Wealth, Money, and Morality

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INTRODUCTION

We are living in a moment of history when, it seems, almost every country is involved in a financial crisis. Our daily newspapers now describe in detail financial instruments that many did not know existed. A general rule given for social gatherings is not to discuss politics or religion. This is based on the common and sad experience that such discussions become overheated and that facts and logic are replaced by emotional outbursts. I hope that in presenting my personal observations and opinions on wealth, money, and morality I do not trigger emotions, but rather offer food for thought.

Economics has been called a dismal science. Often it is noted, humorously, economists have successfully predicted nine of the last five recessions. I am not a scholar, if fact, my formal knowledge of the dismal science is itself quite dismal. While I do read more than the average person, it is depressing to learn from Maggie Jackson's book *Distracted* that 57 percent of Americans don't read a book a year. Even more depressing, she notes "only 30 percent of college graduates cannot understand a simple document such as a food label." However, like the typical Washington politician, I shall proceed with confidence and offer my views.

If you were to ask a random sample of people to give their definition of wealth, the most frequent reply probably would be the accumulation of large amounts of money. Much of the general public is fascinated by newspaper accounts of the large amounts paid to some actors and certain athletes. Also, many would add the large accumulation of real and intellectual property, stock, bonds, and personal property. A few might add that good health must be regarded a vital ingredient to any definition of wealth.

If, in your survey, you decided to probe in depth, you might ask if there are moral questions regarding the accumulation of wealth and in particular great wealth. The replies you receive may cite earned wealth, inherited wealth, ill gotten gains, lucky lottery winnings, unearned wealth, gambling wealth, stock market wealth, fraud, and possibly the opinions of Ayn Rand and others. Some might praise actor Paul Newman's enormous contributions to charity and condemn drug dealers for their method of acquiring wealth.

INEQUALITY OF WEALTH

It is ironic that, while we are experiencing the current worldwide financial crisis, that at the same time the world has more food and material goods than it has ever known. How can we explain this dichotomy? One explanation is that economic cycles of boom and gloom have always been a part of human history. Some may even cite that even wild animals experience this cycle. When the rabbit population booms, the number of foxes increases and this is followed by a decrease in rabbits and then a decrease in fox population. This cycle repeats in a relatively few years and easily noted by farmers and naturalists. However, in the human economic cycles the time between major booms and busts is often more than a generation and many forget the lessons of the past. Note the similarity of the current crisis to that of the crash of 1929. Typically, as in this crisis, there are those who quickly assure us we now have methods for controlling the intensity and duration of this crisis. However, it is not very assuring that most of the very same experts failed to predict that current crisis.

One indicator of an approaching economic disaster is when income inequality reaches an excessive level. An avalanche of books is now hitting the bookstores describing and analyzing the current financial crisis. A common thread is their pointing out the great wealth created for a few and the failure of the middle class and the poor class to share in the boom of wealth. Incidentallly, I find it interesting that in the very large number of speeches and TV commercials during the recent presidential campaign, I failed to even once hear the term “poor class.” Is the phrase in the class of words known in politics as the “third rail”? We all know the third rail is there, but do not touch it, it can kill you. Possibly they refrain from the use of the phrase “poor class” to avoid feeding the propaganda machines of unfriendly nations. By all means, preserve the Hollywood image that all American homes have winding staircases. Another possible explanation is the desire to avoid any reference to a growing and disgruntled poor class. Benjamin N. Friedman in his book *The Moral Consequences of Economic Growth* cites the history of political revolutions in America, France, Germany, Mexico, and Russia. He calls attention to the claim of some that the collapse of the Soviet Union took place when people noticed the gap between Soviet living standards and the Western standards and they also observed the gap was not shrinking.

Another recent book that I found interesting is Kevin Phillips’ *Bad Money.* One of the causes of the rising financial inequality in the United States is the transferring of much of our manufacturing to China and India. This resulted in the loss of many well paying jobs. So many companies closed their doors in the Midwest that the area became known as the Rust Belt. Phillips notes that in 1950 the manufacturing share of the U.S. gross domestic product as 29.3% and that it dropped to 12.0% by 2005. He compares this to the financial services going from 10.9% to 20.4% in the same period. He cites a 2004 study by Raymond Dalio (Bridgewater Associates) indicating 44% of all U.S. corporation profits came from the financial sector, only 10% from manufacturing. Phillips observes China benefitted greatly from this transfer of jobs. The people of China have developed a thirst for cars. In 2007 only 17 out of 1,000 Chinese owned cars compared to 860 out of 1,000 in the USA.

Yet another recent book analyzing the current crisis is Charles R. Morris’s *The Trillion Dollar Meltdown.* He notes the “widening disparity of wealth and income not seen since the Gilded Age.” He cites the taxable income of the top 10% of our population went from, 34% to 46% between 1980 to 2005. Amazingly the top *one-hundreth* of one percent, that is fewer than 15,000 people, had an average tax return of $26 million which amounts to $384 billion for this group. He also notes an even smaller group, the wealthiest 400 families who received one percent of all income in 2000 also benefitted from a low effective income tax rate. This prompted Warren Buffett's famous observation that his tax rate was lower than his secretary's.

Another possible indication that boom and bust cycles may be inherent to mankind is the bible verse Matthew 25:29, "For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath."

INEQUALITY OF HEALTHCARE

It is puzzling how a nation dedicated to the principles of equality with regard to opportunity, vote, and the law can continue to ration health care on the basis of wealth. Over and over the media calls attention to the 47 million Americans without health insurance and to the fact that half of all personal bankruptcies result from health-care expenses. Also, over and over it is noted we spend, percentage wise, twice as much of our gross domestic product as other industrialized nations and yet we are ranked 37 th by the World Health Organization. Some argue goverment management of health care would be inefficient. However, Medicare administration cost is 2.9 percent of revenue, whereas private insurance costs is 31 percent. Others argue a government single payer system would be welfare for the shiftless. Yet of the 47 million without insurance, 70 percent are working.

The present healthcare system has been a bonanza for the insurance and the pharmaceutical companies. Between 2000 and 2006 health care premiums rose 86 percent and are expected to rise 10 percent in 2009. Healthcare spending per person in the United States is twice that of Germany, Canada, Britain, and Japan combined. The pharmaceutical lobby is so powerful that, by law, the advertisements for drugs cannot cite prices. There are two lobbyists for each member of Congress. A very sad commentary on our medical system is that of our infant mortality ranking among nations. In 1960 we ranked 12 th, by 2004 we ranked 29 th. This comparison was made by the Centers for Disease Control and Prevention and not by some supermarket tabloid.

Melody Peterson in her book *Our Daily Meds* cites facts and figures indicating the American drug industry has become our most powerful industry. She notes how we now spend more on prescription drugs than twelve major nations combined, some $250 billion. It rose from $12 billion in 1980 to $197 billion in 2003. It is estimated prescription pills kill 270 Americans daily, which is twice the number killed in automobile accidents. It is the fourth largest cause of death in the USA. The industry profit rate is 16 percent while the national average is 5 percent. She further notes the United States is the only developed country that does not control prescription drug prices. It is an industry that spends 29 percent of its budget on promotion and 9 percent on research. In 1980 a 65 year old American woman's life expectancy was among the best in the world, by 2002 it had fallen to 17 th.

Senator Tom Daschle in his book *Critical* suggest one reason we do not have universal medical care is that in the past powerful unions and large corporation used medical benefits as contract bargaining tools, while in Europe organized labor secured health insurance for every citizen, not just union members. In 1960, the American Medical Association, AMA, lobbied against Medicare. However, Medicare turned out to be a financial windfall for doctors, hospitals, and insurance companies. He notes that before Medicare many doctors charged what they thought a patient could afford while now they charge the government as much as they possibly can. Daschle observes that as long as prices and success rates are secret, there will be a disconnect between cost and quality.

Supporting this disconnect, an article in the New York Times, (June 14, 2007), cited a Pennsylvania government survey of 60 hospitals where the cost of heart bypass surgery ranged from an average of $100,000 to less than $20,000. The length of stay and death rates were equal.

In my letter to the editor of the New York Times published August 5, 2007, I suggested as a cure for our high cost medical system that the medical monopoly should be ended by opening our medical schools to everyone qualified and not to limit the number of doctors from foreign countries. I concluded "Why can we use the word competition when speaking of sports, manufacturing, or just about any industry, but it is regarded as a dirty word when speaking out about our medical industry?

Measuring Inequality

An important way that science differs from religion and philosophy is that it assigns numbers to events and phenomena. It is often felt that without numbers we are dealing with anecdotal accounts. The general public may prefer anecdotes, stories, and analogies, but the true scientist demands statistical data and strives to find mathematical relationships between variables. To put economics in the same class with physics and chemistry, various indexes have been devised. The Gini Index for measuring inequality is one such index. It was created in 1912 by the Italian statistician Corrado Gini. The scale is 0 to 1. Zero indicates perfect equality, that is, a wealth or income distribution where everyone has the same income or wealth. An index of one indicates perfect inequality, that is, one person has all the income or wealth. Today the index ranges from Denmark's 0.232 or 23.2 percent to Namibia's 0.707 or 70.7 percent. The percentage sign is often omitted. The United States and Mexico indices are both above 40. The United states figure has grown from 39.7 in l967 to 46.3 in 2007.

There are problems with the Gini index. For example, Sweden has a low figure for income distribution, yet a high figure for wealth distribution in that 5 percent of Swedish households hold 77 percent of shares.

Another common measure for describing a distribution is the Pareto distribution. It is named after the 18 th century Italian economist Vilfredo Pareto. It is often called the 80-20 rule and it fits a great many situations. For example, while there are many large cities, there are a much greater number of small towns.. Likewise, there are few large oil fields, but many small fields. Companies often find 80 percent of their sales come from 20 percent of there customers. Pareto noted that in many countries 20 percent of the people controlled 80 percent of the wealth.

On wonders if the 80-20 rule will be found to apply even to colonies established by space explorers in the distant future.

The average American has little interest in indices, tables, and formulas describing the growing financial inequality, but is convinced that the rich are getting richer and the poor are getting poorer. To some, the growth over the past 30 years of our prison population confirms the truth of this adage. In the book *Race, Incarceration, and American Values* by Glenn. C. Loury and others, it is reported that prison and jail expenditures jumped from $7 billion in 1980 to $57 billion in 2000. The U.S. prison system is "the third largest employer in the nation, behind Manpower and Wal-Mart."

Let us examine these figures. If we divide $57 billion by the 2 million in prison, the average cost per prisoner is about $28,000 per year. Add to this the loss in wages due to incarceration and assume that one half could earn an average of $10,000 per year were they not in prison. That is another $10 billion lost to the nation. We may assume the current figures well exceeds the 2000 figures since growth rate has been 11 percent per year. The vast majority of the US prison population comes from the lower economic and education levels of the population. Their high incarceration rate adds to the wealth distribution problem.

MONEY

Charles R. Morris in his book *The Trillion Dollar Meltdown* argues the current financial crisis had it birth in a 1973 law "requiring companies to set aside money to fund their pension promises to workers." These funds quickly ballooned to $1 trillion . In 1979, regulations governing these funds were eased. In 1983 collateralized mortgage obligation, (CMD), was invented and big investors felt these were safer than conventional mortgages. Morris notes the advent of the Black-Scholes formula which became "a tool for pricing everything." The combination of the available vast pension funds and mathematical formulas that gave the illusion of insurance created the financial bubble of today. Financial inequality exploded with the top one percent's share of the national cash income going from 9 percent to 19 percent

Morris points out the role of education levels has played in the increasing financial inequality. He cites Rust Belt workers with a low education level as suffering a decline in well-paid jobs while the average income of stock brokers was $250,000 in 2005. Obviously, a higher level of education a desirable goal, yet America, Morris notes, "is the only country in which most students graduate from college with heavy debt loads.". He also points out student loan firms are exempted from state usury laws and 90 percent of the loans are guaranteed by the taxpayer.

Morris's final observation is that while the market-driven economy can be given credit for the economic recovery of the 1980s and l990s, "it's time for the pendulum to swing in the other direction." That is, government-centric style of economic management.

In the next few years it will be interesting if some new books appear, both fiction and non-fiction, that examine the whole concept of money. After all, money is a human invention, although naturalists have observed male animals that offer nesting material bits of food to prospective mates. In Herman Melville's classic book *Moby Dick*, the crew members were compensated with shares in the voyage's success.

How will some future space voyagers be compensated? The acronym GRAIN has been used to portray the future. That is, genetics, robotics, artificial intelligence, and nanotechnology. How will money fit into this picture? The plastic credit card may be the prelude to the complete elimination of physical money as we know it. Will software programs be created that will assign a numerical value to our labor, services, creativeness and deposit these numbers to computerized bank accounts? At this time we might say it is impossible to assign a value to creative acts for no one can predict their influence on society. Yet within a generation we have seen computer power increase to a level that seemed absolutely impossible 30 years ago. The same computing power that required a room size computer now fits in the palm of our hand. What power gain will the next 30 years bring?

WEALTH AND MORALITY

Almost no one would disagree that a farmer that works twice as hard as his neighbor deserves twice the reward for his labor. Most, again, might agree if a farmer did the same amount of work, but produced twice the crop, such as by the intelligent use of fertilizer, that again twice the reward is deserved.

Now consider the current financial crisis. A recent editorial, Wall Street Journal, (Nov. 13, 2008), noted the financial services industry in New York state, which employed about 3 percent of non-government workers, provided 2 percent of total wages in 1977, then skyrocketed to 20 percent in 2007. This group of 212,000 people received in wages and salaries almost $80 billion, or an average of $375,000 each. Granted the stress in this field is probably considerable, but is it, say, four or five times that of farming? Salt water fishing and coal mining have higher stress levels and much higher death rates. Some might argue anyone with a strong back could mine coal, but those in the financial sector need a much higher level of education.

Currently, much debate exists about the need to bail out the Big Three American auto manufacturers. Judging from the many irate letters to the editor in many newspapers, a large number of Americans feel they have brought their troubles on themselves. That is, poor management that has fought tooth and nail against improving their miles-per-gallon ratings and a union that has fought for and received wages and benefits far exceeding those manufacturing other products. Note that European unions fought for universal medical benefits for all workers, not just union workers in one industry.

The libertarian argument has been and still is that a free and mainly unregulated industry will provide the best economy for the entire nation by self-regulation. Others blame the current financial crisis on the lack of regulation and oversight by the government.

Is there a balance point between these two philosophies, or is it simply a case of a pendulum swinging about every 50 years due to people forgetting the causes of a previous crash? Are we doomed to endless periods boom and bust such as the Tulip Mania of the 1600's? It is strange that a nation that continually produces Nobel laureates in economics now finds itself in a financial crisis. Even stranger, it is the use of computers capable of analyzing massive amounts of information that has triggered massive sell-offs based on formulas designed to protect each firm’s interests. These formulas seemingly ignore the fact that other computers may also been programmed to similarly protect other firms.

The fear of big government attempting to manage and plan who shall receive government funding is supported by the failure of committee decisions such as in the Soviet Union which resulted in a total economic collapse. It is morbidly fascinating that our current Congress has an abysmal rating by the public while at the same time it seems that a vast majority feel their particular representative or senator is an exception to the rule. It calls to mind Garrison Keeler’s Lake Wobegon where all the children are above average

At a recent Cleveland City Club meeting, where the congressional candidates from the 10 th Congressional District spoke, I posed the question, if elected, would they urge Congress to investigate how much speculation had to do with the doubling of gasoline prices in 2008. Dennis Kucinich replied he most assuredly would ask Congress to investigate. It will be interesting to see what Congress actually does to determine how much of the rise was due to speculators.

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