

How Did It Happen?

*America now has the smallest middle class, by percentage, of any developed nation on Earth except Russia.*²³ For thirty-five years there have been no real wage gains in America. Household incomes have gone up only by the addition of another breadwinner, usually mom.

The average male between 25 and 34 earns 17% less than his father did. Thanks, Dad.

Over the last 25 years, income of the top 20% of our population grew by 75%. Real income for everyone else stopped, and reversed. The average American household now sees \$2000 less in real income per year than in 1975! Today, 60% of Americans own only 5% of the assets. Half of all Americans have a net worth less than \$1,000.²⁴

This is the worst disparity in wealth we've seen in one hundred years. 37 million Americans live under the poverty line, including eleven million who have some college education.

Our founding fathers set out to escape a society of bloated aristocracy and despairing peasants. Isn't the 21st Century just giving us a new version of the same old story?

When our country was newborn, Jefferson wrote that one of his fears was that men of wealth would accumulate so much land, we would leave hard-working people underemployed and land uncultivated. James Madison also wrote passionately about using a "silent operation of laws" to reduce "extreme wealth" of a few and eliminate the "unmerited accumulation of riches."

This is not surprising. Thomas Jefferson feared the institutionalization of power in too few "American aristocracies." He deeply worried that "banks, speculators, politicians," the powerful investor class of a new American aristocracy, would try to take back freedom given to the common farmer of his day. He complained that "these conspirators all lived in the cities" and were disconnected from both the people and the ideals that were central to the

23 Kay, John. (2004). Culture and prosperity. New York: HarperCollins.

24 economy.com

birth of our nation.”²⁵

Jefferson and Madison were not communists, socialists, or whiners but pragmatists who understood history. Both were concerned about the concentration of wealth that might occur when people’s natural differences in ability would combine with an unfair access to power and opportunity. Finding ways to intelligently limit the effects of “unequal opportunity” should be an important role of government, they felt. They understood that when society becomes economically bi-polar it becomes inherently unstable. At worst this can result in bloody revolution, at best, stagnation. And the weakness of stagnation will eventually lead to a society ripe for decline or domination. Smart guys, those forefathers.

îA Private Worldî

It turns out that Jefferson and Madison were right. The evidence of a two-class society is all around us. While 80% of Americans are fighting a personal economic war, battling for a reasonable standard of living and hoping for a decent future for their children, the people who run things tell us it’s no war at all. It’s the new order of things. “The world is flat.” Get used to it.

The wealthiest among us are building a separate infrastructure for their lives because the public one no longer works. When education breaks down, they send their children to private schools. When airport security becomes too inconvenient, they take private jets. When our police force is unable to protect us, they hire their own bodyguards. Did you know the fastest worldwide growing industry is private security forces? These are all signs of a crisis, a breakdown. But it is morbidly short sighted for us to think that the only way out is to get rich. Trying to build a financial fortress around our families to insulate us from the suffering of everyone else is no answer at all. We cannot build walls of trust funds that will save our children from the suffering of society that refuses to face its problems or live up to its primary purpose.

25 Ellis, Joseph J. (2002). *Founding brothers*. Vintage Books, 139-142.

Leaving a Legacy

Few Americans pay inheritance taxes. No family farms have been liquidated to pay inheritance tax in decades. Today estates of four million dollars are passed on without any tax, and in a few years that number will be raised to seven million dollars. Only the top 1% of estates pay any meaningful tax. Yet there is a cry among the political puppets of the ultra rich to end the “death tax.” In fact, the families who have contributed the most money to repeal an estate tax is Sam Walton’s (Wal-Mart) children worth about 90 billion big ones. There are people who didn’t earn the family fortune but enjoy an annual cash flow of nearly a billion dollars in spending money.²⁶

We all know that living on money we didn’t earn is psychological poison. Rich kids are so often insecure because they’ve been robbed of the self-knowledge of their inner worth. Paris vs. Oprah. A nation with trust fund babies at the top of the economic pyramid is nothing more than recycled aristocracy. It’s never been a recipe for a vital society. It’s everything we fought against in 1776.

So how about a legacy tax on giant estate? If we taxed large estates at our income tax rates—it would generate enough revenue to create a “recycled opportunity” fund that would give every child born of an American citizen \$10,000 at birth. This would be deposited and remain in a personal, interest bearing treasury fund account until age 70. Without any additions, this legacy fund would be worth a million dollars a person. People could add deposits to their legacy fund whenever they wanted.

Now suppose you lived your life knowing that you could pursue any profession or chase any dream and know at the end you would have a living nest egg no matter how your economic life turned out. Can you imagine the number of us who might start charities, teach elementary school, pursue art, music or pure scientific research? It would also solve our social security burden for the next generation and make our current problem easier to solve. Would it work? Well at least it’s a new idea. What do you think? What’s your idea?

26 The Institute for Southern Studies. (2005, April 6). Wal-Mart goes after estate tax.