random sample of U.S. households. Those estimates are subject to errors from honest mistakes made by household respondents who are not able to provide accurate information and other respondents who deliberately misinform the enumerator or refuse to participate.

Second, the data are not presented by size of household. Which household is better off, the two-person household with a net worth of $88,000 or the three-person household with a net worth of $112,000?

Third, households in the top 20 percent in 2000 are not necessarily included in the top 20 percent in 2011. For some, changes in their personal and financial circumstances such as death, divorce, unemployment, and personal business failure may have dropped them into a lower quintile. Similarly, households in the bottom 20 percent may have climbed into a higher quintile due to marriage, inheritance, better-paying job, availability for full-time work following completion of a demanding course of studies, and bankruptcy.

Fourth, the asset value of pension income depends on the discount rate one chooses to use. To illustrate, at a discount rate of 3 percent a person who has a yearly pension benefit of $33,000 in perpetuity has an asset worth $1,100,000. At 2 percent it is worth $1,650,000. Because firefighters, police officers, and military personnel often are eligible for retirement after 20 years of service, the sample probably includes some persons receiving pension benefits as young as 40 years of age. It seems, however, that the Census Bureau values this asset in terms of accruals (money held in a pension fund) and therefore underestimates the value of this kind of asset.
Fifth, by deliberately holding interest rates low over the 2009-2011 period the Federal Reserve reduced the earnings of financial investments for many Americans making it more difficult for them to save and invest in other assets.

Sixth, the gains of the rich do not originate in the losses of the poor. Consider this: the Census data show that some of the households in the bottom 20 percent in terms of net worth are at the same time in the top 20 percent in terms of monthly household income. Indeed, there are some households in the lowest quintile with net worth above $250,000. And this: property owners in the bottom 20 percent have a positive net worth ($3,936) while renters have a negative net worth (-$11,275). Across all five quintiles, net worth of renters is much lower than from property owners. In the top 20 percent the net worth of property owners is 10 times greater than net worth of renters. Some renters simply prefer spending their incomes on consumption goods and services rather than accumulating assets.

Finally, the median net worth of married-couple households in 2011 was much higher than for other households. For married-couples in the third quintile net worth was $139,024. For male-headed households it was $27,316 and $22,184 for female-headed households. In all five quintiles net worth for married-couples increased for those who were older. For example, in the fourth quintile it rose from $68,330 for household heads below age 35 to $507,010 for heads 65 and older. However, married couples in 2011 made up only 50.4 percent of all households compared to 54.1 percent in 2000. Thus the decline of $5,046 in the net worth of all U.S. households from 2000 to 2011 is due in part to a drop in the proportion of high net-worth married-couple households.

There are other anomalies in the Bureau’s published data. For householders in the top 20 percent with a graduate or professional degree median net worth in 2011 was $1,324,899. Persons in the bottom 20 percent with the same educational attainment reported negative net worth of $6,791. No doubt these “poor” persons are much younger with debt accumulated in pursuing higher education and have not had enough years of work experience to earn the money necessary to invest in assets. This condition is suggested by other data indicating that net worth in all five quintiles is higher for older householders. In the third quintile, for instance, it rises from $6,682 for householders who are less than 35 years of age to $171,135 for those 65 and older.

Are the rich getting richer and the poor getting poorer? Or is it that married-couple households do much better than other households because they are more likely to have two adult wage earners and therefore are better positioned to put aside money for investment in a range of assets?
Very little in today’s Census Bureau press release on income, poverty, and health insurance coverage in the United States for 2012 indicates that marriage matters. In that release the Bureau highlights race and Hispanic origin, nativity, sex, age, geographic region, income inequality, and households that include at least one additional adult. All we get on marriage is that the poverty rate for married-couple families is 6.3 percent compared to 16.4 percent for families headed by a male householder and 30.9 percent for female-headed families.

What’s missing in the press release is the data needed to better understand the American condition. We get nothing on the enormous differences in household income for those three family types. Nothing on the even greater differences in income comparing poor female-headed families to all nonpoor married-couple families. Nothing on work experience and poverty. Nothing on the rate of poverty among married-couple families by race. The researcher has to dig into the report itself and the detailed tables hidden away in the Bureau’s vast database to find that information. Even then he sometimes comes up empty.

In addition to marriage, what really matters when it comes to poverty is work. For the 47.8 million persons 18-to-64 years of age who did not work at all in 2012, the poverty rate was 33.1 percent. For the 98.7 million who worked year round, full time, including persons of every race, gender, and region, the rate of poverty plunged to 2.9 percent.

For purposes of understanding the American condition, the nitty-gritty is in household income and poverty for the three family types. Median household income in 2012 for all married-couple families was $75,694. For the other two family types income was much lower. For male-headed households it was $48,634; for female-headed households it dropped to $34,002.

The difference in household income between married-couple families living above poverty and female-headed families living below poverty is staggering. In 2012 it reached $92,791. In other words, poor female-headed families are forced to provide for the basic needs of their members on $7,733 per month less than married-couple families who are not poor. Perhaps more so than all of the statistics in the Census report relating to income inequality, this statistic alone tells us more about the Great American Divide between the haves and the have-nots.

Another startling statistic is that the 2012 rate of poverty for Asian Americans was lower than for white Americans: 11.7 percent versus 12.7 percent. At 27.2 percent, the poverty rate for black Americans was more than twice as high. Even more startling is that the
household income for Asians was not just more than double the income for blacks -- $68,636 compared to $33,321 -- it was substantially higher than the $53,706 reported for whites.

For both whites and blacks, there was a huge difference in the rate of poverty among married-couple families and all other families. For white married-couple families the rate of poverty was 5.7 percent; among all other white families it was 23.8 percent. Similarly, the poverty rate among black married-couple families was 9.8 percent; among the rest of black families it was 35.3 percent.

Perhaps the most startling statistic from the 2012 Census report is that the poverty rate for black married-couple families was actually lower than for all white persons -- 9.8 percent vs. 12.7 percent.

These data demonstrate that coming to grips with the problem of the Great American Divide between the haves and the have-nots requires year-round full-time jobs and families structured around marriage. It cannot be finessed by safety-net programs or income redistribution schemes that undermine the work ethic and encourage more tax avoidance and evasion.
INCOME AND POVERTY IN 2013:
THE GOOD, THE BAD, THE UGLY
September 29, 2014

Three messages are embedded in the Census Bureau report on income and poverty in the United States that was released to the public earlier this month. We cover each one briefly, beginning with the good.

The Good. An estimated 36 million American families had incomes in 2013 above $75,000. For 28 million married-couple families incomes exceeded $84,000. One-half of all women who worked year round full time (YRFT) in 2013 earned more than $39,000. In 1975 one-half had inflation-adjusted earnings above $29,500.

The overall poverty rate for the United States dropped from 15.0 percent in 2012 to 14.5 percent in 2013. For married-couple families poverty touched only 5.8 percent down from 6.3 percent in 2012. Remarkably, the rate for all workers with YRFT jobs was 2.7 percent.

Perhaps best of all there were important improvements for children. Among related children under 18 years of age there were 1,295,000 fewer in poverty in 2013 compared to 2012. For related children under age 6 the number living in poverty fell by 538,000.

The Bad. Poverty in 2013 was three times higher for blacks than non-Hispanic whites: 27.2 percent compared to 9.6 percent. Among the 48.6 million persons who did not work at all in 2013, 32.3 percent were classified as poor.

For female-headed families the poverty rate was 30.6 percent which is 5-6 times higher than the rate for married-couple families. Among the 35.7 million blacks living in families 42 percent live in female-headed families and of those 42.4 percent were classified as living below the poverty threshold.

The Ugly. Median earnings for women working YRFT was 78 percent of the median earnings of men with the same work experience: $39,157 compared to $50,033. Since 1975, there has been a surge of more than 27 million women holding YRFT jobs, with inflation-adjusted median earnings that have increased by nearly $10,000.

Compared to women over the same period, there was a smaller increase -- about 23 million -- in the number of men employed YRFT. Ominously, since 1975 the earnings of men with YRFT jobs have stalled at roughly $50,000, no doubt reflecting in part the hollowing out of U.S. manufacturing that has taken place under three Republican presidents and three Democrats. For the children and grandchildren of these hard-working men, the American dream may seem out of reach.
Perhaps ugliest of all, female-headed families that are poor have annual incomes that are $94,458 below married-couple families that are not poor. Unless those poor families – about 4.6 million – find ways out of poverty, the American dream is becoming a pipe-dream.

As suggested in the late 1960s by the Kerner Commission, a nation cannot long endure when for some persons and families economic conditions are good, for others they are bad or ugly, and the prospects for personal and family improvement are disheartening. The numbers of persons that face conditions that are best described as bad or ugly cannot be dismissed. Today there are 61 million men at YRFT jobs for whom the earnings for this kind of work effort have not changed in 40 years.
XIII. MARKET ECONOMY
Based on data already available but never before cobbled together to measure economic insecurity, the Associated Press reported last month that 79 percent of American adults encounter the risk of economic insecurity at some time during their lifetimes. Economic insecurity is defined as experiencing unemployment at some time during their working years, dependence on government aid that lasts at least a year, or income below 150 percent of the official poverty standard.

This finding has been reported widely in the national media with good reason. Economic insecurity threatens personal well-being which in turn undermines family and community welfare. Anyone who has experienced long-term unemployment knows of the hardship that it brings in terms of earnings lost, making it difficult to meet current personal and family material needs. In addition, joblessness that lasts a long time raises doubts as to a person’s ability to provide adequately for the future needs of the family.

Two challenges to this latest socio-economic metric come to mind, one with regard to how lifetime economic insecurity is defined and measured and a second relating to the role of economic insecurity in a market economy.

Regarding the first challenge, notice that any spell of unemployment, whether voluntary or involuntary, even as short as one week is taken as an indicator of economic insecurity. Do we really want to classify a person as economically insecure who leaves a dead-end job and experiences a short-period of joblessness while he/she looks for another and then finds a much better job? Is it appropriate to count as economically insecure a person who receives a year of unemployment benefits while he/she is taking a training course that in the end leads to a steady job?

Logically, a person who is impoverished as measured by the official poverty standard is economically insecure, but where’s the logic in using a standard of economic insecurity based on 150 percent of poverty? For sure it’s a convenient standard, one that is easily applied to the official poverty data, but invariably it begs the question as to why some other multiple such as 125 percent or 133 percent is not used. The 150 percent standard is in fact arbitrarily selected because unlike the official standard it is not directly connected to a clear definition of material need. Thus, the higher the multiple, the greater the number classified as economically insecure. We can say with certainty that a 200-percent standard would have resulted in a finding that more than 79 percent of Americans are at risk of lifetime economic insecurity.
Consider as well this issue buried in the economic insecurity metric. When a person has been receiving government aid for more than a year is it because he/she is truly experiencing hardship and needs the aid or does the aid encourage malingering and thereby induce the economic insecurity? Is it a response to real human hardship or does it induce a dependency that is statistically inseparable from real human hardship? Does malingering induced by well-intentioned government assistance such as disability insurance contribute to the increased numbers of labor-force dropouts since the start of the Great Recession?

The second challenge relates to the role of economic insecurity. In a market system, resources are allocated in two ways: by the “pulling force” of prices and the “pushing force” of unmet need. Assume for the moment that Producer A faces a market in short supply for his/her product and Producer B faces an excess supply. The resources discharged by Producer B to deal with the excess supply potentially are attracted to Producer A who is hiring and is paying more for the resources required to address the short supply. Thus, the market helps remedy both B’s surplus and A’s shortage.

The second way that resources are allocated is through the pushing force of unmet need. Redundant workers and other idle resources are pushed away from producers where they are in excess supply and toward producers where they are in short supply by the very hardship and unmet need brought on by their idleness. They need to find work in order to provide for their needs.

Remove that hardship and unmet need by safety net programs such as unemployment insurance lasting nearly two years and labor resources are slow to move away from employers where they are in excess supply to others where they are in short supply. Some of the unemployed likely remain jobless longer when UI benefits last 90 weeks rather than 26 or 39 weeks. It follows that economic insecurity is not entirely a bad thing though no one who supports the market system would deliberately promote it.

Further, economic insecurity is necessary to preserve the market system. Remove this role of economic insecurity and it becomes necessary to allocate economic resources through a centralized planning board under government supervision. There is no third option. Workers would be assigned jobs and forced to remain in those jobs as long as the planning board requires. Whether we know it not, like it or not, economic insecurity is the price we pay for a market system in which workers are free to leave jobs they no longer like and employers are free to dismiss workers who do not measure up to the work assigned.

Do we want workers and employers to decide how labor resources are allocated or a central planning board? Do we want greater economic security and little freedom or less economic security and more freedom? The Great Recession and the last two presidential elections suggest that Americans increasingly are willing to surrender freedom for security.
LYING UNDERMINES A MARKET ECONOMY

June 5, 2013

Lying undermines a market economy primarily because it makes buyers and sellers suspicious of the commitments necessary for exchange to take place. To execute a transaction successfully both parties have to expect and experience getting back more than they are giving up. For a market economy to function effectively the experience in the overwhelming number of routine, daily transactions must match the expectation. Lying is an attempt to get more from an exchange by deceiving the other party as to what that person will get from the transaction. Lying sets up conditions that make transactions much more difficult than they are when the parties are telling the truth. The often-repeated “buyer beware” admonition reinforces suspicion rather than trust. Take away trust and exchange collapses.

That’s why we condemn insider trading where the trader with confidential information games other traders who do not have access to that information and who either undervalue their shares or overvalue them. That’s why we admire whistle-blowers who are willing to expose misconduct in order to alert innocent buyers/sellers of certain deceptive practices.

That’s why we condemn salesmen who knowingly and deliberately misrepresent the products they are selling. That’s why the honest merchant has a money-back guarantee to correct any problem that deprives buyers of what they reasonably expected when they executed the transaction.

That’s why we condemn persons in business who “cooks the books” in order to cover up a failing business. That’s why we honor persons who have found something of value and instead of engaging in the self-deception of “finder’s keepers” return it to its rightful owner.

In the early 1960s the Central Intelligence Agency coined the expression “plausible deniability” in order to allow government officials to mislead the public by having their subordinates erect a wall of separation between the truth and the whole truth, between what those officials know and what they should have known. When bosses have been separated from the whole truth, they can claim that they didn’t know what their subordinates were up to, as in “it was just two rogue IRS staffers in Cincinnati” who were doing all the targeting of conservative groups seeking tax-exempt status.

Lying today is so common among public officials that American citizens cynically expect them to lie. And it is not just low-level Washington officials who lie. Recall Republican Richard Nixon’s “I am not a crook” as he tried to dodge responsibility for Watergate. And Democrat Bill Clinton’s “I did not have sex with that woman” in the Lewinsky affair. Even
Republican Ronald Reagan was caught in a lie when he denied any knowledge of the Iran-Contra deal.

There is no wall of separation between what happens on Main Street and in Washington. Public officials who lie, either directly or by withholding some of the truth out of contrived ignorance, poison the environment beyond the Capitol beltway.

By making lying commonplace in political affairs, high-level public officials set the stage for chaos not only in the political order but also in the economic order through the rationalization that if it’s ok for public officials to lie on public matters what possibly could be wrong with lying on the part of buyers and sellers in private matters? This rationalization requires both public officials and economic agents to do the following: tell their conscience to lie down in the corner like a sleeping dog. Doing that, as we have seen in the public sector, is not all that difficult when the stakes are high, when what is gotten back is so much greater than what is given up.

The salesperson who does not tell the buyer that the driver’s seat heater doesn’t work is misrepresenting what that buyer will get and is being just as deceptive as if he/she were actually telling a lie. Similarly, with the horse trader who does not tell the buyer that the horse is foundered. A half-truth can be as deceptive as a lie and for that reason the oath taken by a witness is “to tell the truth, the WHOLE truth, and nothing but the truth.”

Lying is especially destructive because it is doubly deceptive. Lying is used (1) to cover up (2) some prior misconduct or mistake for which the liar bears some responsibility. Whether the liar is a public official or private citizen, lying often is used to protect one’s job, fortune, or good name. Liars, particularly those who lie routinely, cannot be trusted to faithfully carry out their duties whether on Main Street or in Washington.

Notice the massive deception that resulted in the Great Recession – loans made to prospective homeowners who the lender knew had no real ability to repay them but was willing to mislead them because their loans were guaranteed ultimately by the federal government. Credit default swaps that were sold to persons who did know what they were buying and whether or not the seller had sufficient cash reserves to cover a massive wave of defaults.

The bubble mentality in the private sector originates in the self-deception that the asset held will only increase in value over time. It is the equivalent of self-deception in the public sector such as referring to public expenditures as investments that benefit everyone and calling income that is not taxed because it is privately spent on certain publicly desirable purposes a tax subsidy or tax expenditure.
We are recovering slowly from the Great Recession but it likely would not have taken so long if we had not used self-deception for personal advantage. Recovery depends on restoring trust.

In economic and political affairs the remedy is the same: do not lie, do not withhold pertinent information especially when the payoff for lying is quite small because a person who is willing to lie when the reward is small is likely to lie when the payoff is much greater. A change in the law or procedures will not put an end to the lying. What are needed are persons who can be trusted because they do not lie even when the personal payoff and political pressure are greatest.

The present crisis in Washington is not the last time we are likely to be deceived by public officials. As Thomas Jefferson warned us years ago: “eternal vigilance is the price of liberty.” Persons who have been deprived of their liberty in political affairs are not truly free to engage in economic affairs. They become prey for the liars and victims of their own self-deception.
Recent increases in food and energy prices coupled with reductions in payroll employment call to mind the 1970s when the United States was beset by a puzzling combination of economic conditions – higher unemployment and rising prices -- which economists could not reconcile with contemporary macroeconomic theory which asserted that unemployment occurs during a business cycle slump and inflation during a business cycle boom. Based on fiscal policy that targeted the demand side of the macroeconomy, higher unemployment called for stimulating demand, rising prices called for dampening demand. At that time, no one was able to provide a satisfactory explanation for those unheard-of conditions and so in their bewilderment they labeled them “stagflation” by combining parts of stagnation and inflation. By the end of the 1970s economists were forced to abandon their failed ideas about demand and fiscal policy for the new ideas of managing macroeconomic affairs through the money supply and monetary policy.

Mayo Research Institute is convinced that the key to explaining the stagflation of the 1970s, including what may be re-emerging today, lies outside the economy in the seismic changes occurring in human affairs that greatly unsettle economic affairs. In the 1960s and 1970s, the United States was shaken severely by five major tremors -- a disastrous war in Vietnam, a constitutional crisis during Richard Nixon’s presidency, the civil rights movement, the sexual revolution, and the Supreme Court’s decision on the abortion issue -- that destabilized the economy just as a major earthquake brings down structures that were built to withstand minor to moderate tremors but not the kinds of shocks associated with a major seismic event. An economics based squarely on the demand side of the macroeconomy could no more withstand the tremors of the 1960s and 1970s than the economics of the 1920s could survive the devastating economic earthquake of the Great Depression.

Fast forward to the present. On the monetary policy side, the Federal Reserve has reduced interest rates to stimulate the economy. On the fiscal policy side, the federal government has approved a tax rebate for the same purpose.

Still we are left with this nagging question: what to do about rising prices? Monetary policy calls for higher interest rates to combat inflation but for months the Federal Reserve has been cutting interest rates to stimulate the economy and to provide liquidity to crisis-ridden financial institutions. Fiscal policy calls for higher taxes and reduced spending in order to dampen demand and to moderate price increases but the federal government has just passed a tax rebate that will put $150 billion additional dollars in the hands of taxpayers to boost consumer spending.
We are caught in a dilemma in which we cannot stabilize prices and at the same time check the slowdown in the economy because we are beset by conditions either entirely new in economic affairs or by events taking place outside the economy with profoundly important effects on economic affairs. These seismic shocks include the terrorist attacks on 9/11, unprecedented labor migration from the southern hemisphere to the northern hemisphere, capital flight associated with economic globalization that has been gutting U.S. manufacturing, an increasingly unpopular war in Iraq, and a casino mentality that has spawned hedge funds and an array of risky financial instruments.

Mix in the partisan bickering in Washington that puts personal and party advantage ahead of the needs of the American people and the result is that economic policy makers simply do not know how best to address the ailing economy. Little wonder that so many Americans feel angry about today’s higher energy and food prices, are anxious about the next round of job cuts, and bitter about the loss of equity in their single most important asset -- their homes.

We live in times where human events beyond our understanding and control are impacting our lives and economic affairs and for which we have no remedies that work effectively on the most serious symptoms of an ailing economy – higher unemployment and rising prices. In its March press release the Federal Reserve confirmed that “growth in consumer spending has slowed and labor markets have softened … and uncertainty about the inflation outlook has increased.”

The decline in housing values can be reversed but more than 50 years of experience demonstrates that housing cannot be made affordable by market forces alone unless unrestrained gain-seeking is removed from the institutions that originate and trade mortgages. Neither monetary nor fiscal policy is effective in this regard.

Nor are they effective in directly addressing higher energy prices because the demand for energy is driven by worldwide economic growth and development, notably in China, and the supply of oil is under the thumb of OPEC.

There is, however, one policy option available that may help reverse rising food prices that originate from food shortages: end the huge subsidies for converting corn into ethanol. The GAO in March stated that corn-based ethanol has increased food prices and due to its corrosive properties creates challenges in developing an infrastructure to distribute it. Some studies indicate that it returns more energy than it uses, others say that it has a negative return.

Brazil produces fuel from sugar cane. The Italian car manufacturer Fiat now offers a vehicle that runs on either gasoline or methane, a combustible gas. Volvo in Europe sells a car that burns five kinds of fuel including methane. A car fueled by methane reduces greenhouse gas emissions by roughly 25 percent. Operating costs compared to gasoline are
20-60 percent lower with methane. Compared to diesel those costs are 20-40 percent lower. USEPA reports that methane comes from human-related and natural sources and that the main human-related sources are landfills, natural gas systems, and farm animals. Methane already works in Europe. In Italy alone at least 400,000 cars operate on methane. What are we waiting for in the United States?
XIV. GREAT RECESSION
FROM MAIN STREET TO WALL STREET TO CAPITOL HILL AND BACK

October 1, 2008

Who’s responsible for the current crisis besetting financial markets? The simple answer: Main Street, Wall Street, Capitol Hill.

Main Street. For signing mortgages without sufficient financial resources to meet the obligations inherent in those mortgages -- to make monthly payments as set forth in the terms of those mortgage documents.

For writing mortgages without evaluating the applicant’s financial resources, without requiring the usual 20 percent down payment, because the institutions writing those mortgages eliminated their risk by selling them to other financial institutions.

For bundling those mortgages and selling them to other financial institutions with an appetite for the high return promised but a blind eye for due diligence.

Who benefited? Low-income families, loan originators, building contractors, realtors, title companies, appliance, hardware, lawn and garden, furniture, and carpet stores, insurance and telecommunications companies, commercial banks … the entire local economy.

Wall Street. For selling insurance to the financial institutions holding those bundles of securitized assets in order to cover any defaults in the underlying mortgages.

For embracing the accounting practice of “mark to market” which requires financial institutions to re-value their assets according to their current market value, even as the market for those assets deteriorates precipitously, rather than valuing them according to the discounted value of the future cash flows of those assets.

For paying generous bonuses to Wall Street regulars on the basis of the short-term performance of their working units thereby reinforcing an incentive to boost performance by buying and selling risky financial instruments.

Who benefited? Investment banks, hedge funds, companies selling credit default insurance, directors of aggressive financial institutions, anyone especially senior managers of financial institutions whose salaries depend largely on year-end bonuses, sellers of luxury goods, expensive housing and furnishings, exotic leisure activities.

Capitol Hill. For encouraging Fannie Mae and Freddie Mac to buy, hold, and re-sell sub-prime mortgages as a way of extending home ownership to families at the margin of the
mortgage market who were drawn in by assurances that their homes would increase in value over time.

For allowing Fannie Mae and Freddie Mac to lobby members of Congress, contribute to their re-election war chests, offer assurance that all was well, and thereby turn aside any further efforts to examine their practices more carefully and exercise their oversight role more diligently.

Who benefited? Fannie and Freddie shareholders and lobbyists, Congressional Republicans and Democrats.

This enormous financial house of cards began tumbling down when sub-prime mortgage holders on Main Street could not continue to make their monthly payments as their mortgages rates were adjusted upward and at the same time some were losing their jobs.

The Crisis. Defaults, foreclosures, surplus housing stock, decline in the demand for new housing and the construction jobs tied to that housing, loss of business for building suppliers, realtors, title search, mortgage, and property insurers. Decline in property values for those who own their homes free of any mortgage and those who continue to pay their mortgages on time. Loss of tax revenues to local, state, and federal governments.

Financial institutions use mark-to-market rules to write down the value of the mortgage-backed securities they hold on their balance sheets, and sustain operating losses because the anticipated flow of income from those toxic assets has not materialized. The market capitalization of those institutions begins to fall as traders sell shares in those institutions, and buy and drive up the prices of more attractive holdings such as gold, or oil, or government securities.

Given the extent to which these mortgage-backed securities are held by financial institutions large and small, banks are reluctant to lend money to other banks even as the Federal Reserve drops the rate of interest (the federal funds rate) one bank can charge for inter-bank borrowings. To get the cash they need to continue operating on a daily basis and serve their customer base, banks turn to the Federal Reserve to borrow money through the discount window. Private loans including loans to Main Street businesses made under the condition that they are payable on demand are called in by banks which are short of cash on hand. As banks with large holdings of toxic, mark-to-market mortgage-backed securities are forced to report their financial losses to the public, some of their depositors become restless and decide to withdraw funds from their accounts. Banks with insufficient cash on hand to cover those withdrawals are forced to close their doors and declare bankruptcy.

The problem is that there is no ready market for the toxic mortgage-backed securities which originated on Main Street, and therefore no way to trade them for cash on Wall
Street. With the rescue plan recommended by Treasury Secretary Paulson and modified by Congress, the federal government would purchase those securities from Wall Street by selling additional Treasury bonds in order to raise the cash necessary for the deal.

The crisis is linear, systemic, with a downside feedback loop to match the earlier upside loop that fueled the bubble. The crisis is so massive that only the federal government has access to the financial resources necessary to deal with it. For that reason the current economic hard times cannot be resolved without Capitol Hill bailing out Wall Street and in turn rescuing Main Street.

Doing nothing, as some have recommended, is as badly advised as letting a deadly drug-resistant virus just run its course. Without massive federal intervention to cut through the downside feedback loop and quite irrespective of where a person works -- Wall Street or Main Street -- and lives, this crisis in financial markets will destroy not only those whose aggressive and risky decision-making precipitated the crisis but also those who always conducted their financial affairs above reproach.
WHAT WENT WRONG?
October 15, 2008

What went wrong with U.S. financial markets and the real economy? A simple enough question, with a simple answer – gross human failure. Although specific examples of human failure abound, the reasons for that failure aren’t so simple to track down. It’s best to begin with the basics.

All economies are systems designed by and set in motion by human beings acting alone as individuals or together as either private groups or public agencies. To refer to the U.S. economy as a market system means that decision-making is vested primarily in individuals and to a lesser extent in private groups such as professional and trade associations and labor unions, and public agencies.

The market system functions well when economic agents act knowledgeably, rationally, fairly, and with restraint especially as regards self-interest. Share prices on stock exchanges move up and down depending largely on the underlying fundamentals of the public corporations whose shares are being traded.

_Greed_ takes over when that restraint on self-interest is cast aside leading in the extreme to what the chairman of the Federal Reserve in 1996 called “irrational exuberance” -- a type of market failure in the sense that the underlying fundamentals of the corporations whose shares are being traded indicate that those shares are grossly over-valued. However, the opportunity to buy shares and cash in on the gains that derive from rising share prices which seem to continue indefinitely attract additional investors who drive prices even higher.

_Fear_ takes over when shareholders begin to realize that the shares they hold in fact are over-valued and they must sell quickly before the price falls precipitously and wipes out their gains. This too is a type of market failure in the sense that panic selling drives share prices well below the prices that the underlying fundamentals otherwise would support.

Financial markets dysfunction whenever human behavior is driven mainly by fear and greed, traits which are deeply embedded in human nature. Fear follows greed which has morphed into irrational exuberance but is not a proper corrective for that greed anymore than another round of drinks cures a hangover. Personal restraint on self-interest is the proper corrective. In the past we called that corrective moderation. Libertarians including many mainstream economists today argue otherwise: “let the market sort through the problem by shaking out the losers whose own bad judgment got them into trouble in the first place.” Their remedy can be characterized as a form of social Darwinism: the weak die, the strong survive.
While attractive to many, that solution presents one major problem. Those who behave responsibly may be taken down with those who acted irresponsibly, as with homeowners whose property has slipped in value because their neighbors got mortgages they could not afford, eventually defaulted and were pushed into foreclosure. Limits have to be imposed on stock traders because experience has shown that left unchecked greed and fear can trigger not just a financial market meltdown but also a collapse of the entire economy. Reasonable limits, for example on naked short selling and buying on margin (borrowing from a broker to buy stock), are necessary to assure orderly trading activity and in the worst case scenario to ward off a bloodbath like the Great Depression of the 1930s.

Those limits are imposed by individuals, private groups, and public agencies. Individual investors are routinely instructed to exercise due diligence – carefully examining the details of an investment opportunity – before instructing their broker to invest their funds. Sadly, many did not and bought securities about which they knew little or nothing at all.

Private groups such as publicly traded corporations are required to have their books examined by independent auditors to assure their shareholders and the public that their performance is accurately reported. The same requirement applies to publicly traded financial institutions including notably investment banks and commercial banks. Here too there was a failure to exercise due diligence and assets were carried on their books which initially were over-valued thereby inflating the institution’s net worth. When it became clear that those assets were not producing the expected revenue stream, they had to be sharply lowered in value thereby reducing the institution’s net worth, cash flow, and profitability. Inevitably the price of their shares tumbled, and for a small number of troubled commercial banks triggered a silent run – withdrawal of their deposits by electronic transfer -- forcing them to close or to be bought out.

In their eagerness to promote wider home ownership, Congress through its oversight committees failed to rein in the risky practices at Fannie Mae and Freddie Mac that purchased sub-prime adjustable rate mortgages on which borrowers simply could not make their monthly payments when interest rates and interest charges were ratcheted upward.

Some commentators assert that the current financial market crisis originates from too little regulation. Others hold exactly the opposite view. Strictly speaking, both are wrong. The central problem is that there has been widespread failure to enforce the limits already in place, limits on individuals, private groups, and public agencies.

One of the most important lessons of the current financial crisis is that regulation alone is not sufficient to control irrational exuberance or panic selling any more than a football rule against roughing the passer assures that quarterbacks will not be injured. What is
necessary is strict enforcement and certain penalties for breaking the rule, breaching the limit, especially when it involves private groups or public agencies.

Nevertheless, just as quarterbacks are injured even with strict enforcement, so too financial markets sometimes will dysfunction even under a strict enforcement regime. Because human beings including those who practice moderation in their everyday affairs make mistakes and do not know and fully understand how markets change with new financial products and new global connections, enforcement can limit the damage but cannot prevent every serious dysfunction.

Economic history teaches us that the one thing the market system cannot do is assure the financial security of everyone.
THREE OTHER PROPOSALS TO REMEDY THE CURRENT ECONOMIC SLOWDOWN
February 2008

The U.S. economy is a complex, decentralized system, based on private decision-making in which the actions taken by individuals and private groups are all important and largely outside federal government control. In 1913 the Federal Reserve System was established to help stabilize the economy by preventing a banking-sector crisis from spreading to other sectors. The Fed was unable to prevent or bring under control the Great Depression of the 1930s. In the early 1960s Keynesian economists embraced the idea that the economy could be fine-tuned through fiscal policy which would eliminate the business cycle. Their ideas which underscored the importance of the demand side of economic affairs were crushed under the weight of stagflation in the late 1960s and 1970s.

In the late 1970s the United States turned to the ideas of Milton Friedman who argued that fiscal policy is a clumsy interventionist instrument, recommending that the Fed concentrate on increasing the money supply by four percent per year. The Fed rejected this rule, raising interest rates to 21 percent in the early 1980s in order to bring inflation under control. The remedy worked but it drove the unemployment rate above ten percent for the first time in 40 years.

Monetary policy was set aside in the 1980s by President Reagan who promoted supply-side economics. Supply-siders argued that private producers are the critical decision-makers and that intervention should offer incentives to jump-start their businesses with the good effects “trickling down” to the rest of the economy. Years later, supply-siders claimed that those incentives triggered the longest economic expansion on record. Critics who called it “voodoo economics” argued that supply-side economics led to a doubling of the U.S. public debt by the end of the 1980s and was not able to prevent the 1990-91 recession.

Lesson learned: notwithstanding its considerable powers, the federal government is not able to control the economy and thereby prevent a recession anymore than an oncologist can prevent cancer in a patient. Further, the government can no more cure a recession once it occurs and keep it from re-occurring than an oncologist can guarantee a patient that the cancer will not re-occur after treatment. What the government can do is help alleviate the burdens of a recession just as an oncologist can help bring under control the nasty side-effects of treatment and if the cancer persists to a terminal stage relieve some of the patient’s suffering.

Events in financial markets and the rest of the economy interact in mutually-reinforcing patterns. A bull market drives up the value of asset holdings and this added wealth
encourages more consumer spending. The additional spending drives up the demand for shares in companies that are expanding operations to meet the increased demand for their products and services. A bear market drives down the value of asset holdings and the diminished wealth restrains consumer spending driving down the demand for shares in companies that are contracting to accommodate to a decreased demand.

A bull market driven by opportunities to make huge gains in asset values reinforces human acquisitive desire beyond reason which induces herd-like behavior that disregards due diligence and results in grossly inflated financial asset values. This in turn spikes demand for other assets including real estate and triggers a surge in demand throughout the economy and further drives the bull market. Recall that Fed chairman Alan Greenspan described the 1990s bull market as “irrational exuberance.”

A bear market sets in when financial asset holders begin selling because they realize that their assets are overvalued and it’s time to dump those assets in order to protect their gains. Others in herd-like fashion are frightened into selling by the prospect of the losses in store for those who hold on to their assets in the hope of a market rebound. This behavior spills over into other sectors of the economy where fearful consumers and producers cope with their anxieties by reining in spending, further propelling the bear market until somehow their fears are allayed. Recall what President Roosevelt said in the depths of the Great Depression: “we have nothing to fear but fear itself.”

When greed and fear control decision-makers in financial markets and then spill over into the rest of the economy a syndrome develops that is hard to break. When an acquisitive desire overtakes due diligence and reason an economic expansion morphs into an unsustainable bubble until humans begin to act more prudently in economic affairs. In like manner, when fear grounded in a sense of insecurity overwhelms confidence, a contraction transforms into a crash until humans once again feel secure. Greed and fear are more dangerous today than in the past because the information-communication technology revolution allows us to communicate more quickly, more widely, and less expensively than ever before, making herd-like behavior more likely than ever before.

The President and House of Representatives have agreed to a stimulus package based on a single proposal of tax rebates. Mayo Research Institute argues for three other targeted proposals to address the behavior of those persons most fearful and insecure in the current downturn by reducing the risk that their incomes will be slashed and they will not be able to maintain their homes and provide for other basic human needs including health care.

- Homeowners who cannot maintain their mortgage payments need assistance and counseling to avoid foreclosure and displacement. This could be accomplished with temporary funding to financial institutions including credit unions to staff up programs of
individualized assistance to those who are threatened by the loss of their homes. Those who refuse counseling services would not qualify for financial assistance.

- State unemployment insurance systems could temporarily raise the limits on weekly benefit amount and benefit duration so that the unemployed are better protected against a major loss of income while they try to find work. The federal government would pay for those additional costs with the states reimbursing the federal government when economic conditions improve. Claimants who do not qualify under the regular benefits program would not qualify under the temporary enhanced benefits program.

- No one should lose health insurance coverage because he has lost his job or drop coverage in order to make mortgage payments. The unemployment insurance system should be restructured to include in the taxes paid by employers the cost of continuing health insurance at least until their laid-off workers exhaust their jobless benefits. Given the high and rising cost of health care, this reform probably should be made permanent.

These three initiatives are modest in scope and designed to limit the role of the federal government lest we make people so secure that they lose their sense of personal responsibility for their decisions, looking instead to the government to rescue them from their mistakes and thereby enabling them to set aside the due diligence, reason, and prudence that would constrain them from making such mistakes. Private decision-making in economic affairs requires limited and targeted government intervention in those affairs.
Last September a fire broke out in the U.S. banking system which overnight threatened to engulf not only the entire U.S. system but also banking systems elsewhere linked in a network of agreements, transactions, and mutual dependencies. An alarm was sounded and fire department personnel and equipment arrived on the scene but learned quickly they were not prepared for the kinds of combustible materials (derivatives) fueling the fire.

Containment was their immediate objective. A massive response was launched focused on combustibles (TARP first tranche with backup from FDIC) but nothing worked and the fire continued to rage out of control. Next they sprayed enormous volumes of water over the entire structure (TARP second tranche with FDIC backup) hoping that effort would suppress the flames which by then were igniting fear and anxiety around the globe. It didn’t help that the senior firefighting team (Treasury) was being replaced while the fire had not yet been contained. Further heightening fear and anxiety were arsonists who enjoyed playing with fire (ponzi schemes) to enrich themselves at the expense of their investors.

Containment was achieved but the still smoldering combustible materials stubbornly resisted efforts to snuff them out forcing fire crews to remain on the scene months after the initial breakout. Managers of other structures in the system not immediately threatened by the fire was persuaded to let firefighters spray water on their structures on the premise that a little water (TARP Capital Purchase Program) would encourage them to step up their efforts to get credit flowing again.

Efforts to deal with the smoldering combustibles by hauling them away failed because no one could figure out how much to pay the haulers for removal services. Another suggestion was made to haul out of the damaged structures any and all materials of value yet untouched by the flames and to let those structures and combustible materials burn themselves out. That suggestion, however, has gotten no traction. Most recently, the damaged structures which hold those combustibles are being forced by the legal system to retrieve them, clean them up, and make them viable (mortgage cram-down) even at the risk that they may become combustible again.

Fire inspectors report that the blaze which since January 2008 has consumed 42 banks started in the sub-flooring long before it broke out in September. In spite of warnings from the fire prevention bureau, negligence on the part of senior managers eager to pocket the fees for holding the combustible materials and by building code enforcers willing to turn a
blind eye to that negligence made it easy to accept and store those materials. Ignition came suddenly and unexpectedly from large numbers of cash-strapped homeowners defaulting on their mortgages.

A few powerful persons advocate repairing the broken financial system by nationalizing the banks, putting them under direct government control. But that’s like asking firefighters to remain at the site, demolish the structures, and build others in their place. Opponents object to this remedy arguing that when the fire is out, firefighters should withdraw and leave the rebuilding to competent and trustworthy financial specialists who know best how to rebuild the system. However, the few who would nationalize the system are supported by the many who are persuaded that government knows best. Today there are 252 banks on the FDIC list of “problem banks” and the issue of bank ownership and control remains unresolved.

Just as the fire prevention bureau attempts to educate the public about hazards such as overloaded electrical circuits, blocked exits, and natural gas leaks, the general public needs to be better informed about the risks involved in financial ventures especially as new financial instruments such as credit default swaps are developed. The problem is that the U.S. financial system continues to operate with a fire prevention bureau that functions on just one broken principle – let the buyer beware.

Negligence in storing combustible materials and in building code enforcement, not to mention arson, is a felony punishable by imprisonment. Those who were negligent, whether they are bank executives, regulators, or members of Congress on financial oversight committees, should go to jail. Removing the perpetrators is necessary in order to reduce the risk of a similar financial collapse in the future. Even so, there is no way to assure that a fire will not break out again even if the entire system were nationalized because the smartest and best-intentioned human beings can and do lapse into ignorance and negligence and are too easily enticed to reach for a deal that is too good to be true.
Information supplied by the Federal Deposit Insurance Corporation provides insight into the severity of the recession and its differential geographic impact across the United States that is not gleaned directly from data on GDP and is not so dramatically demonstrated by employment and unemployment figures.

From January 1, 2008 through November 12, 2010, a total of 311 FDIC-insured commercial banks and savings institutions failed. More than half of the failures took place in Georgia (48), Florida (43), Illinois (38), and California (34). All but 19 of the 311 failed banks were acquired by other financial institutions. See table below.

In sharp contrast, there were no failures during this period in Alaska, Connecticut, Delaware, Hawaii, Maine, Montana, New Hampshire, North Dakota, Rhode Island, Tennessee, or Vermont.

Between 2002 and 2007, there were only 19 bank failures in the United States. In two of those years – 2005 and 2006 – there were none at all.

Currently there are 829 banks officially listed by the FDIC as problem banks. None of them are identified publicly for fear that disclosure would trigger a bank run. In 2006 there were only 50 problem banks. The sheer number of troubled banks points to a slower recovery for the U.S. economy as those banks work off their holdings of nonperforming loans.

At the end of June 2010 there were a total of 7830 commercial banks and savings institutions with deposits insured by the FDIC. These depository institutions at the end of June 2010 held domestic deposits of $7.685 trillion of which $5.439 trillion were insured. The reserve ratio (deposit insurance fund balance as a percent of insured deposits) is -0.28 percent due in part to the increase in standard deposit insurance coverage to $250,000 but in the main to the heavy drain on the resources of the deposit insurance fund. At the start of the recession in December 2007, the reserve ratio was 1.22 percent. The deposit insurance fund balance turned negative in July-August-September 2009.

The FDIC website lists more than 1700 real estate properties across the United States that were acquired by the FDIC from failed banks and are currently for sale. A total of 311 of those properties are located in Michigan, with another 183 in Florida. There are 5 FDIC
## FAILED COMMERCIAL BANKS AND SAVINGS INSTITUTIONS INSURED BY FDIC

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properties for sale in Louisiana and only 1 in Tennessee. Proceeds from those sales are returned to the deposit insurance fund.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires the FDIC to maintain a minimum designated reserve ratio of 1.35 percent of insured bank deposits by 2020 and to begin paying assessment dividends at 1.50 percent. The 1.35 percent target is to be reached by imposing higher assessments on FDIC-insured depository institutions with an offset for those institutions with less than $10 billion in assets.

The latest information regarding FDIC operations raises once more the moral hazard question. Do commercial banks and savings institutions take on additional risk in their lending activities and in the end put themselves at greater risk of failing because they know that their depositors are protected by the FDIC safety net? By signing into law the Dodd-Frank Act was President Obama wise to permanently increase the limit from $100,000 to $250,000, or was he foolish?

Does it make sense to possibly put at even greater risk of failure the very banking institutions that supply the credit – the fuel – that drives the entire U.S. economy?

Was the new upper limit on deposit insurance determined to be best for the FDIC and the banking institutions it serves? Or was that limit necessary in order to rationalize setting $250,000 as the upper limit on middle-class income that President Obama repeatedly has pledged would not be subject to higher taxes when the Bush tax cuts expire in January 2011? Put differently, to be logically consistent with his middle-class base, how could Obama re-set the upper limit on deposit insurance to its pre-recession level of $100,000 when he has defined the upper limit on middle-class income at $250,000?
Why are we getting so much conflicting advice from economists at a time when we face the most severe economic crisis in 75 years? The reason is simple enough. Economists have been deeply divided over macroeconomic theory for the last 30 years.

Many, perhaps most, economists recommend letting markets sort through the problem, in effect separating the wheat from the chaff. They are known as neo-classical economists. Their confidence in unfettered markets is based in part on (a) the assumption that markets continuously eliminate surpluses and shortages and thereby restore macroeconomic equilibrium and (b) the hypothesis that rational, fully knowledgeable economic agents anticipate how the government is likely to intervene in economic affairs and modify their behavior in order to protect their self-interest. Thus under assumption (a) government intervention is unnecessary and under hypothesis (b) it is futile. Contrary to (a), financial markets did not clear last fall. Instead they froze up cutting off the credit needed to fuel the day-to-day operations of the economy. Contrary to (b), economic agents have not been able to modify their behavior in any rational way because the government has been managing this crisis by the seat of its pants – purchase toxic assets, shore up failing banks, bailout automakers, rescue insurance companies, restructure mortgages in default.

Other economists argue for boosting consumer demand through tax cuts, rebates, handouts, and public infrastructure projects to stimulate the economy from the demand side. They are called Keynesians. Their numbers have dwindled over the years due mainly to the inability of Keynesian economics to address the stagflation problem of the late 1960s and early 1970s.

A third school argues for cutting marginal tax rates on business and capital gains taxes in order to stimulate the economy from the supply side. They call themselves supply-siders. They were roundly condemned from the outset by their professional colleagues for proposing “voodoo economics” but gained wide support during the Reagan presidency. Their critics hold them responsible for the huge increases in the public debt in the 1980s.

Whatever their differences, Keynesians and supply-siders share one thing in common. Both are convinced that the remedy lies in fiscal policy and therefore rests in the hands of Congress.

A fourth school of thought argues that the best way to intervene in economic affairs and to restore and maintain a robust economy is through control of the money supply. They are called monetarists. This school of thought spearheaded by Nobel Laureate Milton Friedman dominated economic affairs in the late 1970s and early 1980s until
unemployment climbed above 10 percent and the prime rate of interest soared above 20 percent. Monetarists agree with Keynesians and supply-siders in supporting some type of government intervention when the market economy dysfunctions. Only neo-classical economists argue for nonintervention.

Four comments follow. First, the federal government will intervene massively in the current crisis on grounds that it alone is powerful enough to address the dysfunctionality in the system. It matters not whether the government can indeed turn the economy around. The non-interventionist neo-classical school lost its credibility when financial markets froze last fall instead of clearing.

Second, the intervention will be fiscal in nature because the Federal Reserve already has spent its arsenal of weapons to fight the crisis: reducing interest rates to near zero to encourage borrowing and spending and flooding the banking system with the reserves necessary to increase the ability of banks to extend credit and make loans. To a large extent credit markets still remain frozen.

The new president will push intervention through Congress quickly arguing that any delay in putting together a stimulus package will only worsen the crisis. Mayo Research Institute would like to see Congress hold extended hearings, but frankly to what purpose? For every interventionist faction in Congress, there are economists who can be called to testify and support whatever remedy that faction wants included in the stimulus package. So it will be trial and error, seat of the pants intervention with federal monies being thrown all around in the hope that some will stick. For lack of a better term, this interventionist strategy gets down to simply muddling through.

Third, the massive intervention will add very substantially to the deficit in the current federal budget, the budget for the next fiscal year, and perhaps beyond that. Those deficits will force the Treasury to borrow huge amounts thereby piling up more public debt.

Fourth, and last, taxes will be raised to pay interest on the debt, at least $300 billion per year, well into the future such that our children and grandchildren will be paying for the excesses in lending and investing that produced the current crisis. Conceivably, a federal ad valorem tax will be proposed because, unlike a sales tax, it is folded into the price of item being sold. It is in effect hidden from view. Thus it lacks the transparency that the new president insists will be part of his administration. But in Washington promises made are not always promises kept.
XV. ECONOMIC DEVELOPMENT
The very highly regarded English economist Barbara Ward in the early 1960s identified four revolutions that differentiate rich nations from poor nations:

1. the biological revolution that brings with it the benefits of modern medicine and public health;

2. the intellectual revolution that substitutes hard work and reason for the mystery and magic that is characteristic of tribal societies;

3. the political revolution of equality that replaces the hierarchical order of king, warrior, and landlord of tribal and class society all of whom subordinate the merchant with one in which the young do not have to wait their turn to express their ideas to the elders;

4. the scientific-technological revolution in which the physical matter of the universe is manipulated by the human intellect to better provision human needs and wants, and in which savings are accumulated to build the infrastructure necessary for economic development.8

More than 30 years later, Nobel laureate Amartya Sen asserted that “no major famine has ever taken place in any country with a multiparty democracy with regular elections and with a reasonably free press.”9

However, all four revolutions are vulnerable to counter-revolutionary forces. The biological revolution can be undone by environmental factors that threaten all living things including human beings and by infectious diseases that are drug-resistant and easily transmitted via modern intercontinental transportation systems.10 In this regard, the WHO

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in 2000 issued the following warning: “The potential of drug resistance to catapult us all back into a world of premature death and chronic illness is all too real.”

Notice, for instance, the impact that HIV-AIDS has had on economic development in sub-Saharan Africa, and the enormous cost of developing new drugs to replace the ones that no longer are effective in treating such killer diseases as HIV/AIDS, diarrhoeal and respiratory diseases, tuberculosis, and malaria.

The intellectual revolution can be reversed by a gambling mentality that proclaims that it is not reason and hard work that determine a person’s material well-being but luck – a roll of the dice, a turn of a card, a series of numbers on a lottery ticket. It is also threatened by educational processes that lock students into a conventional paradigm, especially one that originates in scripture, thereby dissuading them from challenging that paradigm. Cheating by university students, grade inflation, and dumbing down of textbooks undermine the intellectual revolution by a gradual erosion of the ideals of hard work and reason.

Ward’s third revolution, the political revolution, can and to some extent is being thrown back by youth gangs that vie for territorial control not through public discourse and the ballot box but by tribal codes and automatic weapons. And, as is all too well known, this revolution is under attack internally by powerful self-interest groups that use money to manipulate the legislative process and externally by terrorist groups who despise democracy, freedom, and equality.

The scientific-technological revolution can be upended by educational systems that fail to teach students even the rudiments of the math and science necessary to sustain that revolution. In this regard we call attention to the poor performance of American elementary and secondary school students as compared to their international counterparts and the declining numbers of American college graduates with degrees in science or engineering.

Further, gambling attacks the scientific-technological revolution in that it siphons off the personal savings of gamblers that otherwise could be used to energize genuine economic development, especially high-tech economic growth that is driven by bright and persistent entrepreneurs. In effect instead of meeting human needs and satisfying human wants through economic enterprises that sell something of real value for the money that the consumer gives in exchange, casinos exploit a basic human weakness by promising a huge

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payoff and then confiscating the savings of gamblers, providing nothing of substantial value in return.

America’s economic development and wealth are a direct consequence of having embraced over a long period of time the biological, intellectual, political, and scientific-technological revolutions and having harnessed successfully their energies. However, there is no ironclad guarantee that these revolutions cannot be undone and that the lofty standard of living that Americans enjoy today will last for generations to come. The future belongs to those with a firm grip on these revolutionary forces.
GAMBLING, ROBIN HOOD, AND ECONOMIC DEVELOPMENT

May 2006

Louisiana politics has a long tradition of claiming that the key to economic development lies in taxing the rich or seizing their property and redistributing the proceeds to the poor. This tactic clearly has immense appeal since it offers such a simple and straightforward formula for raising the living standards of the poor, and is reinforced by the charming fairy tale of Robin Hood and his band of merry men. It is and should have remained just that -- a fairy tale -- because as virtually every student of economics knows it is production and not confiscation/redistribution that is the key to economic development and improved living standards. However, the appeal of the Robin Hood myth is so compelling that from time to time it surfaces in the public discourse in the form of strong recommendations promoting economic development by opening venues for gambling casinos.

There is for sure strong opposition in many quarters to hitching economic development to the engine of gambling on grounds that gambling is an immoral, sinful enterprise -- the work of the devil -- and brings with it some seedy and undesirable characters. Without implying anything untoward about that position or the persons and institutions that espouse it, we would like to offer another view from economics that argues against the establishment of gambling casinos.

In the preceding essay we observed that there are four revolutions which differentiate rich nations from poor nations in which these revolutions have taken hold in nations that are rich but not in nations that are poor. The four revolutions are the biological revolution, the intellectual revolution, the political revolution, and the scientific-technological revolution.

Two of those four revolutions are relevant to the issue of using gambling to foster economic development. First, gambling reverses the intellectual revolution in that it promises the gambler that riches derive from luck, the roll of the dice, rather than reason and hard work. Casinos play off the gambler’s misguided belief in the Robin Hood myth to the effect that something can be gotten with much fun and little effort. The overwhelming evidence is that gamblers lose and the casinos are enriched. In what amounts to a truly ironic twist casino gambling along with the lottery are promoted to the general taxpaying public on grounds that the state revenues generated from those sources are dedicated to education! Gambling, in other words, is sold to the public as supporting the intellectual revolution when in fact it is undermining that revolution.

Second, gambling attacks the scientific-technological revolution in that it siphons off the personal savings of gamblers that otherwise could be used to energize genuine economic
development, especially high-tech economic growth, when driven by bright and inspired entrepreneurs. For many gambling becomes an addiction that not only depletes their savings but also forces them into indebtedness. For a desperate few, addiction leads to stealing in order to climb out from under the pressing burden of their gambling indebtedness.

If we don’t bury the Robin Hood myth and pursue the difficult task of promoting economic development through hard work, reason, and savings, we may find ourselves buried by the very casinos that thrive on the false promise of that myth.
David McGranahan of the U.S. Department of Agriculture made a presentation recently at a local public university on the role of “energetic, talented, and knowledgeable people” in economic development. McGranahan no doubt is correct in highlighting the significance of creativity in economic affairs but this is nothing new. Rockefeller, Morgan, McCormick, Ford, Carnegie, Edison, among others are deeply enshrined in American economic history with good reason. More recently Turner, Walton, Dell, Jobs, Gates, to cite only a few, have been driving forces behind the U.S. economy. Each one in his own way was more than creative, he was visionary, was able to see what others could not and convert that vision into a commercially successful product or service. Further, many years ago economist Joseph Schumpeter trumpeted the role of the entrepreneur in economic development.

The old paradigm for U.S. cities was grounded in manufacturing: steel in Pittsburgh, beer in Milwaukee, shoes in St. Louis, automobiles in Detroit, farm equipment in Chicago, textiles in New England. In rural areas, the old paradigm centered on farming and natural resources including timber and minerals. The new paradigm in rural areas, according to Louisiana Tech’s Dave Norris and Kathy Wyatt is not based on “recruitment, incentives, and tax cuts” for established enterprises. Instead the new paradigm is based on “a general strategy aimed at attracting and retaining people - especially but not limited to creative people.” They cite Agriculture Department research that “rural and small metro areas with creative populations experience job growth that is typically twice the rate of areas with a less creative culture.” From a strictly analytical perspective, the issue reduces to which factor – job growth or creative culture – is the driving force.

McGranahan, however, in an April 2007 report published by the Agriculture Department which draws on three other publications that he had a hand in admits he does not know.

Counts with high proportions of creative-class residents appear to have more creative activity with regard to patents and technology adoption. It is not clear… if … people who invent and/or adopt new technologies and practices may tend to locate in high-energy, creative-class settings or if high creative-class environments engender more patenting and technology adoption.

In the same report, McGranahan admits that the job growth rate depends on how one defines and measures the creative population. The measure he employs yields a rate of 44 percent for “high creative-class nonmetro counties” versus the 30 percent rate reported by Richard Florida.
There are a host of other issues that deserve scrutiny such as whether in making his estimates of job growth McGranahan included information on access to the county via modern transportation systems, on the commuting practices of creative persons who live in rural counties but work in nearby metro counties, on the spillover effect of job growth in metro areas on jobs in adjacent nonmetro counties, on the quality of basic public services including drinking water. Those issues might be pressed home with McGranahan at Tech on Wednesday.

Sometimes McGranahan’s reported statements are self-evident:

Good local universities alone will not lead to local economic dynamism as graduates move to more attractive places upon attaining their degrees. In this context, the key to local growth is to attract and retain talent, as talent leads to further job creation.

Sometimes they are confusing especially for higher education:

Counties dominated by colleges and universities also ranked high in creative-class proportions... Most of the nonmetro creative-class counties in low natural-amenity areas have colleges or universities.

Other economic development issues deserving of attention include most importantly the known destructive effects of successful entrepreneurship. Look at, for example, what WalMart did to Kmart and Sears, what Apple did to IBM, what CNN did to network news programming, what cell phones did to AT&T, what the Internet is doing to the print business. And if tax incentives “are not helpful,” as Norris and Wyatt claim in the News-Star, how do they explain the unusual and unexpected development of the film production industry in Shreveport?

They are right to argue that a business that has gotten incentives to locate can pull up stakes “at a moment’s notice.” But in the very same article they say that efforts must be made to “attract and retain creative, innovative, and entrepreneurial people.” Though not stating it explicitly, Norris and Wyatt are admitting that people too leave “at a moment’s notice.” Does this not suggest that it is necessary to find ways to attract and retain both business enterprises and creative people? Is it not a truism that creative people need work that is challenging and affords them opportunities to use and develop their talents, and that business enterprises need creative people to spark the innovational activities which will make the company competitive and successful in the future?

Finally, what is it that makes a creative person successful as an entrepreneur? The entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change in the workplace and in the marketplace in five ways. In the marketplace, the entrepreneur introduces a new good or service and penetrates a new market. In the workplace, the entrepreneur utilizes different materials in the production process,
introduces new production processes, and develops new business models. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the process of production.

Schumpeter identifies persistence as the key personal trait of the entrepreneur, setting him/her apart from others. The entrepreneur is dogged in the pursuit of his/her innovational ideas, and simply does not give up in the face of opposition. Entrepreneurs are visionary in the sense that they see opportunities and possibilities where others see nothing beyond the present. Large established companies resist entrepreneurial change in a way that is reminiscent of Newton’s third principle of motion: for every action there is an equal and opposite reaction.

Thus entrepreneurs often are associated with small companies including firms that they themselves established specifically to implement their innovational ideas. They are driven at times by the survival needs of the company, but are not always successful. It is especially sobering to note that the chances are only one in five that a new business in the United States will continue operating five years after it was launched. Even so, entrepreneurs are more likely to accept the risk of failing and to try again in a culture where failure in business does not spell personal failure. Bankruptcy relief and “the golden parachute” are two ways in which the American culture encourages the entrepreneur to try again.

Unlike accountants, musicians, veterinarians, and others, the entrepreneur is not required to master a body of knowledge and demonstrate a certain set of professional skills. There is no designated educational pathway to becoming an entrepreneur, although entrepreneurial skills can be enhanced through formal education and training, and by entrepreneurial role models such as an older member of the family. There is no profession known as “entrepreneur” and no professional membership organization for entrepreneurs to join.

The typical business enterprise is like the human cell that must divide and separate in order to survive. For a company to prosper and endure, someone must be entrepreneurial. Failing to innovate assures its ultimate demise.
Two organizing principles energize economic affairs – competition and cooperation. Competition depends on the social value of freedom because competition flourishes only in an environment where economic agents are free to act. In like manner, cooperation thrives when economic agents tend to regard one another as equals. Reinforce freedom and competition becomes a greater energizing force in economic affairs. Emphasize equality and cooperation becomes a more significant force driving economic affairs.

Competition and cooperation, along with their underlying values of freedom and equality, are like the twin engines of an aircraft which when operating properly maximize the aircraft’s performance – lift, safety, speed, operating ceiling, and payload. If one of those engines fails, performance suffers.

The history of a country’s economic development is in part revealed through the choices made in that country as to which of these two social values is more widely embraced. Under President Franklin Roosevelt equality took on a larger role in economic affairs. In President Reagan’s administration freedom was more highly valued. In the last year, the United States slipped from sixth place on world economic freedom index to eighth place.

Using the most recent data on economic freedom provided by the Heritage Foundation and on income equality supplied by the CIA, we created a hybrid index, which ranks countries according to the balance achieved in terms of those two social values. This hybrid freedom-equality index is constructed on the basis of the sum of a country’s rank in terms of economic freedom and its rank in terms of income equality, thereby weighting income equality and economic freedom equally. This index is no mere merger of two data sets. Rather, it joins into a single statistical measure the two social values that serve as the foundations of a market economy.

The freedom-equality index includes all 27 countries in the European Union, the United States and its two neighbors Canada and Mexico, three of the Asian Tigers (Japan, South Korea, and Singapore), plus ten countries of special interest – Australia, Brazil, Israel, Haiti, New Zealand, India, Switzerland, Norway, China, and Russia. In large measure we selected developed countries in order to avoid the bias implicit in any comparison between rich and poor countries due to the fact that income equality in a poor country means

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13 The economic freedom index incorporates ten freedoms including trade freedom, business freedom, investment freedom, and property rights; the income equality index is based on the Gini coefficient that measures family income distribution.
something entirely different than in a rich country. Hong Kong which ranked number 1 in the world in terms of economic freedom and Taiwan were left out because the source we used for income equality provided no data for either one.

Denmark ranks first on the freedom-equality index because the sum of its rank orderings on economic freedom and on income equality is lowest among the 43 countries covered. The United States outranked Denmark on economic freedom but dropped far below Denmark on income equality. The northern European countries of Denmark, Sweden, Norway, and Finland all placed in the upper half of the rank orderings largely because of their high placement on the income equality index. The southern European countries of Spain, Portugal, Italy, and Greece all placed in the lower half of the rank orderings mainly because of their poor performance on the freedom index. Leaving aside Haiti, the so-called BRIC countries -- Brazil, Russia, India, and China -- are the poorest performing countries of 43 countries included in the freedom-equality index. All four did poorly on both indices.

1. Denmark
2. Australia
3. Luxembourg
4. Sweden
5. Ireland
6. Austria and Canada
7. Finland
8. Germany and Netherlands and Switzerland
9. New Zealand
10. Cyprus
11. Belgium and Czech Republic
12. United Kingdom and Slovakia
13. Norway
14. Estonia
15. Singapore
16. Malta
17. Slovenia and South Korea
18. United States
19. Hungary
20. Japan and Spain
21. Lithuania
22. Romania
23. France and Bulgaria
24. Italy and Latvia
25. Greece and Israel
26. Poland and Mexico
27. Portugal
28. India
29. Russia
30. China
31. Brazil
32. Haiti
Because the United States performed poorly on the income equality index it ranked below the other five English speaking countries -- Australia, Ireland, Canada, New Zealand, and the United Kingdom -- on the freedom-equality index. Thirteen of the top seventeen countries on that index are members of the European Union, principally because they performed well on the income equality index. Even so, five of countries with high-performance rankings on the freedom-equality index -- Australia, Ireland, Canada, New Zealand, Switzerland -- outperformed the United States on the freedom index.

Americans pride themselves on the opportunities that freedom affords them to achieve a higher standard of living through hard work even though some of their fellow Americans are not so fortunate. These data on economic freedom and income equality for the other English speaking countries prove that it is not necessary to sacrifice the one in order to achieve the other.
The need for local economic development is self-evident both anecdotally for anyone who is familiar with the City of Monroe and Ouachita Parish and statistically for anyone who is well-versed regarding the extent of poverty in the Parish over the years. According to the Census Bureau the rate of poverty for the entire Parish population in 2005 was 22.7. Among children under 18 years of age the Parish-wide rate of poverty was 34.9 percent.

Local economic development can be addressed through two strategies -- attract already established firms to relocate in the area or help local residents start their own businesses.

The first strategy is appealing because it offers promise of increasing local employment, payrolls, spending, and tax revenues. Often, however, public officials must deliver economic incentives to any targeted company in order to lure it to the local area even though there are no assurances that later on the company will not re-locate elsewhere for a better package of incentives including lower labor costs.

The second strategy offers greater promise that start-up businesses will remain in the local area because local residents are the driving force behind those firms. However, they cannot match the scale of the improvements that relocating established firms bring to the local economy. Further, roughly 80 percent of start-up companies fail in the first five years.

Even so, with the right support such as recruitment and training of employees, site location and plant layout, and legal services, it is possible to lower the startup failure rate. What is required is a single institution that can provide direct and inexpensive access to the assistance a startup needs. Banks do not see themselves in that role. Banks protect themselves from defaults on their loans that arise from start-up failures by requiring start-ups to refinance their loans well before they collapse into failure or by seizing the assets that secured those loans after they fail. Business failures on the part of commercial loan customers mean that banks suffer the loss of the accounts that those customers would have maintained in those banks had they been successful. The loss of any funds in those accounts lowers the bank’s limit on its loan portfolios. This limit is defined as the bank’s excess reserves (accountholder funds on deposit minus reserves as required by the Federal Reserve). Thus, failed businesses operating with borrowed funds from a bank in effect reduce a bank’s ability to make loans to other customers through the credit-creation process and thereby reduce the profits the bank could earn from additional loans.
To protect the limit on its loan portfolio, a bank must find new customers willing to open their accounts with the bank. Sometimes a bank resorts to give-away items such as stadium seats or drinking cups to attract new depositors. Sometimes it boosts the rate of interest it pays for new deposits especially for new accounts with large opening balances.

When local ministers with a commitment to social ministry understand the role of their deposits in banking operations, acting together they can become more effective in local economic development. Simply put, the more funds a bank’s depositors keep in those accounts, the more loans and profits the bank can make. An alliance of ministers, each with a checking account that holds the congregation’s funds and the account of any school operating with its sponsorship would approach several local banks at the same time and invite them to compete for those accounts. The bank with the best plan for local economic development focusing on startup businesses would be rewarded with the accounts of the alliance members. There is absolutely no risk to the alliance provided their funds are kept in FDIC insured accounts where the balance does not exceed $100,000.

Any successful bank development plan would have to include the following. First, a commitment to prepare detailed business plans for whatever new enterprises are needed in the local area as specified in an agreement with the alliance. Second, a pledge to provide the business services/expertise a start-up needs or refer that start-up to others in the area willing to offer the required help. The cost of providing those services would be paid initially by the bank with the understanding that the bank would be reimbursed by including those costs in any loan it makes to a start-up enterprise. Third, an agreement with the alliance as to conditions under which the bank is obligated to approve or refuse funding for a start-up. Fourth, in agreement with the alliance, a set of benchmarks defining the performance of the bank in terms of number of start-ups launched, jobs and payrolls created, success/failure rates. Finally, an understanding that the bank has five years to meet those performance benchmarks or risk losing the alliance’s accounts.
XVI. THE ENVIRONMENT: 
THE UPSIDE, THE DOWNSIDE
For years it has been known that decomposition of the waste materials in landfills produces methane gas. The problem has been how to extract that gas and make it readily available to end-users in a cost-effective manner. The first task has been accomplished. Making it available to end-users is the entrepreneurial challenge. That challenge is being met successfully in more than 40 states including Louisiana.

The U.S. Environmental Protection Agency’s Landfill Methane Outreach Program reports that there 445 landfill gas energy projects currently operational across the United States. These projects generate about 11 billion KWH every year and deliver 236 million cubic feet of landfill gas every day for direct-use applications.

Many of the companies involved are household names: BMW, Cargill, Chrysler, Duke Energy, Dupont, Ford, Frito-Lay, General Electric, General Motors, Honeywell, Lucent, Mallinckrodt, NASA Goddard Space Flight Center, Nucor, Ocean Spray, Pilgrim’s Pride, Rutgers University, SC Johnson, and Tropicana. The projects run the gamut from heating greenhouses, fueling garbage trucks, producing heat and electricity in cogeneration applications, and supplying fuel in a variety of manufacturing processes including steel, chemical, automobile, ethanol, and biodiesel production.

Specific public-sector projects include, for example, cogeneration at a community high school in Illinois, fueling a sludge dryer at a wastewater treatment plant in North Carolina, using heat from the combustion of landfill gas to evaporate landfill leachate in Florida, Texas, Ohio, Washington, and several other states. California with 72 operational projects leads all states. Other projects are heavily concentrated in an east-west belt which runs from Massachusetts and New York through Illinois and Wisconsin.

There are three operational projects in Louisiana involving direct-application end-users: General Motors in Keithville; Cytec Industries in Avondale; and Del-tech Corporation in Baton Rouge. Renovar Energy of Midland, Texas was the contractor on all three projects which supply fuel to boilers. There is a fourth project in Welsh which under a contract with South Texas Renewables began operations earlier this year. This is a high BTU project in which carbon dioxide and other contaminants are removed from the landfill gas until it meets natural gas pipeline specifications.

All of the nearly 445 projects across the United States remove methane, a greenhouse gas, from the environment. The Avondale project, for example, removes the annual equivalent
of greenhouse gas emissions from 4,200 passenger vehicles. All of these projects take a nuisance fuel which previously was seen as waste and use it effectively in cogeneration, direct-use, and electricity generation. Some of them clean up undesirable or toxic chemicals in the water that percolates through landfills. Others produce the energy to heat and cool our homes and businesses. A few help almond growers in California, brick manufacturers in Georgia, and producers of cranberry products in Wisconsin.

USEPA estimates that there are roughly 535 other landfills in the United States which provide opportunities for similar project development. To be included among the 535 a landfill is either currently accepting waste or has been closed for less than five years and contains at least one million tons of waste. There are candidate landfills in these Louisiana cities: Sorrento, Jena, Washington, Independence, and Walker. Additional candidates are found in Westwego (7.5 million tons of waste), Zachary (5.6 million tons), and Monroe (3.6 million tons).

Their development into operational projects depends critically on the vision to see in detail how a dump site can supply an energy resource for a specific end-user, the creativity to sell the idea to financial backers, and the perseverance to overcome resistance and make it happen.

Is there somewhere in Louisiana an entrepreneurial maverick who sees what others do not: a landfill close to an interstate highway as a fuel stop for fleets of trucks with engines which have been converted to run on compressed methane gas? The extraction technology already is in place in Louisiana. The engine technology is in place in Europe. A visionary like that could be the State’s next multi-millionaire.
CAMERON INTERNATIONAL: 4TH PARTY IN DEEPWATER HORIZON DISASTER

January 9, 2010

After seven weeks of daily news reports covering the parties responsible for the huge oil spill in the Gulf of Mexico – Transocean which owns the Deepwater Horizon drilling platform, Halliburton which was responsible for cementing the well, and BP which leased the platform and owns the well -- are everyday names in the states along the Gulf coast. A fourth company has surfaced from the deep though it has escaped the close scrutiny of the other three. Cameron International produced the blowout preventer which failed to seal the well when it exploded has been a quiet if not nearly silent partner in this disaster.

Cameron International traces its origins to a foundry started in Mt. Vernon Ohio in 1833. It became involved in manufacturing oilfield chokes in 1939. Today it produces a range of blowout preventers including the U BOP for land, platform, and subsea applications. The company is headquartered in Houston and is publicly traded on the NYSE. In first quarter 2010 Cameron reported net income of $120.4 million. It is currently building and expanding manufacturing facilities in Romania and Malaysia.

In January 2009 Cameron received an order “worth approximately $100 million for the supply of subsea production systems for BP subsea tieback projects in the Gulf of Mexico.” Aside from its April 29 news release reporting first quarter earnings, Cameron has been completely silent on its website about the disaster in the Gulf even though in his opening statement of May 12 Chairman Bart Stupak of the House Committee on Energy and Commerce identified the failed blowout preventer used on the Deepwater Horizon and purchased by Transocean as Cameron’s.

In discussing the leaks that were discovered in the blowout preventer’s hydraulics system with a senior Cameron official, Stupak was able to identify four problem areas. First, the leak may have deprived the shearing rams of sufficient power to cut through the drill pipe and seal the well. Second, the blowout preventer had been modified but the drawings BP depended upon at first did not match the structure on the floor of the Gulf. Third, the blowout preventer’s shear rams were not powerful enough to cut through joints in the drill pipe. Fourth, the emergency controls on the blowout preventer may have failed “because the explosion that caused the emergency also disabled communications to the blowout preventer.”

According to Cameron, the blowout preventer has a deadman switch which is activated when all else fails. However, the switch may not have been enabled prior to installation on the floor of the Gulf or the batteries necessary to trigger the switch may have been dead.
Additionally, the switch is activated only when all three lines – communication, power, hydraulics -- connecting the rig to the blowout preventer are severed. It is possible that the hydraulic line was not severed and for that reason the deadman switch was not activated.

Stupak stated that he had discovered a report by Transocean in 2001 when it bought the blowout preventer from Cameron that identified 260 failure modes, principally involving ram locking mechanisms, that could require pulling the blowout preventer.

In hearings on May 17 before the House Committee of Transportation and Infrastructure, a rule change by the federal Minerals Management Service in the late 1990s reduced the number of required blowout preventer tests in half “resulting in an annual savings of $340,000 per rig.” This rule change followed on the heels of studies by MMS that blowout preventer failures happened more frequently than indicated by the industry. Two witnesses at the hearings, one a Coast Guard captain and the other a MMS employee, testified that the blowout preventer is designed, manufactured, and installed by the industry with “no government witnessing or oversight of construction or installation.” At the same hearings, a Coast Guard rig inspector stated that “the pace of technology has outrun the current regulations.”

Even an amateur can see that deepwater drilling requires highly specialized and complex equipment along with crews carefully trained to operate that equipment safely and under the extreme stress of an unexpected emergency. The blowout preventer is the critical piece of equipment because it is literally the primary line of defense against a catastrophic accident.

The federal government is not doing enough to assure that the blowout preventer works when it is most needed. In the end, the people on the Gulf Coast whose livelihood is tied to the Gulf are paying a terrible price for a blowout preventer that failed in its one and only task and a federal government that has not kept pace with technological developments in deepwater drilling and is too distant from the problem and unprepared to respond quickly and effectively. We needed an Apollo-13/Cajun engineering type emergency response. We got instead Congressional hearings, finger pointing, and scapegoating.

When the leak is finally plugged, questions such as the following need to be addressed. Where were the empty supertankers sucking up the oil/water mixture, separating the two, treating and spewing the water back into the Gulf, as recommended by the former president of Shell Oil? Should MMS be headed by a lawyer as in the case of the last political appointee or an engineer? What liability does Cameron have in this matter? Are we expecting too much from the federal government that over the years has grown so big that it cannot respond quickly and effectively? Will we be faced indefinitely with choosing between (a) a ban on all risky offshore oil operations and higher prices for gasoline and (b) a continuation of deepwater drilling in order to fuel the U.S. economy? Do we want an
angry president who wants to kick a** and take names after the incident or one who gets the right people in place before the incident -- an avenger or a leader? Will federal government regulators inevitably trail behind technological developments in an economy driven by the entrepreneurial spirit?

Finally, what is a state to do when it sees that the federal government is not responding quickly and effectively to the needs of its citizens and the threats to its natural resources? Wait for the federal response to kick in even as the situation deteriorates or intervene on its own even when it means demanding federal reimbursement for containment costs?
XVII. GOVERNANCE
Fifty years ago the Ford Foundation supported a comprehensive private investigation of the public debt and the government securities market. The work of the Commission on Money and Credit centered on the size of the public debt at that time – approximately $287 billion. The Foundation and the Commission were deeply concerned about the burden of that debt even though federal tax revenues actually exceeded spending in 1946-47, 1947-48, 1950-51, 1955-56, and 1956-57.

Still in the honeymoon period of his presidency, John Kennedy in June 1961 responded to the Commission’s efforts in an artful affirmation with no commitment for implementation.

This private, voluntary study cannot fail to stimulate and inform the national discussion of those grave economic problems that this Nation faces from day to day … this report should bring others to study and discuss the problems of national coordination of the governmental and private institutions, which together guide our complex money and credit system.

Since Kennedy made those remarks, and notwithstanding the several fiscal years in which budgeted tax revenues exceeded spending, there has not been a single year when, after the books were closed, actual federal tax revenues surpassed expenditures. Thus, without exception, the public debt has increased in every year for more than 60 years.

Sixteen years ago a Congressional conference committee struggled with a budget deficit of roughly $200 billion in a round of bickering that interested students of government can watch on C-SPAN today. The rhetoric and posturing are remarkably similar to what we see today. Republicans are dug in on the revenue side, clinging to their no-tax-increase addiction. Democrats are entrenched on entitlement spending, all the while feeding their soak-the-rich addiction. Sadly, though predictably, last year’s Simpson-Bowles deficit-reduction proposals were dead on arrival.

It’s not leadership that is sorely lacking today. The founding fathers were profoundly fearful that the new president would govern like a king. They knew full well that we did not need the leadership of a George III or a Robespierre who would undermine our exceptional experiment in self-governance and the rights of the individual. Today, for the very same reason, we do not need the cruel and repressive leadership of a Hugo Chavez or Fidel Castro.

What we need today is the courage to end the blame game, the political rhetoric, and the posturing. The courage to see beyond the next election cycle. The courage to say no to
powerful special interests who threaten to unseat any elected official who does not do their bidding. To say no to the kind of pork-barrel spending that has gotten public officials elected and re-elected. To say no to constituent wish-lists that are packaged in petitions as desperate unmet needs. To say no to the current generation so that future generations are not broken under the weight of programs and entitlements that their fathers and grandfathers would not pay for.

The courage of men and women in Congress to bolt from their party leadership when their leaders push them to “go along and get along.” The courage to put together a budget based not on empty promises but real commitments. To tell private firms that they will not be bailed out when they run out of cash. To bring an end to too-big-to-fail. To tell state and local governments to stop depending on the federal treasury to pay for programs and projects that are not covered by state and local taxes. To do what is necessary even when it is not to their immediate personal advantage. To protect our exceptional experiment in self-governance and individual rights from leaders who offer instead a servile state and cradle-to-grave entitlements.

America is addicted to big government, a severe dependency that once again has been confirmed by the 12-member super committee that could not reconcile the Republicans’ no-tax-increase addiction with the Democrats’ soak-the-rich addiction. As with all personal addictions in which family members and loved ones suffer the consequences, our children, their children, and their children’s children will be saddled with our fiscal excesses. It takes courage, often gut-wrenching, to break a personal addiction. It will take the same kind of courage to break our addiction to big government. It can be done, but not with leaders who promise to remedy our addiction sometime after they are re-elected in 2012.

It is not leadership that is missing in our public discourse. It is men and women of courage like the founding fathers who in 1776 affirmed that “for support of this Declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes, and our sacred Honor.”
 Whether one agrees with it or not, the grand jury’s decision in the August 9th shooting death of Michael Brown of Ferguson, Missouri at the hands of Police Officer Darren Wilson of the Ferguson Police Department, is grounded squarely in the governing norm of the rule of law in contentious matters such as the violent taking of human life.

This norm is put into effect through a careful review of all the facts and evidence associated with the matter in question by a panel of citizens selected and empowered for the purpose. Their judgment determines whether there are enough facts and evidence to bring the matter before a judge and trial jury. It follows inescapably that the governing norm of the rule of law is the rule of men and women. The grand jury works as long as the jurors selected are up to the task. It is a human institution and therefore subject to the imperfections of all human beings.

The violent response in Ferguson to the grand jury’s decision is a manifestation of the governing norm of mob rule demanding a different decision in the Brown killing because the mob is convinced that their judgment in the matter trumps the judgment of the grand jury. They are asserting that they will engage in destructive public acts until the matter is settled according to their will. The mob too is subject to the imperfections of human beings but those imperfections often are amplified by strong emotional, irrational, and hate-filled appeals in which lawlessness breeds more lawlessness.

The nonviolent response in Ferguson and in other cities is a demonstration that the governing norm of the rule of law must be addressed and changed in order to fix its perceived flaws such as the complaint that this norm is applied differently to different demographic classes. In the end this requires action on the part of state and local legislative bodies along with an even-handed administration throughout the entire judicial system.

Immediately following the public announcement of the grand jury’s decision, President Obama urged respect for the governing norm of the rule of law. “First and foremost we are a nation built on the rule of law.” There is an urgent need, he said, to “start tackling much-needed criminal justice reform.”

At the same time, the President seems entirely justified in his own bold rewriting of the federal law on immigration. Last week he asserted that he had waited long enough for Congress to act so he would act on his own. As with the Ferguson mob he decided that his judgment regarding those who enter America illegally trumps the judgment of Congressional lawmakers. As Executive-in-Chief he would wait no longer, in effect declaring himself Lawmaker-in-Chief.
His action reminds one of the man who demands certain favors from a woman who repeatedly tells him “NO.” In the end her refusals don’t matter because he feels that he has waited long enough. He is fully justified in having his way with her.

Human history teaches the hard lesson that for any society which values peace, prosperity, and tranquility the governing norm of the rule of law is a first-order requirement. Rejecting that norm, as for instance in some places in Africa and the Middle East today, because it seems not to work for those who hunger for a redress of their grievances leads first to the governing norm of mob rule and then to rule by a strong man who knows how to restore order. Silencing, detaining, torturing, and killing are the fate of anyone who resists the strong man. Citizens soon learn to remain silent and compliant.

It follows that the governing norm of the rule of law is the final line of defense against rule by a strong man. Any caving in on that norm means putting matters into the hands of the mob and then the strong man.

An angry citizenry and an impatient president who defies Congress are a direct threat to that final line of defense. The state legislature can shore up that line of defense by discussing how best to repair any law that is not working effectively, any circumstance that requires new legislation, and putting their case before the governor for his/her signature.

We are reminded of Thomas Jefferson’s advice on this matter in 1798. “Where powers are assumed which have not been delegated, a nullification of the act is the rightful remedy.”
One hundred years ago in France, trench warfare defined how military adversaries engaged one another on the battlefield. Two sides, entrenched in the relative safety of reinforced dugouts, both afraid to go “over the top” for fear of enemy machinegun fire. Both scared to even pop their heads above the trench for fear of getting a sniper’s bullet between the eyes.

That relative safety, however, had its own dangers -- exposure to harsh elements, not to mention shelling and poison gas. Personal survival in the trenches depended on doing as little as possible, on not engaging the enemy unless forced to by their officers. The conflict that was ballyhooed as “the war to end all wars” and waged to “make the world safe for democracy” became a war of attrition, not so much by design as by default.

In the end, the side that was better able to sustain the human and material losses prevailed. Thus, there was no real victory, just an armistice that allowed both armies to go home and mourn their dead. In addition, the vanquished faced crippling reparations. Twenty years later, Europe again was embroiled in war, this time even more destructive, with a twisted cruelty and civilian atrocities on a scale unseen in human history.

Today we witness trench warfare in Washington with both political parties dug in the relative safety of an election process that strongly favors incumbents. Both are afraid to go “over the top” -- to muster the courage to find ways to end the gridlock -- for fear of abandonment by their own base constituency and attack by their rivals. Or getting a political bullet between the eyes.

Both parties deploy their own snipers: political strategists, pollsters, party operatives, cable-TV attack dogs. Their ammunition is a rhetoric intended to kill or disable: reign of terror, class warfare, fat cats, culture war, womanizer, not a real American, appeaser, death panels, nonbeliever in American exceptionalism, fish rots from the head, doesn’t pass the smell test. Even more telling, battleground states, target your enemies, don’t retreat: reload. And, in far too many instances, outright lies.

In the House of Representatives, one party presents a budget – a battle plan -- and gets it approved along a largely party-line vote. In the Senate, one party citing legislation passed last year insists it has a budget, the other party says that it does not. Nothing happens. The House’s battle plan is thrown aside. Both sides are resigned to fighting in the trenches, not by design but by default.
In this Washington trench warfare, the poison gas of co-dependency ties the voters with entitlement benefits they cannot do without to the politicians who promote those entitlements in order to get re-elected. Never mind the cost, the unfunded liability. Shelling in this beltway battlefield involves the use of regulatory powers and the tax code to protect one side’s constituents and hammer the other’s.

One deeply entrenched party adamantly insists on limited government and tries to cut expenditures, the other just as deeply entrenched and just as committed resists those cuts because they would balance the budget on the backs of the poor and elderly. One party stands for liberty, the other holds fast to security, much as in WWI where one side defended democracy, the other the fatherland.

Trench warfare continues year after year, and for all intents and purposes has become the “new normal” in Washington. Both sides in desperation agree to continuing resolutions in order to avoid a complete shutdown of government services. Nonetheless, those resolutions assure the continuation of the usual partisan bickering – sniping -- about the role and scope of the federal government because today those resolutions mean a continuation of big government.

Having learned to keep their heads down and hold on to the old battle plan, the old men in the trenches get even older and less inclined to bring an end to trench warfare. Truth to tell, it’s working for them. It keeps them and their supporting troops in office.

As for crippling reparations – payment for the deferred cost of trench warfare -- consider the public debt that the Me Generation is passing along to future generations.

Trench warfare will end in November or, more likely, go on for another two to four years. Much depends on whether those old men are willing to rally their troops by sticking their own heads above the trenches. On whether there are enough difference-making foot soldiers left in Washington who later it can be said “more than self, their country loved.”
The Dodd-Frank Wall Street Reform and Consumer Protection Act which passed the U.S. Senate last week and was signed this week by President Obama is massive in length and detail: 2,319 pages, 1,603 sections. Too long and too detailed to cover other than selectively. Accordingly, Mayo Research Institute focuses on several sections which otherwise might be lost in mass-media coverage.

Section 1306 amends Section 1613 of the American Recovery and Reinvestment Act of 2009 so that whenever it is in “the best interest of the Nation” the President may waive the ARRA requirement that designates unobligated funds at the end of 2012 for deficit reduction and prohibits using those funds as an offset for other increases in spending or decreases in revenues.

Section 750 sets up an interagency working group of presidential appointees at the highest levels of government including the secretary of the Treasury and the heads of Environmental Protection Agency and the Securities and Exchange Commission to “conduct a study on the oversight of existing and prospective carbon markets to ensure an efficient, secure, and transparent carbon market, including oversight of spot markets and derivative markets.” This study no doubt will re-assure the Obama administration of the wisdom of pending cap-and-trade legislation.

The 14-page Section 1502 includes instructions to the Comptroller General of the United States to “submit to appropriate congressional committees a report that includes an assessment of the rate of sexual- and gender-based violence in the war-torn areas of the Democratic Republic of the Congo and adjoining countries.”

Section 1491 includes a finding by Congress that “the conservatorship for Fannie Mae and Freddie Mac has potentially exposed taxpayers to upwards of $5,300,000,000,000 worth of risk … [and that] efforts to enhance by the protection, limitation, and regulation of the terms of residential mortgage credit and the practices related to such credit would be incomplete without enactment of meaningful structural reforms of Fannie Mae and Freddie Mac.” No such reforms are offered in Dodd-Frank Act even though Fannie Mae and Freddie Mac in 2009 reported combined losses of $93,600,000,000.

Section 113 empowers the Financial Stability Oversight Council which is chaired by the secretary of the Treasury to “determine that a U.S. nonbank financial company shall be supervised by the Board of Governors and shall be subject to prudential standards … if the
Council determines … that the activities of the U.S. nonbank financial company could pose a threat to the financial stability of the United States.” The phrase “including an affirmative vote of the Chairperson” in Section 113 gives the secretary of the Treasury veto power in these matters.

Section 1602 establishes a Financial Crisis Special Assessment Fund in which the monies in the Fund are to be “invested in obligations of the United States issued directly to the Fund having suitable maturities and paying suitable interest rates as determined by the Secretary [of the Treasury].” This fund in other words can be tapped to purchase Treasuries issued to cover a federal budget deficit. “The Fund shall not be used in connection with the liquidation of any financial company … or any financial stabilization action taken under this Act.”

Section 1601 authorizes the Federal Financial Stability Oversight Council to impose “one or more special assessments on financial companies” with $50,000,000,000 or more in assets. Assessments are based on risk-related factors, but Fannie Mae and Freddie Mac which together in 2008 spent $9,640,000 lobbying Congress are explicitly excluded from any assessment obligation. This Fund is intended to “fully offset the net deficit effects of the provisions of this Act …” The Financial Crisis Special Assessment Fund is designed not to address a financial crisis but to meet PAYGO requirements.

Three Republican senators were crucial to the passage of the Dodd-Frank Act: Olympia Snowe, Scott Brown, and Susan Collins. According to the Center for Responsive Politics Snowe received $622,000 from the finance-insurance-real estate industry in 2005-2010, while Brown got $1,100,000, and Collins accepted $1,500,000. For all three senators, finance-insurance-real estate was the most important source of campaign contributions.

Democrats on the Senate Banking Committee that drafted the Act also got financial support from that industry in 2005-2010. Chairperson Chris Dodd, for instance, got $3,600,000, Chuck Schumer received $4,700,000, and Mark Warner took in $5,200,000. Barney Frank who chairs the House committee that helped craft the Dodd-Frank Act picked up $2,382,200 from finance-insurance-real estate sources. The new regulations set no limit on how much special interests can contribute to the re-election war chests of members of Congress including those who are charged with regulating those interests.

Washington insiders often discount the importance of campaign contributions to federal elected officials by asserting that money doesn’t buy influence on Capitol Hill, it buys access. If it takes millions for a heavy-hitter to gain access to a member of Congress, what kind of access does an ordinary citizen get other than perhaps at a town-hall meeting?

In a recent policy brief Edward Kane who serves on the finance faculty at Boston College and is a past president of the American Finance Association observed the following.
Regulation begets avoidance activity, and avoidance eventually begets some form of re-regulation. Regulatory problems, adjustments, and market events unfold and mutate as part of alternating sequences in which either regulation spawns new forms of avoidance or the growing ineffectiveness of particular avoidance activities finally results in a threshold level of avoidance activity that call forth innovative re-regulation. Adapting regulatory protocols to innovative avoidance activity is an endless task.

Predictably, the Dodd-Frank Act will trigger what Kane calls “regulation-induced innovation” which in turn will set in motion new regulatory legislation. With the access that heavy hitters gain through generous campaign contributions those new regulations very likely will have enough loopholes to accommodate a new line of financial products. Regulation-induced innovation, it’s the American way.
For many Barack Obama’s “hope and change” is nothing more than the logical extension of and improvement upon Franklin Roosevelt’s New Deal that gave Americans Social Security and unemployment insurance and Lyndon Johnson’s Great Society that ushered in Medicare and Medicaid. For others “hope and change” stood Bill Clinton’s “the era of big government is over” on its head, and dismantled Ronald Reagan’s “government is the problem.” “Hope and change” means that big government is back because big government is the solution to our problems.

How have the architects of “hope and change” been able to pull this off? Answer: by the time-honored practices of (a) taking care of their constituents and (b) persuading them that someone else is paying the bill.

Notice, for instance, that the American Taxpayer Relief Act (ATRA, aka the fiscal-cliff bill) extends for one year benefits for these constituent groups and others: deduction for certain expenses of elementary and secondary school teachers; tax credit for qualified railroad maintenance expenditures; accelerated depreciation for motorsports entertainment complexes; the authority for issuing New York Liberty Zone bonds; tax credit for producing electricity from Indian coal production facilities; one more year of emergency unemployment insurance payments and Medicare physician payment rates. More than 45 of the benefits and special considerations specified in ATRA were extended for one year only, assuring that the constituent groups involved will have to turn to Washington once more for relief. They are becoming, in other words, the willing wards of the state.

At the same time, this new law requires only those with incomes above $400,000 – $450,000 for couples filing jointly – to pay more taxes.

Many describe the American economic system as crony capitalism suggesting that it somehow is preserving the key characteristic of a capitalism system – private individual decision-making. However, it is much more accurate to refer to the American economy as crypto-socialism because slowly and increasingly the system is based on economic decision-making that is centered in the federal government. Notice, for example, how for years the federal government has mandated motor vehicle fuel standards, workplace safety, the minimum wage, selective agricultural price supports, and restricted offshore drilling on the East Coast and the West Coast. And other practices too numerous to name.
New crypto-socialist initiatives are undertaken silently so as to not alarm the parties who might object. Consider, for example, that ATRA has quietly extended the control of the federal government by reauthorizing the Secretary of Health and Human Services to contract with a consensus-based entity to develop health care performance standards; requiring the Secretary to make reductions in Medicare payments for renal dialysis services and for multiple therapy services to the same patient on the same day; and establishing the Commission on Long-Term Care to develop a plan for a system to ensure the availability of long-term services for individuals in need. So, the fiscal-cliff bill that was sold to the American people as necessary to protect the middle class from higher taxes (Title I) was used to close certain loopholes in Obamacare that needed fixing (Title VI).

Consider how Washington politicians routinely assure us that we simply need to trust them to do whatever is necessary to fix our problems, even when they cannot or will not discuss the details of the remedies they propose. Famously, for example, former House Speaker Nancy Pelosi’s said the following on the occasion of the passage of Obamacare: “we have to pass the bill so that you can find out what is in it.” Consider Congressman Barney Frank’s remarks on the broad rule-making authority granted to the federal government by the Dodd-Frank financial regulatory legislation: “you’ve got to have flexibility there to update the rules as things evolve.”

The underlying premise of crypto-socialism is that private individuals are not capable of managing their own affairs, that it is necessary for the public authority to intervene and assume control, and that whenever control doesn’t work – consider gun control – more government control is needed. Crypto-socialism is made possible by the deliberate intimidation of and attack upon private organizations that represent, support, and defend the freedom of private individuals to control the decisions that impact their lives. Notice how the National Rifle Association comes under attack for gun violence even as hundreds of young men are slaughtering one another on the streets of Chicago in spite of the city’s strict gun control laws. Notice how the Secretary of Health and Human Services has mandated that private employers must provide preventive birth-control services including abortifacients to their employees even when those employers have serious reservations based on their religious convictions and freedom of conscience. Notice how the Justice Department attacks states with laws that require photo identification in order to vote, condemning those efforts as voter suppression. Notice how the White House is trying to circumvent the will of the Congress in re-setting the public debt limit by executive order.

More than 60 years ago Joseph Schumpeter’s *Capitalism, Socialism, and Democracy* sounded a warning about this gradual march into socialism. “All that we mean by the March into Socialism is … the migration of people’s economic affairs from the private into the public sphere.”
This migration has been triggered not by the election of an openly socialist political party that would nationalize certain critical industries as happened years ago in England or a violent revolution as in Cuba. It has been happening gradually and will continue as long as private organizations are marginalized and demonized and no longer are able or willing to meet the needs of private individuals and their families. To accomplish their ultimate purposes, some crypto-socialists do not hesitate to deliberately weaken or discredit private organizations and groups that otherwise intermediate between an all powerful central government and much weaker private individuals and families. Take note as to how the federal government seized control of student loans from the private banking sector on grounds that the fees charged by private banks amounted to an unnecessary burden on student borrowers. And how it has opposed school voucher programs that give parents more control over school choice, and forced bondholders to take a much larger haircut in the federal auto bailout than they would have in a routine bankruptcy proceeding.

We would be more hopeful of arresting and reversing crypto-socialism had we not already rejected Bill Clinton and Ronald Reagan on the role of government in our lives. Even so, crypto-socialism has one internal flaw that in the end may bring it down. As more Americans demand and get more benefits from their government, those Americans who pay the bills will find new ways to hide their incomes and stop paying the bill, and international lenders will decide to stop buying the debt of a federal government that has lost control over its fiscal affairs.
Republicans identify with a political party they claim feels passionately about individual freedom that can be preserved only when central government is limited. Democrats belong to a political party that proclaims itself the champion of the little guy who requires a powerful central government to help meet his basic needs.

Both are mistaken for the same reason. Neither one is a political party. Both are tribes in which need and freedom are contested in an environment of masculinity, femininity, contest, and tolerance.

Males engage in contest to discover and affirm their masculinity. They are determined to create stress situations that divide us into warring factions. Given their biological and psychological insecurity, their vocation is to change things. In contrast, the work of females is to comfort, love, and unify. The classic female is the Pietà; the quintessential male is Don Quixote.

Men are restless and dissatisfied and more likely to be agents of change. Women are more self-satisfied. Men more so than women are loners. It is freedom that the male craves, and for him the ultimate accomplishment and happiness is the symbolic independence achieved by setting up as a loner, with occasional participation in a *bonded caucus of loners*. It is through rough and tumble contests in political, economic, and academic affairs and in the world of sports that the male proves his masculinity.

Anyone familiar with professional football, basketball, baseball, or hockey knows that today’s athletes often engage in trash talk and rituals to demonstrate their superiority. At times their behavior degenerates into fist fights and brawls. Players prone to this kind of misbehavior are known as “tough guys” or “enforcers.”

In political affairs trash talk is referred to as *heated* rhetoric. However, it is not the kind of rhetoric that is intended to persuade. Adlai Stevenson was adept at this kind of speech. During the Cuban missile crisis, he tried to persuade the Soviet ambassador to the United Nations to own up to his country’s shipping missiles to Cuba by “I am prepared to wait for an answer until hell freezes over”. Neither is it bombast. Muhammad Ali was gifted in this way of speaking: “float like a butterfly, sting like a bee.” Heated rhetoric is trash talk as when one tribe condemns the other for the standoff that has persisted in Washington for years.
Trash talk is intentionally predatory and destructive. It has been used by House and Senate tribal chiefs who expect all members of the tribe to fall in line. The leader specifically designated to line up the members of the tribe is known as the “whip.”

Trash talk is not limited to the House or Senate floor. It is commonplace at congressional hearings and impromptu conferences in the halls of Congress where media hounds bark out their questions hoping to capture on video a sound bite that will make the evening news and be regurgitated on cable talk shows. Quite often it shows up in Statuary Hall where media interviews have been arranged beforehand. Typically the same few senators and representatives are called on to comment about issues or answer questions. Their responses whether persuasive, bombastic, or predatory are heard by millions of Americans at work, in the car, or at home.

Tribal membership is not the exclusive privilege of senators or representatives. It is open to Democratic and Republican “surrogates,” “pollsters,” and “strategists” who are invited to appear on cable news channels for purposes of maintaining a fair and balanced perspective on the issues of the day. The trash talk takes the form of talking over one another, blaming one another for tribal excesses, accusing the other tribe of lying, personally attacking a member of the other tribe.

Some members of the tribe are shameless. However, even for the shameless, tribes provide security through institutes, foundations, congressional staffing, lobbying firms, executive department appointments, and ambassadorships. Twitter is a direct pipeline connecting one trash-talking dominant person to another. They don’t exchange information. They seek to belittle and silence one another.

Trash talk will continue to paralyze Washington as long as no one in leadership steps forward and says “enough of this trash talk.” Leadership in the House and Senate. Leadership in the White House and executive branch. Leadership in the media. Leadership in political advertising where negative ads are favored because their trash-talking messages are effective. Remaining silent gives approval to the trash talkers.

The problem is that putting a halt to trash talk can lead to authentic rule of the governed or rule by a handful of domineering tribal chiefs. Ending the destructiveness of trash talk requires leaders across the board who are directed by wisdom, prudence, moderation, and the public good. How much longer will it take to rediscover comfort, love, and unity?
DETROIT: IS THIS WHERE AMERICA IS HEADED?
July 21, 2013

In a letter to James Madison, Thomas Jefferson identified three types of governments: government by force; government by consent of the governed; and no government at all. The second type to Jefferson has much good to recommend it – principally liberty and happiness -- but is not without its evils mainly in the turbulence to which it is subject. He insisted that a little rebellion “now and then is a good thing … a medicine necessary for the sound health of government.”

Is there a worse example of what happens when the turbulence gets out of control than Detroit where government by force replaces government by consent of the governed? Earlier this year Michigan Governor Rick Snyder appointed an emergency manager to sort through the city’s enormous fiscal problems. This week Detroit initiated bankruptcy proceedings that likely will lead to serious losses for all Detroit creditors including city pensioners.

Public corruption has contributed to the city being governed by force. For instance, ex-mayor Kwame Kilpatrick and ex-councilwoman Monica Conyers, wife of Congressman John Conyers, have been convicted of taking bribes from persons doing business with Detroit.

Corruption is not Detroit’s only problem. White and black flight from the city, which reduced its population from 1.850 million in 1950 to 714,000 in 2010, has severely eroded its tax base. The 2007-2011 poverty rate is 36 percent. Median household income is $27,862. Median value of owner-occupied housing is $71,000 or roughly 50 percent lower than in the State of Michigan.

Long-term commitments to public employees in the form of health and pension benefits have added substantially to the city’s fiscal burden. Without the necessary tax base, budget deficits have become inevitable. Increasing taxes is not the remedy. They simply drive more residents and businesses out of the city.

Detroit looks like East St. Louis, Illinois 50 years ago, though on a much wider scale. Employment in the 1960s eroded to the point where an estimated 50 percent of the Illinois city’s population was receiving some kind of public aid. Since then, little has changed. The 2007-2011 poverty rate in East St. Louis is 42 percent. Median household income is $19,934. East St. Louis is a forgotten city. The same fate possibly awaits Detroit.

All the while, elected federal politicians have become gatekeepers who decide who gets what from the federal money trough. What is the ethical difference between bribing a
public official and contributing to that official’s campaign war chest when both open the same gate? The potential for public corruption is huge in Washington precisely because the amount of federal funds to be handed out is enormous. The risk of corruption will not be reduced until and unless the government and the funds necessary to run it are downsized. Simply put, more money makes for more corruption.

In Washington’s politically charged atmosphere there is no way to downsize without saying no to the lobbyists and special interests who expect more from the federal government especially when they cannot or will not say no to the abundant opportunities for getting their hands on federal dollars. And there is no way to do that without reducing the class of professional gatekeepers who hang on in Washington, not to serve the public but to maintain their personal power and influence. Too many of them from so-called safe districts (states) have taken hold of lifetime employment in Washington. In the extreme, consider Michigan Congressman John Dingell who recently was honored by his colleagues for 57 years in office. Only a politician with a deadened conscience would consider that an achievement.

Adding to the turbulence in Washington today are the IRS scandal of giving tea-party groups the run-around on their applications for tax-exempt status thereby suppressing their participation in the 2010 and 2012 federal elections, the NSA spying on American citizens, the unanswered questions regarding the killing of four Americans in Benghazi including the U.S. ambassador, and the phone snooping on AP reporters and a Fox journalist.

All of which are compounded by the lying and covering up that is routine practice in Washington. “I take full responsibility” has become the empty mantra of high-level public officials who in fact accept no blame because they are shameless.

On top of all the corruption and turbulence in Washington must be added a public debt that has grown to nearly 17 trillion with no end in sight. Who will repay the bondholders when nearly 50 percent of all federal income tax filers pay no income tax whatsoever? Will the holders of that debt, including the Social Security trust fund, some day have to take a haircut? With the Medicare trust fund on a path to depletion by 2026 who will pay for Obamacare? The simple answer is health care providers. Who, then, will provide the care that the federal government has promised?

Moody’s Investor Services reported recently that covering the unfunded pension liabilities of the 50 states would take on average 45 percent of all state revenues. Illinois is in the worse shape of all. It would take 241 percent of Illinois state revenues to cover its unfunded pension liabilities. Turbulence seems entirely inadequate to characterize the current threats to government based on the consent of the governed.
Under present conditions, including especially the IRS scandal and the Washington gatekeepers who have no moral compass, why would American taxpayers continue to accurately report their incomes and pay their taxes?

Unlike the residents of Detroit and East St. Louis who are free to move elsewhere, American citizens do not have the same easy option. As second best, however, they can just stop paying their taxes.

To conclude we offer three questions. Is America headed down the same road as Detroit? Do corruption, mismanagement, and fiscal irresponsibility justify a Jeffersonian rebellion that produces “the medicine necessary for the sound health of government”? What form should that rebellion take?
WHEN SERVICE AND DUTY MORPH
INTO POWER AND PRIVILEGE

January 23, 2013

When does service and duty in Washington morph into power and privilege?

When years in office teaches one how Washington works, how to get along on “just talk,” how to get-re-elected, how to avoid personal controversy, how to get your work done and how to frustrate your rivals.

Frank Capra exposed this problem nearly 75 years ago in *Mister Smith Goes to Washington*. That film had a happy ending. There are no such happy endings in Washington because, truth to tell, the capitol runs on power and privilege not service and duty. The result is continuous squabbling, finger pointing, heated rhetoric, and final agreement by trading votes for support. And a current Congressional job approval rating (Gallup) of 14 percent.

Each of the sixteen members of Congress listed below, along with Vice-President Joe Biden, has held office for 36 years or longer. All of them have mastered the ways of power and privilege in Washington.

John Dingell D-MI: 57 yrs
John Conyers D-MI: 48 yrs
Charles Rangel D-NY: 42 yrs
Bill Young R-FL: 42 yrs
Thad Cochran R-MS: 40 yrs
Don Young R-AK: 39 yrs
Patrick Leahy D-VT: 38 yrs
Max Baucus D-MT: 38 yrs
Chuck Grassley R-IA: 38 yrs
Tom Harkin D-IA: 38 yrs
George Miller D-CA: 38 yrs
Henry Waxman D-CA: 38 yrs
Ed Markey D-MA: 36 yrs
Joe Biden D-DE: 36 yrs
Orrin Hatch R-UT: 36 yrs
Barbara Mikulski D-MD: 36 yrs
Nick Rahall D-WV: 36 yrs
Years in office among the seventeen currently active members total 676. Twelve are Democrats, five are Republicans. Only one is a woman. There are two long office-holding members from Michigan, Iowa, and California. The two from Michigan, both Democrats, have held office for a total of 105 years. Only one is from the Deep South. There are none from Texas.

Adding the years of office-holding by the five members whose tenure ended in January 2013 raises the total to 860. Those five are: Pete Stark (D-CA, 40 yrs); Daniel Akaka (D-HI, 36 yrs); Norman Dicks (D-WA, 36 yrs); Dale Kildee (D-MI, 36 yrs); and Richard Lugar (R-IN, 36 yrs). When he retired in 1994 after 38 years in office Robert Michel (R-IL) denounced his colleagues for being more interested in picking fights than passing laws.

When does service and duty in Washington morph into power and privilege? When you begin to think that the rest of the country looks like Washington. That there are no important differences between California, Utah, Michigan, Iowa, Florida, and Vermont. Between the Midwest, the east and west coasts, and the Deep South.

When what really matters is knowing how Washington works and how best to get it to work for you and against your rivals. Turning John Kennedy famous inaugural exhortation on its head your mantra has become: “concern yourself not with what you might do for your country, but with what Washington can do for you.

When your career is constructed around on “just talk,” with talk that is not truly interactive and substantive. In press conferences where you are talking into a camera, and you can dodge probing questions by calling on friends in the press. In commercial messages and on your website where there is virtually no human inter-action. In prepared speeches in Congress that are set pieces for C-SPAN usually in an empty chamber. At rallies and other public events where you end up working the rope line with meaningless comments such as “good to see you,” “glad you're here,” “counting on your support.”

When “I misspoke” excuses any spoken gaffe.

Notice the presidential “just talk” as he enters Congress to present the State of the Union address and as he exits. Notice how often meetings across the aisle end with nothing accomplished. The parties involved cannot get to real inter-action because power rules.

When you don’t even have to talk in order to win favor. Photo opportunities with constituents. Or somebody else – a press agent – takes charges of interpreting you to the public. Or your party hires strategists and pollsters to face off against the other party’s hired hands on cable TV, trying their very best to out-shout one another. Talking heads specialize in “just talk.”
When you support a colleague’s initiatives in Congress in order to win his/her support for your own.

When you no longer have a mind and conscience of your own. You always follow the party line.

When you learn that leadership involves risk and avoiding risk is the way to remain in office.

When you state publicly that one of the important advantages of holding office for years is that it makes you eligible for choice committee assignments.

When, as with Paul Sarbanes (D-MD) who left office in 2006 after 36 years first in the House and then in the Senate, you see your son elected in 2006 to the very same House seat you held years before.

Lesson: do not expect statesmanship and leadership from a system that thrives on power and privilege. With apologies to Frank Capra, expect instead what we’ve had for years: gridlock grounded in excess political testosterone.
Civilian snipers represent an ugly chapter in the long history of the American experiment in self-governance and freedom. The Las Vegas sniper is just the most recent instance of the slaughter of the innocent in which a morally twisted mind views killing as essentially good while the rest of us recognize it immediately for what it truly is -- inherently evil.

Though there are many others, two specific incidents come to mind; the Washington D.C. area sniper in 2002 and the University of Texas tower sniper in 1966. Both engaged in mass killing of the innocent from hidden positions where their warped personalities led them to a judgment in which murderous cruelty was seen as morally reconcilable. We need not go into the Chicago gang land killings during Prohibition and similar turf wars today in the same city over the distribution of drugs in order to make our point. The killers are human beings whose broken moral compass has misdirected them to unspeakable acts of viciousness and violence.

The perverted snipers who assassinated Martin Luther King in 1968 and John Fitzgerald Kennedy five years earlier were mass killers too. They not only took the lives of two of America’s moral and political leaders but also shattered the human spirit and moral goodness that bind us together as a people. America cannot hold together as one people without the fundamental goodness of its citizens. The remarkable response to the victims of Hurricane Harvey by the Cajun Navy and many other private organizations and citizens is clear proof that all human existence is co-existence.

Nonetheless, there are other snipers roaming America today engaged in similar destructive acts. They too misconstrue the evil they do as good. Consider the heated spoken rhetoric all around us, amplified by tone, inflection, and the media.

“Lock her up. Lock her up.”

“Pigs in a blanket, fry ‘em like bacon.”

“… he didn’t know any better than the simplistic boilerplate he regurgitated.”

“I don’t see white police officers slamming the heads of little white boys into police cars.”

“It’s a shame that the White House has become an adult day-care center. Someone obviously missed their shift this morning”

“Liberals love America like O.J. loved Nicole.”

“Yes, I have thought an awful lot about blowing up the White House.”
The provocative rhetoric does not have to be spoken. Consider Kathy Griffin holding up a faked severed head of President Trump. Professional athletes kneeling during the national anthem to express their anger over racial injustice. Protestors tearing down monuments because they are considered symbols of white supremacy. School boards removing books from a school curriculum because they are offensive. The all-purpose third-finger salute suitable for any and all occasions.

Whether spoken or otherwise acted out, this red-hot rhetoric is the combustible material that all too many elected officials, notably in Washington, know how to ignite in order to fire up the base for more financial support and bigger voter turnout. The 24-hour cable news channels are only too eager to distribute this explosive stuff, time after time, day after day, across the airwaves because as they say in journalism “if it bleeds, it leads.”

There’s more to being an American citizen than just paying your taxes, voting, and minding your own business. John Kennedy said it best in just a few simple words. “Ask not what your country can do for you. Ask what you can do for your country.”

Even so, an estimated 45 percent of U.S. taxing units paid no federal taxes in 2016 and 39 percent of the citizen voting-age population did not vote last year. At the present time and excluding active-duty personnel, 84 percent of the entire population does not volunteer.

Sadly, these statistics alone don’t tell us what needs to be done. Cable news channels use hour-long opinion programming in which commentators justify their heated exchanges on grounds of their First Amendment rights but do not hold themselves accountable for what their often scornful rhetoric does to the UNITED States of America. They measure their success in terms of viewership and use those numbers to impress prospective advertisers.

Balanced news reporting means a lot more than inviting one Republican and one Democrat strategist to blast away at one another for political gain. It’s much more than inviting a provocateur as a guest to use as a punching bag to the delight of the host. The senior managers of those channels need to develop and enforce an on-air code of conduct in which verbal excess is replaced by moderation, where mocking and firing away no longer are tolerated. Speech matters.

Congressional leadership should demand that whenever a member appears in front of the camera or in public respectful discourse and agreement are the priorities. If the sniping doesn’t end Congress will remain stalemated and unable to act. To fill that vacuum the president, as we have seen, will resort to executive orders again and again. That’s not self-governance. It’s strong-man rule.
When the U.S. Constitution was completed in Philadelphia in 1787 and a citizens group asked Ben Franklin what the delegates had created, he replied “a republic, if you can keep it.”
WHERE HAVE ALL THE ELDERS GONE?

October 1, 2018

The current spectacle at the U.S. Senate Judiciary Committee hearings to advise and consent on President Trump’s nomination of Brett Kavanaugh to sit on the U.S. Supreme Court as an associate justice raises many issues and questions regarding not just Kavanaugh’s fitness to serve on the Court but our ability to govern ourselves. In the past several weeks we have seen organized outbreaks of anarchy and warning signs of tyranny in the halls of Congress challenging our democratic republic and constitutional rights.

One question in particular captures our attention. Where have all the elders gone? Those members of Congress who intervene when the rhetoric and posturing get out of hand. Who respectfully and privately tell their colleagues when they have crossed the line and are engaged in behavior that has the effect if not the intent of dividing Congress. Who understand full well that the work of Congress is to find ways to put aside personal ambition whenever necessary in order to reach agreement. Who hold fast to the truth that subduing personal ambition does not diminish the integrity of members of Congress but allows them to preserve and enhance their integrity by intelligent and free service to the good of all Americans.

Personal ambition in political affairs is the equivalent of self-interest in economic affairs. Both are driving forces but both are fraught with danger.

In economic affairs, excessive self-interest can destroy a market economy by opening the door to serious abusers. Consider the role played in the Great Recession by mortgage lenders who persuaded persons and families whom they knew were at risk of default to sign on to mortgages which in turn were bundled and sold to other financial institutions that were unaware of the underlying default risk baked into those bundles.

In political affairs, excessive ambition can destroy a representative democracy when one party is able, willing, and successful in denying the other party the opportunity to speak, be heard, and be respected. Wherein discourse is foreclosed by a prior decision to concede nothing, by a refusal to listen, by an inherent claim by partisans that their firmly-held position alone is the true measure of justice. This all-too pervasive attitude is an expression of the excessive ambition of far too many members of Congress and exposes the will to power of the political leadership. This is how excessive ambition turns a peaceful movement into a self-righteous mob.

To be an elder does not require long years of service in Congress. What it demands is a willingness to act with courage, wisdom, and prudence. A special temperament that looks
for opportunities to build consensus where no one loses and resists the toxic environment of “heads I win tails you lose.” Those members of Congress whose careers prior to Congress were structured on winning at all costs, even when it meant denying someone his due, have to learn the ways of accommodation. Shaking hands and genuinely caring for others have to replace finger pointing and spitefulness. Failing that, what you get is the disgusting incivility of the Judiciary Committee hearings where some members are willing to turn witnesses into pawns for their own personal advantage.

Elders never use other persons to advance their careers or personal agendas. Elders never raise their voices to interrupt or intimidate others. They never refuse to listen to others. They resist responding in kind to a personal insult.

Rather than excluding others, elders invite them into the discourse. Elders understand and accept the consequences of at times putting the needs and interests of the nation ahead of their own districts and states. They know and resist extending Gresham’s law from economics to politics wherein bad behavior drives out good behavior.

Elders embrace the proposition that a person accused of a crime is innocent until proven guilty is not a courtesy accorded the accused that can be cast aside whenever it pleases the mob. Elders recognize that the presumption of innocence is essential to the sacred dignity of the accused. Shifting the burden of proof to the accused in a Congressional hearing is just one more way that the practice of identity politics deliberately demeans and uses a human being for partisan advantage and puts other like-minded persons at risk. Due process is due diligence where courage, wisdom, and prudence replace the fury of the mob as the proper means to discovering the truth.

Elders do not allow themselves, colleagues, staffers, partisan strategists or pollsters to use the media to parrot partisan talking points or to launch ad hominem attacks. Words matter. Lies and half-truths are inherently damaging to self-governance.

Media elders, especially on cable TV, must resist inviting partisan gunslingers to comment on current events even when leaving them off the schedule negatively impacts their ratings. Gunslingers are not there to dialogue. Driven by excessive ambition – notice how many of them are young -- they were hired to attack and destroy. Their deadly gunplay has the effect of spreading the toxin of identity politics and further dividing the country. Elders at cable news channels should not have to be told that there is no place for re-staging Gunfight at the OK Corral in their programming. Words matter because words can kill.

We don’t have an answer for the question where have all the elders gone? What we do know is that the future of representative democracy cannot be left in the invisible hands of the pursuit of personal ambition at all cost. It has to be left in the caring hands of men and women who are know how to rein in personal ambition when it begins to fuel the fires of
anarchy and tyranny. Self-governance is not an assured thing. It is a precious gift that requires eternal vigilance.
BUDGET STALEMATE
June 5, 2018

The Louisiana state budget process has reached a dead end because the legislative and executive branches of state government are unable or unwilling to act. Time after time legislators meet and fail to reach agreement. Or if they do agree, the governor vetoes their efforts. At this point, it really doesn’t matter who specifically is accountable and why they cannot produce a budget. Baton Rouge is governed by men and women of inaction.

There are too many voices demanding to be heard and all too willing to the stalemate the process until they manage to have their particular demands met. One side wants to spend more and tax more, the other side wants to spend less and tax less. The result is a decision-making process that has broken down. Rather than singing from the same songbook too many in this fractured process are singing from different ones. What they manage to produce is not music but stalemate.

Is there another process that can get the job done in such a toxic environment? If we want to preserve self-governance, probably not. As a last resort, however, we propose a shared-government process that if probably handled could produce a budget and preserve self-governance.

Shared government centers around an agreed bill that originates when the legislative and executive branches agree beforehand to accept the budget bill and pass it into law as presented to them without any changes. As with alcoholics who turn to Alcoholics Anonymous, both branches must confess openly that they are unable to produce a budget.

An agreed bill is similar to what takes place when labor and management cannot agree on a new contract. Both sides agree that a mediator or arbitrator is necessary to break through and settle their differences. Marriage counselors and family therapists attempt to do the same for a husband and wife who seem to have irreconcilable differences.

The agreed bill is drafted by a small council in which the legislators have agreed beforehand to stand aside and the governor has agreed to pass the bill into law without objection. This kind of bill is known as a “strict” agreed bill. A strict bill requires much courage and humility on the part of the legislature and executive because in effect it sets up a separate legislative body to hammer out agreement that is not forthcoming from the present budget decision-making process.

A “full” agreed bill covers every one of the issues in the budget but then is open to debate by the legislature. Two others are combinations of the first two: full but not strict and strict but not full. Given the toxic environment in state government only a strict bill has any
chance and that chance is very slim. Legislators and the governor likely will argue that their powers as duly elected representatives of the people are being usurped and the voters overruled. That argument would be convincing if they had established a record of using their powers properly to produce a budget. Their public record, however, is one of inaction.

The council should be small enough to be a working group yet large enough to be representative all major interests. Years ago experience with state councils focused on state employment security law indicates that effective councils are organized around eight or nine members. A larger number leads to ineffectiveness. Experience also indicates that the single most important determinant of effectiveness is the membership of the councils. The authority of council members depends on three factors: their knowledge of the issues that impinge on the budget itself, their work ethic, and integrity.

The Louisiana Employment Security Board of Review has five members who are appointed by the governor with the consent of the Senate. It serves as an appeals board for disputed administrative decisions on unemployment insurance, and is an example of shared government but has nothing to do with the budget process.

We suggest the following types and numbers of members for a budget council. Labor and management would have two representatives each on grounds that state government taxing and spending have direct and profound impacts on jobs and businesses. The public would have four representatives on grounds that the budget also impacts the ordinary citizen in need of help from state government that is unavailable elsewhere. A fifth public member would serve as a nonvoting chair who sees to it that the process moves ahead and does in fact produce a budget.

The jury selection process comes to mind where the attorneys involved are allowed challenges as to who will sit on the jury. Let the legislature nominate a small but limited number of public citizens to serve on the council subject to challenge by the two labor members and the two management members. Subject as well to some limit on the number of legislature nominees who can be challenged. This challenge privilege should help assure that the right persons are seated on the council.

Public nominees preferentially ought not be drawn from the ranks of special-interest organizations because their concerns already are narrowly focused. Even so, it may not be possible to exclude them simply on those grounds.

Would a council mandated to produce a strict bill ever get off the ground in Louisiana? Probably not. Change is threatening, and replacing the current budget decision-making process with shared government is immensely threatening to those who control that process.
All the same, is there something else that offers greater promise of clearing away the toxic fumes in Baton Rouge that has left state government unable or unwilling to act?
The principle of subsidiarity is the basis for limiting the role of government in the lives and affairs of the people. Abraham Lincoln supplies a very useful definition.

In all that the people can individually do as well for themselves, the government ought not to interfere.

The principle of subsidiarity rests on the fact that human society is comprised of human persons who are possessed of intelligence and free will. Three conclusions flow from this basic fact. First, by applying free will and intelligence in the service of the common good the people becomes more fully human persons. Second, humans make mistakes and for that reasons rulers cannot be entirely trusted. By dispersing decision-making across a large number of groups such as states and private groups subsidiarity helps limit the mistakes of rulers who hold all power in their own hands. Third, subsidiarity prevents an organization from growing so large in size or scope that it loses contact with its various parts.

There are five economic processes: production, distribution, exchange, consumption, and investment. As to the first three, all of which are grounded in some type of functioning business enterprise, the issue addressed through subsidiarity relates to the conditions under which that enterprise should be privately-owned or publicly-owned. The key concern is how effectively the enterprise serves its purposes. Private control provides for more economic democracy and greater opportunities for the exercise of private economic initiative that in turn reduce the need for federal government intervention in economic affairs.

As to the process of consumption, the issue addressed through the principle of subsidiarity is what to do for those who are unable to meet their own needs without some assistance. Subsidiarity urges that unmet human material need should be met first and foremost through local private groups such as churches, food banks, pro bono service providers.

The process of investment is two-dimensional involving both capital goods and services and public goods and services. By reinforcing a strong preference for private investment, the principle of subsidiarity reduces the need for public investment and thereby the scope of government in economic affairs.

From time to time cooperation among private business establishments that otherwise compete may be necessary to address problems that cannot be handled by those firms operating independently. We refer to cooperation that results in the establishment of a
separate administrative organization as a supra-firm alliance, whether that cooperation involves only private firms or includes the public sector. Such alliances are characterized by the setting aside of the principle of competition and the deliberate application of the principle of cooperation in a dynamic decision-making process that is neither zero-sum nor collusive in nature. Rather it is a positive-sum agreement that seeks to achieve gains for all of the parties involved whether they are directly represented in the alliance or not. Three examples follow.

Advanced Book Exchange (Abebooks) is the world’s largest online marketplace for used, rare, and out-of-print books. The exchange brings together thousands of independent booksellers worldwide. Each seller decides which books to list, their general condition, price, and other information. Buyers can browse the books through a convenient search function. The on-line exchange allows buyers to comparison shop and sellers to reach a much wider market.

The Business Software Alliance was established to combat piracy of software products. BSA members include among others Adobe, Apple, Intel, Microsoft, and Symantec. To help reduce the unauthorized installation of proprietary software products without a license BSA has been preparing an annual report on the extent of piracy and dollar losses by country every year since 1992. Unrestrained piracy takes away the economic gain necessary for private enterprises to survive and thereby destroys the very means by which new and better products and services are brought to the marketplace.

United Way brings together local companies and organizations to address the unmet needs of local residents. To the extent that United Way is successful in achieving its objective, there is less reason for government intervention and because United Way is managed locally, less problem of extensive abuse originating with the management.

Three concluding remarks are warranted. First, subsidiarity helps sort out the issue as to whether any limits that are to be imposed on competition or cooperation should be initiated in the private or the public sector, with private-group intervention preferred to public-group intervention.

Second, by pushing responsibility and decision-making as close as possible to the economic agent, subsidiarity extends the democratic principle beyond the political order.

Third, subsidiarity is at work in the private sector largely due to the common sense of persons who may not be able to define subsidiarity but are actively engaged in its practice.

Governance is not a “one-and-done” task. Even 225 years after the signing of the Constitution, the role of the 50 states still is being hammered out on such questions as marriage and the family, medical care, public education, immigration, and worker rights.
The democratic process of forging agreement is messy and often contentious. It is the price we pay for democratic rule.

In the public sector, the tenth amendment to the Bill of Rights is an expression of subsidiarity.

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

The principle of subsidiarity serves as a reminder of the original intent of the Founding Fathers to limit the role of the federal government in order to prevent the abuse that comes with too much power in the hands of a few public officials.
XVIII. TAX, SPEND, BORROW
WHEN THE DUST SETTLES WHO PAYS?
February 3, 2009

No one knows for sure how much deficit spending and borrowing the federal government will do in the months ahead in order to cope with the current economic crisis. Even so, it figures to be at least $1 trillion ($1,000,000,000,000). At current interest rates for U.S. Treasury securities which average around 3.9 percent, the interest payable on $1 trillion amounts to $39 billion per year.

We will know more after the dust settles. In the meantime, we can come to grips with the cost of borrowing by reviewing the obligations already on the federal books -- the current size of the public debt, the interest paid on the debt, and who holds the debt and therefore who gets the interest paid.

Current data from the Treasury put the public debt at $10.6 trillion. The ceiling on the debt was re-set by Congress last October at $11.3 trillion. Various government agencies hold $4.3 trillion. The Social Security Trust Fund, for example, holds $2.2 trillion. The public holds the balance -- $6.3 trillion – of which about one-half is held outside the United States. Major foreign holders include investors in China, Japan, United Kingdom, a group of six banking centers in the Caribbean, a group of 15 oil exporting countries, and Brazil.

Total interest paid on the entire public debt during the fiscal year ending last September was $451 billion. Across the entire federal budget, interest paid on the debt is exceeded only by the Defense Department ($595 billion) and Medicare ($461 billion). At $510 billion Social Security outlays also surpass interest payments, but Social Security is an off-budget item.

Over the last three months of 2008, $135 billion was paid in interest on the public debt. Projecting that over a 12-month period indicates that the total to be paid in the fiscal year ending in September could reach $540 billion.

Unless all of the budget shortfall is financed through borrowings, the deficit eventually will call for higher tax rates. A brief review of the tax side of the budget is instructive as to whose taxes likely will increase. The individual income tax contributes more to the federal budget receipts -- $1.1 trillion -- than any other tax. The corporate tax is second in line contributing a total of $304 billion. The remaining tax sources which include excise taxes, estate and gift taxes, and customs duties, taken together, contribute less than the corporate tax alone.

Federal excise taxes are imposed on gasoline, cigarettes, trucks, fishing equipment, local telephone service, and a host of other items. Does the road warrior know that the federal
tax on gasoline is $.184 per gallon, on diesel for highway vehicles is $.244 per gallon? European countries have used a similar tax called an ad-valorem tax for years. The “beauty” of such a tax is that it is hidden from view. The tax is folded into the price of the item and for that reason the average buyer doesn’t know how much tax he/she is paying.

Mayo Research Institute sees the possibility that legislation will be introduced in Congress this session to adopt ad valorem taxes as a way of paying for the additional interest on the ballooning public debt. Perhaps on bread, shoes, baby formula, shirts, towels, toilet paper, toothpaste, orange juice, soft drinks, ink cartridges, and more. The consumer will notice that prices are higher and will blame it on inflation or on greedy merchants. Meanwhile, the federal government silently pockets the money.

Higher individual tax rates are a possibility because they are huge revenue generators and because roughly 40 percent of all Americans are not required to pay that tax and therefore would have little or no reason to oppose higher rates. Higher corporate tax rates also are a possibility because they too generate a large revenue stream and corporations may be able to shift the tax increase to their customers if their efforts to resist those hikes through their Washington lobbyists fail.

For years there has been support, though clearly far too little to change minds in Washington, to replace the present individual income tax with its higher marginal rates for filers with higher incomes and its voluminous details with a simple flat tax. Under a flat tax, everyone (excluding those below the poverty level on grounds that the federal government already has defined them as having too little income to meet their basic needs) would pay the same rate of taxation, no credits, no deductions, no exemptions, no loopholes. The rate could be set at a rate which would replace the $1.2 trillion in taxes paid by individuals in FY 2008. The tax revenues from the flat tax would increase automatically as incomes rise. The tax could be put in place for a fixed period, say four years, subject to renewal or change only by a national referendum at the time of the November elections. That vote, in effect, becomes a referendum on the performance of elected public officials in Washington. Conceivably that vote could be extended to the debt ceiling to force additional discipline on a Congress which at present whenever it runs a deficit and adds to the public debt simply raises the debt ceiling.

In addition to greatly simplifying tax filing, a flat tax would reduce the special interest lobbying in Washington to change the present complex tax rules and procedures for some special advantage and would reduce the inducement for lobbyists and their clients to curry favor with elected public officials by contributing to their election campaigns.

With less money to be raised for political campaigns, incumbent public officials would be able to spend less time on fundraising and more time on the public’s business. And with less costly campaigns greater opportunities for newcomers to challenge incumbents.
Barack Obama raised $750 million to get elected last November. In the absence of serious income and corporate tax reform in Washington – we’ve tried campaign fundraising reform and it failed miserably in 2008 -- does it seem likely that a challenger could run for president in 2012 without matching Obama’s fundraising record?

We will know more when the dust settles, perhaps in time for the 2010 mid-term elections.
The U.S. public debt today amounts to roughly $11 trillion. If we were to pay down that debt by $1 billion a year, it would take 11,000 years to retire it provided we shut down future borrowing entirely and paid all of the interest owed on that debt from tax revenues. Paying down at the rate of $1 billion a month would reduce the debt to zero in 917 years. Finally, if we paid down at the rate of $1 billion a day it would take 30 years to wipe it out completely.

Years ago, students in Economics 101 were told not to worry, since we owe the debt to ourselves. But that was when the debt was much smaller. Fifty years ago, for example, the debt amounted to $285 billion. And it was held internally, by Americans. In the words of Paul Samuelson in the 1955 edition of his widely adopted principles of economics textbook: “The interest on an internal debt is paid by Americans to Americans ... When interest on the debt is paid out of taxation, there is no direct loss of disposable income; Paul receives what Peter loses, and sometimes – but only sometimes – Paul and Peter are one and the same person” In the 1950s, Samuelson rationalized the large internally held debt as the cost of fighting and winning World War II.

In the 1980s, the same justification was employed to support the costly efforts to destroy the Evil Empire. And more recently the growing public debt was defended as the cost of removing Saddam Hussein and waging the war of terror. But today, the huge increases in the debt brought on by massive deficit spending are the price taxpaying Americans must pay in order to clean up the wreckage of broken financial institutions which took on high-risk investments for the promise of huge returns and financially strapped homeowners who cannot pay their mortgages. Today we are paying for our mistakes.

Unlike years ago, a large (more than $3 trillion) and growing amount of the debt is externally held and interest increasingly is being paid by Americans to foreign investors. Additionally, about 40 percent of federal income tax filers pay no taxes and their numbers are growing due to new provisions in the tax code including refundable tax credits. Since the income tax is the principal source of federal revenues, interest on the debt increasingly is being paid by some Americans to those foreign investors. Put differently, some of the very persons who created the current mess are not bearing the cost of cleaning it up.

We are forced to concede that the public debt is an immovable object. In this case, however, there is no irresistible force: not the White House, not the Congress, not the Treasury, not the Federal Reserve, not even the American people. Virtually everyone is resigned to an ever-growing public debt as far into the future as anyone dare look. When
your grandchildren ask you one day “Grandpa, what did you do to fight this mountain of public debt?” you’ll have to tell them “nothing because there was nothing anyone could do about it.”

There is, however, an irresistible option. This option is so ugly that we hardly know if we should mention it. But difficult times require harsh measures. Hyper-inflate the currency so that $1 billion a day becomes in effect $100 a day, and retiring the debt in 30 years becomes child’s play. The downside of this “solution” is the reduction of the United States to the status of a banana republic.

All of this is made even worse by President Obama’s proposals to increase marginal tax rates for taxpayers with incomes above $250,000 and to impose a new cap-and-trade tax -- some call it tax-and-trade -- on industry in order to reduce greenhouse gas emissions. The higher marginal tax rates will lead to reduced work effort and as Samuelson pointed out more than 50 years ago “less technological progress and fewer jobs.” If physicians decide to reduce their work effort, the higher taxes mean that access to affordable quality health care, a priority issue to the White House, is further restricted even with universal health coverage. A cap-and-trade tax necessarily becomes a cost of business and can be shifted forward to the consumer in the form of higher prices.

So where does that leave us? Taking into account not only current economic conditions but a record of more than 50 consecutive years of annual increases in the public debt, there will be no reduction in the public debt in the foreseeable future. It follows that year in and year out those Americans who pay income taxes will be saddled with at least $500 billion in interest charges. Those who don’t may not object to even higher income taxes because it costs them nothing.

Sharing one’s good fortune with the less fortune helps make a person virtuous when the sharing is voluntary. When one is forced by a powerful self-righteous government to share with others including those who recklessly invested their monies or lived beyond their means makes a person downright angry. And angry taxpayers look for ways to get around the tax code. The banana republic becomes trapped inside a syndrome of ever-increasing public spending, deficits, and debt and ever-increasing resistance to shoulder the burdens of the spend-borrow-tax cycle.

President Obama should put his “change-you-can-believe-in” agenda on hold until the financial bleeding is arrested. He might even consider spending some time listening to traders on the floor of the New York Stock Exchange or the Chicago Mercantile Exchange to figure out why the market has spiraled downward since his inauguration. He’ll learn
more there than he did sitting courtside watching his hometown Chicago Bulls lose to the Washington Wizards.
TWO PARTISAN PROPOSITIONS:
DON’T BELIEVE EITHER ONE

September 20, 2010

Paid partisan strategists are pushing two propositions regarding economic affairs in the run-up to the midterm elections to make their party and its candidates look good by making the other party and its candidates look bad. The first is that the Bush presidency squandered the budget surpluses achieved at the end of the Clinton administration. The second is that the wages of American workers “flat-lined” during Bush’s service as president. Though offered emphatically as true, both propositions are false.

For FY 1999 President Clinton submitted a balanced budget in which a $95.7 billion on-budget deficit was more than offset by an off-budget surplus of $105.3 billion. The off-budget surplus originated principally in Social Security. The $9.5 billion left over was assigned to a “reserve pending Social Security reform.” For FY 2000 Clinton proposed a budget with a $167 billion surplus most of which also originated in Social Security.

In like manner Clinton proposed a FY 2001 budget with a $184 billion surplus based chiefly on a projected surplus in the Social Security trust fund. His FY 2001 budget message is so optimistic about future economic developments that he forecast the total elimination of the debt held by the public by 2013. He proposed doing this by using future Social Security trust fund surpluses, estimated at more than $3 trillion, to purchase the debt held by the public. His proposal would transfer debt from one account to another, from (a) debt held by the public to (b) debt held by government agencies which is “money the government owes itself.” It would do absolutely nothing to reduce the public debt outstanding.

Clinton’s proposal lays a trap, perhaps intentional, for future presidents who would look fiscally irresponsible if they do not follow through with his proposal. Eliminating the debt held by the public was no mere aside. It was stated 12 times in his budget message. One of the assumptions made in support of this debt reduction sleight of hand was that unemployment would not rise above 5.2 percent through 2010.

When the books were closed on FY 1999, the actual surplus of $125.5 billion was attributable almost entirely to the operations of the Social Security program. In 2000, the actual surplus amounted to $236.4 billion of which 149.8 billion came from Social Security. In the following year, the $127.1 billion actual surplus was achieved through a $160.5 billion surplus in Social Security.
At the same time, the public debt outstanding climbed by $251.2 billion to $5.8075 trillion. There is only one way in which the public debt outstanding increases – more Treasury securities are issued than redeemed. And the Treasury issued more securities during this period because on-budget tax revenues were insufficient to cover on-budget government expenditures.

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<td>$ 9.5</td>
<td>$125.5</td>
<td>$123.7</td>
<td>$5656.3</td>
</tr>
<tr>
<td>FY 2000</td>
<td>167.0</td>
<td>236.4</td>
<td>149.8</td>
<td>5674.2</td>
</tr>
<tr>
<td>FY 2001</td>
<td>184.0</td>
<td>127.1</td>
<td>160.5</td>
<td>5807.5</td>
</tr>
</tbody>
</table>

The first partisan proposition is based on creative accounting. In Washington this spin is business as usual. The Treasury Department’s own published data on the public debt outstanding indicates that there has not been a real budget surplus since Eisenhower’s second term.

Regarding the second partisan proposition, the Bureau of Labor Statistics reports that productivity climbed by 18.8 percent between 2001 and 2008 and at the same time real hourly compensation at all nonfarm business establishments rose by 7.1 percent. A 7.1 percent increase in real hourly compensation means that the typical person working year round full time who was paid $30,000 in 2001 was earning $32,100 in inflation-adjusted dollars in 2008. Year-round, full-time employment rose by 3,621,000 between 2001 and 2008. This performance hardly qualifies as “flat-lining.”

A rise in productivity makes possible increases in real hourly compensation without raising prices because productivity holds down the cost of production thereby producing gains to be shared among the factors of production. In 2001-2008, the gains in large measure went to other factors of production including interest, dividends and rent that account in part for the widespread increase in stock prices during this period. Some of those gains in stock prices were shared with wage-earners through expanded participation by Americans in the stock market either through their own personal portfolios or their stake in pension funds that were invested in financial instruments. A $20,000 annual pension today is the equivalent of holding a $1,000,000 income-generating asset with a stated annual return of two percent. It would take a $2,000,000 income-producing asset to replace that pension if the asset returned one percent. By keeping interest rates low, the Federal Reserve in effect has increased the value of worker pensions.
The lesson for the wary voter this fall is to fact check any claim made by a candidate for public office or his/her backers. Even a budget deficit that forces the Treasury Department to borrow more can be made to look like a budget surplus. With the high-stakes mid-term elections only six weeks away, partisan strategists are likely to pull other creative-accounting propositions out of their bag of dirty tricks.
DEBT CEILING DEADLOCK: TO TAX OR NOT TO TAX
July 13, 2011

Congressional Republicans on one side and Democrats and President Obama on the other are deadlocked on raising the debt ceiling because any proposal to increase taxes, it is said, will be voted down in the Republican-held House of Representatives.

The Democrats insist on raising taxes because, they say, the burden of reducing the budget deficit and public debt requires sacrifices from all Americans. With the poor and the middle-class seeing their entitlements shrink in order to rollback spending, Democrats assert that it is only fair that marginal tax rates for the wealthy should be higher in order to boost tax revenues. Some of them are driven by an ideology that the upper-classes either inherited their wealth with little or no personal effort or accumulated it on the backs of the poor and middle-class.

Republicans resist higher tax rates for two principal reasons. First, higher rates permit Democrats to protect more of their favorite federal spending programs. In other words, higher tax rates translate into bigger government, and for many Republicans bigger government encroaches on individual freedom and personal responsibility. Second, higher tax rates are “job killers” because they reduce some of the income that private individuals are able to keep and thereby weaken the very incentive to grow their business enterprises and add to their payrolls.

Clearly, there is no middle ground, no room for compromise for Republicans who resist higher tax rates on grounds that it fosters big government. With sufficient numbers in the House of Representatives, these Republican ideologues could kill any deal struck by their leadership that includes higher rates. And the Democratic ideologues in the Senate could kill the deal if it doesn’t include higher taxes.

Even so, there is a possible solution at hand for those Republicans who regard higher taxes in an economic downturn as “job killers.” Why not impose a surtax to be triggered when the rate of unemployment drops to some acceptable level? Perhaps 5 percent or less. To illustrate, the surtax might be fully triggered at an annual unemployment rate of 5 percent or less. It could be partially triggered at an annual rate between 5.1 percent and 6.5 percent. The surtax would be lifted entirely at an annual rate above 6.5 percent. The trigger could be based on a 12-month moving average instead of an annual average.

The trigger mechanism could look like the following:

- Jobless rate 5 percent or less ................ ten percent surtax on taxes owed
- Jobless rate 5.1 - 6.5 percent ............... five percent surtax on taxes owed
Jobless rate more than 6.5 percent ........no surtax

Consider the following information on the trigger mechanism using the annual rate of unemployment since 1980.


The surtax could be levied on all tax filers or only on those with incomes above some threshold level, perhaps $500,000 for individual filers and $1 million for joint returns. The trigger could be based on different jobless rates. The partial trigger could be set at one-half of the full trigger, as we have done in our example, or at a higher or lower rate.

If the surtax were earmarked for debt reduction, it could not be used to justify more spending. If it were added to general tax revenues, the effect would be to reduce the deficit and reduce any increase in the public debt whenever a budget deficit occurs. Such a surtax scheme could be made part of any tax reform effort or dropped entirely.

By removing the narrow and divisive options to tax or not to tax our suggestion affords Congressional Republicans and Democrats multiple options for finding common ground for a compromise on the tax issue that would raise tax revenues over the long term without killing jobs and could clear the way for reaching agreement on the debt ceiling. The deadlock over the debt ceiling is more than just a fiscal challenge with powerful implications for global confidence in the U.S. government to manage its fiscal affairs. It is a crisis in self-governance.

Sometimes it takes great courage to set aside ideology for the good of the nation. This is one of those times.
DEBT CEILING CRISIS: ANOTHER OPPORTUNITY FOR
WASHINGTON DEAL MAKING

September 27, 2013

The ceiling on the public debt can be traced as far back as the Second Liberty Bond Act of 1917. The intent of Congress was to impose restrictions on specific debt issues. Over the next 20 years Congress lifted some of the specific restrictions on debt management and federal financing. In 1939 a general limit covering the entire public debt was initiated and remains in effect today.

The debt ceiling sets a limit on the amount of the public debt that can be issued by the U.S. Treasury. Since 2001, the limit has been raised ten times to accommodate the additional borrowing necessary to finance budget deficits. The Budget Control Act of 2011 increased the limit and authorized the establishment of a “super committee” that was to recommend to Congress and the president how best to reduce future budget deficits. Failing to get the required agreement on its draft report, the committee was unable to offer any legislation for Congress to act upon.

For a debt ceiling to work in an effective manner, Congress must approve budgets that reduce the size of the deficits such that the government operates below the ceiling. Congress, however, has been unwilling to adopt such budgets. Democrats refuse to cut spending. Republicans refuse to raise taxes.

Congress gets around the budget impasse by approving continuing resolutions that simply lock in place federal spending at the current level. Unless there are substantial increases in tax revenues due to improved business conditions, continuing resolutions lock in budget deficits and in time lead to the usual political posturing over the need to raise the ceiling so that the Treasury can be authorized to issue more government bonds. Both political parties derive comfort from the impasse by pointing the finger at the other party for its intransigence.

Under today’s stalemated political conditions in Washington, the debt ceiling is like the posted speed limit on a road that never is patrolled. Like the diet that a person never quite gets around to follow. To rein in budget deficits and avoid the need to increase the debt ceiling, it is necessary for Congress and the president to embrace budget discipline. Sadly that discipline is missing. The last year-to-year reduction in the public debt occurred in 1956-1957.

Ugly as it sounds, the American people are not willing to deal with the budget deficit. Nearly one of every two federal income tax filers pays no tax. Why would they insist on
higher taxes to reduce the deficit if they would end up having to pay those taxes? One hundred million Americans live in households that currently receive means-tested public assistance in cash or in kind. Why would they petition Congress to rein in spending?

Not included in the 100 million are millions of other Americans getting Medicare and Social Security benefits that alone represent 38 percent of federal spending today. The trustees of those popular programs tell us that the Medicare trust fund will be depleted in 2026. The Social Security trust fund will be depleted in 2033. Depletion means that current benefits must be paid entirely from current worker contributions.

If as projected Social Security trust fund collections fall short of benefit obligations, the benefits promised to retirees cannot be paid in full without raising payroll taxes. Why would working-age adults pay higher taxes to support benefits for the elderly? Under those circumstances, the only way to maintain benefits is to dip into general tax revenues thereby adding to the budget deficit.

With Medicare, the solution is different: cut reimbursement to health-care providers and hope those cuts will not adversely affect access to care. Unless they are wealthy and willing to pay their health-care providers out of pocket or just plain lucky, the elderly will have to do without needed health-care services.

Defaulting on the public debt is not the answer. Persons and organizations holding U.S. Treasury bonds would suffer an enormous loss of wealth, triggering a global financial and economic crisis. As with private financial institutions that have become too big to fail, the U.S. government is too big to default.

Unless Washington acts with budget discipline, an ugly scenario awaits the children of America. Higher payroll and general revenue taxes, smaller retirement and public assistance benefits, restricted access to health care, not to mention erosion of national and homeland security. And working-age adults who resent their elderly mothers and fathers for forcing them to foot the bill for the public entitlements their parents were unwilling to pay for themselves.

Given America’s long-standing addiction to deficit spending, the debt ceiling debate has become another opportunity for Washington Republicans and Democrats to engage in the usual quid-pro-quo deal making. In the end, both parties know that raising the ceiling is absolutely necessary. The ceiling has as much to do with addressing this addiction, as handing an alcoholic another drink has to do with ending his drunkenness. What’s needed is a 12-step program to break this terrible deficit-spending addiction.
The derailed omnibus appropriations bill that included thousands of earmarks totaling $8 billion will return when the new Congress convenes in January. The reason is simple. The federal government cannot function indefinitely on a resolution that continues the spending authorized in the FY 2009-10 budget. At some point, Congress must send a budget for FY 2010-11 to President Obama for his signature.

Mayo Research Institute takes no position on whether or not the omnibus bill should have been derailed. Earmarks, however, are an entirely different matter. MRI takes the position that there has to be a better way to handle earmarks than the present practice of “don’t ask, don’t tell” in which members of Congress know full well that their colleagues commonly bury earmarks in bills, and many of them do the very same thing without objection.

Banning earmarks completely has no chance at all for this reason: there is an insatiable demand for them in cities, towns, counties, colleges, universities, community service and economic development organizations, and non-profits across the United States. For example, earmarks in the omnibus bill designated for New Orleans alone included $250,000 for the University of New Orleans for Pontchartrain basin restoration, $1,000,000 for the New Orleans Crime Coalition to fight violent crime, and $3,490,000 to New Orleans for Formosan subterranean termite research. Scanning only a portion of the earmarks in the bill, MRI found 36 sponsored by Senator Landrieu acting alone or with colleagues in the Louisiana congressional delegation.

There is at least one powerful reason to hold on to earmarks. Truly worthy projects have access to funding that otherwise might not be available, and senators and congressional representatives are better able identify the worthy ones than are federal bureaucrats because they are closer to the organizations asking for financial assistance.

On the other hand, there is one powerful reason to denounce them. An earmark may be used by a senator or congressional representative as payback for assistance in an election campaign or in exchange for a favor such as hiring a family member or friend. This kind of abuse cannot be stamped out entirely without banning all earmarks just as ending the abuse of alcohol could not be snuffed out without prohibiting all production, distribution, and consumption of alcohol. Even so, prohibition did not lead to its intended outcome because bootleggers took over the business of producing and distributing alcohol. In like
fashion, a total ban on earmarks would lead to even more devious ways of burying earmarks in the legislative process. Bootlegging, in other words, would take over.

MRI recommends allowing earmarks under two principal conditions. First, all earmarks are listed once a year in a single bill with the full list searchable online by state and sponsor(s). Second, the total amount of funds set aside for the earmark bill would be strictly limited with severe penalties for members of Congress who exceed their personal limits.

The president would set the overall limit on funding in his annual budget message, making it transparent for everyone to see, and would declare a deadline for the bill to arrive on his desk. Congress, of course, could change that limit before submitting the bill for his signature. The final agreed total would be divided equally between the Senate and the House of Representatives. Senators would share equally their half and representatives theirs. Everyone would be allowed to freely add projects to the bill as long as they respect their individual limits. Those who oppose earmarks or don’t use up all of their own allotted funds would be allowed to sell their unused share to those who support earmarks and would like to raise their limits. Trading across party lines and from one house of Congress to the other would be permitted. The president may sign the bill or veto it. However, to prevent him from punishing his political enemies, the president could not line out specific projects in the bill.

The advantages to replacing “don’t ask, don’t tell” with transparency and limits are several. First, equal treatment for all senators and representatives, for all states and congressional districts. Second, one bill where everyone can see who supports earmarks and who opposes them, who wants more earmarked funds than his/her allotted portion and who is willing to share his/her portion. Third, no time wasted trying to insert/hide earmarks in other legislation; no time spent looking for them in other legislation. Fourth, no time wasted trying to defend or condemn earmarks.

Any senator or representative buying earmark allotments would have to transfer monies dollar-for-dollar from his/her own campaign funds to the war chest of the congressional colleague selling earmarked allotments. Thus two more advantages emerge. First, Congress would learn first-hand the difference between the usual horse-trading that goes on behind closed doors on Capitol Hill and how a real-world market works. Second, earmarks forsaken become a source of funds for the next election cycle allowing that senator or representative to spend less time raising funds and more time on the people’s business. Or they could be applied to reducing the public debt.

Earmark allotments not used or traded could not be carried over from one budget cycle to the next: use them, trade them, or lose them. Anyone trying to slip an earmark into other legislation would have to pay the full amount of that project from his/her own campaign
funds or scratch the project and pay the full amount into the U.S. Treasury. Violators who do not have sufficient funds for this purpose would automatically forfeit all of their congressional retirement benefits.

Banning earmarks completely will not work because like it or not there is widespread support for them across America. Further, there are no assurances that truly clever members of Congress would not find new ways to continue getting earmarks funded. Limiting earmarks with full disclosure is a much more workable alternative to the extremes of a complete ban and “don’t ask, don’t tell.”