

THE RISE OF THE INSANE STATE



WHAT IS HAPPENING
TO THE U.S. ECONOMY?

KENNETH R.
SZULCZYK

The Rise of the Insane State

What is happening to the U.S. Economy?

Kenneth R. Szulczyk

The Rise of the Insane State – What is happening to the U.S.
Economy?

Copyright © 2009 by Kenneth R. Szulczyk

All rights reserved

Cover design by Kenneth R. Szulczyk

More information at www.ken-szulczyk.com

Edition 5.0, April 2012

Table of Contents

Table of Contents.....	3
Forward	6
1. The Purpose of Government	7
Government Creates the Legal System	8
Economic Systems	12
The Rampant Expansion in Government	15
The Optimal Size of Government	21
2. Crazy Laws.....	26
Above the Law	31
Corruption and Government	33
Division of People.....	36
Complexity of U.S. Laws	40
3. Frivolous Lawsuits.....	46
Torts	50
The Festering Growth of Attorneys	54
The Parasitic Class	56
4. Excessive Regulations	62
Parkinson's Laws	67
Government, Technology, and Urbanization.....	69
Problems of Regulations.....	73
Society's Costs of Regulations	76
5. Taxes Destroy Wealth.....	80
Taxes Change Behavior.....	84
The Laffer Curve.....	88
Instability of State Government Finance	91
Property Taxes versus Income Taxes.....	93

6.	Corrupt Police and Kangaroo Courts.....	100
	The Race to Incarcerate.....	103
	Administration of Justice.....	107
	State Protection of Children.....	112
7.	The Erosion of the Bill of Rights.....	118
	Amendment I	119
	Amendment II	122
	Amendment III.....	123
	Amendment IV.....	124
	Amendment V	125
	Amendment VI.....	127
	Amendment VII	131
	Amendment VIII	132
	Amendment IX.....	135
	Amendment X.....	135
8.	Repetition of History – The Roman Empire	141
	The Rise of the Roman Republic	142
	The Birth of the Roman Empire.....	144
	The Decline of the Empire.....	148
9.	The 2007 Great Recession and the Great Depression.....	155
	The Prosperous 1920s	155
	The Stock Market Crash of 1929	157
	The Banking System	158
	Deflation	160
	Farmers	161
	Employment.....	162
	Taxes	165
	The Growth of Government.....	167

10. The Anatomy of the 2008 Financial Crisis	174
The Push for Homeownership	175
Mortgage Asset-Backed Securities	177
Collateralized Debt Obligations (CDOs).....	179
Credit Default Swaps (CDS).....	182
11. A Grim Future	193
Perpetual Bear Financial Markets	194
Fleeing Businesses	196
Excessive Enforcement of the Laws	199
The Growth of Crime and Black Markets	202
Decline of Civic Loyalty and Political Corruption	203
The Collapsing U.S. Dollar	205
Hyperinflation	207
About the Author	213

Forward

This book is about self-interest. Politicians, attorneys, bureaucrats, businessmen, and the people do not look at government, and think of ways to improve our laws, rules, and regulations. Instead, they look at our legal system, and devise and scheme of ways to benefit personally from it.

Under a capitalistic system, profits drive self-interest. Thus, the rules are simple, and a person can predict outcomes. A person just asks one question, how does one profit from this situation? On the other hand, government and public institutions are not guided by a profit motive. Their self-interest is guided by whims, notions, beliefs, and prejudices that could constantly change. If government evolves in a large controlling institution, it can throw open the doors to an insane asylum. Unfortunately, those doors flung violently opened in the 1990s in the United States, and Americans witnessed the death of common sense. Hence, we arrive at the title of this book, “The Rise of the Insane State.”

The ideas in this book are universal. The more I travel, the more I see the same patterns of struggle between government and its people. It is actually quite eerie. Although the names and places change, government behaves in the same manner. All government officials impose their control and dominion over their people.

1. The Purpose of Government

“In this present crisis, government is not the solution to our problem, government is the problem...”

-Ronald Reagan

Since the dawn of civilization, humans gazed upward into the stars and heavens to search for the almighty God. God is the all-powerful being, who is the grand architect of the universe and created all life on Earth. From the heavens, God keeps a watchful eye over his creation. Men and women kneel down before God, and silently whisper prayers. The people hope God is listening. That God will intervene in their lives, and answer their prayers with miracles.

Another powerful entity exists in society, and lies at heart of our civilization. This entity is the second most influential force in nature. The answer should not surprise you, because that entity is government. A government has the immense power over its people. A government can imprison or execute its citizens, expropriate property, or send its army and navy to invade another country. A government intervenes in the daily lives of its citizens. It imposes laws, rules, and regulations over everyone in its domain, and collects taxes from its citizens. No other entity in our society has that power.

People place too much faith in their government. They ask government officials and the politicians to save them, make our society better off, or correct an injustice. Unfortunately, our political leaders and government officials are happy to comply. Now, all levels of government in the United States meddle in all society's affairs. Our government literally shackled all our businesses, industries, and markets with numerous and confusing laws, regulations, and taxes.

The U.S. economy appears to be stuck, and mired in a perpetual recession. The unemployment rate is frozen at nearly 10%, and experts are predicting a new recession for 2012. Many Americans believe capitalism failed them. Our political leaders are in a state of denial, and they keep fueling the size of our

government. They refuse to bring government spending in line with revenues, or reign in their crazy rules and regulations. They believe government must step in order to stop the economic decline.

Government is not a savior, and a government solution could never work. Only the American people can lift themselves out of this perpetual depression. However, Americans first need to remove the shackles of government control.

The one premise you will get from this book that it may not be a good idea to keep expanding government. Government can do great things, but it can blunder badly too. Although government is a necessary evil, a large government creates many more problems than what it solves. Instead, government should encourage people to be entrepreneurs, and work hard to lift themselves up. People should not depend on government for their livelihood and salvation.

The solution to our perpetual recession is very easy, and entails two parts. First, keep the size of government the smallest as possible with limited power. An expanding government always creates more problems than what it solves. Each chapter in this book hones in this simple fact. Second, religion is a critical component of society. Religions always impose constraints on human behavior. They are a source of values, morals, and ethics; furthermore, many religions espouse hard work and family values. If 99% of the population followed these religious precepts, then society functions by itself without the guiding hand of government. People with strong pious values do not need government watching over them and meddling in their affairs. Thus, society runs itself.

Government Creates the Legal System

Every society needs a government. Government creates a legal system that is the glue holding society together. It influences how people work, save, and consume, and the level of freedom that people and businesses enjoy. The United States became the world's richest country, because the founding fathers instituted a good legal structure that encouraged Americans to be independent, hard-working entrepreneurs. Our legal system allowed them to keep their fruits of labor. Consequently, free enterprise created

America's immense wealth, while the government stood on the sideline, and allowed its citizens to create and garner wealth.

A legal system is difficult to define. The best way to define it is to compare it to its opposite: chaos. Chaos prevents a society, or an economy from forming. As people organize themselves, a legal system evolves that defines the rules, rights, and expectations of its citizens. Some entity elevates itself above its citizens, becoming the enforcer and protector of these rules, rights, and expectations. This enforcer and protector are the government. The government establishes the legal system, and creates the “rules of the game.”

A government can choose to create an excellent, or a bad legal system. A good legal system helps citizens settle disputes, protects private property, and encourages citizens to interact harmoniously and peacefully. Furthermore, a good legal system encourages the growth and expansion of businesses. Thus, private enterprise increases a society's wealth. On the other hand, a bad legal system divides people, encourages rancor and hatred among groups, and creates overly complicated rules and laws. Hence, a bad legal system chokes and suffocates businesses, eventually annihilating society's wealth.

A legal system is the rules, practices, laws, regulations, customs, and habits of society. It always imposes limits and boundaries on human behavior, but at the same time, allow citizens to react together in predictable ways [1]. For example, zoning laws imposes limits on residential neighborhoods. One neighbor cannot build a factory in the center of a residential neighborhood. Hence, the residents of the neighborhood benefit. They are free from the pollution, noise, and traffic of a factory. When a new person moves into the neighborhood, he/she has the expectation that no one will build a factory there. Although a legal system imposes limits on human behavior, a good legal system allows people to predict behavior, and make future decisions.

Governments always change and tinker with the laws, rules and regulations. When government changes the legal system, the change consistently creates winners and losers. Some citizens benefit, while other citizens are penalized. For example, government imposes a speed limit on drivers of cars and trucks. To the speeders, this law imposes a limit on their behavior. However, the roads become safer for other drivers and pedestrians, as

everyone drives at a lower speed. The trick is to change the law, so that more people benefit than penalized. Therefore, a society grows and thrives, if its government changes the laws and regulations prudently.

A good legal system requires equality, order, predictability, and stability.

Equality: The laws apply to everyone equally. If government granted some groups preferential treatment, then the disadvantaged groups could view their government as capricious and corrupt. Furthermore, they could become bitter and lose faith in the legal system, possibly becoming criminals or violators. For example, if judges always ruled in favor of women for cases that involved women versus men, then men could harbor acrid feelings against women and the court system. The current domestic violence and sexual harassment laws could be fueling a division between men and women in the United States. One necessary requirement of equality is the laws apply equally to the political leaders in government. Many members of Congress forget about this, when they pass new laws exempting themselves [1].

Order: The legal system creates order. Laws inform people how they interact with each other. Laws should be simple, clear, and comprehensible. Everyone with a shred of common sense would be in compliance with them. Furthermore, government should keep the number of laws to a minimum. For example, the Ten Commandments are straightforward and concise. “Thou shall not steal,” encompasses a wide variety of crimes. Stealing is stealing. It makes no difference if a person steals someone’s car, or a person’s identity to obtain credit. Unfortunately, the U.S. laws have become so complicated; the experts have trouble understanding them. If the experts do not understand the laws, then how can Americans, who work outside the legal system understand them?

Predictability: Laws create predictability. When people know the laws and regulations, they can predict relationships and reduce their uncertainty. For example, if you agree to buy land, then you exchange cash for the deed. What happens if you bought the land, where you exchanged cash for the deed, but government did not transfer the title to your name? This example seems foolish, but it

happens in Northern Mexico. Poorly defined property rights would hamper economic growth and development.

Stability: The legal system must be stable. For example, one morning after you awakened, the government changed all the laws and regulations. How would you know, if you were in compliance with the new laws and regulations? Again, this example seems foolish, but the U.S. federal and state governments constantly change the laws, rules, and regulations. The stability condition does not mean rules become rigid and fixed. As society changes, the rules and regulations for the legal system have to keep pace with changes in society [2].

If laws create equality, order, predictability, and stability, then these laws are efficient. Here are three examples of efficient laws.

Example 1: A law forces everyone to drive on the same side of the road. Someone driving on the opposite side of the road could cause an accident, endangering the public.

Example 2: Laws protect people's private property. A person works hard in order to buy things with his salary. If a thief can come along, and steal that person's things with no legal consequences, then people have little incentive to work. Hard-working people could stop working, and also become thieves. Unfortunately, professionals within the U.S. legal system have become good at stealing from the people that is legal in the confines of law.

Example 3: Laws punish drunk drivers, because alcohol impairs a person's ability to operate machinery properly. Thus, a drunk driver could injure, maim, or kill innocent bystanders, while driving intoxicated.

Humans can be opportunistic. Some are driven to violate society's rules with the most severe violations being rape and murder. Therefore, a legal system has to impose sanctions and punish violators [2]. The punishment informs people about the rules and regulations, and encourages citizens to stay within the confines of the law.

All legal systems have a severe flaw. They all have a legal language. A legal language describes the circumstances and transactions of its citizens. As circumstances and society become more complicated, then the legal language becomes more complex, giving birth to new rules, laws, and regulations that are more

complicated [2]. Over time, a more complex legal system requires more bureaucrats and better-educated bureaucrats. Then government bureaucrats evolve into a dominant class in society. They can artificially expand their power and salaries by expanding the rules and regulations, or create a more complicated legal structure than is necessary. This rising class of bureaucrats could aid the growth and intrusiveness of government, creating many problems for a society. Therefore, bureaucrats who pursue their self-interest can work against the economy, which destroys the people's incentive to create wealth.

Economic Systems

Experts in economics and political science define two types of legal systems: socialism and capitalism. A socialistic government owns and controls all society's property, land, buildings, and machines. Socialistic governments do not use markets to direct economic activity. A central government committee determines production levels and prices, which they conveniently call "collective decision making." Then the state produces and distributes all goods and services to its citizens. Communism is the extreme form of socialism, and the government controls all aspects of its citizens' lives. The Soviet Union, China, Cuba, and North Korea used or is still using Communism.

The other extreme form that is the polar opposite of communism is *laissez-faire* capitalism. *Laissez faire* means let it be. People own all property, land, buildings, and machines, and then they produce and distribute goods and services to other citizens. Capitalism is synonymous with free markets, because citizens use markets to transfer resources, goods, services, and property freely with minimal interference from government. Capitalism still needs a government! The government establishes the legal system or the "rules of the game."

The problem with socialism is government wants everyone to be equal. The famous socialistic quote is, "From each according to his means, to each according to his needs." Unfortunately, this is the antithesis of humankind's nature. Humans are born with different talents, work ethics, and values. This inequality in human abilities will cause socialism to fail. For example, if a hard-

working farmer produces 100 bushels of apples, and a lazy one produces 20 bushels, then a socialistic government will take 40 bushels of apples away from the hard-working farmer, and give it to the lazy one. Thus, each has 60 bushels of apples and, they are equal. Consequently, the hard-working farmer will start producing 20 bushels of apples, preventing the government's seizure of his apples and indirectly his hard work. Unfortunately, socialism tends to reduce everyone to the lowest common denominator. The slowest, laziest people set the standards in society. Of course, the government bureaucrat will not give all 40 apples to the poor farmer. The bureaucrat has to eat too, feeding off the hard working and industrious.

A hard-working farmer under a capitalistic system could sell his excess supply of apples to the market, earning profits. Hence, the farmer's hard work is rewarded. Consequently, capitalism, hard work, and self-interest work together, creating a strong backbone for an economy.

The premier example of communism is the Soviet Union. The Soviet state produced all the consumer goods and services for 70 years. The Soviet people could buy two types of T.V. sets: color, and black and white, about five types of soda, several types of bread, and three car models: Lada, Moskvich, and Volga. Some Soviet products were okay, while others had quality problems like the color T.V. sets tended to explode, and the Moskvich car was junk.

Many Soviet products were also in short supply, so not all citizens could buy and own cars. The Soviet system had a pecking order: Communist party members came first; academe and scientists were second, and everyone else was last, although communism was supposed to erase social classes, and make everyone equal.

The Soviet system did propel a backwards Russia into a world power during the 20th century. Nevertheless, it came at a great cost. During the 1980s, the Soviet economy stagnated, creating severe shortages throughout the economy. Consumers shopped in stores with bare shelves. The Soviet Union still had a pecking order; communist party members had their own special stores that were stocked first. Finally, the Soviet Union had a large prison

system, the Gulag, filled with prisoners, and Stalin executed millions of Soviet citizens through his purges.

The United States was a capitalistic country during the 19th century, and we became a world power at the beginning of the 20th century with a high standard of living. However, we lost our way. The federal, state, and local governments extensively use taxes, subsidies, price controls, and regulations to control our economy. For example, Americans can still own property in title only. If you build a house, do you really own that house? The government at all levels imposes many conditions on you. You have to apply for permits, to adhere to building and zoning codes, and to pay property taxes.

Property taxes are quite high in some states, and the municipal government will not hesitate to foreclose on your property for not paying them. Moreover, you need permission from government to alter or change your property. If you build on a wet land or endanger a species going extinct, then you can get into serious trouble with the U.S. government. Except for property taxes, we survived the 19th century without all these rules and regulations, and built our massive cities.

Private property, unfortunately, has been under assault from the federal, state, and local governments for the last 40 years. As we progress toward the 21st century, our society has become much more socialistic and highly regulated. Are we better off, or is our society starting to crumble?

China is supposed to be a communistic country, where the government owns all the property. Since the 1970s, the Chinese government gradually opened up their society to free markets, competition, and private ownership of property. They use free markets and capitalism to build up their wealth and create jobs. Their manufacturing industries are booming and large marshes were transformed into cities overnight. When Americans shop at a store, they are likely to buy a product produced from a Chinese corporation. Consequently, capitalism is reviving the Chinese dragon, and is propelling China into a world power. After the 2008 Financial Crisis, their economy continues to grow furiously and strongly, while the United States and Europe continue to sink.

Capitalism is not a perfect system. However, it is the best that man has given his nature. The only alternative to capitalism is

some form of government control. Unfortunately, government cannot create wealth. Otherwise, the Soviet Union would have been the richest country in the world, and it would not have collapsed in 1991. Everyone knows the stories of Soviet people standing in lines for hours to receive their bread ration, or the Soviet state industries produced low-quality goods. Furthermore, the Chinese government moved away from communism, because it failed, and unleashed the power of capitalism and free markets. Thus, the government cannot create wealth; only citizens and businesses through private markets can create wealth.

The Rampant Expansion in Government

The United States has two political parties: the Republicans and the Democrats. The Republicans espouse a capitalistic system. In theory, they believe in small limited government with low tax rates, favorable regulations on business, and a strong national defense. The Democrats believe in equality, opportunity to go to college, support a clean environment, and universal healthcare. Thus, by definition, the Democrats would espouse a growing, expanding government, because they support social programs and help the disadvantaged. The Republicans should contract the government, and limit its size. However, both political parties expand the role of government, regardless of political philosophy.

The political parties strive for control over government. Then they use government as a vehicle to strengthen their political agendas, and further their self-interest. For example, George W. Bush was a Republican and the 43rd President of the United States. President Bush during his two terms in office led to a massive expansion in government, while he claimed he supported limited government. He created the new Department of Homeland Security, entered into wars with Afghanistan and Iraq, and passed numerous controversial laws. One law, No Child Left Behind Act, started the federal government's interference into local school systems. President Bush also signed into law the Medicare Part D. The federal government provides prescription-drug insurance for seniors, as a method to buy votes from the senior citizens. Finally, President Bush nationalized corporations and banks that teetered on bankruptcy during the 2008 Financial Crisis. He transferred

approximately \$700 billion in taxpayer money to bail out the financial system, although many Americans were against it. His predecessor, President Clinton, a Democrat, actually slowed the growth in government.

The Republicans at the state and local levels of government are as bad as the U.S. Presidents. For example, Governor Rick Perry, a Republican, started the franchise tax in Texas. It is an income tax on businesses without calling it an income tax; thus circumventing the voter's right to vote and pass an income tax in Texas. Governor Mitt Romney, another Republican, passed a universal health care program in Massachusetts, which President Obama used to create the new federal healthcare program.

Bureaucrats, politicians, and leaders are increasing the size, scope, and mission of government. The U.S. federal, state, and local governments are passing laws at such a furious rate; it is as if a legal atomic bomb has exploded. More laws, rules, and regulations require more bureaucrats. Thus, government is continually expanding or creating new bureaucracies.

Government has to pay for its army of bureaucrats and has three funding sources:

Government could collect taxes, fees, and fines. However, excessively high taxes, fees, and fines can stifle a market economy, causing incomes and wealth to decrease. Unfortunately, the public does not like tax increases; thus, politicians and bureaucrats resorted to numerous small taxes, fees, and fines. It is a painful death from a million paper cuts.

The government could borrow money. Borrowing money creates future tax liabilities, because government has to pay the money back plus interest. When governments borrow money, they hope the economy grows, increasing the tax base. Then government pays the debt back from higher future tax collections. This could be disastrous, if the economy is going through a period of contraction. Some people believe the United States will enter an extended recession like the one Japan entered during the 1990s.

The government can print money. This option is only available to the federal government through our central bank, the Federal Reserve System. However, printing money is not a good option, because it leads to inflation. As prices are increasing, wage increases tend to lag behind price increases, squeezing the workers,

which are called the inflation tax. Furthermore, a high inflation rate weakens a currency, causing the currency to depreciate. Some people believe a massive U.S. government debt will lead to a bout of high inflation, and the collapse of the U.S. dollar. Then the hard economic times will really begin. The 2007 Great Recession will pale in comparison.

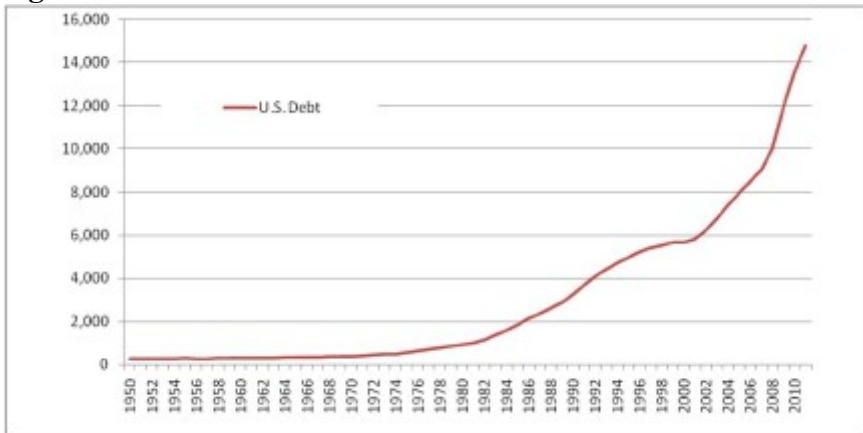
The majority of politicians in the world today use Keynesian economics. They use deficit spending that always leads to the accumulation of debt. The politicians increase spending or decrease taxes, which expand the economy and cause a budget deficit. They use deficit spending during recessions and booms. Unfortunately, a growing government debt becomes a potential ticking time bomb. Once investors lose faith in the government to repay its debt, government experiences a crisis. It has to raise taxes or contract government spending, hindering the growth of the economy and causing a period of stagnation. If the politicians used Keynesian economics properly, they should have budget surpluses during a boom cycle, and budget deficits during recessions.

The U.S. federal government is not able to exercise any restraint in its spending, and it has large budget deficits since the 1960s. Before the 1960s, politicians only accumulated debt when we were at war. During times of peace, politicians would pay down the public debt. During the 1960s, President Johnson started the War on Poverty, and escalated the Vietnam War. Then President Nixon began the War on Drugs.

Since these times, the United States has been plagued with perpetual budget deficits, and the steady increase in our public debt. The U.S. federal debt is shown in Figure 1 starting with the 1950s, and it currently surpassed the \$14.5 trillion mark in 2011. The U.S. debt is expected to attain new heights with President Obama's \$787 billion economic stimulus package, and President Bush's \$700 billion Wall Street bailout package in October 2008. Unfortunately, the public debt is exponentially growing at 7.5% per annum for the last 60 years, which is double our economic growth rate.

The U.S. government holds about \$4.8 trillion or approximately 32% of the U.S. debt, as of March 2012. The Social Security Administration and federal retirement accounts invest their funds and budget surpluses into U.S. government securities.

Figure 1: U.S. Government Debt



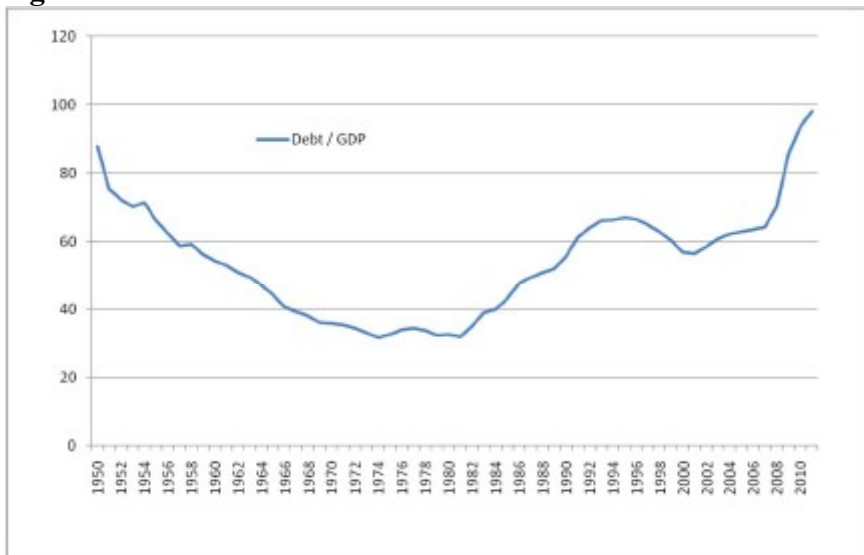
Although Social Security had surpluses for the last 20 years, Congress already spent this money, and in its place put U.S. Treasury Securities [3]. This is the same as putting money in a cookie jar. Then you decide to spend the money, and in its place, you fill the jar with IOUs. This trick only works if you do not dig yourself in a large financial pit. Once a point is reached, the government will not be able to refund Social Security. In 2011, Social Security fund had a \$45 billion deficit, and the Social Security fund is no longer free money to Congress, which is probably why the U.S. government deficits consistently exceed a trillion dollars every year since 2008.

The Federal Reserve System holds about \$1.7 trillion or approximately 11% as of March 2012 [3]. The Federal Reserve maintains the nation's money supply, and buys U.S. Government Securities to expand it. The 2007 Great Recession was very severe, and the U.S. economy is stagnating; consequently, the Federal Reserve granted \$2 trillion in emergency loans to banks, keeping the U.S. financial system afloat. The chairman, Ben Bernanke, euphemistically calls this quantitative easing. The Federal Reserve is buying the toxic mortgages from banks, granting loans to the European Central Bank, and buying boatloads of U.S. government securities. Unfortunately, the inflation rate will spike, if the banks begin granting loans to the public, injecting these funds into the economy.

A massive debt is only part of the story. A growing economy increases the government's tax base, so government can finance more debt. Furthermore, a flourishing economy requires more infrastructure and bureaucrats, such as more roads, highways, schools, and other services from government.

Economists use Gross Domestic Product (GDP) to measure the size of an economy. If GDP is growing, then it indicates our society is producing more goods and services, and incomes are also rising. The U.S. federal government debt relative to the GDP is shown in Figure 2. During the 1950s, government debt was quickly dropping as government was paying off its war debts. Since the 1980s, government debt took off from President Reagan's massive government deficits, and the debt-GDP ratio currently exceeds 100%. Usually investors stop buying debt when it becomes too high. For example, the investors stopped buying the Greek government's debt, when the debt-GDP ratio reached 140%.

Figure 2: U.S. Federal Government Debt relative to GDP



A government debt can be positive for the economy, if the government invests in infrastructure, education, or research. Then public spending benefits both the current and future generations. Future citizens benefit from more knowledge, highways, libraries, and universities. For example, the U.S. government funds research

institutions such as National Aeronautics and Space Administration (NASA). In turn, NASA buys billions of dollars in parts from hi-tech industries. These hi-tech industries hire more scientists and engineers, and expand their research and development. Thus, white-collar jobs flourish in our economy.

Society can benefit if government spends and invests its money wisely. However, a large government debt has five potential problems.

Problem 1: Future generations are saddled with paying back this debt. If government wastes money on wars that cannot be won, incarcerates people for minor crimes, or bails out corporations that made bad financial decisions, then this money is wasted, and future generations receive no benefits. For example, the U.S. government poured billions of dollars into the War on Poverty and the War on Drugs. We lost both wars, but these wars continue. The U.S. government also started the decade-long wars in Afghanistan and Iraq.

Problem 2: A large government debt crowds out private investment. Each investor buying a U.S. Treasury bond cannot use that same money to buy stocks and bonds from private businesses. Hence, a large, expanding government that heavily borrows can squeeze out private investment for businesses. Consequently, a large government debt leads to economic stagnation.

Problem 3: As the debt becomes greater, the amount of interest that government has to pay also becomes greater. The interest on the debt is currently the fifth largest item in the federal budget. When interest on the debt becomes the greatest item in the budget, then government debt becomes out of control, and Congress will have less money for other governmental programs.

Problem 4: A growing debt indicates government is growing in size. A large government debt expands the size, scope, and mission of government.

Problem 5: A large government debt can trigger a financial crisis. Each day, some of the debt becomes due, and government rolls over the expiring debt by issuing new debt. If investors lose faith in the government's ability to pay back the debt, the investors stop buying the debt, triggering a crisis. If the political leaders refuse to reduce a budget deficit, then the central bank has to buy the government debt, which can trigger high inflation rates.

The Optimal Size of Government

The U.S. federal government's budget mushroomed into \$3.8 trillion, or approximately 25.3% of the U.S. economy in 2011. The major items in the budget are shown in Table 1, and includes both on-budget and off-budget items. (The Social Security and the U.S. Postal Office are defined as off budget). The largest expenditures are national defense, social security, income security, and Medicare. Income security is the safety net programs, such as housing assistance, food stamps, etc. Finally, the net interest on the debt was \$207 billion.

Is our government too large? The Rahn Curve illustrates the relationship between the size of the government, and its economic growth rate. Richard Rahn estimated the optimal level of government spending lies between 15 and 25% of GDP. If a government spends beyond 25% of GDP, then it hinders economic growth. Currently, the U.S. government spends approximately 25.3%, which is only one piece of our government. Once state and local governments are added, the government spending rises from 35 to 40% of GDP. Similarly, the United Kingdom is about 43% of GDP, while many European countries exceed 50%. Since the 2007 Great Recession, all these countries experienced terrible economic growth rates. On the other hand, the Asian tigers - Hong Kong, Singapore, South Korea, and Taiwan have government spending within the optimal range, and their economies are flourishing.

Table 1: The 2011 U.S. Government Budget

Budget Item	Amount (\$ millions)
National Defense	768,217
Social Security	748,354
Income Security	622,654
Medicaid	494,343
Net Interest on the Debt	206,688
Total Budget	3,818,819

Source: U.S. Printing Office. Budget of the United States Government.

Available at <http://www.gpo.gov/> (Accessed on 3/24/12)

One weakness of the Rahn Curve is it classifies all government spending as equal. If a government has generous social and

retirement programs, then these programs are not likely to boost GDP growth rates. However, if government invests in education, training, or infrastructure, then these investments can boost future GDP growth rates. As shown in Table 1, the four largest items in the U.S. budget are the military, retirement, and social programs. Unfortunately, the U.S. government is not investing in the U.S. economy.

The Rahn Curve only places a lower bound on the size of the government. The size, scope, and mission of our government are difficult to measure. The federal, state and local governments created a variety of quasi-government agencies, authorities, nonprofit organizations, and public corporations. Some refer to this as hidden government, because these institutions are free from government oversight, independent of the voters, and can issue debt through the government's name. Some of these institutions are riddled with corruption, mismanagement, bid rigging, or maintaining the "good ole boy system" [4].

Some examples of hidden government are:

- Local and state governments created a variety of organizations to operate airports, seaports, toll bridges, low-income housing, parks, schools, and universities [4]. The local or state government could also be liable for these institutions' debt, if these institutions have financial problems.
- Some city governments created public corporations or departments to provide utilities for its residents like water, electricity, or natural gas. Then the public corporations and departments charge high prices, and funnel some of the profits back to the local government.
- The federal government created public corporations like Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Student Loan Marketing Association (Sallie Mae). Fannie Mae and Freddie Mac grant mortgages to low-income households, while Sallie Mae grants loans to college students.

Governments created these institutions to benefit their citizens. However, these institutions may not act like private businesses. The purpose of a personal business is to earn profits. If a private business is mismanaged, provides low quality products, and/or terrible customer service, then that business could fail and bankrupt. The threat of financial failure causes a business to pay attention to the market, to its customers, and to its products and services, or the business fails. Unfortunately, fiscal failure provides little feedback to public institutions. Public institutions can run to government, and beg for subsidies, tax breaks, or favors to keep inefficient, mismanaged public corporations operating.

Public corporations can have a large financial exposure to changes in a market, creating losses in the billions. For example, the housing market bubble popped in 2007, causing housing prices to tumble. Moreover, the 2007 Great Recession caused unemployment and foreclosure rates to soar. When families stop paying their mortgages, then banks lose money as they foreclose on homes. The banks paid legal fees and court costs to take possession of a house that is losing market value. The problem is Fannie Mae and Freddie Mac hold approximately half the mortgages in the United States, which is valued roughly at \$12 trillion. The U.S. government is already spending billions of dollars to bail out these two financial institutions [5]. As of January 2010, the losses exceeded \$400 billion [6], which is \$1,333 for every man, woman, and child in the United States.

Sallie Mae and the student-loan market also will experience a financial exposure to changes in the market. The 2007 Great Recession was the worst recession since the Great Depression. Although the recession ended in 2009, the U.S. economy is not creating jobs for college graduates. If these college graduates cannot find jobs, then they will start defaulting on their debt. The default rate is approximately 24% in 2012. A college graduate enters the workforce with an average student-loan debt of \$24,000, while law school graduates and other professional graduates can have student-loan balances exceeding \$100,000. Consequently, the federal government will have to pay out billions to cover its student-loan guarantees, or potentially bailout Sallie Mae.

Conclusion

The important premise of this book is the type of political system is not important. For instance, communism in Russia did not fail, because of communism; it failed because the government tried to control its whole economy. The same disastrous failure would occur if a democracy tried to control completely its entire economy. The important issue is whether private individuals or businesses are making decisions, or whether government is controlling everything. With people and businesses, their goals are simple: to better themselves or earn profits. With government, their goals can be convoluted, vague, and constantly changing. You will discover that politicians and bureaucrats also have self-interest, and want to better themselves, but it comes at the expense of everyone else. Thus, what really matters is how government defines its relationships among government institutions, businesses, and people. A country's legal system defines these relationships.

This book emphasizes the takeover of the U.S. economy from an ever-expanding government and its bureaucrats. An expanding government is creeping socialism, but it is not the traditional socialism where government has a plan to build a better society or provide benefits to its citizens, like free healthcare or free college education. Instead, the United States is evolving to a more virulent type of socialism that allows individuals and businesses to own property, but bureaucrats subject the use of the property to massive government oversight. This rising class of bureaucrats believes they have the right to interfere in all society's affairs from family matters to personal business decisions. Literally, no issue is too small or private that does not elicit the scrutiny of the bureaucrats. The bureaucrats in government today believe in active government interference in families, businesses, and all private matters.

References

- [1] Dobel, J. Patrick. 1978. "The Corruption of a State." *The American Political Science Review* 72(3): 958-973
- [2] Bromley, Daniel W. 1989. *Economic Interests and Institutions: The Conceptual foundations of Public Policy*. New York: Basil Blackwell.
Chapter 3, "The Nature of Institutions"

- [3] Treasury Bulletin. March 2012. "Ownership of Federal Securities."
Available at <http://www.fms.treas.gov/bulletin/index.html> (03/25/12).
- [4] Searcey, Dionne. July 19, 2004. "Hidden government." *Newsday.com*
- [5] Goodman, Peter S. July 14, 2008. "Government as the Big Lender." *The New York Times*.
- [6] Liu, Betty and Matthew Leising. December 31, 2009. "U.S. to Lose \$400 Billion on Fannie, Freddie, Wallison Says." *Business Week*. Available at <http://www.businessweek.com/news/2009-12-31/u-s-to-lose-400-billion-on-fannie-freddie-wallison-says.html?source=patrick.net> (access date 01/04/2010).

2. Crazy Laws

“The marvel of all history is the patience with which men and women submit to burdens unnecessarily laid upon them by their governments.”

-William Edgar Borah

When the Founding Fathers created the United States, being a member of Congress was a part-time job. Congressmen held a job outside of government, usually they were farmers or businessmen. This is a sharp contrast to people, who are Congressmen today, because a part-time legislature has three benefits.

Benefit 1: The founding fathers had the insight of owning and running a business or farm. The politicians were in touch with the people, and they passed laws that sustained a strong private business climate.

Benefit 2: The founding fathers had a short time dedicated to analyzing and passing laws, because it was a part-time job. The politicians would focus on important business, and not waste it on frivolous matters.

Benefit 3: The founding fathers were not career politicians. A career politician is a person whose primary source of income is his job in government. If he or she is not re-elected, then he or she becomes unemployed. A career politician may not show true leadership, and always caters to the special-interest groups. Thus, career politicians do not want to offend anyone, because the chance of losing an election.

Currently, many Congressmen are lawyers, and do not manage a farm or business. They are out of touch with the working people, and the meaning of capitalism. Furthermore, Congressmen’s job is full time, and they employ an army of staff. Consequently, their job is to keep passing laws and regulations.

The legislators are not concerned whether the law is good or bad, or more importantly, what the long-term consequences of new laws are. Legislators see a heart-wrenching story on the news, and then they instantly pass a new law with no regards to logic or long-term consequences, even if the law achieves the opposite effect.

Congressmen and state legislators rarely appeal these laws. They are too busy passing new laws.

A legislator's goal is to pass laws, so he can provide feedback to his constituents that indeed, he is working. They pass new laws at a furious rate that is written in confusing and vague language. The current U.S. legal system is disorganized and illogical from a large number of confusing and contradictory laws.

The following is examples of ridiculous laws that were passed by thoughtless legislators:

Example 1: The city council in Chico, California passed two pages of ordinances for use of nuclear weapons within city limits. The law states, "No person shall produce, test, maintain, or store within the city a nuclear weapon..." The city attorney will file charges with the appropriate court for violations of this law [1]. This is a national-security issue, and domain of the federal government. If someone detonated a nuclear weapon within city limits, the city would no longer be there.

Example 2: The city council in Pacific Grove, California passed an ordinance that makes it a crime for a person to molest or interfere with monarch butterflies [2] and a violation can result in a \$500 fine.

Example 3: Los Angeles County passed a law that allows taco truck vendors to park their trucks for an hour. Once the hour is over, they have to move to a new location. A judge could fine the violators up to \$1,000, or could sentence them up to six months in jail. Apparently, the purpose of this law was to help local restaurants, because restaurant owners believe the taco truck drivers have a cost advantage [3]. However, Los Angeles has air pollution problems, and enforcing this law definitely will not help lower pollution levels.

Governments passed these crazy laws, so someone has to enforce them. Does the City of Chico have enforcement officers with Geiger counters running around the city searching for nuclear weapons violations? Does the City of Pacific Grove have officers monitoring the butterflies, and ensure that they are not being molested? Do police or inspectors in Los Angeles follow taco truck drivers around, and ensure they do not park for over an hour? Do governments have so many resources, and time that they can dedicate officers to enforce these crazy laws?

Legislators and Congressmen do not understand that laws can create the opposite behavior. For example, the public and politicians were disgusted by the profanity and explicit language in rap and rock music. Under threat from the federal government to pass a new law, and give the Federal Trade Commission vast new authority [4], the music companies decided to self-regulate and place advisory labels on CDs and audiocassette tapes. No one under the age of 18 can buy music with explicit language.

The true outcome of this self-regulation did the exact opposite. The labels drew attention to the kind of language contained in music. Thus, young people being naturally rebellious are drawn to the profanity-laced lyrics. Furthermore, minors can find adults who will buy this music for them. Consequently, several rappers competed for the most advisory labels on their music. These advisory labels became status symbols to musicians and rebellious teenagers.

The Digital Millennium Copyright Act (DMCA) is another bad law. Congress and the President wanted to protect the artists and authors from online piracy, and enhanced the copyright laws. Piracy on the internet is flourishing, as some people download pirated books, music, movies, and software. Artists, authors, and software creators should be awarded for their creations, and not have people enjoy the copyrighted material for free.

The law has two parts. First, it is unlawful to defeat or circumvent any encryption system used in “electronic” media. Second, it is illegal to design, distribute, or sell technologies that allow circumvention.

The law has the following impacts:

Impact 1: A person cannot buy a CD or DVD and make a copy. For example, what if a person wanted to listen to his CD on a MP3 player, or watch his DVD on his Iphone. This involves decrypting the media and changing its format. The federal government says this is not illegal, or at least not yet. Regulators change the interpretation of laws over time, especially if they need to increase their arrest numbers.

Impact 2: A Russian programmer Dmitry Sklyarov was arrested in the United States in 2001 for violating the DMCA. Although he did not illegally distribute copyrighted material, he wrote a program that could convert Adobe's Advanced e-Book

Processor to Adobe PDF files. The conversion eliminated the safety measures embedded in the e-Book Processor. Dmitry's arrest created fear among computer programmers. Consequently, foreign computer programmers could avoid the United States. Furthermore, computer conferences are held outside the United States with the sole purpose of escaping this bad law.

Impact 3: A student wrote a program, called Embed, which allows fonts to be embedded into a document. That way, computer users do not have to worry about a program switching fonts, when they use their files on another computer. Although the student used his program for his own fonts, he was sued because the program also works for copyrighted fonts. Thus, this law could hinder innovation.

Impact 4: Sony sued competitors that wrote emulator programs for computers. An emulator allows Sony Playstation Games to be played on PC computers. The Playstation, X-Box, and Nintendo are computers. Theoretically, all games could play on one computer system. Unfortunately, these companies want you to buy their console, enhancing their profits. Moreover, a company can sue a competitor by claiming that the competitor reversed engineered its product, thus violating this law. Consequently, this law reduces competition, and protects large companies.

Impact 5: Anyone can threaten a website's administrator to remove objectionable material, inciting violation of the DMCA. Administrators routinely comply, because they are afraid to violate this law. Google does list the number of DMCA complaints, when users do searches, and some searches were removed. Hence, this law is used to restrict free speech.

Impact 6: This law only applies to the United States. However, the internet is worldwide. People in the United States can illegally download movies, games, software, and music from Europe or Asia, like Pirate's Bay in Sweden. Although the U.S. government puts pressure on foreign countries to go after internet pirates, the pirates can relocate to another country with weak copyright laws.

Legislators are passing new laws that are anti-capitalistic. For example, the State of Washington cracked down on house flipping. The state believes house flippers renovate homes with substandard work, and are part of the underground economy. A new law requires a person who is buying a home to occupy the home for at

least one year in order to re-sell it. If a person plans to flip the property, he has to register as a contractor with the state, or hire registered contractors. Any person who violates this regulation can be fined \$1,000 per day per jobsite, and several violations can result in criminal prosecution [5].

Nothing is wrong with buying a home, fixing it up, and selling it for a higher price. That is capitalism! Government does not need to protect homebuyers, because the market has already taken care of that. A potential homebuyer can hire an inspector, who will thoroughly check the home for problems, and spot any shoddy, defective work. Unfortunately, registered contractors can also do poor work.

Legislators and Congressmen do not understand that strict enforcement of the law could create more criminals. For instance, many young people experiments with marijuana. During the 1960's, government imposed fines for marijuana possession, and the conviction did not follow that person throughout his life. This was the good ole days before the arrival of massive computer databases. Now, some states have really increased the penalties for marijuana use. If a court convicts a person of possessing marijuana, the defendant could be fined, placed on probation, or sentenced to jail or prison.

The strict enforcement of marijuana causes four problems:

Problem 1: This person now has a criminal record. Most employers, including minimum-wage jobs, perform criminal background checks. Even if this person quits smoking marijuana, and can pass a drug test, he could have difficulty finding a job. Thus, this conviction follows him throughout his life. Furthermore, this person is barred from careers in education, health care, and transportation [6].

Problem 2: The government could bar people convicted of drug charges from federal financial aid for colleges and universities. With college tuition skyrocketing to the stratosphere, many young people cannot afford to attend college without some type of government assistant. Thus, this person could not attend college. Moreover, some colleges and universities even expel violators [6].

Problem 3: The government could bar convicted people from federal contracts, grants, and licenses [6]. Furthermore,

government may not allow people convicted of drug charges to enter the military. Before the 1960s, judges gave young defendants, charged with minor crimes, a choice: Join the military or go to jail. The military tends to take young, rebellious kids, and turn them into young, respectable men.

Problem 4: Many landlords check criminal records, and they could deny a convicted marijuana user a lease [6].

A person, who is convicted of marijuana charges, may not find good work, obtain an education, a place to live, an essential government license, or join the military. What choices remain for this individual? Instead of being a drug user, he could now become a drug dealer.

Texas even stepped up the insanity. Repeated offenders can have simple marijuana possession charge enhanced from a misdemeanor to a felony charge. A felony charge in Texas is a death sentence, because many institutions and employers check the Texas Department of Public Safety's database for criminal convictions. Convicted Texans could face a difficult time, putting their lives back together, and becoming law-abiding citizens. Unfortunately, the State of Texas has a massive prison system that is continuously fed inmates.

Above the Law

Lawmakers and politicians are willing to pass thousands upon thousands of laws, rules, and regulations, and impose stringent penalties for any violations. They portray themselves as saviors, who must lead the flock of sheep along the righteous path. Our leaders are the embodiment of the Puritans. Unfortunately, these same politicians believe they are above the law, and exempt from their own laws. Some of these politicians and lawmakers will flagrantly violate their own laws, rules, and regulations. If the politician is caught for a misdeed, then they believe they can apologize, and asked the public for forgiveness.

A wide variety of cases illustrates this message:

Case 1: The former New York Governor, Eliot Spitzer, was busted for a clandestine arrangement with a prostitute. He was a New York State Attorney General and a tough prosecutor. He

prosecuted Wall Street corruption and busted several prostitution rings [7].

Case 2: The federal government indicted Rod R. Blagojevich, former Illinois governor, on 16 felony counts. The government believes Blagojevich tried to sell the U.S. Senate seat that President Barack Obama left vacant. Furthermore, Blagojevich supposedly squeezed campaign contributions from everyone by withholding state contracts, granting regulatory favors, and filling state job vacancies with campaign contributors [8]. Blagojevich was a former prosecutor, and helped author ethics laws for the State of Illinois.

Case 3: William McCallum, a former assistant attorney general for the State of New Hampshire, is a kleptomaniac. He stole computers, paintings, and rare books from libraries, museums, and universities from the New England area. A court sentenced McCallum to prison in 1998 [9].

Two factors explain why political leaders think they are above the law. First, politicians are greedy. In a materialistic society, they want to elevate themselves to the top social class. Salaries for public servants are not that high; hence, they scheme with ways to elevate themselves. Moreover, political campaigns cost millions of dollars. Public servants have to get this money from somewhere. Second, political leaders are in a position of power. Our political leaders believe they are better than everyone else, and entitle to numerous privileges.

For example, Congressmen do not collect social security, when they retire. They voted themselves a much better plan; they earn their full salary until their death. Furthermore, Congressmen routinely exempt itself from its own laws. They do not abide by minimum wage laws, discrimination, and other laws. It is clever how they did it. If you carefully read the federal laws, Congress lists all the parties that the law applies. However, Congressmen never list themselves, and thus, exempt.

Some politicians and political insiders are not corrupt. However, they still form good ole boy networks for two reasons. First, voters in the United States are equally divided on many issues. For the politicians to get their agenda and laws passed, they form alliances with leaders and politicians from other groups. Politicians and political insiders form social clubs among

themselves like college fraternities and sororities. Second, our laws, rules, and regulations are complicated. A complicated legal system makes it difficult to bring in newcomers, because newcomers require lots of time and patience. If a newcomer screws up the paperwork, then projects and money get delayed, creating headaches for government officials and bureaucrats. Life is simpler to work with the same people and organizations, thus forming these good ole boy networks.

Not everyone likes to pay taxes, including the politicians. However, political leaders are in a unique position. They know, if they evade taxes, they are not likely to get caught. How often does the Internal Revenue Service audit a President or Congressmen? Likewise, how often does a state tax authority audit a governor or legislator? These politicians pass laws that tax authorities have to follow, and they also appoint the leadership of the tax authorities. Consequently, these politicians know they can cheat on their taxes and not get caught. Of course, tax agents can be quite brutal if they believe a citizen owes taxes.

President Obama illustrated this epidemic of tax evaders by simply filling positions in his government. Several President Obama's choices had tax problems. First, Tim Geithner, the Treasury Secretary, did not pay Social Security and Medicare taxes, when he worked for the International Monetary Fund (IMF) [10]. What makes this egregious is the Internal Revenue Service collects these taxes, and it is a department within the Department of Treasury. Second, Tom Daschle was nominated for director of Health and Human Services [11]. Third, Nancy Killefer was nominated for the chief performance officer. Fourth, Hilda Solis was nominated and appointed secretary of Department of Labor [12]. Finally, Ron Kirk was nominated for the U.S. Trade Representative [13].

Now we understand why dead politicians easily win elections.

Corruption and Government

Politicians and political leaders seek power. Once they attain power, they entrench themselves, and expand their power [14]. This pursuit of power was always there, but it took a turn for the worst in the last 30 years. Our leaders have become petty and

puritanical. They believe they have the right to meddle into any affair, regardless of circumstance, logic, or common sense. Literally, our politicians and leaders of bureaucracies evolved into warlords, who govern their piece of the pie with an iron fist.

What kind of leaders do we have in America? Our leaders have the following characteristics:

Characteristic 1: Political leaders and government administrators do not like to be blamed for things going wrong [14]. They become experts at dodging blame, manipulating the truth, tell daring, large lies, and blaming others for our problems.

Characteristic 2: Political leaders and government administrators are overly optimistic [14]. Every new law they pass, and every government project makes society better. Of course, nobody analyzes the impact of the new laws or government projects. Leaders and administrators always propose new laws and projects, and frown down on anyone who examines the past. One good example is the 2007 Great Recession. Our leaders assured us that the U.S. economy is recovering. However, it is already 2012, and no recovery is in sight.

Characteristic 3: Political leaders and government administrators use fear to expand their agenda and squelch the opposition. For example, politicians claim illegal immigrants traveling from Mexico are carrying drugs. Thus, states have the right to search anyone, who appears to be an illegal immigrant. Bullies are using the internet and cell phones to perpetuate their bullying. Thus, school principals must have access to cell phones and email to stop this. The police state marijuana is a gateway drug. One tokes and the next day, the users are shooting up heroin. Finally, the government uses the ultimate fear - terrorism, to pass any law they want.

After government officials propagate these fears, then government can restrict rights, circumvent laws, and seize property without any questions, even if there is no basis for these fears. Consequently, our political leaders are greatly expanding the dominion of government.

Alongside the growth of government is the explosion of corruption. This is no accident. Although corruption is difficult to define, you know corruption when you see it. It is like that old saying, 'if it looks like a duck, walks like a duck, and quacks like a

duck, then it is a duck.’ Corruption thrives in societies that have tyrants in the state, and monopolies in a market.

Widespread corruption has four requirements:

Requirement 1: A society needs a level of moral loyalty and civic virtue to maintain itself. As a government becomes more corrupt, loyalty and virtue breakdown, because everyone wants their way. People and especially the leaders become hedonistic dogs with no moral constraints. They abuse their power to maintain their position and authority [15]. Ethics and loyalties have no place as leaders maintain their positions of power.

Requirement 2: Corruption of a state is exacerbated by excessive inequality in wealth, power, and status. Our leaders, and wealthy climb to the top, and they become selfish, proud, and arrogant. They do everything they can to maintain their position, even at the detriment of the people and society [15].

Requirement 3: Society breaks down into warring factions. Factions are a source of wealth and power. Once a faction gains power, they influence the lawmakers, who in turn, influences the laws. Then they use the judicial and criminal-justice system to go after their opponents.

Requirement 4: If bureaucrats receive low pay, have little chance of being caught, and have wide discretion to withhold important permits or licenses, then they are more likely to be corrupt. Moreover, widespread corruption is difficult to extinguish, because corrupt bureaucrats will not report other corrupt bureaucrats. Unfortunately, countries with prevalent corruption have difficulties reducing corruption, because it becomes a way of life, and an acceptable business practice [16].

Has our society reached a point where corruption is a problem? Corporations do dominant the economic activity in the United States. Although a corporation may not technically be a monopoly, it still has a vast power over government and our political leaders, via campaign contributions. Moreover, civic loyalty is declining; inequality is increasing, and various factions are becoming more vocal. As these characteristics become more prevalent and common, then our society will develop these problems:

- Public law disintegrates and breaks down. People will give up trying to follow the law and instead become violators [15].

- Political debates lose meaning, logic, and common sense. Demagogues will espouse class warfare, and help one faction punish another faction [15].
- Violence becomes more prevalent, as people lose faith. Then government has a more difficult time in reforming government [15].

The methods to reduce corruption are simple. First, government has to reduce the concentration of power. For monopolies, government breaks them up, regulates them, or exposes the monopolies to international trade. Second, the political leaders have to reduce taxes, the size of government, eliminate subsidies, and reduce bureaucratic red tape.

Unfortunately, governments rarely follow these policies. Instead, the political leaders increase the size, scope, and mission of government in order to eliminate corruption. Hence, the political leaders use more government to eliminate the problems of government.

Division of People

The politicians deliberately passed laws giving preferential to a gender, race, or social class. They claim the law addresses a previous injustice, but they artificially create factions. The faction helps cement an alliance between the politicians and the disadvantaged group. Sadly, the politicians are pitting the poor against the rich, women against men, minorities against white people, and children against adults, causing bitterness and rancor among different groups in our society.

Government is pitting the rich against the poor. The common view of the wealthy people in America is they unfairly, illegally, or immorally earned their wealth. Politicians espouse this view, because the rich are a source of tax revenue. For instance, many states are experiencing severe financial difficulties since the 2008 Financial Crisis. Tax revenues are falling, so what is government leaders' brilliant idea? Tax the Rich! This sounds like a simple solution, but it has three problems.

Problem 1: The United States has a progressive tax system. The rich already pay a higher proportion of taxes on their incomes. Higher taxes on the wealthy only penalize them more.

Problem 2: Rich people can move to states, or other countries, where their tax burden is lower. A state over taxing the rich can be hurt financially, if the wealthy people flee.

Problem 3: The states over relied on the rich for tax revenue. For example, Wall Street was awash with cash and high salaries. With the crash of the financial markets in September 2008, many rich financial people earned losses, causing New York to have a projected deficit of \$13.7 billion for 2009-2010 [17] and California to have an estimated deficit of \$42 billion for 2009 [18].

Nothing is wrong with being rich. Being rich is the ultimate reward for providing a valuable good or service to society. For instance, Bill Gates started Microsoft in a rundown motel in New Mexico; Steve Wozniak and Steve Jobs started Apple computers in their garage in California, and Michael Dell started Dell Computers in his dorm room at the University of Texas. Even if a person inherits his wealth, he still is vigilant, and still does work. If he makes a wrong investment decision, or hires an accountant who steals him blind, then this rich person could end up on the streets as a poor person. That is true social mobility, and it works in both directions. Some poor people can become rich, while some wealthy can become poor.

State laws for domestic violence are pitting women against men. Daily TV commercials inform women that all men are violent, and if there is any violence, immediately call the police. Of course, states created special courts to hear domestic violence cases, and encourage the police to arrest all males suspected of domestic violence. Several states can charge a person with domestic violence, even with the absence of physical contact. For example, in Oklahoma, a couple arguing in front of a child is committing domestic violence. However, women are never the perpetrators; the police always arrest the males.

Domestic violence laws are not bad. If a partner physically hurts his mate, then the police should arrest him or her. However, males are arrested for a scratch on an arm, or the couple was verbally arguing in front of a child. Some judges fail to understand that some women will falsely accuse a man of domestic violence in

certain cases. For example, if a woman wants to divorce her husband, then a false domestic charge swings the divorce decree in her favor. Moreover, a woman may be angry with her mate, and seeks revenge by an allegation of domestic violence. Consequently, some men believe they became slaves to women. Once a woman is done with a man, she can call the state, and have him removed. Then the woman legally steals all his assets.

One question naturally arises. Why do courts and police fret over minor cases of domestic violence? The answer should not surprise you. Most criminals do not have money, and government expends resources to arrest, convict, and house a criminal. Unfortunately, families are a source of wealth. Most men will bond out of jail, and return to their mate. Then the males are encouraged to plead guilty, and pay for court fines and fees, counseling, and other services.

Sexual harassment is dividing men and women. The theory of sexual harassment is employees in the workplace should be free from sexual advances or objectionable material. Common sense dictates the following is sexual harassment.

- Repeatedly asking a co-worker for a date, or constantly flirting with a co-worker, who does not like it.
- Forcing a co-worker to engage in sexual activity, as a condition for employment or advancement.
- Telling sexual jokes, or displaying sexual material.

The Equal Employment Opportunity Commission (EEOC) defines sexual harassment as “verbal or physical conduct of a sexual nature [that] unreasonably interferes with an individual’s work performance, or creates an intimidating, hostile, or offensive work environment.” Sadly, lawyers can interpret this broadly. For example, in California, women sued men over unwanted stares. Thus, more questions could arise. Could a man sue a woman, if she wears provocative clothes? Is the EEOC going to initiate dress codes to stop unwanted stares? Unfortunately, government can construe any conflict between males and females as sexual harassment.

Sexual harassment laws are dividing males and females in the workplace, and negatively impact the work environment. Political correctness dictates that men sexually harass women. Thus, many men are afraid of asking a woman for a date in a workplace, or make a joke that can be taken out of context. Furthermore, some women can falsely accuse a male worker in order to get the male in trouble, or fired. Employers are afraid of claims of sexual harassment. A woman could sue the male and her employer, if she can show a company did not take her seriously. Consequently, the easy solution for managers is to fire any males, if any conflicts in the workplace arise between genders.

The current anti-discrimination laws are pitting whites against the minority groups. The United States was wrong for allowing slavery to flourish in the south. The next step is to move society towards a system that does not look at a person's race. Martin Luther King stated it best, "my four children will one day live in a nation where they will not be judged by the color of their skin but by the content of their character." A way to eliminate racial discrimination is everyone should become color blind with respect to skin color. However, the federal and state governments went in the opposite direction.

Federal and state governments require employers to collect racial information on applicants. Then the government could deny a grant, or sue a business, if it appears racists. Thus, a business does not want to appear racists, so it favors the hiring of minorities. Although this may be against the spirit of the law, an employment recruiter can find reasons to reject a white applicant's application, but discount negative information in a minorities' application. Finally, minority workers who are fired can sue and claim discrimination.

A complication of the discrimination laws is a split in the law. Employers cannot use race to hire or promote employees. However, a university admissions office can accept applicants based on race [19]. If all the applicants are similar in qualifications, then an employer or university always choosing a minority is not necessarily bad. Nevertheless, many white males feel they are at the bottom of the applicant pool, despite their qualifications and education, creating bitter feelings between white males and everyone else.

Laws are pitting children against adults. Rules and regulations are so stringent, parents and school officials cannot spank children. If spanking is allowed in a state, then many restrictions apply. Kids know this! If a parent, teacher, or principal lays any hand on them, they know they can call the police and have that person arrested. The law treats all kids as little darlings who can do no wrong. Moreover, the police are arresting teachers, and principals for restraining kids, when the kids fight [20].

Police aggressively going after the parents, teachers, and principals will cause three impacts:

Impact 1: Parents will not discipline their children, because they are afraid the state will arrest them. Consequently, behavioral problems in children will become worse.

Impact 2: The laws have a chilling effect on teachers [20]. Teachers are not going to break up fights or get involved. Otherwise, the police will arrest them. Kids know this, and may become more disruptive.

Impact 3: Crazy laws and overzealous enforcement of laws will drive good teachers out of education, and other occupations that deal with children. Why remain in an occupation that pays the lowest for college graduates, children are disruptive, and the state will go after you, if they think, you did something wrong? Thus, education will continually decline as kids become more disruptive, and teachers flee the schools.

Education is a coercive process. Students must sit at a desk, and study material they normally would not study on their own. Kids usually have a favorite class, but they have to be forced to learn material for classes they do not like. Remember the old phrase “spare the rod and spoil the child.” If you cater a child, he or she will not learn discipline or study difficult subjects. Unfortunately, children do not appreciate an education until they are 30, and they started their careers. Then they wished they studied harder.

Complexity of U.S. Laws

The current U.S. legal system has evolved into an extremely complicated system. The U.S. federal, state, county, and city governments all create and change laws. Unfortunately, all these

laws occupy volumes upon volumes of books that span a whole floor in a public library. Sadly, we have so many laws in the United States; we cannot know them all!

The travesty of our complex legal system is the expansion of enforcers. If government catches you violating any one of these laws, the government can seize your property, impose large fines, and/or incarcerate you. With millions of laws, regulations, and ordinances on the books, anybody and everybody are potential criminals. Thus, government at all levels must continuously scrutinize their citizens. Everyone has heard of these cases:

Case 1: Code enforcement monitors people's property for violations. The local government goes after a homeowner, if his grass grows too tall, or has a home business, like a daycare or car repair. Of course, many communities have homeowners associations, which are just as bad.

Case 2: Child-Protective Services immediately invade a family's home, if someone reports any child abuse. Some people are vindictive and lie to investigators. Investigators do not know who is telling the truth or not. Therefore, the state could remove kids from innocent parents from a false accusation. Then the innocent parents have to spend money for a lawyer to get the children back.

Case 3: A person who is sitting on his couch, watching TV and drinking a beer is violating a law. If a cop can see this behavior through a window, then the state can charge that person for public intoxication.

Why did the legal system become so complicated? Let us start with the federal government. The premier document that establishes the federal government is the U.S. Constitution and the Bill of Rights. Federal law changes from the following:

Creation of New Laws: Congress and the President sign new laws, which are entered into the United States Code. Supposedly, these new laws should not conflict with previous laws or violate people's rights, as defined in the Bill of Rights.

Interpretation of Laws: All federal bureaucracies must adhere to the United States Code. However, the laws are usually vague, and not defined well. Thus, each federal agency must interpret what these laws mean, and their interpretations are recorded in their own law books, which are known as the Federal Code of

Regulations (CFR). Every agency has their own CFRs, and the different agencies interpret the United States Code differently.

Modification of the Laws: The federal court system also interprets, defines, and modifies these laws. Of course, the federal court system can place their own unique spin on the federal laws.

The current laws passed by the Congress, and the President have the following problems:

Problem 1: Some of these laws are quite lengthy. For example, the Energy Independence and Security Act of 2007 is 311 pages with standard margins and 12 point font [21]. This is typical of the laws passed by Congress.

Problem 2: Many Congressmen do not read the laws before voting on them. An organization, Downsize DC, proposes a new law requiring all Congressmen to read their own laws before they vote for them. More information about the organization is available at www.downsizedc.org.

Problem 3: When a country has a crisis, the U.S. President bullies Congress into passing laws. For example, President Bush forced Congress to pass the Patriot Act after the terrorist attack on September 11, 2001, and the Troubled Asset Relief Program to bail out Wall Street, and the large banks caught in the 2008 Financial Crisis.

Problem 4: The only time Congress can agree on a law, if the law increases their salaries, or the law restricts the rights of U.S. citizens. For example, the Tea Party and Wall Street Protestors are very vocal about changing government. Congressmen do not want the attention, or potentially lose an election. Therefore, they passed the Federal Restricted Buildings and Grounds Improvement Act of 2011, which makes protests a felony. If a protestor is near a location that is protected by the Secret Service (which could be anywhere), then a protestor can be charged with a felony. Another law, National Defense Authorization Act (NDAA), was passed in 2012, which allows the military to detain a U.S. citizen indefinitely with a jury trial.

Both these laws violate the U.S. Bill of Rights. The First Amendment to the Constitution states, “the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.” The Fifth Amendment to the Constitution states, “In all criminal prosecutions, the accused shall enjoy the

right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed.” Consequently, our new laws clearly violate the U.S. Bill of Rights, so now, our laws are becoming arbitrary and egregious. Congress and the President can essentially pass any law they want.

The state, county, and city governments all replicated the U.S. federal government. They continuously create new laws and re-interpret old ones. Consequently, how does government know the people are following the laws? The counterpart to laws is enforcers. As a legal system expands, government has to hire more enforcers to ensure the laws are followed. Unfortunately, government demands results, and enforcers have to find violators, providing proof that they are working hard. All these laws are making society a better place to live.

Conclusion

Our politicians continuously pass new laws to cure everybody’s problem, or to protect us from all the evil in this world. Unfortunately, bad, evil things happen to good, honest people all the time, and will continue to happen to good, honest people all the time. Leaders stacking law upon law will not help the economy, will not help businesses thrive, and will not help job growth. Instead, continual expansion of complex laws will have these negative consequences:

Consequence 1: Government must expand bureaucracies to enforce these laws. Consequently, bureaucrats employed in the federal, state, and local governments will increase over time. Thus, society has to pay higher taxes, fees, and fines to pay for these bureaucracies, which could hurl more hardship on the private sector.

Consequence 2: More laws and more complicated laws mean more people may be found violating the law. Therefore, the criminal-justice system continually expands over time. The criminal-justice system diverts public funds away from other investments like education and infrastructure.

Consequence 3: Businesses and citizens need to hire legal specialists and consultants to interpret laws, and help them stay in compliance. Specialists and consultants are expensive, which

increases businesses' costs. The higher costs are passed onto the consumers as higher prices for goods and services. Consequently, a complicated legal structure expands the industries for compliance specialists, while other industries contract, like the U.S. manufacturing industry.

Unfortunately, people who make their living from the legal system will fight against de-regulation or simplification of the rules. For example, the overly complicated tax code has given birth to a whole industry of tax accountants, consultants, and computer software companies. If government tried to simplify the tax system like imposing a flat tax, the tax industry would fight the change.

Another example is the de-criminalization of marijuana use. Consequently, the criminal-justice system would see fewer cases for marijuana, and would have to contract, because marijuana violations comprise a large fraction of court cases.

The expansion of the drug laws in the 1960s fueled the massive expansion of federal and state prisons. If the federal and state governments de-criminalized drug use, our criminal-justice system could be cut in half. Many judges, lawyers, prison guards, and police would become unemployed.

References

- [1] Chico Municipal Code. "Nuclear Free Zone Law." Division IX – Nuclear Weapons, Chapter 9.60. Accessed on (5/15/08) at http://www.chico.ca.us/municipal_code/title_9.pdf
- [2] Pacific Grover Municipal Code. "Monarch Butterflies." Title 11 Health, Safety, and Environment, Chapter 48.010. Accessed on (5/20/08) at <http://www.ci.pg.ca.us/>
- [3] Rogers, John. May 15, 2008. "In L.A., controversy sizzles over taco truck restrictions." *Houston Chronicle*.
- [4] Lieberman, Joe. April 26, 2001. "The Media Marketing Accountability Act." Available at <http://lieberman.senate.gov/newsroom/release.cfm?id=208614> (access date 01/12/09).
- [5] Howell, Parker, May 29, 2008. "House flipping now can draw hefty fines." *Spokesman Review*.
- [6] Aho, Karen. November 27, 2007. "The Basics: What illegal drug use can cost you." *MSNBC*
- [7] Arena, Kelli and John King. March 11, 2008. "Source: Spitzer investigated for link to prostitution ring." *CNN Politics.com*
- [8] Coen, Jeff. April 3, 2009. "Former Gov. Rod Blagojevich indicted." *Los Angeles Times*.

- [9] Associated Press. December 16, 2008. "Former NH lawyer stops payments for art thefts." *Auction Central News*.
- [10] Wolf, Bryon. January 26, 2009. "Senate Approves Geithner Despite Tax Issues." *ABC News*. Available at <http://abcnews.go.com/Politics/President44/story?id=6733907&page=1> (access date 05/15/09).
- [11] Freking, Kevin. February 2, 2009. "Daschle apologizes for failure to pay \$120,000 in taxes." *Houston Chronicle*.
- [12] Kelley, Matt. February 5, 2009. "Tax snafus add up for Obama team." *USA Today*. Available at http://www.usatoday.com/news/washington/2009-02-05-solis-husband-taxes_N.htm (access date 05/15/09).
- [13] Murray, Mark. March 2, 2009. "More tax problems for Team Obama?" *MSNBC*. Available at <http://firstread.msnbc.msn.com/archive/2009/03/02/1817065.aspx> (access date 05/15/09).
- [14] Morgan, Theodore. 1964. "The Theory of Error in Centrally-Directed Economic Systems." *The Quarterly Journal of Economics* 78(3): 395-419.
- [15] Dobel, J. Patrick. 1978. "The Corruption of a State." *The American Political Science Review* 72(3): 958-973
- [16] Aidt, Toke S. 2003. "Review: Economic Analysis of Corruption: A Survey." *The Economic Journal* 113(491): F632-F652.
- [17] WBNG News. December 16, 2008. "Governor Paterson's Executive Budget." *WBNG*.
- [18] Christie, Jim. December 11, 2008. "California budget shortfall seen nearing \$42 billion." *Reuters*
- [19] Trachtman, Michael G. 2003. "Is There Anything Wrong With Favoring Minorities To Promote Diversity In Your Workplace?" *NewsletterAccess.com*. Available at http://www.newsletteraccess.com/display_article.php?id=10099 (access date: 12/24/08).
- [20] Pape, John. 2008. "Principal Claims Innocence, Says His Arrest Sends Wrong Signal." *Fort Bend Now*. Available at www.fortbendnow.com (access date 07/03/08).
- [21] U.S. Government Printing Office. 2007. Energy Independence and Security Act of 2007. Washington, DC: Available at <http://purl.access.gpo.gov/GPO/LPS94451> (access date 10/21/08).

3. Frivolous Lawsuits

“It's strange that men should take up crime when there are so many legal ways to be dishonest.”

-Author Unknown

Every country developed a system of codified laws that define the legal relationships among people, businesses, and government. Codified laws are defined as four types:

The English Common Law System: All former English colonies, except Malta have this system, such as Australia, Canada, Hong Kong, India, Great Britain, and the United States.

The Civil Law System: The civil law system is one of the oldest and most dominant legal systems, originating from the ancient Roman Empire. Most European and Latin American countries have a civil system. They adopted either the Napoleonic or Germanic civil code.

A Religious Legal System: Religion becomes the inspiration and source of law. All Christian nations moved away from this religious legal system. However, several Muslim countries still use a Muslim religious legal system known as Sharia.

A Hybrid System: A country has a mix of religious and common law, or religious and civil law.

The United States has a common law system; the court system provides additional checks and balances on the other two branches of government. Congress and the President can sign new laws into existence, and the court system can shape these laws. If Congress and the President passed a bad law, a court can remove the law through judicial review, or re-shape the law.

The benefits of common law are:

Benefit 1: Courts provide an additional check on government. Most states and the federal government appoint judges, who are free from the whim of the voters. The judges do not have to seek re-election or appease the voters. Some states like Michigan, Oklahoma, and Texas elect judges for public office. Are judges in these states ensuring justice is served, or running popularity contests?

Benefit 2: English common law is flexible. Judges can reshape laws, as society changes.

Benefit 3: English common law uses jury trials. Jury trials provide an immense check on the legal system. Attorneys on both sides of a trial present their case in front of an impartial jury, which is a group of people from society. Consequently, attorneys do a lot of research, and are well prepared to sway a jury to their favor.

The common law system has three disadvantages.

Disadvantage 1: If Congress and the President signed a bad law into existence, the court system waits for a court case that occurs from the bad law. The court system does not immediately strike down bad laws. If it did, it would have enormous power. Thus, bad laws can be on the books for years before they are removed.

Disadvantage 2: The common law system is more complex. Judges refer to the laws passed by Congress and the President, and court cases that set legal precedents. A precedent is an important court case that starts a new interpretation of the law, or re-shapes old laws.

Disadvantage 3: Government appoints judges based on their political views, and not their abilities.

All states replicated the common law system except Louisiana. State of Louisiana adopted a civil system based on the Napoleonic code. Judges in a civil law system strictly enforce the law, and they cannot alter it. Consequently, a civil-court judge enforces all conditions of a contract, while a common-law judge can modify contracts. Finally, a civil-law judge, or a panel of judges are the sole decider in civil systems. However, some countries with civil systems have incorporated juries.

The high-income countries usually have a common law system, although the civil law system is the dominate form in the world. The top 10 income per capita countries are shown in Table 1 with their type of legal system. The countries, Bermuda, Brunei, Falkland Islands, Hong Kong, Jersey, and Liechtenstein have a British Common Law System, while Singapore and Qatar have a mix of common and religious legal systems. The United States was in the top ten, but its ranking is continually decreasing. Consequently, the richest countries in the world have a common law system.

Table 1: The Richest Countries in the World in 2011

Country	GDP per capita	Legal System
Liechtenstein	\$141,100	English Common Law System
Qatar	\$102,700	Common and Religious Law
Luxembourg	\$84,700	Civil Code – Napoleonic Code
Bermuda	\$69,900	English Common Law System
Singapore	\$59,900	Common and Religious Law
Jersey	\$57,000	English Common Law System
Falkland Islands	\$55,400	English Common Law System
Norway	\$53,000	Scandinavian-German Civil Law
Brunei	\$49,400	English Common Law System
Hong Kong	\$49,300	English Common Law System

Sources: 2007 Central Intelligence Agency – The World Factbook; Wikipedia – Legal Systems of the World

Common law systems usually have strong, pro-business legal systems. Furthermore, common-law judges have shown leadership and initiative by using a court case to re-shape society. Two famous examples are:

Example 1: The Bill of Rights originally applied to the federal government. However, the Supreme Court expanded the Bill of Rights to the states through the court case, *Gitlow versus New York* (1925). The State of New York arrested and convicted Gitlow for criminal anarchy, because Gitlow was a socialist who advocated the overthrow of government. Gitlow wrote his views in his “Left Wing Manifesto,” and was caught distributing these pamphlets to the public. The Supreme Court ruled that the State of New York did not violate Gitlow’s right to free speech, or freedom of the press, because his writings advocated the overthrow of government.

Example 2: After the North won the civil war, President Abraham Lincoln freed the slaves in the south. However, the large plantation owners relied on slavery as cheap labor. Thus, the southern state governments initiated a new system that perpetuated slavery without calling it slavery, which was known as the “Separate but Equal Laws.” The south could keep African-Americans and whites separate, if facilities for both races were equal. Consequently, African-Americans had different facilities for schools, restrooms, and parks, and separate seating for buses and

restaurants. Of course, African-Americans were short changed, and given inferior facilities and schooling.

The laws kept them poor, and imprisoned on the plantations. In 1954, the Supreme Court removed the Separate but Equal Laws in the case, *Brown versus Board of Education of Topeka, Kansas*. Thus, the Supreme Court legally ended segregation, and initiated the civil rights movement.

Common-law judges did great things for our country and helped improve society. However, the contemporary attitude of our judges and Supreme Court justices is pro-government. They help expand government, and restrict citizens' rights. Two prominent examples are:

Example 1: The Supreme Court intervened in the 2000 Presidential Election. The election between George W. Bush and Al Gore was very close; one state, Florida, became the deciding factor. Bush [supposedly] beat Gore by only several hundred votes. The Supreme Court halted the recount of punch-card ballots in Florida, because a recount could violate George Bush's right to the "equal protection of the laws." The justices voted in a 5-4 decision [1]. Did the conservatives on the Supreme Court stand behind Bush, because he was conservative, or did they truly protect Bush's rights? What happened to the rights of Al Gore?

Example 2: U.S. Congress and the President passed the Clean Air Act of 1990 giving the Environment Protection Agency (EPA) the legal authority to regulate pollution emissions of 188 chemicals.

Public awareness of global warming has focused attention on carbon dioxide emissions. Consequently, the U.S. Supreme Court ruled in the *Massachusetts versus the EPA* (2006) that the EPA must regulate carbon dioxide as a pollutant.

The Supreme Court ruling has two problems. First, the original law never contained carbon dioxide, as a pollutant. The Supreme Court added this to the law. Second, carbon dioxide is involved in the cycle of life. Humans and animals breathe out carbon dioxide, while plants recycle the carbon, and create oxygen.

The Supreme Court ruling vastly expands the EPA's sphere of power. All humans, animals, and the use of fossil fuels, like gasoline, diesel fuel, and coal emit carbon dioxide. In the EPA's defense, they were sued to add carbon dioxide. They did not

actively seek out this additional responsible. However, the EPA was given vast authority over the U.S. economy [2].

Massachusetts sued the EPA, because computer simulation models showed some of Massachusetts' coast could be under water in 50 years. However, global warming is a theory! We do not know, if we are experiencing a current warming trend, or if greenhouse gases like carbon dioxide are warming the earth. The scientists, who build these models program their beliefs into the computer model. If the scientists believe in the global warming, then their models will reflect that. Economists used to build large simulation models of the economy during the 1960s, but they stopped doing it. The economic forecasts were horrible. Now they are building these models for the whole planet!

The pundits of global warming ignore that sunspot activity is very active. A more active sun may warm the earth. For instance, the 17th century experienced little sunspot activity, and historians call this the mini-Ice Age. Moreover, if you were around in the 1960s, the fear for humanity was the dawn of a new Ice Age, because the world was experiencing a slight cooling trend.

Torts

The common law system is a strong system, if courts are teeming with good judges with common sense. Common-law judges created and defined the modern laws for property rights, contract law, and torts. A tort is one person or party harms another party. Then a judge or jury compensates the victim for the harm.

Torts can be an extremely efficient method to compensate for harms. The role of compensation is to make the harmed party "whole again," so the harmed party is just as well off, as if the harm did not occur. The problem is "whole again" is a value judgment. For example, a person owned a car for five years until his relative wrecked the car. The person got five years from the car, so "whole again" does not mean he should get a new car. He only gets the current value of the car at the time of the accident. Consequently, harmed parties will over-appraise the harm, while the harmer (tort feisor) undervalues the harm. Judges (or juries) have to determine if the plaintiff is at fault, and if he is, then place a value on the harm.

Torts arise from three situations:

- One party harms another party intentionally. These harms are usually crimes, such as assault, attempted murder, or murder.
- One party accidentally harms another party. This harm could be a crime for cases like manslaughter, maiming, or causing a permanent injury.
- One party is harmed accidentally from a defective product.

Modern courts, unfortunately, expanded the definition of harms. Judges apply tort laws to parties that are not responsible. Moreover, judges and juries can add punitive damages to the compensation. Punitive damages punish the plaintiff for the harm, thus teaching him a lesson.

Four prominent examples show the problems with torts:

Example 1: Judges and juries have a difficult task of placing a true value on the harm. Hence, every harm is inflated to a million dollars or more. In one case, *Pennzoil versus Texaco*, the court initially awarded \$11.12 billion in damages, and \$1 billion in punitive damages [3]. Thus, one lawsuit can easily bankrupt a company or small corporation.

Example 2: The courts include mental anguish and suffering as damages. Judges and juries already have a difficult time placing a value on the harm, but now they are asked to place a value on suffering. Of course, defendants receive damages as money, so they could exaggerate their suffering.

Example 3: The courts expand cause and effect. The tort should remain close to the affected parties at hand. For instance, a drunk driver harmed an innocent bystander, because he drove while intoxicated. The drunk driver committed a crime, and a harmed innocent bystander has every right to sue for damages. However, alcoholics usually do not have money, so attorneys follow the alcohol, and go after the parties with money, such as bars or liquor stores. If a bar or store did not sell the alcohol, then the innocent bystander would not be harmed.

The problem is, when does the chain of causality stop? In this case, the chain of causality is the drunk caused the harm (immediate), but the drunk drank alcohol; the store sold the alcohol to the drunk; a company sold the alcohol to the store; the farmers sold the ingredients to the company to make alcohol, and God created the yeasts that convert the sugars in grains into alcohol. Lawyers are good at following the causality chain until they reach a party with deep pockets. Fortunately, God's checkbook is not available to the court system; otherwise, all the lawyers would be suing God, since he is at the beginning of all causality chains.

Example 4: The courts do not assign responsibility correctly, and ignore the notion of free choice. For example, everybody knows which foods are healthy, and which ones are not. It is universal; fast food is not healthy food. However, two teenagers sued McDonald's in New York, blaming McDonald's for their weight gains and health problems.

McDonald's did not force anyone at gun point to eat their food. The teenagers freely chose which foods to eat, and which place. McDonald's does sell good salads too, but salads are not a customer's favorite. Surprisingly, the court correctly dismissed the lawsuit. Remember, McDonald's still had to hire attorneys to fight his lawsuit, which costs money. If McDonald's lost, then attorneys would file hundreds of lawsuits against McDonald's. Once a piranha tastes blood, they swarm in, and devour the victim.

The rise of frivolous torts and lawsuits is leading to a crisis in America. Innocent parties can be sued for the most ridiculous reasons. Out-of-control lawsuits can harm the U.S. economy. Lawsuits expropriate money from businesses and families, and could cause bankruptcies. Furthermore, some people are determined to play the lawsuit lottery game. The public is aware of high profile lawsuits, when defendants won millions of dollars from a court case. Some people try to injure themselves or tilt the lawsuit in their favor.

Some examples are:

Example 1: Obstetricians are switching their specialties to lower risk ones. If a doctor accidentally harms a patient, an insurance company pays compensation to the patient. Thus, all doctors are required to carry malpractice insurance. Unfortunately, these doctors are hit with so many lawsuits and large damage

awards; the insurance companies greatly increased the premiums. For example, one doctor, who was never sued seen his malpractice insurance jump to \$84,000 per year in 2004. He only paid \$23,000 in 2002 [4]. Consequently, obstetricians can no longer afford their malpractice insurance, and switch specialties than fight a wave of lawsuits. A shortage of obstetricians is so severe; pregnant mothers drive to the next county, or the nearest largest city to find an obstetrician.

Example 2: The most infamous case is the McDonald's coffee lawsuit. In 1992, Stella Liebeck and her grandson went to McDonald's, buying breakfast from the drive thru. Her grandson parked the car, allowing Stella to add cream and sugar to her coffee. She accidentally spilled coffee on her lap, causing third-degree burns. Stella was in the hospital for two weeks, and required skin grafts. The pain and suffering was real, but the problem with this case is with the definition of a tort. Stella burned herself, which was not McDonald's fault. If a person accidentally hurts himself, then it is their fault, not somebody else. Her lawyer claimed McDonald's sold a harmful product, because McDonald's coffee tends to be hotter than other restaurants. A jury awarded Stella \$2.86 million, but the trial judge lowered the amount to \$640,000. McDonald's and Stella settled for a lower, undisclosed amount [5].

Example 3: A federal judge sued a dry cleaner for \$65 million, because the dry cleaner lost his pants. The dry cleaner found the pants a week later. The dry cleaners were from Seoul, South Korea, and came to this country to live the American dream. Now, the owners are so disenchanted with the U.S. legal system; they are considering going back to South Korea [6].

Example 4: A woman wanted to sue Wendy's restaurants, because she found a severed, human finger in her chili. Police discovered the woman planted the finger in the chili, hoping to be compensated by Wendy's. This woman also has a history of filing lawsuits. Unfortunately, this incident tarnished Wendy's reputation that persists to this day [7].

These incredibly large damage awards have attracted schools of sharks to the legal profession. These schools of sharks swim around the economy, searching for victims with money. These sharks are known as lawyers, and lawsuits were a very profitable

business, or at least until the 2008 Financial Crisis. Now, attorneys are being laid off, so the 2008 Financial Crisis does have one positive quality.

Out-of-control lawsuits impose five problems on a society.

Problem 1: Lawsuits are expensive. A company spends thousands of dollars to fight even a frivolous lawsuit.

Problem 2: Some companies have multiple lawsuits filed against them. For example, Wal-Mart is currently fighting 5,000 lawsuits. The legal bill is immense, as Wal-Mart sends lawyers across the United States, filing paperwork with the courts.

Problem 3: All organizations, even small ones, hire one or more attorneys. The attorneys give legal advice to the managers, but the lawyers do not produce goods and services. Thus, businesses are hiring people, who do not contribute directly to the bottom line.

Problem 4: Large damage awards can bankrupt businesses, or cause a business to flee to a country with a more hospitable legal environment.

Problem 5: Lawsuits can halt economic development. For example, local government and the majority of citizens want a company to build a factory in their community. The factory will bring jobs, create wealth, and expand the tax base, boosting local tax revenues. One person can halt this progress by filing a lawsuit against the company, stopping economic development.

The Festering Growth of Attorneys

The United States has an unbelievably complex legal system. With too many laws, people outside the legal profession cannot understand them or follow them. An overly complex legal system automatically creates a demand for lawyers. Of course, lawyers cannot remember all the laws, so even lawyers specialize with the common specialties being criminal, civil, divorce, immigration, or tax. Why do we have so many laws? Congress and state legislatures are packed with lawyers. Lawyers dream up new laws, or expand old ones, which creates a strong demand for the legal profession.

The American Bar Association reported in 2008 that the United States had 1,162,124 practicing attorneys. This statistic does not

include law school graduates that are not practicing law. Furthermore, the number of practicing attorneys increased 18,000 from 2007. This number does not seem very large when compared to the U.S. population of approximately 300 million Americans. However, the U.S. has one lawyer for every 300 men, women, and children.

The U.S. economy is teeming with ravenous attorneys. The job as an attorney is to provide legal services, like suing people and businesses for money. If the United States has one lawyer for every 300 men, women, and children, then a lawyer's options are limited. A lawyer works at least 40 hours a week for 52 weeks per year. Consequently, attorneys are creative in filing lawsuits, dreaming new ways of extorting money from businesses and people, or creating a demand for their services.

Attorneys have six common methods extort money from innocent parties:

Method 1: An attorney files a nuisance lawsuit. A lawyer can sue a person for a silly reason, but the cost of preparing and going to trial is so great; it is cheaper for the defendant to settle out of court. Some people and businesses have principles, and will fight any lawsuit regardless the amount of money. Thus, the defendants will hire a lawyer or a team of lawyers to fight the lawsuit.

Method 2: Lawyers do not have an incentive to finish work, because they charge by the hour. During a lawsuit, both the plaintiffs and defendants have lawyers, who have a financial incentive to delay the court case, racking up more time and larger legal bills. Thus, lawyers love messy cases, because chaotic cases involve time, and hence, are more expensive.

Method 3: Lawyers pick the courts, where they want their cases heard. Some court districts are located in regions, where judges and jurors would be favorable to the plaintiffs.

Method 4: An attorney files a lawsuit against a person for failure to pay a debt. If the person does not show up to court, the judge automatically grants a default judgment in the lawyer's favor. Now, the lawyer can schedule another hearing to garnish wages, or seize a bank account. This method can be dirty, if the attorney sends the notice to appear in court to a wrong address or a previous address, ensuring the person does not show up for the

hearing. Innocent people were incorrectly held responsible for debts that were not theirs.

Method 5: Class-action lawsuits clearly provide large financial compensation to lawyers, even from minor harms. For example, if a lawyer has one client with a \$1,000 lawsuit, the lawyer may earn 40% or \$400 if they win. This is not a large financial incentive. However, if the lawyer can represent 1,000 clients at the same time for \$400 per client, then his stake rises to \$400,000. Thus, this lawsuit becomes worth time and effort.

Method 6: Some lawyers create rackets. For example, an attorney finds two people with good car insurance, and artificially creates a car accident. Then the lawyer sends the people to his network of doctors, who find whiplash and other injuries. Next, the lawyer files a claim (or sues) the car insurance companies for damages. The doctor, attorney, and the clients all get a cut of the insurance check. Unfortunately, everyone in society pays higher insurance premiums.

The Parasitic Class

A government with an overly complicated legal system creates a parasitic class. A parasitic class is a group of people who depends on the government for their livelihood. Everyone reading this book jumps to the conclusion that people on welfare and other social programs belong to the parasitic class. The parasitic class depends on a person's circumstances. If the recipients use government aid temporarily, then they are not in the parasitic class. They use government as a crutch to get them back on their feet. This is why government provides social programs. Nevertheless, if people have the ability to work, and depend on government for aid for a lifetime with no intentions ever to give it up, then they are parasites.

Unfortunately, the United States may have a large parasitic class, because our social programs have the following problems:

Problem 1: The government freely hands out money. Some people will purposely change their circumstance, or lie to get government aid. For example, a person lies about a back problem to get disability pay. A mother on welfare avoids marriage or obtains a divorce in order to collect a welfare check. Despite any

government crackdown, free loaders, who do not need the aid will always take advantage of free help. Always! One shocking observation about our economy is the large number of young people who look healthy, but are collecting disability. Once government says a person is disabled, that person can collect a check each month for the rest of his life.

Problem 2: The government provides the wrong incentives. For instance, state welfare programs give more money to single mothers with more children. Consequently, single mothers have more children in order to collect larger welfare checks. Unfortunately, the children see their mother getting this free money, which encourages some of them to do poorly in school, and not acquire any skills. They know they can get welfare too, once they are 18, and have children. Thus, government programs encourage single-parent households, and continue a cycle of dependence for the next generation.

Problem 3: Government programs create dependence on aid. Many people on aid are not upgrading their skills, or looking for a job. For instance, if you receive \$15,000 a year from government to do nothing, what is your salary threshold to start working? Would you start working for \$30,000 per year? The problem is you are working, and you have to pay taxes out of that salary. That salary threshold could be quite high for most people.

Problem 4: Government programs divert funding away from charity organizations. People contribute less to charities, because they know their taxes help support social programs. Of course, if government levies large taxes on people's incomes to finance these public programs, then people may not be in a charitable mood.

Nothing is wrong with social programs. Government just needs a smarter approach. First, the aid has to be temporary. Second, a program needs to wean the recipients off the aid. Remember the old adage, if you give a man a fish, he can eat for a day. If you teach a man how to fish, then he can feed himself for a lifetime.

The one exception is social security. Many countries give their senior citizens a form of income security, because the government rewards the elderly for being a taxpayer for most of their lives. Of course, the senior citizens are a strong voting group that career politicians cater to.

The parasitic class is much larger, and includes several groups of professionals, such as lawyers and bureaucrats, who depend on government for their employment and livelihood. They thrive on complicated laws and rules, and in turn earn high salaries for their knowledge. Five examples illustrate how professionals are parasites feeding off from society.

Example 1: With the government welfare programs, government hires counselors, attorneys, psychologists, and other professionals, who determine who gets aid and how much. If the states did not have these programs, then these professionals would not be working for government.

Example 2: A large group of parasites is lawyers. If the rules and laws were simple, then families and businesses would not need the services of lawyers. However, the U.S. and state laws are extremely complicated, and beyond the comprehension of most people. Thus, they hire one or many attorneys. Lawyers even hire lawyers to win lawsuits. Furthermore, judges always recommend defendants to retain lawyers, and they frown down on people trying to represent themselves.

Example 3: Government will deny the claims for half the people who apply for Social Security. Some people hire attorneys, who sue the federal government. Thus, the lawyers' employment depends on a federal program. Of course, government may hire investigators and lawyers, who investigate the claimants, and prove that they are not disabled.

Example 4: The overly complicated tax code has given rise to software companies, tax preparers, and accountants, who help the taxpayers remain compliant. Consequently, these professionals would be unemployed, if the federal and state tax codes were simple.

Example 5: Everyone knows a court case, when a judge or jury awarded large damage awards. People are determined to play the lawsuit lottery. The attorneys do not mind, because they get paid, whether they win or lose a case. Furthermore, the judges do not mind, because they are working and keeping their dockets full. Then they ask legislators for more funding, or to hire more judges, and build more courthouses. See how we end up in this vicious cycle?

A parasitic class is difficult to reform, once it becomes a dominant class in society. When a large group of people depends on government for their livelihood, they fight against any reform, or changes that threaten them. For example, if Congress and the President streamlined the tax code and made it simple, several corporations will bankrupt, and thousands of tax preparers, accountants, and tax lawyers will be tossed into the unemployment line. If you want proof, just look at Greece. Between 2010 and 2012, the Greek government had severe financial problems, and reduced its spending. Unions, workers, and people were striking and protesting. Some protests erupted into violence, as protestors clashed with the police. Some Americans believe Greece is a prelude to what will happen in the United States within several years.

Conclusion

The personality of judges in courts today is different from the judges a century ago. During the 19th century, judges were pro-business. For example, citizens could file a nuisance lawsuit against a factory, because it is a source of pollution and noise. However, the citizens usually lost their court case, because judges knew the factories were a source of jobs, and created wealth.

Contemporary judges are different. Businesses and law-abiding citizens usually lose court cases, even for frivolous matters. Unfortunately, people and managers do not have perfect foresight, and do not know the infinite ways for idiots to abuse their products. Some silly lawsuits are:

Lawsuit 1: Two people mowing their lawn had a bright idea. They picked up a running lawnmower to hedge bushes. Consequently, the lawnmower chopped off their fingers. Then these idiots sued the lawnmower company, because the company did not provide any disclaimer for using a lawnmower to hedge bushes.

Lawsuit 2: A burglary was breaking into someone's home by climbing onto the roof. Unfortunately, the burglar fell through, landed on the floor, and was shot by the homeowner. Although the burglar committed a crime, he sued the homeowner for using excessive force [8].

Lawsuit 3: The largest and most expensive litigation in U.S. history is from asbestos. Asbestos was a common building material, because it is an excellent fire retardant and insulator. Unfortunately, people, who breathe in the asbestos fibers, can develop respiratory illnesses like mesothelioma, lung cancer, and asbestosis. Consequently, lawyers sued the asbestos industry, and the industry started a fund to pay future asbestos claims. Unfortunately, everybody likes to play the lawsuit lottery. People who thought they had seen asbestos sued for a piece of pie, because they thought, they could develop an illness. The industry has not used asbestos since the 1980s, but in 2002, more than 8,400 defendants and 730,000 claimants sued, or plan to sue the industry [9].

The English common law system is an excellent system, but it depends on good judges. Good judges can help rein in the legal system, stopping out-of-control attorneys and zealous prosecutors. If a judge truly believes in truth, justice, and the law, then he makes sure the truth, and justice is found. The guilty are punished, and the innocent are set free. However, if a judge does not want to appear weak on crime, or appear politically incorrect, then truth and justice will be swept under a rug.

References

- [1] Savage, David G. October 22, 2008. "Roe vs. Wade? Bush vs. Gore? What are the worst Supreme Court decisions?" *Los Angeles Times*, Available at <http://www.latimes.com/news/nationworld/nation/la-na-scotus23-2008oct23,0,1693757.story> (access date 12/12/08).
- [2] U.S. Supreme Court. 2006. "Massachusetts et al. v. Environmental Protection Agency et al." Available at <http://www.supremecourtus.gov/opinions/06pdf/05-1120.pdf> (01/03/09).
- [3] Sherman, Stratford P. March 17, 1986. "The Man Who Got Hit for \$10.5 Billion." *CNN Money*. Available at http://money.cnn.com/magazines/fortune/fortune_archive/1986/03/17/67302/index.htm (access date: 01/03/09).
- [4] Attkisson, Sharyl. April 2, 2004. "High Cost of Malpractice Insurance." *CBS Broadcasting, Inc.*
- [5] Wikipedia. May 2008. "Liebeck v. McDonald's Restaurants." Available at www.wikipedia.org (access date 5/10/08).
- [6] Associated Press. May 3, 2007. "Judge: Cleaner owes me \$65 million for pants - 2 years of litigation x 1 pair of trousers = headaches for family business." *MSNBC*.

- [7] Associated Press. April 13, 2005. "Finger-in-chili accuser has litigious history." *MSNBC*.
- [8] *Channel 3000*. September 21, 2006. "Accused Burglar Sues Homeowner Who Shot Him." Available at <http://www.channel3000.com/news/9905807/detail.html?rss=c3k&psp=news> (access date 01/03/09).
- [9] Wikipedia. December 2008. "Asbestos." Available at www.wikipedia.org (access date 12/31/08).

4. Excessive Regulations

“If we had to follow all the regulations, then Russia would not be growing at 7%.”

-A Russian Businessman

A regulation is government imposes a limitation on the behavior of individuals or a business, because it sees a problem in society, and wants to correct it. The only way for government can determine if people are following a regulation is to expand a regulatory agency, or create a new one that enforces the limitation.

Regulations are not necessarily bad! Some regulations make society better off. Some examples of good regulations are:

- The government established the U.S. Department of Agriculture to inspect food, and to reduce the amount of contaminated foods from entering the food supply.
- The U.S. Government established the Federal Aviation Administration to regulate airspace and inspect airplanes.
- The government created the Federal Trade Commission to investigate monopolies. Thus, the federal government could regulate, or break up a monopoly.

A monopoly is one firm controls a market or a product. Thus, by definition, a monopoly does not have competition. Then the monopolist reduces production, causing the market price to increase, and earns enormous profits. Monopolies usually form in the petroleum, communications, electricity, and natural-gas industries.

A government steps in, and regulates the market, curbing a monopolist's power. This is a reason why corporate mergers require permission from government, because mergers allow companies to expand into larger ones as it acquires smaller companies. Growing companies can grow into monopolies.

The process of implementing regulations is a complex process, involving politicians, interest groups, industries, and regulatory agencies. Furthermore, various groups in society strive for control or influence over regulatory agencies and politicians. Interest groups can form for any purpose or cause. The common interest groups are:

- Consumer groups want low prices and safe products.
- Stores want access to cheap Chinese imports.
- Manufacturing wants to earn high stable profits, so they like restrictions on international trade and restrictions on labor unions.
- Labor unions strive for higher workers' wages, thus lowering a business's profit and increasing business costs.

The fastest method to gain control over the regulatory agency is the interest groups capture the politicians, who control the law-making process. The sure, quick, and easy method is campaign contributions. Politicians want to remain in office, but political campaigns cost millions of dollars. For example, the campaign cost to win a house seat in Congress averaged \$1 million in 2004, while a Senate seat cost \$7 million. Unfortunately, the person with the most money wins, and hence, politicians beg and solicit interest groups for money by knocking on people's doors, or using the mail, the internet, and telephone [1, 2].

Campaign contributions can influence politicians' decisions. If a company contributes \$1 million to a politician's campaign, and this company wants a special law, the politician will help him. Once the politician wins and gets into office, he always has his eyes on the next election, or a higher position in government. He needs a continuous flow of campaign contributions to help promote him. If a politician loses an election, then he has to find a real job, and work for wages. It is that old joke, "Talking to politicians is fine, but with a little money, politicians hear you better."

One problem is a large portion of campaign contributions flows to consultants. During the 2003-2004 federal elections, consultants earned almost \$2 billion. For example, President Bush paid \$177 million to Maverick Media for his re-election commercials for 2004 [2]. The problem is the consultants inform politicians how to win the election, such as which issues to side, which interest groups to ask for money, and which laws and regulations to propose.

The goal for politicians and consultants is to win the campaign at any cost. Once in office, they have their eyes on the next election, and the ensuing round of fund raising. Thus, politicians are not passing laws and regulations to make society better off; their goal is to get into office, support any issues that get them there, garner campaign contributions, and pass any laws that make their interest groups happy. Consequently, politicians within the government are career politicians, and cater to special-interest groups.

Educated people also exacerbate the expansion of regulations, because they use regulations to generate business for their specialties. Unfortunately, a complicated, convoluted regulatory system boosts demand for professionals. Some examples are:

Example 1: Certified Public Accountants (CPAs) want a more complicated tax code. Thus, businesses and people hire them to ensure they are compliance with the tax rules, and the clients pay the lowest amount of taxes. If the United States passed a simple, flat income tax, the majority of CPAs would be in the unemployment line.

Example 2: Counselors want everyone to get counseling. Any minor cases brought before the attention of a criminal court usually require counseling. Counselors aid truant kids, married couples, alcoholics, and drug addicts. Unfortunately, this counseling is not free, and it is not clear, if counseling actually helps people. With all the violence and wars that plagued humanity, we somehow still made it to the 20th century without psychologists and counselors. Remember, Sigmund Freud invented psychology and counseling in the 1880s, and incidentally, three-quarters of his patients were wealthy.

Example 3: Universities and colleges want education to be a nonstop process. Many occupational licenses from state

governments like teaching certifications, CPAs, etc. require people to continuously take courses for their annual re-certification. These courses are available through the internet, and easily cost several hundred dollars.

Politicians, consultants, and educated people help expand government regulations to the point where regulations are out of control. During the last 40 years, social regulations have exploded in the United States. A social regulation is government regulates a behavior that it believes makes society better off, which could be anything. For example, during the mid-1960s and 1970s, the U.S. Government created the following agencies:

- **Environmental Protection Agency (EPA)** – the purpose is to decrease pollution and improve the environment.
- **Occupational Safety and Health Administration (OSHA)** – the purpose is to improve worker safety standards. OSHA can dictate which machines and equipment employers can use to meet regulations.
- **Equal Employment Opportunity Commission (EEOC)** – to ensure employers do not discriminate against minorities and women for job hiring, promotions, or working conditions.
- **Consumer Product Safety Commission (CPSC)** – to ensure consumer products are safe. CPSC can force businesses to recall consumer products, if CPSC believes they are not safe.
- **Federal Emergency Management Agency (FEMA)** – a government agency to aid local communities that are devastated by a natural disaster like an earthquake or hurricane. FEMA provides food, medicine, and shelter to needy residents.

Government created these agencies to make society better off. For instance, the EPA's goal is to reduce pollution, decreasing the harm of pollutants to the public. However, EPA dictates its goals and tells industry which equipment to buy to reduce pollution. A business has no say about the costs.

A better approach is a market approach, where government tells industry how much to lower pollution, and the industry decides how to meet these goals. The EPA has implemented some market approaches for pollution emissions from sulfur dioxide and mercury.

Another problem is the bureaucracies become incompetent, or the regulations become complex, silly and onerous. Some examples are:

Example 1: OSHA specified the height of handrails, and the spacing of posts in a workplace.

Example 2: Churches, thrift stores, or people sell second-hand goods at garage sales, flea markets, or through the internet. They are required to keep track of the thousands of products that the CPSC recalled, and make sure they do not sell them. The CPSC started Resale Roundup, where enforcement officers search vigorously for violators through the internet. They track down, arrest, and possibly jail anyone who re-sells an item that is on the CPSC recall list [3]. Unfortunately, safety standards have no bounds, nor does stupidity.

Example 3: FEMA tends to be slow, bureaucratic, and hampers rescue efforts. FEMA has shown poor leadership for Hurricane Hugo in 1989, Hurricane Andrew in 1992, and Hurricane Katrina in 2005. In FEMA's defense, FEMA tends to be poorly funded, and a dumping ground for politically connected appointees with no experience [4].

Example 4: The Texas Workforce Commission is forcing yoga training schools, and studios to apply for a certificate, or apply for an exemption. The state can fine the studios and schools a \$50,000 fine for non-compliance, while a certificate can cost from \$1,000 to \$3,000 per year. Since the State of Texas does not have an income tax, the state agencies are very aggressive in collecting fees and fines. Some yoga studios closed down, while others banded together, and are challenging the state [5]. Sometimes you have to ask, why is the state so petty, so trifling?

Example 5: People can legally buy cigarettes in U.S., if he or she is 18 or older. However, state governments heavily tax cigarettes, won multimillion-dollar lawsuits against tobacco companies in 1990s, and passed many laws restricting tobacco use. Many states and city governments ban cigarette smoking in

restaurants, bars, near building entrances, schools, near children, in cars, etc. Instead of having thousands of these regulations, it would be simpler to make tobacco illegal. Of course, if tobacco was illegal, then government could not collect money from the lawsuits and high cigarette taxes.

Example 6: The criminal sentencing rules are very complicated in Texas; judges, prosecutors, and prison officials cannot figure them out. Consequently, prisoners hire attorneys, and sue the state, in order to figure how much time they have left. Then compound this problem with inmate overcrowding, budget problems, and parolee hearings [6]. This is very foolish, because a jury or judge determines the time for a convicted felon. Then grant a parole board the power to release some of the nonviolent criminals early to relieve overcrowding. If the rules were simple and straight forward, then Texas would not have this problem. Remember – complicated regulations create a demand for more professionals like attorneys.

These glaring examples could indicate that regulations are out of control in the United States. For example, The Office of Advocacy, estimated a small business spent \$7,647 per employee in 2005 to comply with federal regulations, while a large business spent \$5,282. A small business has less than 20 employees, while a large one has more than 500. The estimates are from a small office in the U.S. Small Business Administration, which is part of the federal government [7].

Although most of the job creation is from small businesses, they are burdened with a large share of the regulatory burden. Some claim large corporations love more regulations, because regulations reduce competition, and prevent small businesses into growing into large ones. Then the large corporations can contribute campaign contributions to the politicians, who pass favorable laws for the corporations.

Parkinson's Laws

Parkinson's Law, an observation by C. Northcote Parkinson, is regulatory agencies expand in size each year without any relationship to amount of work the regulatory agency does. Northcote noticed that as the British Empire became smaller, the

number of employees in the Colonial Office increased. The Colonial Office administered the British Empire, and a smaller empire implies less work [8, 9]. Thus, the number of employees should decrease over time, and not increase!

Parkinson's Law is universal to all government agencies. Government agencies over time increase their scope, mission, and influence. Parkinson observed that "the total of those employed inside a bureaucracy rose by 5-7% per year irrespective of any variation in the amount of work (if any) to be done" [8,9]. Northcote explained the regulatory agency's growth using three statements.

Statement 1: "Expenditures rise to meet income." An agency always spends their funding, regardless of its funding level. If a government agency saved money, the legislature will notice, and would lower future funding. Moreover, government bureaucrats are always in the habit of requesting more funding, and then spending it [8, 9].

Statement 2: "Work expands so as to fill the time available for its completion." If a bureaucrat needs four hours to complete a task and has an 8-hour workday, then the bureaucrat will expand the task into eight hours. Thus, the bureaucrats have to create work [8, 9], whether creating new forms, or causing citizens to jump through new hoops for permits, approvals, or other such documents.

Statement 3: Bureaucrats like "to multiply subordinates, not rivals." If a bureaucrat hires a rival, then that rival also competes for the same promotions. However, a bureaucrat can elevate himself to a manager by hiring subordinates. In order to hire subordinates, bureaucrats need to "create work for each other" [8, 9].

Bureaucrats have self-interest to prolong their jobs and create job security. They may design programs that are long term, and continually expand the size, scope, and mission of government. Over time, regulatory agencies expand paperwork, broaden regulations, and increase the complexity. Consequently, educated bureaucrats like complex rules, because they can earn higher salaries and create a greater demand for their services. Thus, the size of bureaucracies continually expands and rarely contracts.

Government, Technology, and Urbanization

Technology is a factor that encourages the growth and intrusiveness of government bureaucracies. As technology improves for communication, transportation, and record keeping, bureaucracies become larger. Bureaucrats use technology to improve monitoring and ensure compliance with their rules and regulations [10].

For example, smugglers secretly import products, and avoid paying duties and taxes to government. Government has several methods to combat this. Customs agents use planes, ships, radar, and satellites to track down ships and airplanes that are not coming into the ports. This vast network searches the skies and seas for violators and smugglers. If the smugglers are successful, and get their products to the stores and merchants, government agents can backtrack, and trace the products back to the smugglers. Stores and merchants record their transactions on documents that government agents can scrutinize. The records allow government agents to match what a merchant sells to what he purchased. If a merchant claims he bought all his merchandise from one distributor, then the agents can check that distributor's records for discrepancies. Finally, tax agents will investigate anyone, who has too much cash, and cannot explain where they got the money from.

One hundred years ago, government did not have this technology. Consequently, government had a difficult time tracking down and prosecuting smugglers. Thus, the United States had a very capitalistic and market-oriented economy.

The national government uses technology to expand its dominion over the whole economy. The national government uses the bureaucracies to control cities, villages, and communities that are located remotely from the bureaucracies [10].

Government maintains large computer databases on people and businesses. If a government agent thinks, someone is violating a rule or regulation, he can have a team of agents there within hours, using planes, helicopters, or cars. It is no coincidence that the U.S. government is usurping power away from the states. Consequently, bureaucrats in Washington, D.C. are bombarding the county and city governments with numerous rules and regulations. Thus, technology expands the intrusiveness of government.

For example, a business opens an illegal mine in the backwoods of Montana. Eventually, the bureaucrats in Washington, D.C. will get wind of the mine, and have agents and regulators there within hours to investigate. The mine will show up on a satellite image, or an angry environmentalist reports the mine to the government. One hundred years ago, this mine could operate in secrecy without being caught. Government was too far, and remote to intervene in a business's affairs.

Drug testing is another example of intrusiveness. It is a recent phenomenon, and was not available before the 1990s. Now, judges, government officials, high-school principals, and employers want drug testing, even for low-paying jobs.

Unfortunately, drug testing is biased towards only one drug: marijuana. If a person smokes a joint, the active ingredient, tetrahydrocannabinol (THC), remains in the fatty tissues throughout the body for a month or more. On the other hand, if a person uses cocaine, meth, amphetamines, or barbiturates, he just abstains from those drugs for two days, and his urine will test clean, because the human body quickly metabolizes these drugs.

Many U.S. institutions are intrusive, and want drug testing for a wide group of people. Of course, the drug-testing companies are getting rich from the expansion of this industry. The governors of Michigan and Florida in 2011 want all state employees tested for illegal drugs. Incidentally, the governors indirectly own the medical clinics that will do the testing.

Before the 1990s, an employer, who checked criminal records would go to the local courthouse, and search through the court records. Of course, employers could only check for crimes committed in their county, and convicted felons could move to a new county, or across a state line, and start a new life. His record did not follow him in the old days.

In the 1990s, the massive computer databases made their arrival. Consequently, a criminal record can trail after a person like shackles anywhere within a country. A criminal record is forever and never goes away. The dominion of the databases is growing at an alarming rate. In several more years, criminal records will follow a person across countries. Unfortunately, the U.S. criminal system is very puritanical, and has no forgiveness. People can have their lives destroyed over a small incident. For example, the

unemployment situation is so bad in 2012; an employer will not hire any employee, if anything negative comes up.

Companies report customer information to credit bureaus, like ChexSystems, Experian, TransUnion, and Equifax. In theory, banks and companies are reporting the credit worthiness of their customers. The problem is the banks, and companies use these credit bureaus as a stick to beat over their customer's heads.

For example, if a customer overdrafts their checking account, then the bank starts adding exorbitant fees to the customer's account. In the old days, a customer could walk away, and not pay these fees. Now, the customer has to pay these fees, even if a simple overdraft results in hundreds of dollars in penalties. The reason is banks report outstanding balances to ChexSystems, and that person cannot open up another bank account until the fees are paid.

In some cases, banks purposely delay payments, or pay all withdrawals first before applying the credits, which increases a chance of an overdraft. Consequently, the banks collude with each other via ChexSystems, like the mafia to extract as many profits as they can from their customers. Unfortunately, employers want access to a person's credit history, even for jobs where good credit is not necessary for job performance.

Satellites in the sky form the backbone of a GPS system. A GPS device receives a radio signal from the satellites, and calculates within inches, where that device is located on the earth's surface. Unfortunately, GPS is opening up new avenues of surveillance. Federal agents are allowed to track people of interest with GPS monitoring devices usually connected to a person's car, even without a court order.

Imagine in the old days, two agents would follow a suspect around physically. It took man power to keep surveillance on a person. Now, those two agents can keep track of thousands of suspects with GPS, as agents sit behind a computer screen, and track people without leaving the office. Modern cars automatically come with a GPS system. Thus, the agents do not even have to expend energy to install a GPS system on a car.

Once the GPS devices become small enough to implant into the human body, then the government will start tracking people. First, government will require felons to get GPS implants, then anyone

convicted of misdemeanors. Next, anyone viewed as a threat to government will require implants. Finally, government will recommend parents to get GPS implants for kids, so they can be located easily, if they are kidnapped. Of course, these implants will never be removed. Thus, everyone will have GPS implants, and government keeps track of everyone. Then the U.S. government evolves into a totalitarian state.

Government agents can also track cell phones, but the tracking is not as accurate as GPS. Some state governments are cracking down on pre-paid cell phones, because the user is anonymous. Government wants a person's identity tied to his cell phone.

Modern vehicles have a black box, which is a computer. The computer controls the car's engine, transmission, and adjusts the engine to reduce pollution emissions. Here is the thing. The computer remembers. As you guessed, attorneys now file paperwork with the court to grab their sticky hands on those black boxes. Those black boxes remember how fast people were driving before the accident, or whether the driver hit the brakes.

The black boxes open up new avenues for government. Some legislators are discussing laws that require a car's computer to include Global Position Satellites (GPS). The GPS track's a car's location anywhere on the earth's surface. Then a state government keeps track of a driver's mileage, and sends the driver a tax bill for repair and maintenance of highways and roads. Why stop there? A car's computer that is connected to a GPS system can keep track of a driver's speed. Thus, if the driver speeds, the computer communicates this information to the local police, where a computer system automatically issues a citation.

Government can use technology for good intentions. Unfortunately, the politicians and bureaucrats go too far. For example, all states have laws that require sex offenders to register with the police. Then the police enter this information into a sex-offender database that is open to the public.

In theory, nothing is wrong for government to create these databases. However, these databases create two problems. First, an offender's specific crimes are usually not listed, or at least not in detail. For example, an 18 boy is convicted of statutory rape of his 17-year-old girlfriend, even if they are both in the same grade in high school. He still registers as a sex offender. Second, legislators

and police are expanding the list of offences that require offenders to register, even if the crime is not sexual in nature. Their reasoning is some crimes create a safety concern for the public, thus offenders must still register, because they are a danger to the public. By definition, isn't any crime a safety concern for the public? For instance, a person who is speeding is endangering the public. Thus, should speeders be required to register as sex offenders?

Urbanization is another factor that aids in the growth and intrusiveness of government. People living in the country migrate to the cities, searching for work, and escape the misery and poverty in rural communities. Unfortunately, urbanization always leads to a larger government and more bureaucracies.

Imagine living in a rural community, raising cattle. Which services can government provide? The ranchers are self-sufficient. They require little government services, because they are separated by wide-open spaces.

In cities, the population density is much greater. Thousands of people live in close quarters to each other, and this closeness creates conflict and problems. For instance, urban areas use large quantities of fresh water, and generate large amounts of garbage, wastewater, and pollution, which stress the environment. Finally, crime, noise, and traffic congestion are problems in large cities. Consequently, local government expands to reduce these problems, and urban dwellers pay higher taxes than people living in the suburbs, or in the country.

City governments also impose more building codes, stronger regulations, and higher taxes. Some of the rich and middle-class residents become tired of an intrusive city government, and its poor government services, so they migrate to the suburbs. As the city loses tax revenue, and citizens, it begins annexing the surrounding suburbs, creating a larger, more bureaucratic government.

Problems of Regulations

The government is a unique institution. Regulatory agencies can waste taxpayer money, and then the government turns around, and raises taxes and fees to make up for any budget shortfalls. No

other institution in our society has that power. Two examples hone this point:

Example 1: The U.S. government passed a law, Nuclear Waste Policy Act, to locate a spot for the disposal of the nation's nuclear waste. The government found and developed a site in Yucca Mountain, Nevada that is next to the nuclear weapons test site, and it is geographically stable. The government bored a 5-mile long U-shaped tunnel into the mountain. However, political opposition and lawsuits delayed the opening of this facility for decades. Meanwhile, the U.S. military and nuclear electric power plants are stockpiling nuclear waste at their facilities, and as of 2008, the government has wasted approximately \$9 billion into this project.

Example 2: The Federal Emergency Management Agency (FEMA) has 10,770 trailers sitting vacant at a deserted military airport in rural Hope, Arkansas. FEMA stockpiled trailers as temporary housing for victims of natural disasters. Unfortunately, FEMA did not make the trailers available to Hurricane Katrina victims, because federal law prohibits trailers used in a flood plain. Instead, victims and survivors were living in tents. These vacant trailers cost the government \$431 million [11].

Regulatory agencies may produce the opposite impact it intended. For example, the federal government passed laws and regulations to protect historic buildings and sites. On the surface, this appears to be a good law, because the government is protecting history. However, these regulations encourage the destruction of historic homes.

If a non-profit or contractor rehabilitates a historic home using government funds, and then sells it to a family, subsequently the agency has three problems.

Problem 1: The nonprofit or contractor applies for permits (or permission) from a historic government agency. Approval may take a long time, and the project may be subjected to the whim of the historic bureaucrats. If the authority is a state government agency, then it could take six months or more to receive a response. Thus, historic preservation agencies are another level of bureaucracy to deal with.

Problems 2: Historic preservation increases the rehabilitation costs. For instance, if the windows in a home need to be replaced, a contractor cannot simply rip out the old windows, and install new

ones. This destroys the “historic integrity” of the home. Instead, the person has to repair each window, so it matches the original design, which could greatly increase the rehabilitation.

Problem 3: Home buyers may not be interested in buying historic homes, because ownership comes with many restrictions. Homeowners need permission from a government agency like historic preservation to paint, renovate, or install new equipment like an air conditioner in a historic home.

Consequently, nonprofits and developers avoid historic houses, because they have to deal with the historic preservation bureaucracy, more expensive to rehabilitate, and may be more difficult to sell. Therefore, these homes sit vacant until government bulldozes the home, when it becomes a hazard to the community. Consequently, historic preservation regulations encouraged the destruction of historic homes.

Other problems of regulations include:

Problem 1: The federal, state, and county governments pass regulations that may create conflicts. For example, the State of California legalized marijuana for medicinal purposes, while the U.S. federal government still considers any marijuana use illegal. Another example is the U.S. Department of Energy wanted electric power plants to use more coal during the 1970s to reduce the reliance on imported petroleum. However, the U.S. Environmental Protection Agency penalized coal use, because it is a dirty fuel [12].

Problem 2: Regulations become rigid, as bureaucrats become used to regulating in a certain manner, and do not change when society changes.

Problem 3: Bureaucrats are more concerned with maintaining their jobs and importance, and not necessarily helping people. They become good at justifying their programs and importance to legislators, because legislatures are a source of funding.

Problem 4: Different government workers interpret the laws and regulations differently. Some government workers are strict, while others are lax. For example, Internal Revenue Service (IRS) workers are known to give conflicting information to taxpayers, because tax laws are too complex, and everyone interprets them differently.

Problem 5: People with agendas and hidden motives may penetrate and become leaders of government bureaucracies. For example, an environmentalist, who hates corporations may become director of an environmental agency, creating red tape and problems for businesses. A woman, who hates men may become a judge or prosecutor for a domestic violence court or a family court. Consequently, any man brought to court must be found guilty.

Problem 6: Large corporations may prefer more regulations and more complex regulations, because regulations create an entry market barrier. For instance, if regulations are so onerous and complicated, potential new competitors may not enter the market. A large corporation can absorb these costs by creating a specialized department that keeps the corporation in compliance with the regulations. Unfortunately, small companies cannot afford this small department of professionals.

Problem 7: Regulatory agencies and their regulated companies become “too friendly” over time. Thus, regulators may be too lenient on their regulated companies. The extreme form of “too friendly” is corruption, as company managers pay bribes to regulators. It is also common for high-ranking government officials to become consultants, and work for the companies they once regulated.

Society's Costs of Regulations

Regulations create a demand for bureaucrats, and bureaucracies need financial resources. They depend on fees, fines, and taxes to finance their budgets. Thus, each time government creates a new bureaucracy or expands an old one; the government needs more funding. The total cost of a bureaucracy is the following:

Cost 1: Bureaucracies increase businesses' costs. Bureaucracies regulate and enforce the law, which creates enforcement costs and regulatory burdens on the private sector. Consequently, businesses submit documents to government, invest in new equipment, and/or hire compliance specialists.

Cost 2: Government diverts resources from the private sector to the regulatory agency. Bureaucrats' salaries are paid through taxes, fines, and fees, shifting resources from the private sector to the public. The largest item in a regulatory agency's budget cost is

salaries. If government did not employ staff, then they would be working in the private markets.

Cost 3: Taxes and regulations lower economic activity, potentially “destroying” the market. Government finances regulatory agencies through taxes, which expands the infamous tax authorities. The tax authorities are another bureaucracy that employs staff and consumes resources. Further, taxes always increase prices, and decrease market quantities, because consumers reduce their spending, when products become more expensive.

Cost 4: Taxes and regulations create violators. When government creates regulations or imposes taxes, some people will violate these regulations or evade taxes. Consequently, government consumes resources to enforce and punish violators. Government also has to expand its courts and prison systems.

As government creates more bureaucracies, and the bureaucracies become large relative to the economy, the bureaucracies create drags on the economy, and stifles free enterprise. A faltering economy generates less wealth and lowers the tax base. Thus, declining tax revenue could encourage government to create more bureaucracies, and increases taxes to help pay for the bureaucracies. Then government is in a vicious cycle of increasing taxes, fines, regulations to offset declines in tax revenue. Subsequently, society begins to stagnate and decay.

Conclusion

The United States had three official growth spurts for the creation of a large number of regulatory institutions. The growth spurts are:

Regulation of Industry – From 1870 to 1910, government created a number of new institutions and expanded government’s power. The federal government started to inspect food, break up monopolies, and regulated railroad rates. State governments imposed price controls and created public service commissions. The commissions regulated utility companies that were quickly growing as cities adopted electricity and water. The State of New York even regulated the price of milk.

Using Government to Expand the Economy – Franklin Roosevelt created a variety of new institutions during the Great

Depression, which spanned from 1929 to 1940. Roosevelt tried to get the U.S. economy growing again by stabilizing the financial markets, imposing price and wage controls, and creating the first national pension fund, Social Security.

Growth of Social Regulations – From the 1970s to the present, government at all levels imposes their beliefs onto society. Thus, all governments increased their regulatory powers over everything, concerning private property, families, businesses, and industries.

The problem with creating new regulatory institutions is they never go away. Many of the regulatory institutions created in 1900s, and Great Depression are still here. When the regulatory institution meets its objective, government rarely dissolves regulatory institutions. Instead, the regulatory institutions change their mission, and increase their sphere of influence.

For example, President Roosevelt created the Tennessee Valley Authority (TVA) in 1933, which helped modernize Tennessee, and provide electricity to rural areas. TVA met their mission, but it is still here. Currently, TVA subsidizes electricity to households.

Some regulatory agencies never achieve their objectives. For instance, the U.S. government created the Department of Energy (DOE) in 1977, because the oil crisis in 1973, when Arab nations stopped shipping petroleum to the United States. The oil embargo caused a supply shock to the U.S. economy, which led to a recession. One objective of the DOE was to reduce the United States reliance on imported petroleum. In 1973, the U.S. imported 2.2 billion barrels of oil that rose to 3.1 billion barrels in 2011. Consequently, the DOE failed its mission.

The U.S. government created the Department of Urban Development (HUD) in 1965 to provide affordable housing, affordable rental units, protect consumers, and improve the quality of life. Urban blight and low-quality housing are still problems in the cities. This agency failed miserably.

Government sometimes creates government agencies that are not needed. For example, President Roosevelt started the excise tax on gasoline to finance highway construction. Then President Eisenhower started the interstate highway system that linked the major cities between states in the 1950s. Finally, the U.S.

government created the Department of Transportation (DOT) in 1967 to create a fast, efficient, and safe transportation system.

Reference

- [1] Becker, Gary S. 1983. "A Theory of Competition among Pressure Groups for Political Influence." *The Quarterly Journal of Economics*. 98(3): 371-400.
- [2] Bergo, Sandy. September 26, 2006. "A Wealth of Advice - Nearly \$2 billion flowed through consultants in 2003-2004 federal elections." *The Center of Public Integrity*.
- [3] Rosen, James. August 20, 2009. "Seller, beware: Feds cracking down on secondhand sales of some products." *Kansas City Star*.
- [4] McQuaid, John and Mark Schleifstein. 2006. *Path of Destruction*. New York: Little Brown and Company, pp. 112-114, pp. 308-344.
- [5] Dulai, Shaminder. August 22, 2010. "Yoga professionals to state: Leave us in peace." *Houston Chronicle*.
- [6] Marshall, Thom. November 16, 2003 "Figuring felon prison time growing business for firm." *Houston Chronicle*.
- [7] Office of Advocacy. September 19, 2005. "Small Business Hard Hit By Federal Regulatory Compliance Burden." Washington, DC: U.S. Small Business Administration. Available at <http://www.sba.gov/advo/press/05-43.html> (Access date: 7/11/08).
- [8] Parkinson, C. Northcote. 1957. *Parkinson's Law*. Cambridge and Massachusetts: The Riverside Press.
- [9] Parkinson, C. Northcote. November 1955. "Parkinson's Law." *The Economist*.
- [10] Kiser, Edgar and Joshua Kane. 2001. "Revolution and State Structure: The Bureaucratization of Tax Administration in Early Modern England and France." *The American Journal of Sociology* 107(1): 183-223
- [11] Neuman, Johanna. February 10, 2006. "The Land of 10,770 Empty FEMA Trailers." *The Los Angeles Times*.
- [12] Palmer, Jay. November 27, 1978. "The Rising Risks of Regulation." *Time*.

5. Taxes Destroy Wealth

“People do not work, consume, or invest to pay taxes.”

-Arthur B. Laffer

Government is essential for a well-functioning economy. For a capitalistic country to thrive and flourish, government must finance three activities: the legal system, national defense, and commerce. The three activities are straight from Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*.

Activity 1: Government establishes a legal system, or the rules of the game. A government with a good legal system helps protect private property rights, enforce contracts, and settle disputes. Hence, government creates police and fire departments, and a variety of courts to administer "justice." Consequently, any legal system with strong property rights will have rich property owners, and government may defend the rich at the expense of the poor.

Activity 2: Government protects its interests, people, and land from invading armies, navies, and aircrafts. Thus, government finances a standing military.

Activity 3: Government encourages the growth of commerce. Hence, government invests in infrastructure like bridges, highways, harbors, canals, and airports. A good infrastructure connects the people and markets together. Then regions within a nation specialize, and transport their goods quickly to markets located anywhere around the nation and world. Finally, government also coins money that is used in commerce.

Private companies could carry out the functions of government. However, these institutions would be imbued with enormous powers, and the public may develop a strong hatred for these institutions and shun them. For example, would you trust a person to own and manage a police department or the fire department? For instance, Marcus Licinius Crassus owned the first fire department in Rome. As a person's house was burning down, Crassus negotiated the price for his services. Usually, Crassus bought the property at a discount, and added it to his wealth.

Many experts and philosophers added another critical function to government, which is education. Economists and philosophers added this argument in the 18th century. An educated workforce has more technical skills that allow an agricultural society to transform into industrial one. This argument is still floating around. Just change technical skills to computer skills. These economists said government should promote education, which does not mean to micro-manage it. Consequently, all countries created an education system that ranges from elementary, middle, and high schools to colleges and universities.

People and its political leaders added many more functions to government. Consequently, governments provide a network of parks, reserves, construct and manage libraries, deliver the mail, protect the environment, and reduce income inequality. Thus, the pursuit of a Utopian society has expanded the size, scope, and mission of government.

For government to provide its critical functions to society, a government has to collect taxes to pay for them. Tax systems are defined as the ratio between a household's taxes and their income, and are classified into three types: Progressive, proportional, and regressive.

A progressive tax rate is the average tax rate rises with income. For instance, the income taxes for the United States are progressive. Low-income households pay small average tax rates, while high-income households pay higher tax rates. In 2005, the top 5 percent of wage earnings paid an average tax rate of 20.8%, while the bottom 50 percent paid an average tax rate of 3%. Many people believe this tax system is fair because the "rich" get stuck with a larger tax burden.

A proportional tax rate is the average tax rate stays the same across all income levels. For example, Russia and the Republic of Kazakhstan both have a flat income tax rate of 13% and 11% respectively. Thus, the rich or poor pay the same proportion of their income to government.

A proportional tax system has two nice properties. First, taxpayers do not have to remit taxes to government; the person's employers automatically withhold and remit taxes to government. Only the employers submit paperwork to the government. Second, future tax payments are predictable. Each dollar a person makes,

he knows the exact percentage that goes to government. Hence, a proportional tax system would be the simplest, and the easiest to administer and enforce.

A proportional tax system has one large problem. Businesses can employ workers illegally. Employers can remit taxes to government for illegal workers by using tax ID's from legitimate workers. Legitimate workers may never find out because they do not have to verify their income with government.

A regressive tax rate is the average tax rate falls, as a person's income increases. For example, a sales tax on food is a regressive tax. If two families spend \$10,000 each on food per year and the sales tax rate is 10%, subsequently government collects \$1,000 from each family. If the first family has an income of \$50,000, then their average tax rate on food is 2%. If a second family has an income of \$10,000, then they a 10% tax on their food. Clearly, the tax hits poorer families harder.

The government imposes a variety of regressive taxes. Taxes to fund Social Security and Medicare are regressive taxes. The federal government stops collecting Medicare and Social Security's taxes once income exceeds \$110,100 per annum. Property, excise, and sales taxes are also regressive taxes, because government does not use income to determine tax rates. Thus, these taxes hit the poor much harder than the rich. An excise tax is a tax on a specific good for a specific amount. Governments impose excise taxes on alcohol, tobacco, and gasoline. A sales tax is a percentage applied to a product's value, and applies to a broad class of goods sold in stores and retail establishments.

The tax code in the United States is much more difficult to analyze, because it is riddled with numerous exemptions and tax credits. A common rumor is the U.S. tax code is so complex; members of Congress hire accountants to calculate and file their tax returns. Ironically, these are the same imbeciles, who passed these tax laws! If the people who passed these stupid laws cannot understand them, then how people outside the tax profession understand them.

The current U.S. income tax system has three major shortcomings:

Shortcoming 1: Taxpayers have a difficult time in determining what their true tax burden is. If a family experiences a significant

change in income (or situation), it is very laborious to predict how much taxes they have to pay given all the exceptions and forms.

Shortcoming 2: Taxpayers may not claim all tax credits that lower their tax burden. For example, some taxpayers may be afraid to apply for tax credits, because they believe too many tax credits will trigger an audit. Further, to claim tax credits, taxpayers have to fill out complicated, confusing forms. On the other hand, taxpayers may abuse the tax credits. They broadly interpret the rules to lower their tax burden. Consequently, the U.S. tax system is unfair.

Shortcoming 3: Politicians help propagate complicated tax codes. It is a universal truth; everyone hates taxes. However, many U.S. politicians are career politicians, who favor the expansion of government. Their job is to hand out the most pork possible to their constituents, so they can be re-elected. To prevent public protests, politicians tend to pass small taxes on everything and keep inventing new taxes. Further, some clever politicians can make campaign promises to lower one tax, but then raise other taxes to make up for the short fall.

A problem of having a large number of small taxes leads to larger government bureaucracies, because government creates different bureaucracies to collect and enforce all these distinctive small taxes. Tax inspectors also spend their time scrutinize every tax credit or exemption for accuracy and errors. It would be simpler to have one (or two) tax agency oversees the collection of all taxes. For example, in some states like Texas, a school district, county government, and water utility district each has their own bureaucracies to collect their portion of property taxes.

One consequence of economic decline is government agencies with severe financial troubles may force their citizens and businesses to pre-pay future tax liabilities. (You think this would be illegal). In essence, pre-paying a tax gives government an interest-free loan. For example, the State of Michigan experienced budget problems since the 2001 Recession. Local governments force Michigan's residents to pay their property taxes this year, and the next five months of following year in advance [1].

Another example is the Federal Deposit Insurance Corporation (FDIC). The FDIC is experiencing financial problems since the 2008 Financial Crisis. As of November 2009, 120 banks failed, causing FDIC to lose approximately \$28 billion. The FDIC insures

bank deposits up to \$250,000 per depositor. This insurance is not voluntary, because government regulations force banks to pay this insurance. Consequently, FDIC requires banks to pay future insurance three years in advance [2].

The financial crisis hit the banks hard, and government is imposing more hardship. What happens if the U.S. economy does not turn around and start growing again? How far in the future is the government going to force its citizens to pay taxes?

Taxes Change Behavior

The politicians we elect into office have no understanding of the long-term consequences of their actions. When a legislator dreams up a new tax, or increases an old tax, the legislator believes the tax has no impact on human behavior. For example, the legislature and governor pass a new tax on red cars, because they believe red cars cause more accidents. If the state has 100 million red cars, then the tax base will not remain at 100 million cars. People and businesses will try to avoid this tax by driving non-red cars. This is a natural phenomenon. If government has its hand in your pocket, you figure a way to keep that hand from grabbing too much money. Furthermore, the court system would be bombarded with lawsuits over the color of red. Is maroon close enough to be considered red, and hence taxed?

Political leaders examine all the economic activity and industries in their jurisdiction, scheming on new ways to extract more taxes from their businesses and citizens. For example, the internet was placed under a microscope since the 2008 Financial Crisis.

Many internet businesses do not charge a sales tax for items sold to customers living in other states. Some states became aggressive towards the large internet companies, like Amazon. The state governments are trying to get access to customers' records and business transactions, although Amazon may not have a presence in that particular state. Moreover, some states went after their Indian tribes. Although Indian reservations retain their own sovereignty, people flock to the Indian reservations to gamble, and buy discounted gasoline and cigarettes. The states want their piece of this action.

Tax authorities continuously expand the scope and nature of taxes. For example, in St. Joseph County, Indiana, the government wants to impose a wheel tax. The reason is wheels put wear and tear on roads, and the government wants drivers to pay for it. The first problem is the state collects an excise tax on gasoline and diesel fuel that are used for building and maintaining highways. The second problem is the state imposes numerous taxes on vehicles. If you buy a car in Indiana, you pay the sales tax, a tag fee, a title fee, and emissions-testing fee. One unfortunate consequence is the wheel tax falls heavily on businesses that use semi-trucks. A semi could have anywhere from 4 to 10 wheels without a trailer. If the tax includes a trailer, then add another 4 or more wheels. Hence, this becomes another cost burden to businesses.

Taxes increase businesses' operating costs. Thus, businesses pass the cost onto their customers, reduce their profits, or relocate to another state or country with favorable tax codes. The worst-case scenario is the business bankrupts with the wheel tax being the final straw that broke the camel's back. For example, if St. Joseph County imposed a wheel tax on businesses, a business could circumvent the wheel tax by registering its trucks in Mexico, and incidentally employ cheaper labor. If a company does not operate in Indiana, then that company does not pay a variety of business taxes, and also does not employ people there who pay income taxes. Therefore, out-of-control taxes could cause more unemployment and lower tax revenues collections.

People may migrate to another state or country to reduce their tax burden. For example, the 2008 Financial Crisis hit many states hard, like California. Consequently, the politicians want to increase the tax on the wealthiest Californians. Unfortunately, California is next door to Nevada, which has no state income tax. If this tax passes, some millionaires could leave the state, taking their wealth and assets with them. The rich already pay more taxes than the poor, because federal and state income taxes are progressive. If the affluent Californians leave the state, then the State of California will increase other taxes to recover the lost tax revenue [3].

Large, excessive taxes create black markets, and lead to smuggling. For example, Michigan imposed the second largest tax on cigarettes in 1994, which increased the tax from \$0.25 per pack

to \$0.75. (Currently the tax is \$2.00 per pack [4]). Unfortunately, Michigan is next to Indiana, and Indiana has one of the lowest taxes on cigarettes. The tax created almost a \$0.50 difference per pack in retail price. What do rational consumers do, when prices are steep? They search for places where they can find bargains, like heading south to Indiana to buy their cigarettes.

The Michigan cigarette tax is foolish for four reasons:

Reason 1: The tax may cause some people to give up smoking, which politicians claim is their reason for increasing the tax. However, if all smokers stopped smoking, then government could not collect these taxes anymore. The 2008 Financial Crisis hit the states hard; the politicians are raising cigarette's taxes to make up for the lower tax revenue collections.

Reason 2: People from Michigan will buy fewer cigarettes in Michigan. Instead, they buy them from Indiana [5]. Tax revenue for Michigan may fall, if droves of people purchase their cigarettes outside of Michigan. Whether or not Michigan gains more cigarette tax revenues depends on the larger tax per cigarette pack versus the number of cigarettes bought in Michigan, which is the basis for the Laffer Curve that is discussed in this chapter.

Reason 3: Criminal groups get involved and smuggle cigarettes. Smugglers could earn large profits, when government artificially creates a \$0.50 per pack price difference [5]. Michigan does want to create jobs, so this will help.

Reason 4: This law creates more violators. Thus, Michigan will spend more money tracking, prosecuting, and incarcerating violators, who smuggle cigarettes into Michigan.

Another problem of a complex tax system is large businesses and corporations prefer complicated, incomprehensible tax codes, while small businesses are not large enough to hire tax specialists, or consult with attorneys. These specialists can be quite expensive. On the other hand, large businesses can absorb these costs by hiring specialists.

Some taxes, like an inheritance tax, could destroy small businesses. A small company is a proprietorship, and it is dissolved, when the owner dies. The heirs of the business have to re-organize or dissolve it, but they are required to pay the inheritance tax. For instance, the federal inheritance tax puts many

small lumber companies out of business, because the heirs liquidated the business in order to pay these taxes.

The politicians and leaders say the inheritance tax prevents the creation of a plutocracy. A plutocracy is a political system where the wealthy governs and controls the government. The inheritance tax has a severe flaw. Since corporations can theoretically live forever, they are not likely to pay an inheritance tax. Consequently, corporations garner wealth and bribe politicians with campaign contributions or gifts, like exotic vacations, scholarships for the children, or reduced mortgage payments. Maybe we need to coin a new word, corptocracy. The corporations indirectly govern the government by controlling the politicians and political leaders. Another good word is kleptocracy. A system of government where politicians and leaders steal everything they can get their hands on.

Our complex tax system has led to the creation of tax abatements. State and local politicians use tax abatements to attract new businesses to their area. New businesses invest in buildings and equipment, and hire workers. Moreover, new businesses revive blighted neighborhoods and create jobs. However, tax abatements have four problems.

Problem 1: Government acknowledges the taxes are too high, and temporarily lowers them to create wealth.

Problem 2: Tax abatements penalize businesses that were operating in the community without any tax abatements. Those businesses that remained loyal to their community and paid their taxes are at a disadvantage. New comers enter their market, and compete with lower costs from the tax abatement.

Problem 3: Businesses are encouraged to migrate around the country, looking for communities that give the highest tax abatements. Once the tax abatement ends, the business migrates to another community, searching for new tax abatements.

Problem 4: Small businesses unfortunately do not get these breaks, although small businesses are responsible for most the job growth in the U.S. economy. The politicians usually wine and dine the corporations.

The 2008 Financial Crisis added a new twist to tax abatements. Politicians are afraid of further job losses, because the staggering layoffs that occurred in 2009, and an unemployment rate frozen around 10%. Some businesses are demanding more tax breaks, or

they will close down and relocate to another community, taking the jobs with them. In 2012, the Sears Corporation and the Chicago Board of Trade demanded tax concessions from the State of Illinois, or they would leave the state, although the state has severe financial problems.

The Laffer Curve

The Laffer Curve is the relationship between tax rates and tax revenues, and imbeds consumers' behavior of consumers. When government increases the tax rate, two opposing effects occur. First, government collects more taxes from each item that is taxed. Second, a tax always causes a higher price. Consequently, consumers invariably decrease their consumption, when it is more expensive. Furthermore, consumers could evade the tax or change their circumstances to reduce the impact of a tax. Therefore, a tax increase always causes the tax base to decrease [6, 7].

When government increases a tax, a tax increase has one of these impacts:

1) When tax rates are low, a tax increase causes government tax revenue to increase. The government collects more revenue from a higher tax rate than the amount of revenues lost from the lower tax base.

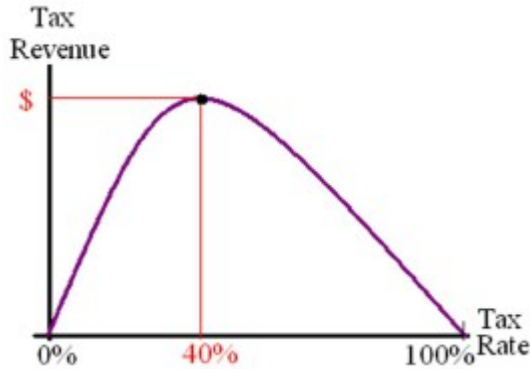
2) When tax rates are high, a tax increase causes government tax revenue to decrease. The tax base drops more, wiping out the gains from the higher tax rate.

No one knows the true shape of the Laffer Curve; it is a teaching tool for economics courses. Only two points are known on the Laffer Curve.

- If the tax rate is 0%, then the government collects zero tax revenues.
- If the tax rate is 100%, then the tax revenue is still zero. Nobody would work, if all their earnings went to government.

A Laffer Curve is similar to the Rahn Curve, which was discussed in Chapter 1. A Laffer Curve has an upside down U-shape, and only a particular tax rate maximizes government revenue. An example of a Laffer Curve is shown in Figure 1 and a tax rate of 40% would maximize tax revenues in this case.

Figure 1: An example of a Laffer Curve



Many bureaucrats and political leaders ignore the Laffer Curve. As government expands, government leaders always increase a tax or fee to increase tax revenue. However, they ignore the fact that high tax rates destroy a market economy, and reduce the underlining tax base. If politicians see tax revenues fall after a tax increase, then they always believe people are evading taxes, and cheating the government out of its money. Subsequently these same politicians expand their tax authorities, searching for these elusive tax evaders.

The effects of the Laffer Curve are seen on federal excise taxes on gasoline and diesel fuel. The tax rates are shown in Table 1, and the effective date is when the tax came into effect. President Roosevelt was the first President to impose taxes on gasoline, and used the tax revenue to construct the U.S. highway system. The President used highway construction to create public service jobs during the Great Depression. Table 1 has two clear patterns. First, tax rate increases occur more frequently towards the present time. Second, the tax hikes become larger over time. Furthermore, this table does not include the state excise tax, which averages about 6 cents per gallon.

Table 1: The Federal Excise Taxes on Gasoline and Diesel Fuel

Effective Date	Gasoline (cents per gallon)	Diesel Fuel (cents per gallon)
June 21, 1932	1.0	-
June 17, 1933	1.5	-
January 1, 1934	1.0	-
July 1, 1940	1.5	-
November 1, 1951	2.0	2.0
July 1, 1956	3.0	3.0
October 1, 1959	4.0	4.0
November 10, 1978	4.0	4.0
January 1, 1979	4.0	4.0
April 1, 1983	9.0	9.0
August 1, 1984	9.0	15.0
January 1, 1987	9.1	15.1
December 1, 1990	14.1	20.1
October 1, 1993	18.4	24.4
January 1, 1996	18.3	24.3
October 1, 1997	18.4	24.4

Source: Federal Highway Administration 1999 [8].

Some people are clamoring for higher taxes on fossil fuels to maintain the highway system and replace dilapidated, crumbling bridges and roads. However, Americans could construct our highway system when taxes were as low as one cent per gallon of gasoline. Any further increases in gasoline and diesel fuel taxes may cause revenues to fall even more.

The Laffer Curve was the basis of Reaganomics. President Reagan's economic plan was to lower tax rates during the 1980s. Consequently, the U.S. economy grew furiously. Although the average tax rates for the 'rich' decreased, the top 1% of income earners paid a whopping 43.9% more in taxes. A flourishing economy always causes tax revenues to increase, which help offsets the lower tax rates [7]. Many blame Reagan for the huge government deficits during the 1980s, and the rapid increase in U.S. public debt. However, during the 1980s, the U.S. economy had plenty of good-paying jobs with benefits.

Instability of State Government Finance

All state and local governments, except one state have balance budget amendments, which makes public finance more unstable. Common sense dictates a balance budget law should make government finance more stable. Where does this instability come from? Politicians are continually expanding government, but to meet this spending, more tax revenue has to flow to government. Consequently, the instability comes from the two states of the economy:

Growing economy: A growing economy lowers unemployment and raises incomes. More people employed coupled with higher incomes always leads to higher tax revenues. Unfortunately, politicians always spend this extra revenue. They spread the money around, greasing the wheels for their constituents. Thus, politicians are always increasing the size of government.

Recessions: A contracting economy increases unemployment and lowers incomes. More people are out of work, and falling incomes lead to lower tax revenues. However, politicians rarely decrease government spending or contract government programs. Further, laws prevent state and local governments to have budget deficits. Thus, politicians have to raise taxes to maintain government spending. Here is the source of instability. State and local governments always have a financial crisis during downturns in the economy. Then they raise taxes on a faltering economy.

For example, the State of New York rapidly increased government spending, when tax revenues from Wall Street were pouring into the state coffers before 2008. However, the 2008 Financial Crisis slowed down the financial markets, and bankrupted several large financial firms. Thousands of workers on Wall Street lost their jobs. Supposedly, New York State received 25% of its tax revenue from Wall Street. Consequently, New York State has a \$14 billion budget deficit for 2009-2010, and the state wants to tax everything and anything.

The U.S. real estate market was red hot between 2001 and 2007. Property values were quickly climbing. Thus, local government collected more property taxes, because property taxes are tied directly to a property's value. Local government officials

were awash with tax money and greatly increased the size of local governments, such as building new jails and schools, and hiring more police and teachers. The states with the largest increase in property values were Arizona, California, Florida, and Nevada. With the collapse of the housing bubble in 2007, these same states are experiencing the most severe financial problems in the nation.

State governments imposed individual and corporate income taxes in two waves. The first wave was during the Great Depression. Twenty-six states passed a combination of individual and corporate taxes during the 1930s, when our nation was in the midst of the Great Depression. The second wave occurred during the 1960s and 1970s, when seventeen states imposed income and/or corporate taxes. In the early 1970s, the Organization of Petroleum Exporting Countries (OPEC) withheld petroleum from the United States, causing petroleum prices to spike. Unfortunately, petroleum is used in almost all products, such as gasoline, diesel fuel, jet fuel, plastics, fertilizers, and much more. Consequently, higher petroleum prices caused all prices throughout the economy to increase, creating a supply shock and a recession. During a recession, tax revenue falls, which hurts the state government. States are determined to survive, and they created income and corporate taxes to overcome falling tax revenues.

Do you need more examples? Many states legalized lotteries, as a means to increase tax revenues. The politicians claimed the lottery would fix funding for education. The funding always helped until the next downturn in the economy. Then a state government invents new tax sources to make up for shortfalls in a budget. Government is too stingy to make cuts or impose financial restraints on itself.

State governments also have financial instability on their expenditure side. The federal and state governments finance a variety of social programs to help the elderly, poor, disabled, unemployed, and students. The source of the instability comes from the two states of the economy:

Growing economy: Jobs are more plentiful and easy to find. Consequently, people collect less unemployment, food stamps, welfare, and state health insurance, which reduce government expenditures. Unfortunately, politicians never save this money.

They may reduce eligibility for state aid or expand other social programs.

Recessions: Jobs are scarce and hard to find. Therefore, states spend more on social programs, as people collect more unemployment, food stamps, welfare, and other aid. A recession can bust budgets, and the politicians usually tighten the requirements for these programs. Thus, states increase taxes to reduce their budget deficits. Increasing taxes during a recession slows down the recovery.

Property Taxes versus Income Taxes

Many people and organizations argue for the elimination of state income taxes. Their argument hinges on seven states that do not currently have an income tax. The states are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. They believe, if a state eliminated the income tax, the state would grow faster and create more jobs. This premise can be verified by examining the state’s economic data, which is shown in Table 2.

Table 2: 2008 State’s Economic Characteristics

State	Tax Burden (%)	State Real GDP (\$ per capita)	State Real GDP Growth Rate (%)	Unemployment Rate (%)
Alaska	6.3	62,243	8.9	7.7
Florida	9.2	35,321	-3.7	10.4
Nevada	7.5	41,418	-6.7	11.6
South Dakota	7.6	43,596	0.6	5.2
Texas	7.9	42,807	0.5	7.5
Washington	9.3	44,896	-2.4	10.2
Wyoming	7.8	61,214	9.8	6.3
Average	9.8	41,808	-2.5	9.3

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; and The Tax Foundation.

The first statistic is the Tax Burden, which is the percentage of income that goes to the state and local government. Federal income taxes were excluded, because high-income states, like Massachusetts, pay more federal income taxes as opposed to other

states. The average tax burden for state and local governments in 2009 was 9.8%. The seven states without state income taxes have a lower tax burden.

The second statistic is the State's Real Gross Domestic Product (GDP). State GDP is the total amount of goods and services produced in a state for a year. Real means the effect inflation was removed. Furthermore, growth in GDP means the state's economy is larger, and GDP was adjusted for a state's population, defined as GDP per capita. The average state GDP in 2009 was \$41,808 per capita. All states have a higher GDP per capita than the average except Florida and Nevada. These two states were hit hard from a tsunami wave of foreclosures and high unemployment.

The third statistic is the state's real GDP Growth Rate, which measures the percentage increase of the state's economy. The average state real GDP growth rate was -2.5% in 2009. All the states in Table 2 have a higher GDP growth rate than the average, except Florida and Nevada.

The last statistic is the Unemployment Rate, which is defined as the percentage of workers who are unemployed, and actively searching for work. The average unemployment rate was 9.3% in 2009. The states, Florida, Nevada, and Washington, have higher unemployment rates than the average. One has to be careful, because people migrate to the more business-friendly states, which are the states with no state income taxes. Moreover, if a jobless person gave up his job search, then he is no longer considered unemployed, and not counted in the unemployment statistic.

The data suggests that five out of seven states with no income taxes are doing better than the national average. However, 2009 was over one year into the Great Recession. If previous years are examined, then this relationship is weaker, because a recession challenges the strength of a state's institutions.

Three factors weaken the relationship between no income state taxes and economic growth. First, the average tax burden of the U.S. government was 26.6% in 2009, which is much higher than the states' tax burden. Second, Texas imposes a franchise tax on its businesses within the state, while Florida imposes a corporate tax. A corporate tax is a tax on a corporation's income, while a franchise tax is a tax on any businesses' income. Finally, states

with income taxes rely on fines, fees, and property taxes, which are regressive taxes. Thus, the poor and the elderly are impacted more.

Property taxes are very regressive taxes. For example, the State of New Jersey is one of the most heavily taxed states with the highest property taxes in the nation. Property taxes average approximately \$8,000 per annum on a house [9]. Someone on a fixed income will have to come up with at least \$666 per month just to pay his property taxes. This is insane!

A property tax is an inherently unfair tax. Property taxes are based on housing market values, and one or two homes selling in the neighborhood establishes the market value for everyone else. Then the tax authority uses formulas to apply this market value to all other homes in the neighborhood. The problem is houses are unique, and vary in condition. Some homes are new, while others are left to deteriorate.

Property taxes are detrimental to industrial properties. The local government taxes all the land, buildings, machines and equipment. Then a bureaucrat determines the market value of large industrial machines. How do you place a market value on a 20-year old, 10-ton press? Furthermore, property taxes are tied to a property's value, and not a company's profits. Companies earning a loss still pay property taxes. At least with an income tax, a company earning a loss would have a lower tax burden. Thus, property taxes put an industrial complex at a severe disadvantage.

The 2007 Great Recession will have an interesting impact on property taxes. As of 2012, all housing market values are in free fall. Thus, in theory, property taxes should also be falling, which means local governments should be losing tax revenue.

Local governments will do one or more of the following to prevent property taxes becoming lower:

First: Homeowners go through a process to dispute the value of their homes with the tax authorities. Local government may make the process more difficult. Unfortunately, at the end of an appeal process is a court. County courts are financed through county governments that rely heavily on property taxes. Thus, county courts have a financial incentive to keep property appraisals high.

Second: Local governments could raise the tax rates on property values. For local governments that are at their maximum constitutional tax rates, they could invent new taxes and fees.

Third: If homes are not selling in your neighborhood, then you have no proof that home values are declining. The homeowner has to concretely prove his home's value if his property's value is lower than the government's assessed value.

Fourth: Some local governments are ignoring the selling price of a foreclosed house. With foreclosed homes being discounted by 30% or more, local governments claim these sales are special cases.

Some states like California, Idaho, Massachusetts, and Washington use the home's last selling price to determine a house's value. This could be a good system, especially for the elderly who bought their homes 30 years ago. However, homeowners who purchased a home at the peak of the housing bubble are locked into high property values. The only way to escape these high property taxes is to buy a new house for a lower value [4].

Thus, a government has a higher financial exposure during downturns in an economy, if it relies on numerous tax sources. For example, one state government has several small taxes, while another state has many taxes. When the economy enters a recession, the lower economic activity harms the state government more with the numerous taxes, because that government experiences more declines across all its revenue sources. This helps explain why states with no income taxes, in general, are in better financial shape.

Conclusion

Capitalistic societies go through a life cycle. If a country has a capitalistic system with strong private property rights and minimal interference from government, it becomes richer over time. A strong, rich society expands the tax base, and government is awash with more money. As government spends the tax revenue, government creates new bureaucracies, or expands old ones. Consequently, a strong economy and expanding government create a large number of good-paying jobs. However, overtime,

government keeps expanding regulations and increasing taxes. Eventually too many regulations and taxes are detrimental to the economy, causing incomes and business activity to fall. The problem is government does not decrease the size of its government, even if population is decreasing, or people are fleeing. Then government gets into this cycle of increasing taxes to make up for lower tax collections, causing society to stagnate and crumble.

The life cycle occurred in two southern states, Louisiana and Oklahoma. During the early 1980s, the Organization of Petroleum Exporting Countries caused the petroleum price to increase significantly. As non-petroleum producing states were in a recession, the petroleum producing states, Louisiana and Oklahoma, were thriving. The petroleum industry created jobs and caused a large flow of tax revenue to the state governments. Then the states expanded their education system, expanded state government, and built massive prison systems. When the oil price went bust in late 1980's, these states did not reduce the size of their governments. Instead, they relied on a variety of tax increases to sustain their high-level of government spending that remain in effect today.

The life cycle occurred in the U.S. economy on a large scale. The U.S. economy shifted from an industrial society to a service-oriented one. Our politicians claim our tax systems are antiquated and obsolete. The tax system needs to be updated, because they are based on a manufacturing economy and not a service oriented one. Their reason is many types of services are exempt from taxes. Our politicians have one flaw in their reasoning. Maybe the U.S. manufacturing sector left the United States, because of all the taxes (and regulations), while the service-oriented sector prospered under low taxes. A government subjects a manufacturing company to all these taxes:

- **Income taxes:** A business pays federal, state, county, and city income taxes. These taxes vary by jurisdiction.
- **Corporate Tax:** The United States imposes separate taxes on corporations. The tax rates vary from 15 to 35% [10], which

is one of the highest in the world. A corporation may file for various tax credits to reduce its tax burden.

➤ **Social Security and Medicare taxes:** Employees pay approximately 6% to Social Security, and approximately 1% to Medicare. These are matching taxes because employers match the amount paid by employees.

➤ **Property taxes:** Government levies property taxes on land, machines, equipment, and buildings: High-tech and capital-intensive industries are taxed heavily through property taxes.

➤ **Workers' disability compensation:** States determine the insurance rates. This is a tax because this insurance is administered by the state and not voluntary.

➤ **Unemployment insurance:** States determine the rates. Again, the state forces employers to pay this insurance and administers this program. This really is a tax.

➤ **Mandated benefits:** Businesses are required to provide benefits like medical insurance and pensions to full-time employees. Thus, many service-oriented businesses rely on part-time labor to avoid paying these benefits, reducing their costs.

A manufacturing company can avoid these taxes, or pay lower taxes by moving to China. Furthermore, China has cheap labor and lax regulations. One of the largest corporations in the world, Wal-Mart, can compete with everyone in price with its cheap Chinese products.

References

- [1] McHugh, Jack and Steve Stanek. November 1, 2004. "Shift-and-Shift' Tax Proposal Ekes out Win in Michigan." *Budget and Tax News*. Available at www.heartland.org (access date: 01/04/2010).
- [2] Gordon, Marcy. November 13, 2009. "Banks will have to prepay insurance fees." *The South Bend Tribune*.
- [3] Chamberlain, Andrew. June 12, 2006. "Is California's Tax Base Preparing to Flee?" *Tax Foundation*.

- [4] Christie, Les. October 14, 2008. "Home prices may plummet, but taxes won't." *CNN*. Available at www.cnnmoney.com (access date: 10/15/08).
- [5] Mumford, Lou. February 13, 2004. "Michigan stores fear smokers will head south." *South Bend Tribune*.
- [6] Becsi, Zsolt. 2000. "The Shifty Laffer Curve." *Economic Review – Federal Reserve Bank of Atlanta* 85(3): 53- 64.
- [7] Laffer, Arthur B. June 1, 2004. "The Laffer Curve: Past, Present, and Future." *The Heritage Foundation*. Available at www.heritage.org (access date: 3/23/07).
- [8] Federal Highway Administration. September 1999. Federal Tax Rates on Motor Fuels and Lubricating Oils. Washington, DC: U.S. Department of Transportation, Table FE-101A. Available at <http://www.fhwa.dot.gov/ohim/hs98/tables/fe101a.pdf> (access date: 8/14/06).
- [9] Summers, Pat. June 5, 2008. "Homeowners Demand Tax Reassessments As Market Values Plummet." *eFinanceDirectory*.
- [10] Internal Revenue Code. 26 United States Code 11. Available at http://www.law.cornell.edu/uscode/html/uscode26/usc_sec_26_00000011---000-.html (access date: 1/30/2012).

6. Corrupt Police and Kangaroo Courts

“When men are pure, laws are useless; when men are corrupt, laws are broken.”

-Benjamin Disraeli

The traditional role of police is to protect and serve the public. However, local and state governments changed the role of its police force. Government is encouraging police to write and issue more citations, and tickets for the pursuit of revenue. Political leaders assure us that police do not have quotas, and issuing tickets is a money loser for government [1]. Nevertheless, why do police write citations or arrest people for silly infractions of the law? Some examples are:

Example 1: In Washington, D.C., the police arrested a woman for eating a candy bar in the subway [2].

Example 2: Police in Georgia wrote a citation to a woman for operating a vehicle without a driver’s license. The woman has cerebral palsy, and drives her electric wheelchair to work on the shoulder of a road. The police also threatened to impound her wheelchair [3].

Example 3: In New York City, police issued a citation for a pregnant woman sitting on the steps in a subway [1].

Example 4: In Galveston, Texas, code enforcement issued citations to restaurant owners for displaying the hours of operation, because this violated historic preservation ordinances.

Example 5: On December 3, 2005, Charles Atherton was walking across a street and was hit by a car in Washington, D.C. The impact was so strong; he was knocked out of his shoes, and his head hit the windshield. As he lay there waiting for the ambulance, a policeman wrote Charles a \$5 jaywalking ticket. The police claimed he was conscious, and he was not on the cross walk [4].

These examples illustrate the police are more aggressive, and they write tickets for minor offenses. The reason is city, state, and the federal government keeps hiring more police officers and agents. If no criminals are committing crimes, then police cannot sit around and wait. Their job is to arrest people and write tickets.

Thus, each person sitting in a jail cell or each ticket sent to a court is proof that police officers are working.

The criminal-justice system, unfortunately, does not care if the violations are minor. Moreover, the criminal-justice system can easily classify minor crimes as serious ones. For example, police and prosecutors have charged people for assaulting a police officer, because they growled at a police dog. Even an Ohio appeals court ruled that barking at a police dog is not illegal [5].

Why do local, state, and federal governments keep increasing the number of agents and police officers? First, these government agencies keep passing laws, and someone has to enforce those laws. Government officials want complete, total compliance to their laws, although they are likely to violate their own laws. Thus, the more rules a society has, the more these rules will be broken [6], which necessitates the need for a state to hire a large group of police and enforcers. Second, the media focuses on crime daily, scaring the public. The public believes crime is increasing, while, in fact, violent crime has been decreasing since the 1990s.

Some examples of expanding the size and scope of laws are:

Example 1: The police arrested an 80-year-old woman for feeding ducks in Lynn, Massachusetts. The elderly woman violated a city ordinance, although she has been feeding the ducks for 45 years [7].

Example 2: The states created the food police, who threaten, harass, and arrest people, who grow and sell organic foods, and donate food to the homeless. Staff at a school in North Carolina confiscated a girl's lunch that was brought from home in 2012. The girl was forced to eat the processed food in the cafeteria [8].

Example 3: The City of Canton, Ohio, passed a new law, where the city can incarcerate its citizens for not mowing their lawn. A second violation of tall grass becomes a misdemeanor [9]. How is the city going to enforce this law? Are police officers going to measure the height of everyone's grass? Of course, the enforcement officers probably will avoid the poor neighborhoods, but patrol heavily the middle-class neighborhoods. The middle class is more likely to pay the fines, while the rich people may have strong connections to the political leaders, and will complain about police harassment.

Example 4: In 2000, the State of Oklahoma expanded the definition of drinking under the influence (DUI). For instance, if an intoxicated person walks home, and has his car keys in his pocket, then the state can charge him with DUI. The possession of car keys implies a person intended to drive drunk. If a person does drink too much, then the best thing for society is for that person to walk home and not drive, but Oklahoma is one of those states that like to incarcerate its citizens.

Contrary to what government officials say, government does not lose money for writing tickets or arresting people. First, government collects taxes to pay for police officers, prosecutors, judges, jails, and prisons. These expenses are already paid. Second, any money collected for fines or fees is extra money for government. City and state governments vary where this money goes. The money could be deposited into general fund, or to pay for new police equipment. Of course, some states like Louisiana, Oklahoma, and Texas built massive prison systems, which require enormous amounts of funding.

In one extreme case, the police in Tenaha, Texas are highway pirates. The police pull over unsuspecting motorist, and charge them with a crime. Prosecutors agree to drop the criminal charges, if the motorists agree and waive their right to their property. The police seize cars, jewelry, cash, cell phones, and sneakers. The mayor, George Bowers, defended the actions of the police by stating, "It's always helpful to have any kind of income to expand your police force." The mayor wants additional money to add a second police car, and expand the police department [10]. Then you know what comes next. More police means they can pull over more motorists, and seize more property.

The crowning achievement of our criminal-justice system was the arrest of George Norris, who was arrested for importing and selling banned orchids. However, he did not break the law, because his orchids were not on the ban list. Nevertheless, the federal government spent months investigating George, and dispatched a team of armed agents to search his home and business. Instead of apologizing to him, the federal government sent him to a federal penitentiary for mistakes in his paperwork. The judge stated, "Life sometimes presents us with lemons... turn lemons into lemonade" [11].

The orchid case caused a small public outcry of the over-criminalization of our laws. We are subjected to many laws that are open to broad interpretation. Consequently, many Americans could be imprisoned for breaking any of these laws.

The Race to Incarcerate

A problem evolves when a country's laws, rules, and regulations become too numerous and complicated. Consequently, the government finds more people violating the law. Of course, the United States uses incarceration to punish people, and incarceration rates have skyrocketed by 500% since the 1970s. Several states adopted themes like "get tough on crime," the "war on drugs," and "three strikes, and you are out," causing incarceration rates to surge [12]. These catch phrases and slogans suggest states are in a race to incarcerate.

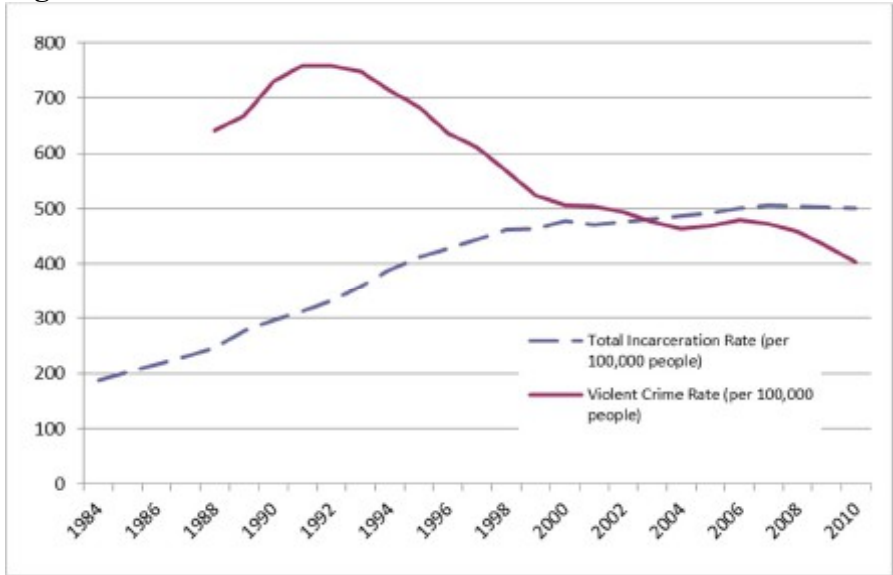
The incarceration and violent crime rates are shown in Figure 1. The graph shows the federal and state governments are incarcerating more people, while violent crime is decreasing. The incarceration rate is the number of prisoners serving time in federal and state prisons, and county jails. The violent crime index is the total number of murders, manslaughter, forcible rapes, robberies, and aggravated assaults. Both rates are adjusted for changes in population, and are expressed as per 100,000 persons. Furthermore, note that the incarceration rate does not include defendants sitting in jail, waiting for their trial.

The purpose of incarceration is to improve society by removing individuals, who severely violate society's rules. Originally, a prison was a place for criminals to think about their crimes, and ask god for forgiveness (penitent is the root word for penitentiary). However, prisons evolved into warehouses that store malcontents and felons. Several states sponsor psychological treatment for inmates, and/or offer a chance to complete a college degree. Nevertheless, these programs do not work, because the recidivism rate is approximately 67%. Thus, on average, seven inmates out of 10 will return to prison [13].

Why do the federal and state governments lock people up? It is not a vast conspiracy! The jobs of police, judges, and prosecutors are to locate, convict, and incarcerate people. Like everyone else,

they want job security and higher wages. If the police arrest fewer people, prosecutors file fewer dockets, and judges hear fewer cases, then these government workers cannot go to the legislature, and ask for more funding. If the amount of work the criminal-justice system does is decreasing, subsequently their funding should decrease. For the criminal-justice system to keep expanding, they must arrest, prosecute, and incarcerate more people, so they can beg more money from the legislature. Thus, Parkinson’s Law applies to the criminal-justice system too.

Figure 1: The U.S. Incarceration Rate versus the Crime Rate



Sources: Bureau of Justice Statistic and Federal Bureau of Investigation

Society pays a large cost, if it incarcerates a large number of people. The total costs are:

- The state pays for the incarceration with tax revenue. The average cost of incarcerating a person is \$23,876 per year in 2005 [14].
- The criminal-justice system removes a potential taxpayer from society. This person is no longer earning wages and

paying taxes. The key word is potential because some criminals are deadbeats who do not work.

- Government diverts public funds from other programs like education and social programs. Thus, prisons and the criminal-justice system compete against other government agencies for tax dollars like schools, parks, universities, and food stamps.

The 2009 incarceration rates are shown in Table 1 for the states that have the five highest and five lowest incarceration rates. The average incarceration rate in 2009 for the United States is 442 per 100,000 persons, which excludes the federal government. Unfortunately, the states with the highest incarceration rates have a low portion of their population with a high school diploma or higher, except Oklahoma. Furthermore, the highest incarceration states have the lowest school funding per pupil, except Louisiana. The pattern is the opposite for states with the lowest incarceration rates. These states have a higher portion of citizens with a high school diploma, and higher, except Rhode Island, and have higher funding per pupil except North Dakota.

Table 1: 2009 Incarceration Rates versus Public School Funding

State	Incarceration Rate (per 100,000)	High School Graduates or more (% population)	School Funding (\$ per pupil)
<i>Highest Incarceration Rates</i>			
Alabama	650	82.1	9,321
Louisiana	881	82.2	11,413
Mississippi	702	80.4	7,814
Oklahoma	657	85.6	8,249
Texas	648	79.9	9,143
<i>Lowest Incarceration Rates</i>			
Maine	150	90.2	14,576
Minnesota	189	91.5	11,663
New Hampshire	206	91.3	13,130
North Dakota	228	90.1	10,805
Rhode Island	211	84.7	16,127
Average	442	85.3	10,905

Sources: Bureau of Justice Statistics and 2010 Statistical Abstract of the United States

This pattern is weaker for higher education, which is shown in Table 2. States with higher incarceration rates have fewer college graduates, as a percentage of its population, while the states with the lowest incarceration rates have a higher percentage of educated citizens. However, state college funding is a paradox. The states with the highest incarceration rates have higher-education funding, which is greater than the states' average except Alabama, while the lowest incarceration states have college funding that is lower than the average, except North Dakota. One answer to this paradox is states with the highest incarceration rates have fewer full-time college students, so they can fund higher education at a higher level.

Table 2: 2009 Incarceration Rates versus College Funding

State	Incarceration Rate (per 100,000)	Four Years of College or More (% of population)	College Funding (\$ per full-time student)
<i>Highest Incarceration Rates</i>			
Alabama	650	22.0	5,574
Louisiana	881	21.4	6,567
Mississippi	702	19.6	6,473
Oklahoma	657	22.7	6,914
Texas	648	25.5	7,622
<i>Lowest Incarceration Rates</i>			
Maine	150	26.9	6,331
Minnesota	189	31.5	5,957
New Hampshire	206	32.0	3,229
North Dakota	228	25.8	6,525
Rhode Island	211	30.5	5,250
Average	442	27.9	6,454

Sources: Bureau of Justice Statistics and 2010 Statistical Abstract of the United States

A problem that compounds the incarceration rate is state governments built too many prisons. When a state builds a brand-new prison, then the state officials believe it has an obligation to fill it. Otherwise, the taxpayers would be furious, if the state wasted funding on a new empty prison. In order to fill these prisons, the criminal-justice system may incarcerate innocent

people, or minor crimes become elevated into major ones, requiring prison sentences. This problem repeats itself for many county governments, because counties are continuously building new jails and facilities, and they quickly become overcrowded.

Why are states building so many prisons? It cannot be the violent crime rate, which was falling since the early 1990s. State governments are building more prisons, because politicians do not want to appear soft on crime. Furthermore, states want economic development. Opening a new prison in a small, stagnant community could cause an inflow of federal and state dollars, thus providing jobs and economic growth.

Prisons, however, may not contribute to local economic growth or create few jobs in a community. Prison supplies are specialized, and are not usually provided locally. Moreover, prisons hire a limited number of guards, and local governments may divert funding from other public investments, because they have to invest in roads and utilities for the prison [15]. Therefore, prisons may not be a good source of economic development for a small community.

Administration of Justice

The police are the first contact with the criminal-justice system. They investigate crimes, arrest perpetrators, and provide critical information to the judges and prosecutors. Thus, a natural question arises. If police are protecting the public, why do police sometimes violently attack innocent citizens? The following is examples of police brutality:

Example 1: Three policemen beat up a retired, black school teacher in New Orleans, Louisiana in October 2005. Police even threw one bystander onto a car, because he was filming the incident. The retired schoolteacher was charged with public intoxication, battery on a police officer, and resisting arrest [16]. The videotape clearly shows the schoolteacher on the ground, as four police officers violently kicked and struck him.

Example 2: In a small Louisianan town, a white cop tasered a 240-pound black man nine times, although the defendant was handcuffed. The officer claimed the man did not move fast enough. The police chief responded by saying the officer could either let

him free, taser him, or shoot him. Tasing was the best option, because officers do not let criminals go [17]. Is the police chief stupid? Tasers shoot out probes that stick to a person's body, and jolt suspects between 20,000 and 150,000 volts of electricity [18]. How fast could you move, if you were tasered multiple times?

Example 3: Brothers were filming sheriff deputies in 2002, as they raided a neighbor's house in Houston, Texas. Apparently, the deputies did not like being filmed, so they charged into that family's house with guns drawn, threatening to shoot the brothers, and they took the videotape. The deputies arrested the brothers who filmed them, and charged them with resisting arrest. The police even destroyed the tapes. Luckily, the falsely arrested brothers settled a lawsuit from Harris County for \$1.7 million [19]. Harris County Sheriff's Department was so angry over this lawsuit that they put the brothers under police surveillance. The public became enraged, and the Sheriff's Department had to disband their surveillance unit [20, 21].

Does it matter that citizens are photographing or videotaping the police? If the police are doing their duty and the right thing, then a videotape only enhances their actions. Unfortunately, police abuse will become worse, because courts and government are removing the checks on police power.

The legislatures are passing more laws, transferring more power to the prosecutors and the police. With this transfer of power, police can more easily arrest a person for minor violations, or trump up false charges. Each time a police officer attacked a citizen; the citizen is automatically charged with resisting arrest.

The politicians and bureaucrats assure us that they are protecting the public, but national security, and public safety are ancient arguments for government to take over its society, creating a police state. Remember that old adage – power corrupts and absolute power corrupts absolutely. As the criminal-justice system gains more power, you can definitely count on more and more abuse by our judicial system and police.

Government and courts continually expand police powers over time. For example, forty years ago, all states had no seat belt laws. Drivers and occupants could decide whether they wanted to wear a seat belt or not. Then legislators and governors passed seat belt

laws, because wearing seatbelts increases the chances of a person surviving a car accident.

On the surface, this seems like the government cares for its people by protecting them. However, seat belt laws have a hidden agenda. First, the police can write citations for not wearing a seatbelt, providing another revenue stream for government. (Of course, the court system seems more interested that you pay the seat belt fine rather than be concerned for your well-being). Second, one person in a car, who is not wearing a seatbelt gives the police the power to pull that car over and investigate them. Then police can determine, if the occupants are violating other laws. In the old days, we educated people about the benefits of using seatbelts, and then gave them free choice, whether they wanted to use them or not.

Consequently, courts a poor job in keeping police powers in check. Several reasons explain this.

Reason 1: Courts are bloated bureaucracies that need and consume financial resources. It takes time for the police to write reports; it takes time for the prosecutor to review the report, and it takes time for a judge to review a case. All this time is expensive! If a judge acquits a defendant, the judge has no basis to collect fines. Furthermore, it does not look good for the criminal-justice system to have a large percentage of cases where the defendants were acquitted. How could the criminal-justice system keep asking the legislature for more money, if they are arresting innocent people?

Reason 2: The press and news give society a false impression that crime is rampant and increasing. Judges must find the defendants guilty, so they do not appear weak and soft on crime.

Reason 3: Courts are like factories. Each day, the sheriff's deputies round up defendants and bring them in front of the judge, like cattle at the slaughterhouse. With the dockets full, it is easier to get defendants to plead guilty, and send them to the numerous agencies, like probation office, counseling programs, and forced volunteer work for non-profit agencies.

Reason 4: In small communities, the municipal court, prosecutor's office, and police are housed under the same building. They see each other daily, and may even be friends outside of city

government. Defendants are outsiders, and have to be found guilty of their crimes.

Municipal and county courts usually rule in favor of the enforcement agencies. It does not matter if the police lied, withheld evidence, or violated a defendant's rights. The courts tend to excuse an officer's behavior. If the police are never punished for lying, withholding evidence, or violating defendant's rights, then nothing keeps an abusive police force in check. Numerous cases bring this fact to life:

Case 1: The City of Houston's Police Crime Lab was plagued with problems. The federal government closed the DNA section of the lab in 2003, because 93 cases had "serious issues." Investigators also found problems with analysis of firearms, narcotics, and body fluid. The investigators placed the blame on incompetent lab technicians, and the need to tailor reports to find defendants guilty [22].

Unfortunately, a defendant could spend thousands of dollars to re-test the evidence. Thus, shoddy, fraudulent lab work would rarely be exposed in most court cases. This is not an isolated problem. Problems were found with the City of Oklahoma City Crime Lab, FBI Crime Labs, and state crime labs for California, Florida, Illinois, Montana, and Washington [23].

Case 2: In Tulia, Texas, one law enforcement officer wanted an excellent arrest record, and who is a racist, thief, and liar. He arrested 43 minorities, claiming the minorities sold him cocaine. The officer had no evidence other than his word. The minorities received harsh sentences, and the officer even received the Texas Department of Public Safety's 1999 Outstanding Lawman of the Year.

Cracks started to appear in the officer's story, because judges dropped charges against five defendants. When the drug sales occurred, two defendants were at work, one was in another state at a bank, and the other two had inaccurate descriptions. Eventually, Rick Perry, the Texas Governor, pardoned the 35 minorities, and the defendants settled for a meager, lump sum of \$250,000, agreeing not to sue the county government [24, 25].

Case 3: In Berwyn Heights, Maryland, the mayor came home and saw a package on his porch. He carried the package into his home, and seconds later, the SWAT team crashed through the

mayor's front door and shot his two dogs. Unfortunately, someone mailed a box containing 32 pounds of marijuana to the mayor's house [26].

Case 4: In Dallas, Texas, a drug informant planted cocaine into people's vehicles. However, the cocaine was crushed sheetrock. Fifty-nine people with Mexican descent were charge with drug charges. Several defendants took plea deals, and some were deported, until two defense attorneys uncovered the truth, and tested the substances for cocaine [27].

Case 5: My personal favorite is undercover detectives chopped up macadamia nuts, because they look identical to crack-cocaine. Then the detectives sold the chopped nuts to drug users. Consequently, judges imposed harsh, long prison sentences for cocaine offenses. Unfortunately, the key word for convictions is intent and not reality. Although possession of macadamia nuts is not illegal, the buyers thought they were buying cocaine [28]. Thus, the taxpayers paid the bill to lock up these criminals for buying nuts.

These cases are not isolated, independent examples. The criminal-justice system has convicted innocent people for various crimes throughout the United States. Some of the cases above came from police task forces. A task force involves several police agencies that form around particular crimes, usually drug trafficking and prostitution rings.

The problem is a task force receives funding from the United States government and from property seizures. Thus, a task force has to show results. That is why forming these task forces are dangerous! If a task force forms to find drug traffickers, then agents have to find drug traffickers. Otherwise, a failed mission jeopardizes federal funding and a failure to the government agency [27]. Sometimes, police officers find it is easier to fabricate evidence, and convict innocent people than admit a public failure.

Innocent defendants can appeal against their fraudulent convictions to a higher court, because every defendant has the right to an appeal. However, the government does not tell you it takes time and money. Appealing a wrongful conviction could easily cost a few thousand dollars, and take several years. The reason why Tulia, Texas ever came to the spot light was the intense

scrutiny caused from articles from *The Texas Observer* and *Time* magazine.

Another problem is states release criminal records, and a fraudulent conviction still shows up on a person's criminal record. It shows a person's charge, outcome from court, and any appeals. A criminal record will never state the police fabricated evidence, or a judge railroaded a person to prison. Wrongful convictions can trail a person for the rest of his life.

Judges will not hesitate to throw innocent people into jail, but they will play favorites, and exonerate fellow members in the criminal-justice system. For example, a judge in Cleburne, Texas threw out the blood-alcohol test results for State District Judge Elizabeth Berry. The judge ruled that police did not have sufficient evidence to search this judge, although she drove 27 MPH above the speed limit, had numerous, empty beer cans in her car, and her breath wreaked of alcohol. Consequently, the charges were dropped because the lack of evidence [29]. If a regular citizen did this, they would rightly spend time in jail.

State Protection of Children

All states have laws to protect its children, because some parents abuse their children. Thus, the state should intervene, and possibly remove the children.

Many decent, loving families, however, had their children removed from their care, because caseworkers cannot distinguish between true child abuse, or alleged cases of child abuse. Any vindictive, bitter relative or acquaintance can falsely report child abuse to a hotline, and a caseworker must investigate this allegation. Furthermore, the state never releases the callers' identities. State child-abuse hotlines received 3.3 million reports in 2005, and most reports were found not to be true. Parents were reported to the state for spanking children, home schooling, or an accidental injury [30].

Four factors cause child-protective services to be aggressive with parents.

Factor 1: Parkinson's Law also applies to the child-protective agencies, because they employ a large number of professionals, like caseworkers, lawyers, and therapists [30]. For these

professionals to keep asking for more funding, they have to process more cases. Hence, more and more children are in need of services.

Factor 2: States leverage funding from federal government. Each case the state processes, the federal government reimburses the states for some of their costs. Thus, a state's strategy is to maximize the number of child abuse cases, and therefore the cash flow from the federal government [30].

Factor 3: The state enters the names of suspected parents into a state database for child abuse. If parents are entered into this database multiple times, then the state could automatically take custody of the kids, even if there is no proof of child abuse.

Factor 4: Child-protective services, and its courts have poor oversight [30]. Since child abuse involves children, many of the standard criminal rights are thrown out the window. Parents are not allowed jury trials, or question children on the stand. Furthermore, the judges seal the court records, and their decisions are hidden from public scrutiny. In extreme cases, caseworkers can coax, or trick children to say anything on video camera. Then the videotape is presented as evidence, which cannot be cross-examined by the defense.

The current system is not necessarily bad, as long as the judges, caseworkers, and therapists are honest, and truly want to help families. Then judges are not likely to take custody of children for false allegations. However, greed and Parkinson's Laws still apply. The following cases illustrate this point:

Case 1: Two judges in Philadelphia received payoffs from a private youth detention center. The two judges received \$2.6 million, and sentenced juveniles for minor offences to long terms in this youth treatment facility [31]. Youth detention centers charge government at least a \$100 per day.

Case 2: Many blogs on the internet complain about abuse from child-protective services. For example, child welfare investigators in one county, Contra Costa County, California, supposedly terrorized families. Once a family appeared on the radar screen, investigators would continuously harass them.

Government will punish a government agency, if the public protests loud enough. For instance, Contra Costa County had a financial crisis in 2008, and many families appeared at the county

hearings, and complained loudly about Child-Protective Services. Consequently, the county commissioners decimated this department, laying off 75 caseworkers. However, the county decimated other departments too in 2008.

Conclusion

The sad truth is public officials are so worked up over crime, and the need to pass laws, and hire police officers; they literally destroyed their budgets. For example, Vallejo, California has a population of 120,000 and is located near San Francisco. The city filed for Chapter 9 bankruptcy, because city officials cannot control their spending. The city has an operating fund of \$87 million with police and fire departments comprising 75% of the city budget [32]. Consequently, politicians and bureaucrats will hire more police officers, and build more prisons and jails until it busts their budget.

Government does not understand that incarcerating people for minor offenses can destroy people economically. If a person is incarcerated in jail for a month, because he could not pay his fine like wearing the wrong clothes for jogging (This is a crime in Stillwater, Oklahoma), then that person could lose his job. Then with a job loss, the loss of the car and home will surely follow, and homelessness is right around the corner. The person also has a criminal record that becomes a severe hindrance to finding new employment. Furthermore, government still wants the court fees, fines, and cost of incarceration, although it could destroy a person's life.

Thus, an ever-expanding police state will fuel hatred between the government and its people. Unfortunately, the government does not understand that is cannot lock up everybody, which is why police states have short life spans.

Many states are starting the dangerous trend of forcing inmates to pay for their incarceration. An overzealous and cash judicial system will incarcerate more people for silly infractions of the law. Charging inmates for incarceration has three outcomes:

Outcome 1: Police officers have an incentive to jail more people. Remember violent crime rates have been falling since the

1990s. Therefore, the judicial system will pack jails for minor infractions.

Outcome 2: The court system has a strong financial incentive to find the defendant guilty. If the court does not find the person guilty, then it cannot charge defendants room and board for jail.

Outcome 3: Government is encouraged to build more jails and prisons, if they are always filled to capacity. Then society has a viscous cycle where government keeps building new jails and fills them with more violators, especially with a falling crime rate.

The 2008 Financial Crisis brings another complication. The U.S. economy is shedding jobs; unemployment and poverty are climbing, and people are losing hope. Some inmates do not want to be released from jail, while other people deliberately commit crimes, so they become locked up. The state pays for room, food, and in some cases medical care. This is a problem in Detroit, Michigan [33], but will quickly spread to the other cities as the U.S. economy continues to implode.

References

- [1] Archibold, Randal C. and Nichole M. Christian. June 4, 2003. "To Embattled Mayor, Tickets Are the Hottest Issue in Town." *The New York Times*.
- [2] Associated Press. July 29, 2004. "Candy bar lands woman in police custody." *Houston Chronicle*.
- [3] theNewspaper.com. March 14, 2008. "Georgia: Traffic Cop Tickets Wheelchair." Available at www.theNewspaper.com (access date: 9/25/08).
- [4] Associated Press. December 3, 2005. "Man hit by car gets jaywalking ticket." *Houston Chronicle*.
- [5] Loewe, Wayne. April 4, 2003. "Barking at police dogs is not illegal." *Court TV*.
- [6] Morgan, Theodore. 1964. "The Theory of Error in Centrally-Directed Economic Systems." *The Quarterly Journal of Economics* 78(3): 395-419.
- [7] *Treehugger*. December 10, 2011. "80-Year-Old Woman Jailed for Feeding Ducks After Doing It for 45 Years." Available at <http://www.treehugger.com/culture/meet-80-year-old-woman-who-criminal-duck-feeder-video.html> (access date 4/23/12).
- [8] Huff, Ethan A. March 2, 2012. "Parents protest freedom-crushing food police who search lunch bags of schoolchildren." Available at http://www.naturalnews.com/035123_food_police_lunch_bags_schoolchildren.html (access date 4/23/2012).
- [9] Associated Press. June 3, 2008. "Ohio city OKs jail time for failing to mow lawn." *Houston Chronicle*.

- [10] Sandberg, Lisa. February 7, 2009. "Property seizure by police called 'highway piracy'" *Houston Chronicle*.
- [11] *The Washington Times*. October 5, 2000. "Criminalizing everyone." Available at <http://www.washingtontimes.com/news/2009/oct/05/criminalizing-everyone/?page=all> (access date 4/24/12).
- [12] Sheldon, Randall G. 2004. "The Imprisonment Crisis in America: Introduction." *Review of Policy Research* 21(1): 5-12.
- [13] Bureau of Justice Statistics. 2002. "In a 15 State study, over two-thirds of released prisoners were rearrested within three years." Available at <http://www.ojp.usdoj.gov/bjs/reentry/recidivism.htm> (access date 01/09/09).
- [14] Aizenman, N.C. February 29, 2008. "The high cost of incarceration." *The Washington Post*. Available at http://www.denverpost.com/ci_8400051 (access date 01/02/09).
- [15] Hooks, Gregory, Clayton Mosher, Thomas Rotolo, and Linda Lobao. March 2004. "The Prison Industry: Carceral Expansion and Employment in U.S. Counties, 1969–1994." *Social Science Quarterly* 85(1): 37-57.
- [16] Simon, Dan, Alina Cho, Terry Frieden, Rod Griola, Chris Strathmann, Jeanne Meserve, and Susan Candiotti. October 12, 2005. "Beating victim: No anger toward police." *CNN*.
- [17] Griffin, Drew and David Fitzpatrick. July 22, 2008. "Man dies after cop hits him with Taser 9 times." *CNN*. Available at www.CNN.com/Crime (access date 7/11/08).
- [18] Harris, Tom. 2008. "How Stun Guns Work." *Howstuffworks*. Available at <http://electronics.howstuffworks.com/stun-gun3.htm> (access date: 12/24/08).
- [19] Miller, Carlos. March 9, 2008. "Houston brothers receive \$1.7 million in wrongful arrest suit." Photography is not a crime. Available from <http://carlosmiller.com/>
- [20] O'hare, Peggy. June 3, 2008. "Under fire, Sheriff's Office disbands surveillance unit." *Houston Chronicle*.
- [21] Texas Cable News. May 19, 2008. "Some lawmakers want Texas AG to investigate Harris County Sheriff's Office." *KHOU News*. Available from <http://www.txcn.com/>
- [22] Khanna, Roma and Steve McVicker. May 12, 2006. "Police lab tailored tests to theories, report says." *Houston Chronicle*.
- [23] Maier, Timothy W. June 2003. "Inside the DNA Labs." *Insight Mag*. Available at www.insightmag.com (access date: 7/11/08).
- [24] Sherrer, Hans. "Travesty in Tulia, Texas: Frame-up of 38 Innocent People Orchestrated by a County Sheriff, Prosecutor and Judge." Available at www.forejustice.org (accessed on 7/3/08).
- [25] *Drug Policy Alliance*. 2008. "Drugs, Policy, and the Law – Tulia, Texas." Available at <http://www.drugpolicy.org/law/police/tulia/index.cfm> (access date: 02/05/08)
- [26] Zongker, Brett. August 8, 2008. "Police clear name of Md. mayor after drug raid." *Yahoo News*.

- [27] *DRCNet Foundation*. February 2, 2002. "Backlash Emerges as Texas Drug Task Forces Run Amok." The Drug Reform Coordination Network (DRCNet). Available at StoptheDrugWar.org (access date 7/11/08).
- [28] *Wikipedia.org*. "Crack Cocaine." Available at http://en.wikipedia.org/wiki/Crack_cocaine (access date 08/22/2010).
- [29] Associated Press. January 23, 2009. "Texas Judge's Blood-Alcohol Test Inadmissible." *Houston Chronicle*.
- [30] Hahn, Bill. July 11, 2007. "Family Attorney Blows the Whistle on State Child Protective Services Agencies." *The T.R.U.T.H. Project*.
- [31] Hurdle, Jon. February 13, 2009. "U.S. judges admit to jailing children for money." *Reuters*.
- [32] *The Canadian Press*. May 25, 2008. "California city that is in bankruptcy may become the model for others."
- [33] Crary, David and Corey Williams. December 26, 2008. "Detroit replaces New Orleans as most beleaguered American city." *South Florida Times*. Available at http://www.sfltimes.com/index.php?option=com_content&task=view&id=2273&Itemid=42 (access date 01/02/09).

7. The Erosion of the Bill of Rights

“A man will fight harder for his interests than for his rights.”

-Napoleon Bonaparte

The thirteen colonies were afraid to create a new strong centralized government. The states just won the Revolutionary War that separated the colonies from the King of England. The states believed, if they created a strong centralized government, it would become powerful, and eventually usurp power from the state governments. The first Congress ratified the Bill of Rights to appease the states, and limit the power of the United States government.

The Bill of Rights is a very powerful document, because it clearly sets a limit on the federal government's power. The Bill of Rights originally applied to the federal government, but through a Supreme Court case, *Gitlow versus New York in 1925*, was the Bill of Rights applied to the states. The Supreme Court upheld the conviction of Benjamin Gitlow, who was socialist and advocated the overthrow of government. The Supreme Court ruled that speech and writings that advocated the overthrow of the government did not violate the free speech clause of the First Amendment.

The Bill of Rights is a piece of paper, which cannot impose limits on government. Only government officials can limit their power. The Bill of Rights helped restrain government's power for 200 years, because it imbued a set of ethics and duties on politicians, judges, Presidents, governors, and legislators. However, through the acts of Congress and the federal courts, the government circumvented the Bill of Rights. Unfortunately, the states' nightmare became true. The federal government has usurped control and power away from the states.

The states are not big on the Bill of Rights either. They are becoming as oppressive as the U.S. federal government. For example, after the terrorist attacks on the World Trade Center on September 11, 2001, the state police and the FBI can brand a U.S. citizen as a terrorist, if he quotes the Bill of Rights. If a citizen

cannot quote the laws that the government officials and agents are supposed to follow, then the laws no longer exist.

Each amendment of the Bill of Rights is written as a section heading, and an explanation explains how the federal or state government has circumvented it.

Amendment I

“Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances” [1].

The judicial system has severely abused, twisted, and distorted this Amendment. The purpose of this amendment is to protect religion and a free press from government.

The founding fathers did not intend the American people to be atheists, nor remove god from the public institutions. They simply did not want the federal government to sponsor a particular religion. With the United States being a melting pot of different cultures, the founding fathers wanted the people to choose their own religion, whether it was Catholic, Presbyterian, Lutheran, Baptist, or Judaism.

The founding fathers did not want a godless, atheistic society, because religion has power. For example, if 99% of the U.S. population believes in God and the 10 Commandments, we would actually have a society with a very small government. Religion is a source of discipline and behavior control.

The U.S. government is successful at eliminating religion from society. The government encourages the breakup of traditional families, and helps finance out-of-wedlock children. Indirectly, the federal government has contributed to the deterioration of society. What have we achieved? The government is building more prisons, more court buildings, more jails, and more treatment facilities. The U.S. incarceration rate is 2% of the U.S. population, and the federal and state governments are rapidly growing broke. However, crime is still occurring.

The courts have expanded freedom of the press to cover all kinds of behavior. We have the freedom to walk naked. Nudists want to walk around with no clothes: Pornography is viewed as free speech. College professors have the freedom to grade students. In the 8th U.S. Federal District Court, you have the freedom to give a cop the middle finger. (Interpretation of laws can differ among federal court districts until a Supreme Court decision brings all districts to the same consensus).

The judges forgot the purpose of free speech, which is to keep news reporters free from government control. For example, the Soviet Union controlled all newspapers, TV channels, and book publishing. The Soviet government only told its citizens what the government wanted them to know. In the United States, the press may be free, but reporters do not ask politicians and government the tough questions that need to be asked.

A new technology came along that allows anyone to become a writer: the internet. The internet is the most versatile invention of the 20th century, because anyone with access to a computer can be his or her press with little cost. However, some lawyers and judges discovered ways to punish people, who use the internet as a free press. For example, if you create a website, or you run a TV commercial against a political opponent in Texas, then you may be violating a campaign-finance law. The opponent could sue you, and you could pay high damages, or even be subjected to criminal prosecution. The Texas campaign law requires you to register with the state, and disclose all financial contributors. Consequently, political organizations that are unhappy about negative campaign ads are getting more Texas prosecutors to examine these cases for campaign law violations, as a clever way to shut people up. Some Texas politicians are using the campaign-finance laws to quiet the Tea Party Movement,

Government has eroded another right, which is the right to a peaceful assembly. Usually when a political group is angry with an issue, and wants politicians to pay attention, the group has a public protest. These protests make headlines, and political leaders pay serious attention. However, some political leaders do not like the message or the publicity, so they sic the police on them. Thus, the police have been aggressive toward the protesters, such as the Mexican protesters, who were protesting the new immigration laws

in Los Angeles in 2007 [2], or the Occupy-Wall-Street protestors, who want to stop the corruption on Wall Street in 2011.

Government has two methods to stop protests.

Method 1: The government requires a permit. Hence, government could take a while to approve the permit, or arrest the protesters if they did not get the necessary paperwork. Of course, the key word is approval, because government can also decline permits, forcing citizens to go through a lengthy, appeal process. Government is very good at creating road blocks, when it deems it necessary.

Method 2: President Obama passed a new law in 2012 that allows the U.S. government to charge protestors with a felony, if they protest near secret service agents. Ironically, when President Obama was 29 years old, he protested for minority rights at Harvard University in 1990. (It is common for leaders to forget their roots, when they climb up the leadership ladder.)

The final assault of the first amendment was the expansion of police powers after the terrorist attacks on September 11, 2001. President Bush and Congress passed the Patriot Act to broaden the federal government's surveillance and police powers. For example, the Federal Bureau of Investigation (FBI) could issue a National Security Letter, and request information from any financial institution, library, insurance company, internet provider, or travel agency. The letter automatically comes with a lifetime gag order. Thus, a person cannot talk or write about it, or confer with an attorney about it. The U.S. government can sentence a violator up to five years in prison [3].

The lifetime gag order has two serious problems:

Problem 1: A National Security Letter does not require approval from a judge. Thus, the FBI does not need probable cause.

Problem 2: The FBI issued approximately 200,000 letters between 2003 and 2006 [3], which means the FBI may be abusing its power.

Amendment II

“A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed” [1].

In the beginning, the United States did not have a large, full-time military, because the soldiers worked their jobs, and farmed the land to support their families. Thus, the states needed access to soldiers, who could be called up in short notice, and help protect people and towns from invaders and the Indians. (We did steal land from the Indians, so they have every right to be angry with the Europeans). It was also convenient for these people to own their guns.

This Amendment clearly places a limit on the federal government. If the federal government becomes too powerful, a state government could easily rebel, because they have fast access to its armed population. If the federal government went too far, a potential bloody war could ensue. The United States lost more soldiers in the U.S. Civil War than in World Wars I and II combined, because the worse war, a country can fight is a civil war.

The current government has a problem with people owning guns, and government has been very successful at placing barriers to gun ownership.

The common barriers are:

Barrier 1: A person can own a gun, but cannot fire it within city limits, because of city ordinances. It makes no difference what the circumstances are.

Barrier 2: A person could be prosecuted in certain states, if a burglar tries to break into the house, and the owner shoots him. An owner is supposed to go up only one step to remove the threat. Of course, how could a person know what the level of the threat is, when someone is breaking into his or her home? The burglar could be unarmed or armed.

Barrier 3: Another restriction is a person needs a special permit to carry a concealed weapon. You have to ask a government agency to give you permission to carry a firearm.

Barrier 4: The most popular means of gun control is domestic violence. A person loses their right to have a firearm, if a person (i.e. male) is convicted of domestic violence, or a court places a protective order against him. Of course, protective orders are easy to obtain in some states, as defendants could have trouble legally challenging them. If the defendants do not turn in all guns into the police, then they are charged with felonies for gun possession.

Barrier 5: Felony convictions prevent gun ownership for the rest of a felon's life.

Why would a government want to limit gun ownership? The federal, state, and local governments are in the mode of taxing, stealing, and expropriating property. Government rationalizes this behavior by saying the person is a criminal, or has broken some type of law, and needs to have his property and assets taken. It can be as simple as a person carrying too much cash, and the government steals your money by claiming this person is a drug dealer. If people are armed, government has much more difficulty expropriating property. Who in their right mind would want to be a government agent, if every time the agent knocks on a door, and is shot at by the occupants. This can become very expensive in terms of manpower and the potential loss of government agents.

Machiavelli (1520) summed it best in the *Art of War*. A republic with armed citizens has a longer life span than a Republic where the citizens are unarmed [4]. If the people are armed, then government has to be afraid of its people. If the government is armed, then the people have to be afraid of government. If the people do not have weapons, a leader can seize power, and easily establish a dictatorship.

Amendment III

“No Soldier shall, in time of peace be quartered in any house, without the consent of the Owner, nor in time of war, but in a manner to be prescribed by law” [1].

The government did not violate this Amendment, because the U.S. military receives tax dollars to house soldiers in barracks.

Amendment IV

“The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized” [1].

Government easily circumvented this Amendment. The three methods are:

Method 1: If the police want to search a house or vehicle, the police can lie, and say anything to a judge or magistrate. Judges or magistrates usually sign the search warrants.

Method 2: If police believe a person is armed, or is destroying evidence, then the police will not hesitate to crash through someone’s door without a search warrant. This was an actual case in the federal district court in Texas. A person was taking a shower, and did not hear the police knock on the door. Imagine the person's surprise to see a multitude of guns pointed at him, as he stepped out of the shower. The federal court says this is okay. Of course, to a person with common sense, how could the police ever know a person is armed, or is destroying evidence? Police are not mind readers. Thus, the police have the power to kick in any door under these pretenses without the need for a warrant.

Method 3: The Patriot Act expanded the powers of the federal government. Any federal agent can request any information about a person using a National Security Letter, which was already discussed under the First Amendment.

State governments are not happy with this amendment. For example, the Texas Department of Transportation went after a homeowner, who constructed a billboard on his property that stated the fourth amendment, ‘Just say NO to police searches!’ The billboard also listed a telephone number with a pre-recorded message for the 4th Amendment. The Department of Transportation claimed the owner violated the Texas Highway Beautification Act, which is the same time the State of Texas stepped up its campaign of “consent searches of vehicles on our

highways.” The homeowner won his case in court using “freedom of speech” from the first amendment [5].

This homeowner was concerned that police were pulling over too many people, and searching their cars. The homeowner did the right thing, and posted our right about “unreasonable searches and seizures.” For the police to follow the rules and obtain a search warrant could take several hours. The judge has to sign the search warrant, and the warrant has to be delivered to the person. These several hours could prevent police from pulling over a dozen more cars and searching them. Remember, time is money and the police have to keep writing tickets. (Florida solved this problem by having a judge sit in a car near a police checkpoint).

Police do not respect smart asses that say no to an officer's request to search the vehicle. Of course, this could be dangerous in Texas, where police officers have their own methods to deal with “difficult citizens.”

Amendment V

“No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation” [1].

Government circumvented this Amendment. A grand jury approves of serious charges against a person, but it does not state, who can serve. In Harris County Courts (Houston, Texas), all judges choose the people, who serve on grand juries. Only one judge selects a grand jury from voter registrations. It should be no surprise to learn retired police officers, retired prosecutors, and court employees are over represented on grand juries in Harris County. Could retired employees of the criminal-justice system remain unbiased, if their former colleagues are bringing charges against someone?

A grand jury investigated the Houston Crime Lab scandal and found no violations. The grand jury had one Houston police officer as a member. However, the FBI shut down this same lab.

Prosecutors also shop around the court system, and select a court with highly biased grand juries for weak court cases [6].

This Amendment also allows a government to seize property through eminent domain. Eminent domain is the power to condemn a property, and take it over without consent. Traditionally, government only seized property for public projects, like building a highway, expanding streets, building a new school, or expanding an airport. These public goods benefit society.

The key word is “just compensation.” Property owners usually over value their property, while government that is seizing the property undervalues it. For example, a person may have a house that is worth \$50,000, but he values it at \$70,000, while government wants to pay only \$10,000. If a homeowner and government agency cannot agree on the compensation, then this case could go to court, and a judge would decide the property value.

The first assault on private property started in the early 1970s, when Congress and the President signed the Endangered Species Act of 1973. The federal government was given the power to halt land development, if the development harmed an endangered species or its habitat. The problem with this law is the federal government does not have to provide “just compensation.”

For example, you bought a piece of land, and wanted to build a house on it. Then the federal government found an endangered bird living on your land, and informed you to halt any construction. Now the land drops in value, because people do not want to hold land for the sake of holding land. The government does not have to compensate you for this loss.

The federal government seized your land, because it limits the activity that a person could do with it. Congress knew the power of the federal government would be severely limited if it had to compensate landowners, when it destroyed their land values. Similar laws protect wetlands¹, and many states imposed laws that

¹ Several laws are the Clean Water Act of 1972 and the Coastal Wetlands Planning, Protection and Restoration Act of 1990.

restrict land development. For example, California has very tough laws that prevent landowners from sub-dividing their property.

The final assault on property owners was the Supreme Court's decision, *Kelo versus City of New London*. The court allows a government to seize land, if it believes it can collect more tax revenues. The government could even seize property from one private owner, and transferred it to another private owner [7]. For example, a city government could use eminent domain to seize properties in a neighborhood and transfer the properties to a developer. Then a developer demolishes the homes and builds new condominiums, or a shopping mall. The new development brings in new property taxes and new sales taxes [8]. However, this power can have a chilling effect on private investment. Who would invest in a building or buy a condominium, if government seizes the property again several years later? Consequently, private property is converted to a land-lease from government.

Amendment VI

“In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the Assistance of Counsel for his defence” [1].

The founding fathers never specified the exact terms of this Amendment. For instance, what is a speedy trial? Does it mean the trial starts in one year, two years, or eight years? Consequently, prosecutors ensure a defendant's bail is set too high, so the defendant sits in jail. Many people do not enjoy life behind bars, and will cave into a prosecutor's plea agreement, even if they are not guilty. A person sitting in jail for a couple of months could lose their job, housing, and his/her standard of living. Hence, innocent people can be coerced into pleading guilty, because it is the cheaper alternative.

Judges and prosecutors like to avoid jury trials, because jury trials take time and are expensive. The prosecutors and defense attorneys spend a large amount of time organizing the evidence, preparing witnesses, and filing paperwork with the court. Furthermore, jury trials tend to be a random process. In some cases, prosecutors had strong evidence, but the juries found the defendant not guilty. Other juries convicted defendants on circumstantial evidence. Moreover, judges like to avoid jury trials. The court spends time to summon jurors, prepare the juries, and hear the case. A judge's docket becomes clogged with too many cases.

The judges and prosecutors would like to avoid jury trials. If a difficult defendant demands a jury trial, prosecutors devised ingenious methods to force people to plead guilty and forgo their right to a jury trial.

The examples are:

Example 1: A defendant has two legitimate charges against him. Thus, a prosecutor invents and adds three additional bogus charges. Then the prosecutor will drop the three charges, if the person pleads guilty to the original two. If a jury finds the person guilty on all five charges, he will spend a long vacation in prison.

Example 2: Prosecutors can threaten to remove children or seize property, unless the defendant accepts the prosecutor's plea agreement.

Example 3: Prosecutors ask the judge to set a defendant's bail really high. A person could sit in jail up to a year waiting for his jury trial.

Example 4: If the defendant posted bail, the person has to appear in front of the judge every 4 weeks. The court ensures the person appears, and then the prosecutor keeps asking for a continuance (i.e. more time). Subsequently, the judge resets the case for next month.

The process of resetting the case does two things. First, a person wasted his day to come to court, like take a day off from work. Second, if that person brought his lawyer, then he pays his lawyer for appearing in court. If the court keeps resetting the case for two or more years, many defendants will give up, and accept the plea bargain from the prosecutor. It gets expensive to bring an

attorney to court month after month. Defense attorneys also do not mind, because they come to court, and get paid for doing nothing.

Another problem is judges could indirectly help prosecutors win court cases, because they control the information that enters the court. In case you did not know, many judges were former prosecutors. The following cases illustrate without a doubt that these people are guilty.

- An elderly woman is caught smoking marijuana in her house.
- A person attacked another person with a weapon.
- A convicted felon fired a gun at another person. Thus, a felon is in possession of a firearm.

These are open and shut cases. However, would you change your mind, if you had more information? Read the cases again.

- An elderly woman is caught smoking marijuana in her house. She has severe glaucoma, and marijuana helps relieve the pain.
- A person attacked another person with a weapon. This other person molested the attacker's daughter, and the judge dismissed the child molestation case on a technicality.
- A convicted felon fired a gun at another person. This person was robbing the felon, and the felon grabbed the weapon, causing the gun to fire.

These cases are not fictional! They actually happened. For the prosecutors to win these cases, they have to hide this extraneous information. Of course, these people can appeal against a wrongful conviction. However, defendants usually cannot appeal a jury's decision; they can only appeal a judge's decision. In these cases, the violators did violate the letter of the law. Unfortunately, appeal judges do not look at extenuating circumstances, but juries could.

This Amendment allows defendants to bring witnesses in their favor. However, the criminal-justice system has to be honest,

because the police and prosecutors disclose pertinent information to the defendant. What happens if a prosecutor or police do not turn over the evidence, or names of all witnesses to the defense? Thus, a defendant cannot request a witness to appear on his behalf, if he does not know his or her name? For instance, prosecutors always bring witnesses to court that claim the defendant committed the crime, while the defense brings witnesses, who exonerate the defendant. The police and/or prosecutor could withhold a name of a key witness that could weaken a state's case.

This Amendment also requires criminal courts to supply attorneys for the poor, which was a Supreme Court ruling in *Gideon versus Wainwright* in 1963. Thus, all states must provide counsel for poor defendants for serious misdemeanors and felonies. Unfortunately, many states ensure the public defenders earn the lowest salaries, overburdened with heavy caseloads, and provide no financial assistance for expert witnesses. Consequently, public defender offices have trouble retaining experienced attorneys, have high turnover rates, and have trouble recruiting good attorneys [9, 10]. (Prosecutors also make the same claims for their offices, but they are paid better than public defenders).

The State of Texas provided one attorney, who slept during a death-penalty trial. The State of Texas claimed that the “death sentence should be upheld because a sleeping lawyer is no different from a lawyer, who is intoxicated, under the influence of drugs, suffering from Alzheimer's disease or having a psychotic break.” After a lengthy appeals court battle, the defendant was granted a new trial [11].

States vary widely in how public defenders are funded. The two common methods are:

Method 1: Court provides legal counsel [9]. A judge hires a private attorney to represent poor defendants who appear before the judge. In this case, is the private attorney representing the defendant or working for the judge? Is justice served, or is the judge interested in clearing his dockets with guilty pleas?

Method 2: The court uses a public defender's office that sends an attorney to represent poor defendants. Public defender's offices receive funding from the county and state governments [9].

Amendment VII

“In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law” [1].

The government at the local, state, and federal levels re-wrote laws removing jury trials. For example, the State of Texas changed its laws for red-light cameras, changing a traffic violation from a criminal offense to a civil one. Thus, the city governments are not required to provide jury trials.

Currently, the City of Houston has 70 red-light cameras, and some members of the city council want to expand the number to 200. Mayor Bill White claimed, “cameras raise awareness about red-light safety and free up officers to patrol neighborhoods” [12].

The state changed the law for red- cameras, as a means for local government to grab more money. In 2008, the red- cameras generated 387,000 citations. A violation is \$75, which equates to \$29 million in revenue, if all violators pay the fine of course. If 10% of the violators requested a jury trial, the court system would be flooded with new cases.

The purpose of red-light cameras was to increase public safety. However, the number of collisions at intersections with red-light cameras doubled since they were installed. If the City of Houston was concerned about public safety, then the red-light cameras should be removed [13]. This Amendment clearly states all citizens can request a jury trial, if the fine exceeds \$20. Unfortunately, government exempts itself from the law, while the public must be in compliance.

Citizens and businesses do not get jury trials in many cases. Many states set up special courts to decide these cases:

Case 1: Defendants do not get jury trials in many states for tax code violations.

Case 2: Defendants do not get jury trials for civil infractions, which are traffic tickets, housing code violations, and pet violations.

Case 3: Juries do not hear court cases involving children.

Case 4: President Obama signed the National Defense Authorization Act. A U.S. citizen can be detained indefinitely without a jury trial, if government labels him or her a terrorist. Unfortunately, one definition of a terrorist is a person, who quotes the Bill of Rights or reads passages from the U.S. Constitution.

Many heart-wrenching stories come from courts that deny jury trials, because jury trials impose an immense check on government.

Amendment VIII

“Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted” [1].

The legal system has abused the “cruel and unusual punishment” clause of this Amendment. Cruel and unusual punishment is a judgment call. The United States reserves the death penalty for treason and premeditated murder. However, the U.S. Supreme Court ruled the death penalty unconstitutional in 1972, but re-instituted it in 1976. A strong argument for the death penalty is a deterrent, because a violator pays the ultimate price for murder or treason. Furthermore, some people are psychopaths and inherently evil. Society would be better, if the state removed these people permanently.

Here is where the legal system gets crazy. The federal and some state governments use lethal injections to execute prisoners, because they consider this method more humane. However, firing squads, hangings, and electric chairs constitute cruel and unusual punishment. All these methods have one common theme. They induce death to the prisoner. Death is death! Does it really matter, if it takes 10 seconds to kill a prisoner or 2 minutes? Is one method of death more humane than another method?

States could save more money by incarcerating a person for the rest of his life than pay for the legal appeals of a death penalty. Unfortunately, the death penalty is a source of employment for attorneys. For instance, the most ridiculous case is the appeals of Richard Cooley. A judge sentenced Richard to die in 2008, because he murdered two college students. Richard claimed he was too fat to die, and the executioners would have trouble finding his veins to

administer the injection. Consequently, lethal injection in his case would constitute cruel and unusual punishment. (Richard never claimed he was innocent.) This is not made up! The U.S. Supreme Court denied his appeal [14]. For this case to appear before the U.S. Supreme Court and Ohio Supreme Court, lawyers filed paperwork and generated time on this case. Who paid for this time? If the defendant is indigent, the taxpayers pay for it.

The funding for death penalty cases should goes towards the trial. The judges and lawyers ensure the defendants are given fair trials, and have a fair chance to defend themselves. Unfortunately, many state and county courts push convictions through for poor defendants with no concern for their rights.

The criminal-justice system is very sensitive to particular crimes after the terrorist’s attacks on the United States on September 11, 2001 and the prominent school shootings. For example, on the way to school, a student called a rival bus, and threatened to open fire on them. Apparently, this was a tasteless joke. A judge sentenced a 17-year old kid to eight years in prison for making terroristic death threats in Tyler, Texas, although the kid had no means and no weapons. The judge stated, “the times we live in” [15]. This kid should be punished, but does this crime necessitate eight years in prison?

Hate crimes could constitute cruel and unusual punishment, because hate crimes skew efficient punishment systems. An efficient punishment system is minor crimes warrant less severe punishment, than serious crimes. Thus, the punishment matches the severity of the crime.

An example of an efficient punishment scale is shown in Table 1. An inefficient punishment system would be a criminal gets 10 years for murder, but the death penalty for attempted murder. If all murderers know this, then they will ensure the victim is dead.

Table 1: Efficient Punishment System

Crime	Punishment
(1) Assault without a weapon, drinking while intoxicated, etc.	Fines, probation, and/or time in jail
(2) Assault with a weapon	Some prison time
(3) Rape, attempted murder, and child molestation	Decades in prison
(4) Murder	Death penalty or life in prison

Thus, hate crimes add a dimension of capriciousness and unfairness to the justice system. First, the same crime results in different penalties. If two white men were fighting, then they get the regular penalties. If two men are fighting, and one is a minority, while the other is white, then somehow the white must be punished much more severely. Second, prosecutors determine whether to charge a defendant with a hate crime. Some cases the prosecutor charges defendants with a hate crime and others he does not. Third, more defendants may challenge the charges and request jury trials, because a hate-crime conviction adds more time to a person's sentence. Consequently, the defendant is more likely to challenge it. Finally, courts already have trouble determining whether a defendant is guilty or not. A hate crime requires the court get into the defendant's head, which makes court cases more complicated.

Criminal records may constitute "cruel and unusual punishment." Before computers, if a person wanted to check a person's background, they went to the courthouse to search through the court records. Consequently, most people did not check criminal records. If a person moved to a new state, then he started with a clean slate, because it was virtually impossible to check criminal records in other states. Cases exist where a convict broke out of prison, and became a schoolteacher in another state. Now, everyone has potential access to criminal records through the internet from all 50 states.

The problems with a criminal record are:

Problem 1: A criminal record is forever, so a conviction can follow a person throughout his life. Punishment for minor crimes should have a stopping point. For severe crimes, the person should be in prison for a long time, so a criminal record would be irrelevant.

Problem 2: A criminal record for a person may exist in a court's database, the state's database usually administered by the state police, and the FBI's database. Furthermore, the FBI connects all police and state's criminal databases together, as one large database for the whole United States and Canada, which is the National Crime Information Center (NCIC). What happens if a mistake appears in someone's criminal record? What if the wrong

name was recorded in a database? This has happened! People were denied jobs, because a background check revealed a felony conviction that was a mistake. Unfortunately, the burden of the proof is on the person with the false record. He has to hire an attorney, and legally challenge the record, which could be expensive and takes time.

Problem 3: Many states release arrest records. If a person is falsely arrested, and the case never went to trial, the arrest record still shows up. Would an employer hire someone who was arrested for “assault with a weapon,” although charges were dropped?

Problem 4: Vindictive people have falsely accused victims for crimes they did not commit. Other cases, police and prosecutors were overly aggressive. For example, a person was arrested for barking at a police dog. Unfortunately, his criminal record contains the charge,” assaulted a police officer.” His criminal record would never give details, such as the “defendant barked at a police dog.”

The intent of our founding fathers was not to use court records to shackle a person for the rest of his life. Court records are open to the public, because they keep judges honest. If a judge makes a bad decision, and the public knows it, then it could lead to a public outcry.

Amendment IX

“The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people” [1].

No problems were found with this Amendment.

Amendment X

“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” [1].

Although this Amendment recognizes state power, the federal government uses three ingenious methods to circumvent this Amendment.

Method 1: The federal government interprets the powers in the constitution broadly, and created a multitude of federal bureaucracies. The bureaucracies impose numerous unfunded mandates on state and local governments.

Method 2: The federal government has the right to regulate interstate commerce.

Method 3: The federal government funds a variety of projects, and this money comes with a long list of conditions.

The U.S. Congress creates powerful federal bureaucracies. For example, the Environmental Protection Agency (EPA) was created in 1970 to help protect the environment. If you read the U.S. Constitution, no language can be construed that gives the federal government the power to create a bureaucracy to protect the environment. Unfortunately, the EPA is very active in environmental regulations.

The EPA imposes its standards on people, businesses, and state and local governments. For example, the EPA issued orders to water utility companies in central Oklahoma to lower the arsenic levels. The mandates have two problems: First, the EPA does not pay the cost of its ruling. It dictates its rules that people, businesses, and local governments have to follow. Second, the people in central Oklahoma were not given the right to determine which arsenic level, they would be happy with. However, they will pay higher local taxes, or higher water bills, so the water-treatment facilities are in compliance with the EPA's ruling.

The federal government has the right to regulate interstate commerce. What is interstate commerce? A business makes something that residents in another state consume. Thus, anything that is produced is potential interstate commerce.

The traditional examples are:

Example 1: Electric power plants are connected to each other and their customers through a grid. This grid crosses state's lines, and hence, this whole industry is regulated by the federal government. One state, Texas, did not connect to the national grid, so Texas could escape from the federal regulators.

Example 2: Airplanes fly between airports located in different states. Thus, the airline industry is subjected to the regulations of the federal government. When Southwest Airlines first started, it only flew airplanes within Texas, and escaped from the federal

regulators. Southwest had a cost advantage, and grew fast before it went national.

Example 3: The federal government regulates the trucking industry, because trucks carry freight from one state to another.

Example 4: The federal government regulates the food and pharmaceutical industries, because products cross state lines.

Example 5: President Obama used the interstate-commerce clause to pass his healthcare plan. The federal government wants all U.S. citizens living within the U.S. to purchase healthcare insurance. Obamacare is currently being challenged in court in 2012.

A recent Supreme Court case, *Gonzales versus Raich*, re-asserts the federal government's ability to regulate interstate commerce. The State of California allows residents to smoke marijuana for medicinal purposes, because marijuana helps people with glaucoma, and eases pain from multiple sclerosis and cancer. However, the federal government still views marijuana use as a crime. A person sued the federal government to stop its intrusion into a state's right. Consequently, the Supreme Court ruled that marijuana use is interstate commerce, and the federal government has the right to pursue violators [16]. Thus, the federal government can potentially regulate all industries and businesses.

The last method for the federal government to control states is with money. The federal government funds a variety of projects, and uses this funding to dictate laws and conditions. For example, the federal government imposed the legal drinking age of 21 on all the states. Nowhere in the U.S. Constitution gives the federal government the legal authority to set the legal drinking age. No words in the constitution could be interpreted broadly enough to give Congress the power to pass a law such as this. However, the federal government threatened to reduce funding for highway projects for several states, if these states did not increase the legal drinking age from 18 to 21 years of age. You can marry, enter contracts, own property, or sent to another country to die in a war at the age of 18, but you cannot drink alcohol until you are 21.

Conclusion

It is possible our justice system was always plagued with problems. Before the 1960s, the judicial system was small, and had little interactions with its citizens. Thus, injustice would be a rare event, but it did happen. Originally, courts sustained slavery and discrimination against women during the 19th century. Now days, courts from the city level and to the U.S. Supreme Court rule over everything. The judges invaded families, schools, neighborhoods, and businesses. Consequently, injustices are more frequent, as judges have their hands into everything.

Judges became social crusaders. They believe they have the right to regulate all of society's behavior that is deemed bad, and they over extend the law to achieve their goals. This causes a problem with the Bill of Rights, because this document limits government's power. Consequently, judges allowed the government to circumvent it through court rulings.

Before the 1970s, the following were not crimes:

- People could freely smoke cigarettes.
- Parents and school officials could spank children.
- Some families are violent and fought. The police would break up the fights and force some family members to leave.
- One parent would take (i.e. kidnap) the children, if he (or she) did not agree with a custody agreement.
- People used drugs and alcohol in the open. Parents could throw a keg party for a child, who was graduating from high school. High-school students could smoke reefer during lunch on school property.

All these activities became illegal. The criminal-justice system expanded, so it could go after people who commit these new crimes. Furthermore, judges enforce the laws that indirectly target families. Families have members who work, and are a source of wealth. Thus, family members are afraid to go to jail, or be

incarcerated. They will cave in to the state's demands, pay their fines and fees, and not challenge the state. On the other hand, the state has to expend resources to go after real criminals, and the criminal may have little resources to reimburse the state.

The courts and government believe they can make the United States a better place to live. For people who have been around several decades, they know this is a bunch of crap. Ronald Reagan said it best, "Are we better off now than we were 10 years ago?"

References

- [1] The Bill of Rights. 1791. National Archives Experience. Available at http://www.archives.gov/national_archives_experience/bill_of_rights_transcript.html (access date: 12/24/08).
- [2] Associated Press. May 4, 2007. "Police chief 'not happy' with LAPD immigration clash." *USA Today*. Available at http://www.usatoday.com/news/nation/2007-04-26-LAPD-immigration-rally_N.htm (access date 01/09/09).
- [3] Zetter, Kim. August 10, 2010. "'John Doe' Who Fought FBI Spying Freed From Gag Order After 6 Years." *Wired*. Available from www.wired.com.
- [4] Machiavelli, Niccolo. 1520. The Seven Books on the Art of War.
- [5] Blumner, Robyn E. August 1, 1999. "What's this man's sign? Try the Fourth Amendment." *St. Petersburg Times*.
- [6] McVicker, Steve. November 13, 2004. "Are judges taking a narrow view of justice?" *Houston Chronicle*.
- [7] Associated Press. June 23, 2005. "Homes may be 'taken' for private projects." *MSNBC*.
- [8] Jones, Tim. November 16, 2003. "Private property gets condemned for profit." *Chicago Tribune*.
- [9] Parker, Laura. September 29, 2005. "8 years in a Louisiana jail, but he never went to trial." *USA Today*.
- [10] Patrick, Robert. March 6, 2005. "Public lawyers face low pay, high turnover." *St. Louis Post-Dispatch*.
- [11] The Justice Project. August 14, 2001. "Texas Death Row Defendant With Sleeping Lawyer Deserves New Trial, Rules Full Fifth Circuit Court." Available from www.thejusticeproject.com
- [12] Houston Politics. June 11, 2008. "Rodriguez: More red-light cameras = more officers." *Houston Chronicle*.
- [13] Olson, Bradley. December 29, 2008. "Study: Wrecks increase at red-light cameras sites." *Houston Chronicle*.
- [14] Kinney, Terry. October 14, 2008. "Inmate who says he's too fat to die to be executed." *South Bend Tribune*.

- [15] Associated Press. June 7, 2008. "Student, 17, gets 8 years in prison for phone threat." *Houston Chronicle*.
- [16] Mears, Bill. June 7, 2005. "Supreme Court allows prosecution of medical marijuana." *CNN*.

8. Repetition of History – The Roman Empire

“When thou art at Rome, do as they do at Rome.”

-Miguel de Cervantes

The ancient Roman Empire and the United States have many similarities. The Roman Empire dominated the civilized world between the eighth century B.C. and the fifth-century A.D., whereas the United States dominated the 20th century, and possibly the 21st century. The purpose to study the Roman Empire is to illuminate the life-cycle theory of a legal system, because many empires go through this life cycle. Each stage of the life cycle has prominent characteristics, and these characteristics are compared to events in the United States.

A legal system evolves in several prominent stages. In the beginning, a new society forms that has an excellent legal system that encourages hard work, forms strong private property rights, and allows free enterprise. Consequently, businesses thrive and create wealth. The source of the wealth is creating products for the consumers, because indirectly, industries create jobs and employment. Government still exists, because government establishes the rules of the game. Thus, government is financed through taxes.

As wealth and incomes increase, a government is infused with large inflows of tax revenues, giving birth to government bureaucracies. Eventually, bureaucracies start to increase in size on their own volition, and always need taxes to sustain this growth. Eventually, these bureaucracies become too large that they literally destroy the free markets. They pass complicated, convoluted rules, and regulations, and impose numerous taxes until the society no longer has free enterprise.

Excessive taxes, regulations, and large bureaucracies cause society to stagnate. Businesses flee, or bankrupt; wealth and incomes begin to dissipate, and masses of the unemployed appear. Unfortunately, the bureaucracies continue to grow, and they keep increasing taxes on a stagnant economy. Eventually, society

crumbles and a rich powerful country transforms into a third-world banana republic.

The Roman Empire went through this life-cycle of a legal system. Historians define two eras: the Roman Republic and Roman Empire. In the beginning, the Roman Republic started as a democracy and grew at an incredible rate. As a democracy, government granted all citizens legal rights, including the right to vote. As the Roman Republic approached its apogee, and her military dominated the world, the Republic transformed into the Roman Empire that was controlled by the emperor. The emperor was a dictator, who controlled all government institutions and all the people. Towards the end of the Roman Empire, the empire evolved into a totalitarian state with the Roman Emperor having absolute power until the Western Roman Empire collapsed in the fifth century. The Eastern Roman Empire, called the Byzantium Empire, survived until the 15th century.

The Rise of the Roman Republic

Kings ruled Rome for the first 200 years, until the aristocrats expelled the last king, and established a republic. The Republic was a representative government, or in other words, a democracy controlled by a Senate. Only aristocrats, called patricians, could sit on the Senate, and the Senate controlled the machinery of government.

The aristocrats had a strong distrust of powerful kings, and they decentralized the power of the government. Furthermore, the Romans published Roman law onto twelve tablets, and the laws emphasized, “all free citizens had their rights to fair justice guaranteed” [1]. The early Romans also gave its citizens the right to vote and hold public office, where a citizen was defined in narrow terms. Citizens were free adult males who owned weapons, and the weapon's requirement was necessary, so the people could be called forth to serve in the military [2]. Finally, Roman laws were shaped from actual court cases and common sense. It appears the Romans had a common law legal system that emphasized individual rights and the private ownership of property.

This is déjà vu, because this is similar to the United States. The Founding Fathers established the United States as a republic after

we defeated the British army. The founding fathers had a distrust of kings, and created a decentralized government. Our cherished rights were similar to the Romans, such as the right to vote and hold public office. Of course, these rights were restricted to white, adult males, who owned property. Consequently, Americans adopted the British Common Law system like all other British colonies except Malta. As already espoused, the British Common Law System is pro-business, allows court cases to shape the law, and has a strong foundation for private property rights.

Another similarity is both the United States and ancient Rome absorbed the cultures of other countries. For example, the Romans imported the Etruscans artistic and architectural styles, which included the Roman's trademark the arch. Moreover, the Roman's religious, legal, and political ideas were absorbed from other cultures, as well as the gladiators, who fought to their death [3]. Likewise, the United States absorbs the culture, ideas, and people from other countries. Literally, the United States is a melting pot of all the world's cultures and people. We take the best from the world, and assimilate it into our culture.

The United States and Romans integrated the conquered lands and people into their country. The Romans granted legal rights and citizenship to the conquered people, and introduced them to the Latin language, Roman law and customs [4, 5]. The Romans did expropriate lands and booty from the conquered countries, but were ingenious when conquering them. Once the conquered countries became integrated into the Roman Republic, these countries could share the spoils with Rome of newly conquered territories [6]. Likewise, the United States expanded its boundaries by annexing new states to the Union. As the United States was expanding westward across the Great Plains, the United States allowed new states to form, and become equal members with the other older states. The new states could send senators and representatives to Congress, and have their citizens elected to the highest levels of government.

Many countries like to form colonies, when they expand beyond their borders. These leaders did not have the foresight of integrating conquered lands and people. The usual method is an empire extracts as much wealth and resources, as it can from a colony, and treats the conquered people as inferior and sub-human.

Over time, the poor treatment causes tension, which leads to revolts and uprisings. Then the empire finances a military to squash the revolts and restore order. Eventually, if the military costs become too high, the empire has to withdraw and pull out.

The United States was a colony of the British Empire, and the British was spending large sums of money for armies to protect the Midwest territories from the French and Indians. The British crown wanted the American colonies to help pay for these military costs through new taxes, but the American colonies had no representation in England. Colonists were second-class citizens. Eventually, Americans revolted, and broke away from the British Empire.

The United States and Roman Republic connected all their citizens and cities with a massive infrastructure. The Romans built aqueducts, baths, bridges, and roads [7]. It was once proclaimed that all roads led to Rome, and after 2,000 years, some of this infrastructure is still standing and is being used in the 21st century. For example, several aqueducts built in the Augustan Age still transport water to Rome. The aqueduct, Pont du Gard is still used, and located in southern France [8]. Moreover, a Roman bridge is still used in Alcantara, Spain [9]. Likewise, the United States is connected by a massive infrastructure of highways, roads, railroads, and ship ports.

A good infrastructure allows a strong economy to form. A large, efficient infrastructure allows different regions to specialize in products and services, and sell them to consumers anywhere within the country. Businesses can transport Idaho potatoes, Michigan automobiles, Texas crude oil, and Florida oranges to any place cheaply within the United States or the world. Consequently, trade flourishes, as businesses rush products from one side of a country to the other side.

The Birth of the Roman Empire

Towards the end of the Republic, the Roman Republic went into decline and politics dissolved into chaos. The Republic fragmented into quarrying groups [10], and two civil wars disrupted the Roman Republic with an explosion of violence [11]. Many Senators became fearful of the powerful and popular

generals, like Caesar and Pompey, because they could take advantage of the political chaos, and seized control of the government.

Caesar was popular among the people, because he was a brilliant general, a war hero, had the gift of rhetoric, and born into a noble class. Some Senators were afraid of Caesar and tried to turn Pompey and Caesar against each other. Other Senators wanted Caesar to relinquish control of his army, so the Senators could bring corruption charges against him, removing him from power by using the Roman court system. However, Caesar rebelled against the government using his army, and defeated Pompey's army. Now Caesar had control of the Roman government, but his long-term plans were cut short, when several conservatives of the Senate assassinated Caesar [12].

The Roman government was in disarray, and its fiscal health was declining fast. Rome accumulated a large debt, experienced declining revenues, and issued new coins [13]. The top leaders could not control the government budget, and increased taxes to meet budget shortfalls. Anything that had a name was taxed. Government imposed head taxes on free men and slaves. The government levied taxes on corn, soldiers, arms, equipment, and transport. The Roman government even levied taxes on columns and doors [14]. As poverty spread throughout the Republic, the people fled from the poverty of the countryside, and moved to Rome. They remained idle, seeking free corn or other public aid [15].

The Senate was considered quite corrupt. Senators would lend money at exorbitant interest rates to people who lived in the provinces, so they could buy luxury items or pay taxes. The provinces were conquered Roman territories located outside of Italy. The Senators would also receive bribes from tax farming, where bidders paid bribes to collect taxes in the provinces [16]. Some Senators would serve one-year terms as governors of the provinces. This one year allowed the governors to extort as much property and wealth possible in the form of taxes. In some towns and regions, the people were forced into poverty, and were not able to pay their poll taxes [17].

In the final days of the Republic, elections were dominated by bribery, corruption, and violence [18]. The Senators and other top

government officials bribed judges and juries. In one instance, the Governor of Sicily was charged with mismanagement by plundering the wealth of his province. The first year's profits were for his defense attorney; the second year's profits were used to pay the jury, and the third year's profits went into the Governor's pocket [19]. Nevertheless, the prosecutor was Cicero, who was one of the greatest lawyers of the Roman Republic. The Governor fled into exile, because he knew, he could not win his court case against the powerful Cicero.

Cicero was a young attorney, philosopher, and one of the most brilliant orators to rise out of the Roman Republic. Cicero was born from equestrian stock, but rose to the consulship. An equestrian is the lower class of aristocrats, while the upper class is the patricians. A patrician could only hold the consulship with few exceptions. Cicero was a firm believer in the Roman Republic and tried to prevent the government's transformation into a dictatorship [20].

The rich became more ostentatious towards the end of the Roman Republic, and the number of rich were so few that Cicero remarked, "less than 1,000 men in Rome were wealthy" [21]. The affluent or the aristocrats were few, but controlled the machinery of the Roman government [22]. The richest Roman citizens ostentatiously displayed their wealth, and they used their wealth to bribe elections and juries [23].

Early in the Republic, families had small plots of land to grow crops. Then any families with a surplus crop could sell it in the markets. Towards the end of the Republic, nobles bought or expropriated these small plots and public lands, and consolidated them into large estates. Subsequently, the nobles pushed the families off the land, and used the property-less tenants and slaves to cultivate the land. One method the rich stole from the poor was to steal a poor man's land, when he served too long in the Roman military [24]. Another method was for top officials to expropriate a person's property, when assessing a fine or penalty [25].

The Romans grew tired of the political chaos and violence. They were fed up with the pirates who roamed the seas, and thieves who strolled along the countryside. They yearned for peace, and wanted law and order [26]. One person rose up to meet the challenge; he was Gaius Julius Caesar Octavianus, otherwise

known as Augustus. Augustus was Caesar's grandnephew and inherited 3/4 of Caesar's wealth. Augustus used this wealth to raise an army, and crushed the armies of the conservatives, who murdered Caesar. He also assassinated Cicero [27]

Augustus was a dictator, and was Rome's first emperor. Augustus is considered one of the greatest leaders of the ancient world, because he restored law and order, and established a new framework of government [28]. The people of the Roman Empire suffered less from extortion, and had a more friendly form of government. Augustus even tried to address the immorality of his times [29] and allowed autonomy of local governments [30].

The reforms of Augustus brought peace and prosperity to the Roman Empire that lasted for the next 200 years. "More people could enjoy the fruits of prosperity than was possible again for the following 1,500 years" [31]. The Augustan Age led to a massive construction spree where large public projects were constructed, such as amphitheaters, aqueducts, bathhouses, coliseums, and temples. The pollution record in the polar icecaps reflected this construction boom, and the sharp decline that occurred in the third century A.D. [32].

New cities were founded, and the older cities grew rapidly. Trade flourished within and outside the Roman Empire. The Roman Empire established trade routes with Arabia, India, and China [33]. Furthermore, the arts and letters flourished under the Augustan Age. Several cities instituted public education, which taught reading, writing, and arithmetic [34].

The Roman legal system changed gradually over time, as Roman emperors consolidated their power. Towards the end of the Roman Empire, the Roman government evolved into a total dictatorship with the emperor controlling every aspect of the state and Roman society [35].

One can argue that the United States is developing in a similar fashion. The federal, state, and local governments are passing laws that increase the power of government, while restricting the people's rights. The size, scope, and mission of government are becoming an intrusive, large sector of the U.S. economy. Consequently, a huge government with a strong military can give birth to an empire as the democratic legal system fails, and is replaced by strong authoritarian rule.

The Decline of the Empire

The Roman Empire went into decline during its last three centuries. Each Emperor assumed more control over society, and kept raising taxes to finance a growing, bloated government bureaucracy. The Roman government kept increasing taxes to pay for three institutions. First, Rome had to finance its army and navy. This was the biggest expense in the emperor's budget. Over time, emperors had to buy the loyalty of his troops with cash [36]. Second, the government bureaucracies became larger, more complicated, and more expensive. Third, the government provided social welfare to feed the poor in Rome. Emperors provided free bread, Spanish olive oil, salt, and pork to Roman citizens. The Emperors also imposed price controls on wine [37]. Consequently, the Roman government had trouble financing these activities, as Rome's prosperity began to decrease.

The Roman government raised taxes to high and oppressive levels [38]. Written history does not enough information about the level and oppressiveness of the Roman's tax system, but some accounts were written of the high taxes at the end of the Roman Empire. For example, Egyptian leaders complained to Rome about taxes, because people were fleeing the villages, trying to escape from the tax collectors. If someone defaulted on his tax payments, and fled, the tax collectors would beat the person's family and relatives, and subject them to other types of punishment. The family and relatives would either pay the taxes, or tell the tax collector where the tax evader was hiding. The tax collectors invented new forms of executions for tax defaulters. If no family or relatives were left, then the tax collectors would punish the tax evader's neighbors, or seek revenge on whole villages [39]. Literally, the Roman tax system destroyed the taxpayers [40]. (You probably thought dealing with the Internal Revenue Service was bad, but it could be a lot worse).

Another way to finance a large government is the government prints money to cover its spending. Although Roman coins were made from silver, emperors debased the coins to create more money. When the silver coins returned to government, the government melted down the silver coins, and mixed in cheap metals like copper. Now, the government increased the money

supply by creating more coins without mining any new silver. At the beginning of the Empire, coins were almost pure silver; towards the end of the Empire, coins contained a speck of silver in them. The rapid increase in the money supply caused rampant inflation and weakened the currency. Heavy taxation and a weak currency put Rome's financial system into decline. Furthermore, food was driven from the markets from the high inflation [38].

The Roman local governments also had trouble balancing their budgets. They spent more than what they collected in taxes. Other things changed as well. At the end of the Roman Empire, the emperor eliminated completely all autonomy of local government. The emperor interfered with local government administration and imposed rules and mandates on local governments. The city councils collected the taxes, enlisted military recruits, and enforced the emperor's orders [38, 41].

The Roman society evolved into a police state with an all powerful central government [42]. The peasants became tied to the farmlands, and free movement became impossible. The peasants cultivated the fields, and were recruits for the Roman army, when the need for soldiers arose [43]. The Roman emperors even created secret police. The secret police would trick people into saying some bad words about the emperor, so the police could arrest and execute them [44].

The population started declining in the second-century A.D. along with a decrease in production. A declining population causes demand for goods and services to fall. Less people buy homes, food, and other products and services, which causes industries to contract. A smaller population also places pressure on the armed forces [38]. Furthermore, technological improvements halted, [38] because under an oppressive state, men were no longer able to create fresh, original ideas [45].

Some scholars believe the Roman Empire would collapse in the third century A.D., but two emperors, Gallienus and Diocletian, reformed the empire. Emperor Gallienus reformed and restructured the Roman army and navy, and also introduced the cavalry. A cavalry is armed soldiers mounted on horses. It is a mobile, and an efficient striking force. Emperor Gallineus could quickly suppress internal rebellion or drive out the invaders. However, it was costly to feed both soldiers and their horses [46].

Diocletian reorganized the whole Roman Empire. He further reformed and restructured the Roman army and navy. Moreover, he reformed the tax system, and proclaimed, “No man shall possess any property that is tax exempt” [43]. Diocletian divided the provinces into smaller units, and had to create a new class of bureaucrats to regulate them, which caused a heavier financial burden. An orator once remarked, bureaucrats are “more numerous than flies on sheep in the springtime” [47].

Diocletian further split the Roman Empire into the Western and Eastern Empires. Thus, the emperors could retain tighter control over the provinces, which reduced internal strife and conflicts between the provinces and Rome. Diocletian usurped control and freedom of local governments, binding them to an all-powerful emperor. Unfortunately, the growth in bureaucracies isolated and buffered an emperor from his people. Finally, each person inherited the social class of his parents, completely freezing social mobility [48].

By the third century A.D., the Christians became scapegoats of the economic hardships of the empire. The Roman government executed any church member [49]. Another reformer, Constantine the Great, issued an edict in 313 expressing religious tolerance. Emperor Constantine was the first Christian Emperor, and switched the state’s religion to Christianity.

A restructuring causes a shock to the legal system, and may get bureaucracies to function correctly again temporarily. However, the Emperors kept increasing the size of government, and the benefits of re-structuring were short-lived [41]. Unfortunately, the increase in an emperor’s power led to arbitrary rules, graft, favoritism, and corruption at all levels of government.

Government became larger, more oppressive, and more inefficient towards the end of the Roman Empire. The restructuring of the Empire from Gallienus and Diocletian evaporated, because the Roman Empire showed all the signs of collapse in the fifth century. For instance, Rome possessed the one characteristic of a banana republic. The army routinely murdered its emperor, and then appointed another [50]. Technically, Roman law forbade an emperor to station an army in Rome. However, Roman emperors created armed guards called the Praetorian Guard that routinely assassinated an Emperor, and appointed another.

With the constant change in Roman leadership coupled with severe financial troubles, uprisings against the Roman government were frequent along the northern frontiers [51]. The Roman Empire fell into barbarism, and the dividing line between civilization and savagery disappeared. It is no wonder why the Germans could so easily raid the Empire [52].

Conclusion

Analyzing Rome is a complex topic, because this civilization collapsed over 15 centuries ago. Of course, the author put his twist on the interpretation of events, emphasizing a growing government and a government's hunger for tax revenue. However, that is what historians do. A historian uses inference and deductions to connect the dots in a story.

Rome started with a great legal system, and over time, the Roman government through an emperor took complete control over its economy. The same pattern is occurring in the United States. The United States started with a great legal system, but now the government at all levels is exerting their influence over all aspects of the economy. The only difference is the rate of change is occurring at a faster rate.

Technological progress is speeding up the life cycle of a legal system. For instance, the Roman Republic lasted 500 years before it transformed into a dictatorship. Then the Western Roman Empire lasted another 500 years before it completely collapsed under an oppressive government. The Soviet Union lasted about 70 years, while the United States appears to be falling apart after 200 years after its creation.

Technology allows a government to control its population, and rapidly change the legal system. Modern states can easily squash troublemakers, and quickly execute or imprison them. The government can use Global Position Satellites, vast computer databases, and a large military to exert a tight grip over its people and citizens.

Another trend in Ancient Rome was the decline in its population. Economic prosperity usually slows down a country's population growth rate. People want to accumulate assets and wealth, and obtain an education. As the level of society's wealth

increases, it takes longer time to accumulate this wealth. The antithesis of wealth is children. Unfortunately, bearing and raising children are time intensive, and can hamper the accumulation of wealth. Therefore, many couples have no kids, or very few kids in wealthy societies.

European countries like Germany almost have no growth in population, while the United States has a little population growth from immigration. Over time, less people mean fewer consumers. All industries experience a gradual decline of demand for their products. Furthermore, all units of government have less people to regulate and control. That is the crux. Government rarely contracts its size, scope, and mission. If government maintains its original size, or keeps growing, a smaller population means people pay larger tax bills. Then higher taxes coupled with more regulations over time become so burdensome that the economy fails.

Declining population is occurring in some regions of the United States. For example, many cities in the State of New York are experiencing population declines. Residents are fleeing, but the size of municipal governments is not decreasing. Instead, they are devising new and higher taxes, which further drive businesses and people from the State of New York.

References

- [1] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 12-16.
- [2] Nardo, Don. 2002. *The Rise of the Roman Empire*. San Diego, CA: Greenhaven Press, Inc., p. 23.
- [3] Ibid, p. 22.
- [4] Ibid, p. 25.
- [5] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, p. 21.
- [6] Crawford, Michael. 1978. *The Roman Republic*. Cambridge, MA: Harvard University Press, p. 46.
- [7] Grant, Michael. 1999. *The Collapse and Recovery of the Roman Empire*. London and New York, NY: Routledge, p. 68.
- [8] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, p. 158.
- [9] Ibid, p. 130.
- [10] Crawford, Michael. 1978. *The Roman Republic*. Cambridge, MA: Harvard University Press, p. 46.
- [11] Ibid, p. 124.

- [12] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 82-85.
- [13] Crawford, Michael. 1978. *The Roman Republic*. Cambridge, MA: Harvard University Press, p. 162.
- [14] Ibid, p. 176.
- [15] Ibid, p. 161.
- [16] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 72-73.
- [17] Ibid, pp. 116-118.
- [18] Ibid, p. 72.
- [19] Ibid, p. 116.
- [20] Ibid, pp. 78-79.
- [21] Ibid, pp. 118-119.
- [22] Ibid, p. 73.
- [23] Crawford, Michael. 1978. *The Roman Republic*. Cambridge, MA: Harvard University Press, p. 134.
- [24] Ibid, pp. 102-108.
- [25] Ibid, p. 141.
- [26] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 120-121.
- [27] Ibid, p. 87.
- [28] Ibid, pp. 86-88.
- [29] Ibid, p. 92.
- [30] Ibid, p. 132.
- [31] Ibid, p. 124.
- [32] Goldsworthy, Adrian. 2009. *How Rome Fell*. New Haven, CT: Yale University Press, p.145.
- [33] Ibid, pp.48-49
- [34] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, p. 104.
- [35] Ibid, pp. 152-155.
- [36] Goldsworthy, Adrian. 2009. *How Rome Fell*. New Haven, CT: Yale University Press, p 164.
- [37] Ibid, pp. 131-132.
- [38] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 144-145.
- [39] Ibid, pp. 179-180.
- [40] Grant, Michael. 1999. *The Collapse and Recovery of the Roman Empire*. London and New York, NY: Routledge, p. 46.
- [41] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, p. 198.
- [42] Ibid, p. 197.
- [43] Ibid, p. 199.
- [44] Ibid, p. 173.
- [45] Ibid, p. 142.
- [46] Grant, Michael. 1999. *The Collapse and Recovery of the Roman Empire*. London and New York, NY: Routledge, pp. 35-38.

- [47] Goldsworthy, Adrian. 2009. *How Rome Fell*. New Haven, CT: Yale University Press, p.164.
- [48] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, pp. 197-198.
- [49] Ibid, p. 191.
- [50] Grant, Michael. 1999. *The Collapse and Recovery of the Roman Empire*. London and New York, NY: Routledge, pp. 3-13.
- [51] Ibid, p. 16.
- [52] Starr, Chester G. 1971. *The Ancient Romans*. New York, NY: Oxford University Press, p. 207.

9. The 2007 Great Recession and the Great Depression

“A nationally planned economy is the only salvation of our present situation and the only hope for the future.”

-Donald Richberg,
Member of the Roosevelt Administration

The Great Depression is a decade of human misery, and economic decline that affected all social classes from the poor to the rich [1]. It started in 1929 and lasted 11 years. The unemployment rate peaked at 26% [2], poverty was wide spread, and shanty towns sprang up across the landscape. The homeless scrounged crates, cans, and auto parts, and constructed shanty towns on vacant lots and under bridges. The shanty towns had no water, electricity, and other utilities [3]. Everyone blamed President Hoover, and called these shanty towns Hoovervilles in his honor. People roamed from state to state, searching for work [4]. Breadlines stretched around street corners, and some people were committing crimes, so they could receive room and board at the jail [5].

Many economists do not know what started the Great Depression and why it lasted so long, because a recession usually lasts anywhere from one to two years. The purpose of this chapter is to note the similarities and differences between the Great Depression and the 2007 Great Recession. The Great Depression started as a mild recession and gradually became worse. It is possible the U.S. will not leave the 2007 Great Recession, and it may be a prelude to the Second Great Depression.

The Prosperous 1920s

Before the start of the Great Depression, the United States grew significantly. Family incomes significantly rose and living standards improved for all Americans. The 1920s were known as the Era of Prosperity, which was one of the most prosperous eras in American history.

During the 1920s, American consumers garnered enough wealth to purchase a new product that changed the American landscape: the car. With more wealth coupled with mass production technology, the prices of cars fell, causing demand for cars to surge. The number of cars registered jumped from 9 million to 23 million during the 1920s. With more cars on the road, other industries related to cars expanded. Government paved roads, built bridges, and installed signs and traffic lights, while businesses built gas stations, auto parts stores, repair garages, and car dealerships [6]. The automobile industry significantly impacted the U.S. economy during the 1920s, because it created jobs, wealth, and new industries.

The 1920s also saw large amounts of investments in homes, commercial real estate, and consumer products. Families wanted to escape the confines, and stress of the city, and they began migrating to the suburbs. Mortgage financing was pivotal for this migration, because it allowed a family to buy a house [7]. Of course, every family wanted all the new electronic devices like radios, cooking devices, vacuum cleaners, washers, dryers, and other appliances [8]. Finance companies were pivotal in helping families finance these consumer products [9]. Finally, large corporations wanted to show their power and financial position by investing in massive office buildings. The famous landmark, the Empire State Building, was constructed during the 1920s [7].

Everyone economically benefited during the prosperous 1920s. However, not everyone shared the benefits equally. With a strong manufacturing sector, the 1920s saw the rise of skilled labor who earned higher wages than the unskilled. Towards the end of the 1920s, the richest people in the United States also saw the largest increase in wealth. The wealth of the top 1% of the wealthiest people in the United States saw their wealth increase from 32% to 38%. The overvalued stock market contributed to the high salaries for CEOs. The 1920s saw the “highest income inequalities in American history” [10].

Morality appeared to be declining during the 1920s. The divorce rate in America reached the highest level in its history during the 1920s. There was one divorce out of every six marriages [11]. Furthermore, the new wealth pouring in from the stock market allowed people to party more.

As the economy grew, and created jobs and wealth, American families and corporations accumulated debt with no problems. The real problem arose, when incomes and wealth started to fall. The stock market crashed, wiping out tons of paper wealth, and not too far behind, real estate prices collapsed as the real estate bubble bursts. At the end of the 1920s, developers over produced the number of housing plots in the suburbs [7].

The 1920s were prosperous times and unfortunately, as Newton's Law of Gravity states; what goes up must eventually come down. The prosperous 1920s came to an explosive close like a shotgun blast on a deadly still, cold night. The Great Depression began with the stock market crash in 1929.

The Stock Market Crash of 1929

The stock market rose dramatically during the 1920s. The stock prices were rising so fast that people spread rumors about shoeshine boys and waitresses becoming millionaires by investing their meager tips into the stock market [12].

During 1927, the Federal Reserve and President Hoover tried to slow down the rapidly increasing stock prices by increasing the interest rates. They believed the market was over valued, and they wanted to prevent a stock market bubble [13, 14].

Some believe the U.S. government and Federal Reserve did not want gold to leave the United States, because our country was on the gold standard. A higher interest rate would encourage international investors to keep their money in the U.S. economy and not cash in dollars for gold. However, the Federal Reserve's actions had no impact.

The stock market had a bumpy ride during October, and eventually crashed on October 29, 1929, which is known infamously as "Black Tuesday" [15]. On that infamous day, investors traded 16 million shares on the New York Stock Exchange, accumulating losses in the billions. The stock market had a deep psychological impact on the country, and many viewed the crash as a blow to a strong U.S. economy [15].

With the stock market crash in 1929, corporate corruption and excessive greed rose to the surface. The U.S. government passed laws requiring corporations to disclose more information to

stockholders and President Roosevelt created the Securities Exchange Commission to police the stock markets. New laws made it illegal for insider trading and bear raids. A bear raid is an investor borrows a financial security, and hopes to buy it for a lower price [16].

Many similarities exist between the Stock Market Crash of 1929, and the stock market decline in October 2008. Technically, the stock market did not crash in 2008, but stock prices significantly declined in value. The Dow Jones peaked approximately at 14,000 and bottomed out around 7,000. This is a 50% percent decline in value, and this severe drop has repercussions throughout the economy. The impacts of declining stock prices on the U.S. economy are:

Impact 1: People and businesses that are holding stock see their paper wealth dissipate in the air like smoke. As their paper wealth dissipates, people and businesses reduce their consumption, especially in luxury goods. It is no coincidence that the travel industry, durable goods like cars, and business investment have taken massive hits from the 2007 Great Recession.

Impact 2: Working people invest their pension plans into the financial markets. With massive losses in the financial markets, many people on the verge of retirement are delaying their retirement plans. Further, people may keep their money out of the stock market and hide it under their mattress.

The Banking System

At the beginning of the Great Depression, government delayed the liquidation of bad business loans, and encouraged financial institutions to keep lending to businesses, even to businesses that should not receive any investment [17]. The government wanted to keep investment spending high, which could help the stock market rebound.

The Federal Reserve stood on the sidelines, and allowed a large number of banks to fail during the Great Depression. However, most people do not realize the United States was on the gold standard. The Fed could not increase the money supply, or provide emergency loans to banks, because it did not have enough gold. The exchange rate between gold and U.S. dollars were fixed at 1

ounce = \$20. Furthermore, people lost their faith in the banking system and transferred their money into gold. People withdrew gold from the Federal Reserve and hoarded it. In 1933, President Roosevelt stopped this trend by declaring the holding of gold illegal, and the United States left the gold standard.

Currently, the United States is not on the gold standard. The Federal Reserve can issue as much money or grant as many loans as it wants, and it does.

Interest rates tend to tumble to historic low levels during severe economic contractions. The Federal Reserve discount rate dropped from 4.5% to 1.5% during the Great Depression [18]. The discount rate is the interest rate the Federal Reserve charges financial institutions for loans. Similarly, the Federal Reserve discount rate took a similar nosedive during the 2007 Great Recession, as the discount rate dropped to 0.5% in December 2008 [19].

Usually interest rates move together. As the discount rate falls, other interest rates fall. This is great news for borrowers, because their loans are cheaper. However, this is bad news for lenders, investors, and savers. They earn less interest income, and their profits and incomes are smaller. Nevertheless, the problem with low interest rates signals two worrisome problems for the 2007 Great Recession:

Problem 1: The Federal Reserve System is injecting massive amounts of money into the banking system. The sad news is the U.S. economy is still shedding jobs, and foreclosures, and bankruptcies are persistently climbing. Moreover, the Federal Reserve has granted over \$2 trillion in emergency loans to financial institutions. The Federal Reserve does not disclose which banks are getting loans, believing depositors and investors will panic if they discover their bank is in financial trouble.

Problem 2: Lower interest rates may not spur economic development. Two factors are occurring. First, Americans are all loaned out. Americans are having trouble paying back their current debt, so they will not add to it. Second, house and car prices are falling. It would be foolish for consumers to get loans on assets that are losing value. Borrowers should wait until the prices hit rock bottom before taking on new loans. Furthermore, banks may not want to grant loans on assets with falling prices in case they have to foreclose on the asset.

Deflation

During the Great Depression, the U.S. experienced a sharp deflation [20]. Deflation is when prices in the economy are falling and is considered a two-edged sword. On the one hand, falling prices benefit consumers. Consumers can buy more products, when they are cheaper. On the other hand, deflation is very dangerous to an economy, because lower prices squeeze business profits. A business cannot survive if it cannot earn a profit, so a business will try to lower its costs. A business has three methods to lower its costs.

Method 1: A business could adopt new technology that increases efficiency, so businesses could produce more with the same resources. Usually businesses do not invest during downturns in the economy. The future is uncertain, profits tend to fall, and it is better to save money than to invest in new technology.

Method 2: The largest cost to a business is labor, so a business will try to lower wage rates or lay off workers. If workers are laid off, then workers have less income to buy goods and services, which cause the economy to contract. This is a bad trend for the U.S. consumer economy.

Method 3: The business re-locates to places that have cheaper operating costs. In our case, that would be China. Unfortunately, the business creates jobs and wealth in China, and not within the United States. This is another bad trend for the U.S. manufacturing economy.

During the Great Depression, severe deflation led to massive layoffs, and a significant drop in production. The production of durable goods fell by 50%, nondurable goods fell by 20%, and retail sales dropped by 25% [21].

The government tried to help businesses during the Great Depression by passing the Smoot-Hawley Act, which used tariffs to protect the U.S. agriculture and manufacturing industries from international competition. The government wanted to “build up the domestic industry,” because with less competition, businesses can increase prices [21].

The businesses and farmers can earn profits with higher prices. Businesses could use some of these profits to pay the stockholders of corporations, which would help the stock market. Furthermore,

businesses could use some of the profits to pay higher wages to the workers. Moreover, an infusion of profits to the farmers would slow down the large number of farmer bankruptcies and farm foreclosures. However, the tariffs backfired. The trading partners with the United States also passed similar tariffs, causing international trade to collapse. It is unclear how many farmers and domestic businesses benefited from the tariffs, but the loss of the export industry led to more unemployment and income losses.

Currently, the United States is experiencing a mild deflation, and it appears businesses are not absorbing the lower prices through adoption of new technology. Moreover, retailers are reporting disappointing sales for 2008 Christmas, and Chrysler and GM filed for bankruptcy in 2009. In addition, many companies are leaving the United States, and opening new factories in foreign countries like China. These Chinese products will be exported to the United States. With companies leaving the United States, this creates fewer jobs and lower incomes for the American people. Incidentally, the tax base is smaller, so people pay fewer taxes to government. It is no coincidence that many states and local governments are going broke in the United States.

The U.S. has not passed any wide sweeping trade restrictions for the 2007 Great Recession. However, this could rapidly change. The presidential debates in 2012 have expressed anger with China over the loss of U.S. manufacturing jobs.

Farmers

The Great Depression hit the U.S. farmers the hardest. Before the stock market crash, farmers were already hit with declining agricultural prices. With prices plunging and a severe drought in the Midwest, farmers were driven from their lands through bankruptcies and foreclosures. Some farmers gathered arms and became militant, while other farmers fled to states like California in search of work [23].

The U.S. government responded to falling agricultural prices by interfering with the agricultural markets. Government uses two techniques to increase farmers' incomes. First, government encourages farm exports, thus supplying international consumers. More consumers mean higher prices. Unfortunately, during the

Great Depression, the U.S. government destroyed free trade. Second, government increases farmers' incomes by increasing prices of agricultural products, subsidizing cheap credit to farmers, or subsidizing farm cooperatives [24]. A cooperative is an organization that unifies the farmers into one supplier, and one supplier can act like a monopoly, increasing the selling price. (Government usually considers monopolies bad, except the ones they support).

During the Great Depression, President Hoover allowed the U.S. government to intervene heavily in the butter, cotton, grape, wheat, and wool markets, but the market price of these commodities continued to fall [25].

When President Roosevelt came into power, he took government control one step further. The government set production quotas on corn, cotton, dairy products, hogs, rice, tobacco, and wheat. The U.S. government paid subsidies to farmers to allow their land to remain idle. If farmers produced too much, then the government would buy the excess and destroy it. This aggressive government intervention allowed farm incomes to increase. However, food prices became more expensive to consumers. Unfortunately, as some people were starving, the U.S. government was destroying food.

The U.S. government still uses price controls, and they are still ineffective, because agricultural prices have been falling since the 1990s. Economists usually consider price controls useless, because an artificial high price causes farmers to supply more. As the supply increases, the market price falls. Then government enters the ridiculous situation, when it stock piles a massive amount of agricultural products, or ends up destroying it, in order to bring the supply back down.

Since the 2007 Great Recession, many agricultural prices are still falling. Moreover, some farmers did not receive payment for commodities that were shipped in 2008, because those companies went bankrupt.

Employment

During the Great Depression, more and more people became unemployed over time, and the unemployment rate peaked at 26%

in 1932. With jobs scarce and applicants lining up for one job, the power balance between the employer and employee shifted towards the employer. The employers decreased wages, increased workloads, increased work hours, and reduced benefits. The employees are powerless, when numerous other applicants are lining up for their job [26].

One particular company literally turned its employees into slaves. The coal fields in Harlan, Kentucky were a harsh place to live during the Great Depression. The coal-mining companies owned the miners' homes and local grocery stores. The companies extracted every penny from the miners by lowering their wages, forcing them to live in the companies' homes, and purchasing groceries at the companies' stores [27]. The companies literally controlled all the economic affairs of its employees.

Teenagers and children could not find jobs, and could not attend school during the Great Depression. State budget problems caused many schools to close their doors. Furthermore, teenagers and children accepted the hobo lifestyle, and drifted back and forth across the United States [28].

African-Americans experienced more discrimination during the Great Depression, because jobs were scarce. They paid more money in rent compared to white families, and they rented rat infested basements, and used cans as a toilet. Many African-American families rented, or shared their apartment space with other families to help pay for rent. They also turned to charities and other public relief programs [29].

President Hoover in 1929 encouraged businesses not to lay people off, or reduce the wage rates. High wages maintain strong consumer spending [17]. If businesses still employ people, the people retain their purchasing power. If workers are laid off, or have their wages cut, they cannot buy houses, cars, appliances, and other goods. The U.S. government granted concessions and subsidies to businesses [17]. President Roosevelt took this a step further, and tried to boost the number of jobs by creating public works jobs, imposed regulations on businesses, lowered the workweek to 40 hours, and passed child labor laws.

Finally, the U.S. government significantly cut the immigration quota by 90% in 1930, because they believed cheap foreign labor caused wages to drop [30].

President Obama has not influenced businesses in terms of employment. Many corporations are still laying off thousands of employees. Massive layoffs have a negative impact on an economy. For instance, laid-off workers will reduce their purchases on houses, cars, appliances, travel, and other luxury goods. As revenues to these industries decrease, their profits decrease, causing these industries to reduce their work force. Then more laid-off workers reduce their spending further. Unfortunately, this vicious cycle can continue indefinitely.

If workers are still employed, they see these job losses, and become fearful of losing their jobs. Consequently, they also cut back on their spending and increase their savings, adding more misery to a weak U.S. consumer economy. A consumer economy cannot grow, if everyone is saving as much money as they can. Maynard Keynes called this the Paradox of Thrift.

Usually when a country enters a period of economic decline and stagnation, citizens pick an ethnic group, and blame them for a country's financial problems and malaise. The United States is a large melting pot of cultures and peoples, and the government and the people cannot blame a particular ethnic group. Instead, they are blaming illegal immigrants.

For example, the State of Arizona passed a new tough immigration law that allows officers to ask for a person's citizenship status, and also makes it illegal to help or transport undocumented residents. The state will incarcerate more priests and nuns, when they help feed and clothed people in need like illegal immigrants. God does not care about a person's immigration status.

Rumors abound that illegal immigrants are fleeing Arizona, because of the new tough state laws. The people and government of Arizona do not understand that the state is losing workers and customers. Business cost will increase as they hire more expensive, legal labor, and fewer immigrants will buy and rent homes, shop at stores, or buy cars. Consequently, the economy of Arizona could tank further, as a portion of their population flees.

Many states are cracking down on residents applying or renewing their driver's licenses, which may be another attempt at reducing illegal residents. The state wants numerous documents, such as a recently certified birth certificate, marriage and divorce

papers and licenses, several documents showing proof of residency, etc. Most people do not realize this is the Soviet system of bureaucracy. One trip to a Soviet bureaucracy resulted into multiple trips to other bureaucracies. Then citizens have to plea or argue with the bureaucrats for the numerous certified documents.

What is interesting is illegal immigration has been a problem since the 1980s. No one seemed to care until the 2007 Great Recession hit the economy. Now illegal immigration has become a nationally charged issue.

The labor market is still terrible in 2012. Although the U.S. unemployment rate is 8.3%, approximately 12 million workers left the labor market. Many college graduates cannot find jobs, and foreign workers are fleeing the United States, and returning to their home countries. After four years since the start of the 2007 Great Recession, the jobs have not returned, and no likelihood that they will return.

Taxes

At the start of the Great Depression, President Hoover passed small tax cuts. Personal income tax rate fell from 5% to 4%, while corporate income tax rate fell from 12% to 11%. The theory behind the tax cuts is people, and businesses will have more money. When consumers have more money, they spend more, creating higher demands for goods and services. If businesses have more money, they may hire more workers, and invest in more machines and equipment. Investment allows businesses to operate more efficiently and produce additional goods and services. Consequently, tax cuts should boost a weak economy. At the beginning of the Great Depression, the U.S. federal government still had a surplus, but it became smaller after the tax cuts [31].

The federal government began experiencing budget deficits, as the Great Depression raged on. The severe contraction in manufacturing and the massive number of bankruptcies caused the tax base to erode. In 1931, President Hoover did a complete reversal, and passed the largest peacetime tax hike in American history. Hoover instituted new taxes on gas, tires, malt, stock transfers, bank checks, and real estate, including the hated inheritance tax. He also increased the income tax rates [32].

Furthermore, Hoover wanted to stimulate consumption and discourage savings, so the government-imposed taxes on investment [17].

When President Roosevelt came into office, he also passed a slew of new taxes. Roosevelt did not want high government debt, but he created numerous government agencies and large, expensive public works projects. Thus, Roosevelt increased income and estate taxes, and imposed an excise tax on almost everything. Some of the excise taxes were on lubricating oil, malt syrup, brewer's wort, tires, toilet articles, furs, jewelry, automobiles, trucks, radio and phonograph equipment, refrigerators, sporting goods, cameras, firearms, matches, candy, chewing gum, soft drinks, and electricity [33].

The excise tax is a tax on a specific good, and if government imposes numerous excise taxes, it causes a tax system to be more complex. Each tax has its own rules and tax schedule that businesses have to keep track of. It would be simpler to impose a simple sales tax, and apply it to everything.

Tax hikes can be disruptive during recessions. If households and businesses are already financially hurting, then increasing taxes will increase the hurt. Unfortunately, the 2007 Great Recession is causing incomes to fall; foreclosures and bankruptcies are increasing, and several industries are on the verge of collapse. Many states and local governments are financially hurting. Consequently, many state politicians are dreaming up new taxes or expanding old ones, and they are also increasing fees and fines. Although the federal government reduced taxes, states are nullifying the tax decrease with increases in state and local taxes.

President Obama passed a national health-care plan that expands health care coverage to everyone, including 35 million people without any insurance coverage. Businesses will be hit with additional taxes to pay for this health-care plan, and pay for the expansion of the Medicare and Medicaid bureaucracies. These policies work against the economy and hinder economic growth.

President Obama will have to increase taxes on a bad economy. Since the 2008 Financial Crisis, the U.S. federal government has trillion-dollar deficits. Eventually, investors will question the financial health of the U.S. government, and stop buying U.S. government securities. Consequently, the federal government will

have three options: Increase taxes, reduce budget expenditures, and/or force the central bank, The Federal Reserve, to buy U.S. securities, which would result in higher inflation.

The Growth of Government

President Hoover used the power of the federal government to shorten the Great Depression. Hoover asked states to expand state public works programs [34] that created jobs for the unemployed workers by building new bridges, roads, and parks. Moreover, the Hoover Dam was also built [5]. When workers have more money, they buy more products, creating again a demand for more goods and services. In addition, the state has more roads, sidewalks, and infrastructure.

Franklin Roosevelt easily won the presidency, because many people blamed the Great Depression on capitalism and excessive greed. He took Hoover's plan and greatly expanded it. President Roosevelt created numerous government agencies and a slew of new taxes to pay for them. Only the prominent agencies are listed below, because the list is quite long:

➤ **Federal National Mortgage Association** (i.e. **Fannie Mae**) is a government agency that grants mortgages to the poor. Many banks collapsed, or stopped lending during the Great Depression; Fannie Mae tried to get the housing market growing again by granting mortgages.

➤ **Federal Deposits Insurance Corporation (FDIC)** is a government institution that insures banks' deposits. Deposit insurance helps prevent bank runs. A bank run is all the depositors show up at their bank to withdraw their deposits, because they believe the bank will fail. A bank lends most of its money out, and cannot pay all the depositors, when they show up at the same time. Thus, a bank run always causes a bank failure. Deposit insurance gives depositors a belief their deposits are safe. If the bank fails, then FDIC pays the depositors their money.

➤ **Federal Bureau of Investigation (FBI)** is a government agency that tracks down criminals who violate federal laws. FBI evolved from previous enforcement agencies. During the Great Depression, many people lost their money when their banks failed. Thus, bank robbers like John Dillinger, Baby face Nelson, and Bonnie and Clyde became folk heroes, because they were getting back at the banks. The federal government through FDIC insured bank deposits made bank robbing a federal crime. President Roosevelt wanted the FBI to track down, and capture those bank robbers.

➤ **Securities and Exchange Commission (SEC)** is a government agency that polices the stock markets. SEC agents investigate financial fraud and manipulation of stock prices.

➤ **Federal Communications Commission (FCC)** is a government agency that regulates radio and TV transmissions.

➤ **National Recovery Agency (NRA)** is a government agency that tried to set prices and wages on business and labor, and impose numerous regulations and production standards for all goods and services. This agency no longer exists, because the U.S. Supreme Court ruled this agency unconstitutional in 1936.

➤ **Public Works Administration (PWA)** is a government agency that contracted with private companies to build 34,599 large public works projects. Government dissolved the PWA during World War II, because the war pulled the U.S. economy out of the depression. These jobs were no longer needed.

➤ **National Labor Relations Board** is a government board that helped labor unions to grow. Labor unions boost workers' wages and benefits through strikes. A strike is a coercive technique to force businesses to give into unions. If a business does not agree with the labor union, the workers shut down production and walk off the job site, financially harming the employer because he has no products to sell.

The U.S. economy became more socialized during the Great Depression, and the economy did improve some. However, the government did not pull the economy out of the Depression. World War II brought the country out of the Great Depression. As Hitler began annexing Austria, Sudetenland, and Poland, the European war machines fired up, and Europe started to buy U.S. military goods. Then U.S. manufacturing was infused with money and jobs.

After the 2007 Great Recession, President Obama created a new agency, Bureau of Consumer Financial Protection, to protect consumers from banks and finance companies. Many banks and finance companies that experienced a financial crisis in 2008 are the same ones that charged excessively high fees and were involved in loan fraud. Maybe government should allow these financial institutions to bankrupt. Bankruptcy gets rid of the bad businesses and institutions, making room for the good businesses to thrive and grow.

President Obama passed his healthcare plan that requires all Americans residing in the United States to have health insurance after 2014. However, some experts believe the healthcare plan is creating massive uncertainty for businesses. No one wants to hire new workers, because businessmen and managers do not know how their costs will change once the healthcare plan is implemented. Consequently, the labor market in 2012 was the worse this author has seen in his life.

Many people think capitalism failed and government, like superman, will swoop down and fix all our problems. Although the federal and state governments are not likely to create new bureaucracies, we have enough bureaucracies to create a government-controlled economy. Expect President Obama to expand continually the powers of the federal bureaucracies, while the state governments will expand theirs.

Conclusion

Many experts and economists predicted a turn around in the U.S. economy in 2010, but it still has not materialized. Many companies are continually leaving the United States; company layoffs are still occurring, and most of the states have budget deficits. Similar to the Great Depression, many experts predicted

an improving economy. However, as the economy improved, something else collapsed. It took a decade for people to realize that something severe happened to the economy.

Economists do not know what started the Great Depression, or why it lasted so long. Each story always has two sides and in many cases, nobody knows which story is the correct one. For example, many people view President Roosevelt as a leader, who helped eased the Great Depression. He used the federal government to stop prices and wages from dropping, created public works jobs, and created a variety of new alphabet-soup government agencies.

President Roosevelt did give citizens a message of hope, but some economists believe his reforms actually extended the Great Depression. The U.S. economy had a recession in 1937, when we were still in the Great Depression. If the United States were in a depression, how can it be in a recession? These economists believe the Great Depression would have only lasted a couple of years if the government did not interfere with the economy.

Some great minds, like Irving Fisher, believed depressions have two characteristics that wreak havoc on an economy:

➤ **Deflation** – an economy experiences decreasing prices. Deflation hurts business profits, because their revenues fall from decreasing prices. Then businesses lay off workers. More unemployed workers have less income to buy products, and businesses experience a further decrease in sales. Then, this viscous cycle continues.

➤ **Credit / Debt Cycle** – too much credit allows asset bubbles to form, and then an economy reaches a saturation point, when they cannot borrow anymore and the asset bubble pops.

Credit / debt cycles can be vicious to an economy, because an expansion of credit allows industries to expand rapidly. For example, during the 1920s, consumers could borrow, so they could buy homes, appliances, and cars. Factories quickly expanded production from the higher demand for their products. This expansion created manufacturing jobs and more wealth. However, consumers reached a point when they could not borrow anymore. Then demand for these products quickly drops, causing widespread

unemployment and bankruptcies. It sounds suspiciously like the situation in 2008, when American consumers are swimming in too much debt, and they stopped contributing to the consumer economy.

The credit / debt cycle occurred in the Stock Market Crash in 1929. Investors could borrow funds to invest in the stock market by borrowing on the margin. For example, an investor invested a \$1,000 into stocks by using \$100 of his own money, and borrowed \$900 on the margin. Of course, buying on the margin allowed people to overextend themselves, but everybody wins when the stock prices kept climbing. As stock prices kept climbing, more and more people invested more money into the market. Eventually, the money stops flowing into the market. As stock prices started to fall, investors panicked and withdrew all their money out of the market, causing stock prices to crash. Then many financial companies bankrupt, when investors could not pay their margins.

The credit / debt cycle occurred during the U.S. housing boom between 2001 and 2007, as banks created new exotic securities to attract investors to the mortgage market. Unfortunately, asset bubbles can occur with any commodity. The first recorded asset bubble was the Tulip Mania that occurred in 17th century Netherlands. Yes, an asset bubble occurred from flower bulbs [35]!

References

- [1] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 27.
- [2] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, p. 1.
- [3] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 17.
- [4] Ibid, p. 18.
- [5] Ibid, p. 15.
- [6] Hall , Thomas E. and J. David Ferguson. 2002. *The 1920s: A New Era of Prosperity*. The Crash of 1929. Greenhaven Press, Inc: San Diego, pp. 22-24.
- [7] Ibid, pp. 24-25.
- [8] Ibid, pp. 22-25.
- [9] Gerdes, Louise I. 2002. *The Crash of 1929*. Greenhaven Press, Inc: San Diego, pp. 12-13.

- [10] Hall , Thomas E. and J. David Ferguson. 2002. *The 1920s: A New Era of Prosperity. The Crash of 1929*. Greenhaven Press, Inc: San Diego, pp. 26-27.
- [11] Klingaman 2002, William K. 2002. "Everybody Ought to be Rich:" *The Midsummer Boom. The Crash of 1929*. Greenhaven Press, Inc: San Diego, pp. 38-39.
- [12] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 31.
- [13] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, p. 145.
- [14] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 12.
- [15] Gerdes, Louise I. 2002. *The Crash of 1929*. Greenhaven Press, Inc: San Diego, p. 11.
- [16] Axon, Gordon V. 2002. *Establishing Government Regulations and Safeguards. The Crash of 1929*. Greenhaven Press, Inc: San Diego, pp.129-133.
- [17] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, pp. 26-27.
- [18] Ibid, pp.212-213.
- [19] Board of Governors. December 18, 2008. "Press Release." Federal Reserve System. Available at <http://www.federalreserve.gov/newsevents/press/monetary/20081218a.htm> (access date 01/09/09).
- [20] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, p. 231.
- [21] Ibid, pp. 230-237.
- [22] Ibid, pp. 213-214.
- [23] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, pp. 120-121.
- [24] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, p. 196.
- [25] Ibid, pp.204-207.
- [26] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 87.
- [27] Gates, Sudy. 2001. *A Hard Life in the Harlan Mines. The Great Depression*. Greenhaven Press, Inc: San Diego, pp. 144-118.
- [28] Nishi 2001, Dennis. 2001. *The Great Depression*. Greenhaven Press, Inc: San Diego, p. 158.
- [29] Hedgeman 2001, Anna Arnold. 2001. *Hard Times in Harlem. The Great Depression*. Greenhaven Press, Inc: San Diego, pp. 82-85.
- [30] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, pp. 215-216.
- [31] Ibid, p. 225.
- [32] Ibid, p. 231.

- [33] Tax History Museum. "1901-1932: The Income Tax Arrives." Available at <http://www.taxanalysts.com/museum/1901-1932.htm> (access date 12/31/08).
- [34] Rothbard 1972, Murray. 1972. *America's Great Depression*. Sheed and Ward, Inc: Kansas City, p. 193.
- [35] Wikipedia. 2008. "Tulip Mania." Available at www.wikipedia.org (access date 12/26/08).

10. The Anatomy of the 2008 Financial Crisis

“A business that makes nothing but money is a poor business.”
-Henry Ford

The 2008 Financial Crisis was the perfect storm, because five unrelated factors came together that created a massive housing bubble in the United States. The five factors were:

Factor 1: Banks loaned anyone money for a mortgage. If the applicant has a heartbeat and a paycheck stub in his pocket, then he has a mortgage. In the old days, banks carefully scrutinize all applicants. Banks wanted tax returns, stable employment, number of times an applicant was married, et cetera.

Factor 2: The Wall Street Bankers created new exotic financial securities that were marketed to the world. As incomes and wealth increased in Europe, the Middle East, and Asia, the investors bought trillions of dollars of these exotic securities. The Wall Street bankers channeled this money into the housing market, causing rapid appreciation of housing values.

Factor 3: Investors did not understand the exotic securities, but they invested in them, because the rating agencies rated them as triple A. Hence, the exotic securities were always packaged to have a triple A credit rating.

Factor 4: The financial markets for the new exotic securities were not regulated. The U.S. regulatory agencies stood on the sidelines, and watched these markets mushroomed into trillions of dollars.

Factor 5: The statistician, David Li, invented a method to price these exotic securities using advanced mathematics. He replied the Wall-Street banks were not using his method correctly. The pricing is based on historical values. Consequently, the securities are priced on increasing property values, because property values consistently rose since the Great Depression.

The United States entered a recession in 2007. As the unemployment rate increased, and incomes fell, some people stopped paying their mortgages, which sent a shockwave through the financial markets. The foreign investors began questioning

what they bought, and stopped the flow of money through Wall Street, precipitating the 2008 Financial Crisis.

The U.S. government is using the 2008 Financial Crisis as a reason to take over the U.S. economy. The politicians and regulators are telling you the free market failed, and government must step in to fix it. Rampant, excessive greed at Wall Street put the whole country in jeopardy.

The U.S. government does not tell you that they knew about this problem, because a smaller event happened in 1998. The hedge fund, Long-Term Capital Management, crashed and burned during the 1998 Asian Financial Crisis. The hedge fund invested \$1.25 trillion in a variety of exotic financial securities. The New York Federal Reserve organized a bailout of approximately \$3.6 billion that stopped the financial disaster spreading to the U.S. banks.

One person in the United States government saw the problems and flaws with these exotic securities, and pushed for new regulations. Congress, the Department of Treasury, and the Federal Reserve immediately stopped her. The very same political leaders who prevented the new regulations are the identical ones who criticized Wall Street in 2008. Frontline has a great documentary, *The Forewarning in 1998: Long-Term Financial Capital* that covers this event.

The Push for Homeownership

The U.S. government planted the seeds that sprouted into the 2008 Financial Crisis. These seeds came from the American Dream where all American families should own their own home. Thus, the politicians and government officials help perpetuate this dream by passing favorable laws for homeownership.

One law, the Community Reinvestment Act (CRA) of 1977, forces banks to grant loans to low-income households [1]. On the surface, this appears to be a good law, because banks are forced to grant mortgages to low-income households. Furthermore, cities are teeming with poor neighborhoods and poor households; thus, this law could help banks invest in blighted neighborhoods, and helps transform them into thriving neighborhoods. This investment is possible without using taxpayer money.

Some community organizations like the Association of Community Organizations for Reform Now (ACORN) used the Community Reinvestment Act to strong-arm banks into granting loans to low-income households. If a bank wants to merge with another bank, or open a new bank branch, the U.S. government has to approve this activity. However, if a community organization believed this bank did not grant enough loans to poor people, it could petition the U.S. government, claiming the bank violated the Community Reinvestment Act. Thus, an organization could delay bank mergers and bank branch expansions indefinitely with these petitions [1].

The banks are caught in a catch 22. Low-income households are more likely to default on loans than the middle-class and wealthy, but not making enough loans to poor people could jeopardize future business expansions. Moreover, banks could not charge higher interest rates to compensate for this higher default risk. Some low-income households are minorities, and charging a higher interest rate could be viewed as a racist policy.

The Community Reinvestment Act also strong-armed two public corporations: the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). President Clinton used the law during the 1990s to pressure Fannie Mae and Freddie Mac to expand loans to low-income households, especially black and Hispanic households. Consequently, both Fannie Mae and Freddie Mac expanded mortgages until low-income households comprised at least 42% of their loans [2, 3].

Fannie Mae and Freddie Mac have two functions: provide mortgages to low-income households and make the mortgage market more liquid. Investors prefer liquid assets, because they can sell assets quickly with little transaction costs.

Mortgages are traditionally illiquid assets, because once a bank grants a mortgage, it is stuck with the mortgage, until either the bank forecloses on the home, or the homeowner pays off the mortgage. Investors did not buy mortgages, because they are long-term loans and are high risk. If a homeowner stops paying his mortgage, investors can incur large losses. Several bad loans in a portfolio can bankrupt a mortgage fund.

An ingenious innovation came along that allowed banks to grant mortgages to anyone. Moreover, this innovation allowed the banks to earn enormous (short-term) profits, and involved no risk to the banks. Consequently, banks easily approved mortgages for low-income households. Banks removed their stringent loan guidelines, such as verifying borrowers' income, ignoring employment history, and not requiring borrowers to put any money down.

Banks granted 100% financing for homes to anyone. The families, who never would be approved for a mortgage before the 1990s, could get a mortgage, although they are more likely to default. This class of loans evolved into the subprime loan market. As home foreclosures escalated during 2008, these subprime loans were dubbed toxic mortgages.

Mortgage Asset-Backed Securities

Banks use a method to package loans with a known cash flow into a fund. The cash flow is from the debtors paying their debts. Consequently, once a bank grants a new mortgage, the bank places it into a fund in order to get rid of it. Then, investors buy into the fund by purchasing the fund's securities. If the fund is full of mortgages, then banks call this a mortgage asset-backed security.

A fund may issue different types of securities called tranches. A tranche is a French term meaning a portion or slice. Each tranche has a security associated with a risk level, and thus each tranche of securities has a different credit rating. Some securities are rated AAA, and will pay the lowest return to investors. However, investors are first in line, if the fund goes bust. The fund also issues risky securities that pay a higher return, but investors can lose their investment if the fund bankrupts. A good question is: how can the same fund issue both AAA and junk rated securities, if it holds the same assets in the fund?

The mortgage asset-backed securities caused banks to expand their mortgage lending. When the borrowers pay their mortgages, the payment goes into the fund, and the fund managers pay a return to the investors. The bank gets its money back from the mortgages, and can use this money to grant new mortgages. As long as most

borrowers pay their mortgages, these funds remain solvent, and investors earn a return on their investment.

Banks earn profits from the closing-cost fees from a new mortgage, and the fees for managing the fund. Of course, the banks do not earn the profits from the cash flow of a mortgage; the fund investors do. For example, if a family bought a \$100,000 home with a 7% interest rate and a 30-year mortgage, then their monthly payment is \$665 per month. This does not include property taxes, homeowner's insurance, and other fees. However, the homeowner pays a total of \$139,509 of interest to the investors' fund over the life of the loan.

Banks persuaded homeowners to accept adjustable-rate mortgages (ARMs). Consequently, an ARM mortgage payment starts with a low interest rate with low monthly payments. Then several years later, the mortgage interest rate resets to a higher level, causing the monthly payments to increase. For example, the monthly payment for a \$300,000 mortgage for 30 years with an interest rate of 3% is \$1,265. If two years later the interest rate climbs to 6%, then the homeowner's monthly payment climbs to \$1,722 per month. Once the ARM sets to a higher level, families are hit financially hard. The banks and real estate agents persuaded homeowners to accept ARMs, because they could refinance into fixed-rate loans several years later. Unfortunately, the mortgage market collapsed in 2008, and refinancing became unavailable.

The biggest players in mortgage asset-backed securities were the private banks: Countrywide Financial, Lehman Brothers, and Wells Fargo, and the public corporations: Fannie Mae and Freddie Mac. They suffered billion dollar losses, when the United States entered the 2007 Great Recession.

Nothing is wrong with asset-backed securities. The problem was the banks, Fannie Mae, and Freddie Mac extended too much credit to poor people. Poor people are more vulnerable to downturns in an economy, because it causes layoffs to increase; jobs become scarce, and people have trouble paying their debt. Furthermore, homeowners cannot pay their mortgages, if they lose their job, and cannot find a new one. Consequently, bankruptcies and foreclosures increase, putting severe financial strain on the mortgage companies.

The 2007 Great Recession meted out severe punishment to Fannie Mae and Freddie Mac. Both held approximately \$6 trillion in mortgages, and loan default rates started at 5% and quickly shot up to 20% in 2009. Consequently, both Fannie and Freddie are hemorrhaging large losses daily. David Kellermann, former Chief Financial Officer of Freddie Mac, committed suicide in April 2009 [4]. As of January 2010, the losses of both Fannie and Freddie exceed \$400 billion [5], which is approximately \$1,333 for every man, woman, and child in the United States.

The U.S. federal government nationalized both agencies in September 2008 by annexing them to the federal government. The U.S. Treasury Secretary became the CEO of these two companies, eliminated the dividends, and bought \$100 million of preferred stock in both companies [6]. Preferred stock elevates investors higher up on the ladder. Hence, investors have better protection of their investment, if the company is liquidated.

Collateralized Debt Obligations (CDOs)

The story becomes a little crazier. The investment banks also wanted to profit from the U.S. housing market. An investment bank is not a traditional commercial bank. It helps corporations issue new stocks or bonds, and helps city, county, and state governments issue new bonds. They are really marketing agents for new financial securities. A commercial bank accepts deposits and makes loans.

The U.S. government split the functions of investment and commercial banking during the Great Depression using the Glass-Steagall Act of 1933. The federal government believed banks assumed too much risk that led to the massive bank failures during the Great Depression. For instance, if a bank helped a company issue new bonds, then the bank would push these bonds onto its customers. Unfortunately, the federal government ignored the Glass-Steagall Act at the end of the 1990s, allowing investment banks to expand into all kinds of activities, including commercial banking. Despite the law, insider trading, conflicts of interest, and excessive greed have perpetually plagued investment bankers on Wall Street since the Great Depression.

The investment banks created a new exotic security, Collateralized Debt Obligations (CDOs). They purchased securities from an already established mortgage asset-backed securities, or included other types of debt. Then they pooled the assets into a fund, and sold them to investors. This is really creating a new asset-back security from old asset-backed securities.

The investment banks earned huge profits from the origination and management fees of CDOs. Furthermore, the CDOs were a low risk to the investment banks, because the investors who purchased the CDOs' securities, assumed all the risk. The investment banks got their money back, and used it to set up another CDO fund. The main players of CDOs were Bank of America, Bear Stearns, Citigroup, Deutsche Bank, Lehman Brothers, Merrill Lynch, and Wachovia [7].

A CDO fund issues different tranches and thus, each tranche has a different security with a risk level and credit rating. Furthermore, the investment bankers marketed the CDOs outside the United States to avoid U.S. taxes and regulations.

The U.S. government assesses taxes on foreign companies, if they are involved in a trade or business with the United States. However, if a foreign company invests in stocks and bonds, then it is exempt from U.S. taxes, because financial securities are not considered a trade or business. This loophole probably exists, because the U.S. government wants international investors to buy U.S. Treasury bonds. The U.S. government heavily depends on foreigners to buy U.S. government securities.

The investment bankers always packaged CDOs to have an AAA rating [8], which attracted the international investors. Some experts believe the rating agencies, Standard & Poor and Moody's, participated in fraud, were inept, or had trouble accurately assessing the true risk of CDOs. Hence, the subprime mortgages were blended with high-quality mortgage pools to obtain this AAA grade.

The investment banks went into overdrive. The CDO market quickly mushroomed from \$552 billion to \$2 trillion in 2006, as foreign investors poured money into the CDO funds. Consequently, a large flow of money was fed into the U.S. housing market, causing housing values to surge.

The investment and commercial banks needed to grant more mortgages to keep this system going. They kept lowering their lending standards and granted anyone a loan. The joke among Houston's realtors was if a homebuyer has a heartbeat and a paycheck stub in his pocket, then he had himself a mortgage loan. Furthermore, many homeowners cashed out their equity from the higher property values; they paid off credit card debt, planned exotic vacations, or bought new cars or appliances.

A large infusion of money that flowed into the housing market caused property values to rise quickly. States like Arizona, California, Florida, and Nevada experienced double-digit growth in housing values. Most states tie the level of property taxes to property values. With property values quickly rising, local governments experienced surges in property tax revenue. They used these taxes to expand police and fire departments; to build new jails, libraries, and schools; and to hire more teachers.

The U.S. politicians did nothing to stem this. They were happy that anyone was granted a mortgage. Unfortunately, affordable housing remained far from their minds or worse yet, how poor homeowners could afford to pay higher mortgage payments when they reset to higher interest rates.

The U.S. mortgage party unfortunately ended in 2007. The international investors started to question the financial health of their CDOs, and they turned off the spigot of mortgage funding. Then the United States entered the Great Recession in December 2007, which started the hemorrhaging of jobs.

Homeowners with ARM mortgages had their interest rates reset to higher levels, making their monthly payments unaffordable. Thus, more homeowners declared bankruptcy, and foreclosures began to soar. Consequently, foreclosed homes are flooding the real estate market, causing home values to fall. Some homeowners even fled from their homes, because their mortgage became worth more than the home's value. Thus, neighborhoods are becoming infested with deserted, boarded-up houses, which are attracting squatters. Squatting led to the growth of a new industry, and squatting companies patrol neighborhoods to drive the squatters out.

The bankruptcy and foreclosure rates continued to soar during 2010. Unfortunately, the exotic securities created several legal problems for foreclosures.

Problem 1: Who has a legal right to foreclose on a home, if the borrower defaults? The bank sold the mortgage to the fund, and gave up ownership to the mortgage. Technically, the fund investors own the home, although the bank manages the fund. Moreover, who has the legal right to renegotiate the terms of a mortgage? Some homeowners thought they re-negotiated lower mortgage payments to the bank. Then the investors foreclosed on their homes, because they did not agree to the new mortgage terms.

Problem 2: The bank sometimes misplaced, or lost the mortgage paperwork. Thus, some homeowners challenged banks in court, and made the banks prove they own the mortgages. Some homeowners used this technique to delay a foreclosure, or if the homeowners are lucky, and the bank lost the paperwork; they could renegotiate a more favorable mortgage.

Problem 3: Some homeowners bought investment homes with mortgages, and rented these properties to tenants. All states have different laws about eviction. What happens to the renters, if they paid their rent in full, but the landlords defaulted on their mortgages? This problem was supposedly fixed with the new federal law, The Protecting Tenants at Foreclosure Act.

The CDOs could be used for fraudulent purposes. For example, a company's financial statements look terrible, because the company has too much debt on the books. The company could package its debt into a CDO along with debt from other companies. Then the company acts like an investor, and buys into the CDO, converting a debt into an asset. Thus, companies could improve their financial statements, although this is smoke and mirrors. Currently, it is not known how many companies used CDOs to inflate their financial statements artificially.

Credit Default Swaps (CDS)

Here is where the story gets even crazier. Some insurance companies and investment banks created Credit Default Swaps (CDS), which is a type of insurance. For example, some investors want to purchase risky securities, because they pay higher returns.

However, if a business bankrupts, then these securities become worthless, and the investors lose their money. Thus, CDSs were born.

Investors could buy risky securities, which included Collateralized Debt Obligations, and also buy Credit Default Swaps. Investors paid the insurance premium to the investment banks and insurance companies. If a company bankrupts, and its risky securities collapse in value, the investment bank or insurance company paid the investors their loss that was specified in the CDS contract. If a company with risky securities did not bankrupt, then the investment banks and insurance companies kept the premium payments as pure profits.

The investment banks and insurance companies exposed themselves to high risk. During good economic times, companies rarely file for bankruptcy, even risky businesses that issued risky securities. Companies with a triple A rating had a zero default rate, while the risky companies have a default rating less than 4%. Thus, the investment banks would collect CDS premiums as pure profit.

A recession always exposes weakness in an organization. For example, during the 2001 recession, AAA rated companies almost had a zero default rate, while the default rate shot up to 10% for risky securities [9]. As bankruptcies soared and securities lost their value, losses could be staggering during a downturn in the economy. The biggest players of Credit Default Swaps were the same companies that were bailed out by the U.S. government in 2008. The companies were American International Group (AIG), Bank of America, Citibank, Countrywide Home Loans, GMAC (i.e former subsidiary of General Motors), General Electric Capital, Goldman Sachs, Lehman Brothers, JP Morgan Chase, Merrill Lynch, Morgan Stanley, and Wachovia [10, 11].

CDSs are contracts and are traded in the financial markets. Anyone can buy them, even if the investors do not own the risky bonds that are specified in the CDS contract. Therefore, speculators can enter the market and gamble on outcomes. For example, a gambler believes Company XYZ is going to bankrupt. This gambler does not hold any stock or bonds for this company, but can buy a CDS contract. The gambler only has to pay the CDS premiums. However, if this company does indeed bankrupt, the gambler gets a payout from the issuer of the CDS contract. If

Company XYZ does not bankrupt, then the gambler lost his bet, which is the CDS premiums. Imagine how much money someone could make if he/she had inside information about a company's finances. Some investors even bet the housing market would collapse and bought CDS contracts on CDOs [11]. If you are having trouble understanding them, then think of this analogy. It is as if you are buying insurance on your neighbor's house and praying for the house to burn down and collect the insurance.

The Credit Default Swaps can be stacked upon each other. For example, Company X buys a CDS contract from an insurance company, and pays 2% of the contract's value as a premium. Now the financial health of the company, specified in the CDS contract, deteriorates, increasing the risk on its securities. Company X can exploit this situation, and create and sell a new CDS contract to Company Y for a 6% premium, earning 4% commission on the deal. If that company does indeed bankrupt, then the insurance company pays Company X its CDS insurance, and in turn, Company X pays Company Y the same insurance money, earning a quick 4% commission on the deal. Thus, multiple CDS contracts can apply to the same debt. Unfortunately, the CDS contracts depend on one important assumption. The issuing companies can indeed pay off the CDS contracts if the companies fail.

The CDS market quickly grew into \$47 trillion market by June 2008, covering a debt of approximately \$34 trillion [10]. To put this number into perspective, the size of the U.S. economy is roughly \$15 trillion. Consequently, the potential losses would be over three times the size of the U.S. economy, if all CDS contracts have to be paid.

When the U.S. economy entered a recession in December 2007, AIG quickly accumulated losses into the billions, as investors requested the pay outs from the CDS contracts. AIG's losses exceeded \$60 billion, and it grew by the day. This is the largest loss in U.S. corporate history. The U.S. federal government owns 80% equity share [12], and has promised AIG four bailout loans worth a total of \$163 billion [13]. Unfortunately, AIG worked with several investment banks like Goldman Sachs and Lehman Brothers, which also had severe financial troubles. This is not reported very often, but AIG thought the U.S. government would bail out Lehman Brothers. It issued Credit Default Swaps in

the billions of dollars, and thought it would collect huge profits from the CDS premiums. Instead, AIG paid billions in claims, as Lehman Brothers went into bankruptcy, and its securities became worthless.

Once the public learned that Lehman Brothers was insolvent, and the U.S. government would not bail it out², the financial markets took a nosedive in September 2008. The credit markets froze as all financial institutions stop granting loans. About 350 banks and investors lost their CDS insurance, because Lehman Brothers bankrupted. It issued approximately \$400 billion in CDSs on debt that was worth only \$155 billion. Yes, Lehman Brothers issued more CDS contracts than the amount of debt by 2.5 times [14].

Lehman Brothers is the largest casualty of the 2008 Financial Crisis so far, and is the largest bankruptcy in U.S. history. Barclays, the second-largest bank in England, bought Lehman Brother's core assets for \$1.3 billion, including Lehman Brother's skyscraper in Manhattan [15]. Excessive greed brought the end to a 158-year-old company.

The current status of the largest U.S. financial institutions caught in the financial crisis is:

- The U.S. federal government helped JP Morgan Chase acquired Bear Stearns [16] and Washington Mutual. Washington Mutual held approximately \$52.9 billion in adjustable-rate mortgages [17]. The U.S. Treasury purchased \$25 billion in preferred stock [18, 19].
- Bank of America acquired Merrill Lynch and Countrywide Financial Corp. Countrywide held approximately \$25.4 billion in mortgages [17]. Bank of America plans to lay off between 30,000 and 35,000 employees [20]. Bank of America received \$45 billion from the U.S. Treasury and requested an additional

² Henry Paulson, Secretary of the U.S. Treasury in 2008, wanted to show the U.S. government would not bail out all the financial institutions. At least, one company had to fail, which was Lehman Brothers. However, the Lehman Brothers' collapse spread to other financial institutions, like a contagion. It is possible a conflict of interest existed, because Henry Paulson was a former CEO of Bears Sterns, which was a fierce competitor with Lehman Brothers.

\$20 billion. The U.S. Treasury purchased \$25 billion in preferred stock [19, 21]. During 2009, Bank of America paid back the \$45 billion government loan, and earned a quarterly profit of 3.2 billion in July. However, the profits were from one-time sources, such as selling its stake in a large Chinese bank [22].

➤ Citigroup Inc. bought Wachovia. Wachovia held \$122 billion in adjustable-rate mortgages [17]. Moreover, Citigroup plans to lay off up to 19,000 employees [23]. The U.S. government purchased \$45 billion in preferred stock, and Citigroup plans to repay \$20 billion to the U.S. government. Recently, the federal government converted some of the preferred stock into common stock, giving the U.S. government 34% ownership of the corporation [24].

➤ Deutsche Bank reported a loss of 3.9 billion Euros [25]. This is its first financial loss in over 50 years.

➤ The U.S. Treasury purchased \$25 billion in preferred stock in Wells Fargo, and 10 billion each for Goldman Sachs and Morgan Stanley [19].

➤ The U.S. Treasury invested \$19.4 billion in General Motors (GM). However, GM filed for bankruptcy in June 2009. The government may spend another \$30 billion to help GM restructure. Meanwhile, GM sales are down by 45% in 2009, and the company is shutting down plants and shedding product lines like Pontiac, Saturn, and Hummer. GM plans to lay off 20,000 workers [26].

➤ The federal government has a 36% ownership in GMAC, and it invested \$12.5 billion as two loans [27]. Furthermore, GM is no longer a majority shareholder in GMAC. The majority shareholder is Cerberus Capital Management, while the U.S. federal government is second.

Conclusion

The exotic securities depend on a strong, growing U.S. economy. Mortgage default rates are low and very few companies file for bankruptcy. Thus, many U.S. financial companies reaped substantial profits. However, all market economies are plagued by the oscillations of the business cycle. The United States has a recession approximately every 10 years. It had a recession in 2007, 2001, 1991, and 1981. Nevertheless, these financial geniuses at Wall Street ignored this simple fact, and they over extended themselves and their companies for short-term profits.

The Federal Reserve and U.S. government should share in some of the blame. They could have slowed down the housing bubble. The Federal Reserve could boost interest rates, which would slow the growth of new mortgages. The federal government could impose regulations on the exotic securities, or tightened lending practices. Unfortunately, Freddie Mac paid \$11.7 million to lobbyists, who persuaded Congress not to impose stricter lending standards on the mortgage industry [28]. Consequently, the federal government wanted universal homeownership for all Americans at any costs.

The financial bailout of the large banks and Wall Street came at a high cost. President Bush offered a \$700 billion bailout package in October 2007 to the financial system; President Obama offered a \$787 billion to jumpstart the U.S. economy, and the Federal Reserve granted at least \$2 trillion in loans to the banking industry. Unfortunately, the Federal Reserve does not publicly release details, because it could cause investors to panic.

The public views the government's bailout as free money, so everyone is getting in line. For example, GMAC and two investment banks, Goldman Sachs and Morgan Stanley, became bank holding companies. Thus, they could ask the Federal Reserve for emergency loans. It is debatable whether these companies could pay these loans back, because they are earning substantial losses.

The advantages of the bailout package are:

Advantage 1: The bailout may slow down the collapse of large financial institutions and provides national and international confidence in the U.S. financial markets. The financial sector is an

important sector of economy, because it links the savers to the borrowers. If savers hoard their money and bury it in their backyard, money is removed from the economy. If the savers deposit this money into financial institutions, then the financial institutions inject this money back into the economy, putting the money to work.

Advantage 2: Many households have pension plans that are linked to the financial market's performance. Although many pension plans took a severe hit, it could be much worse if the government allowed the financial institutions to fail.

The problems of the bailout are:

Problem 1: Nobody is bailing out the investors, who bought the exotic securities. However, some investors protected their investment by purchasing Credit Default Swaps. They are protected as long the issuers can pay their obligations.

Problem 2: The bailout package rewards the financial industry for bad decision making. The financial companies need to be punished. If the U.S. government bails them out, then the government should buy the toxic debt and toxic mortgages for a fraction of their book value, forcing companies to take a loss. If companies know the government will always bail them out, then these companies will consistently take excessive risks.

Problem 3: Several large banks caught in the crisis should fail, because they treat their customers badly. The banks charged excessive fees and misrepresented loan conditions. For example, a bank applies the charges and withdrawals first to a person's checking account, and then applies the deposits, hoping the checking account became negative. Next, the bank hits the consumer with excessive fees.

Problem 4: The financial institutions guaranteed too many Credit Default Swaps (CDS) that are several times the size of the U.S. economy. The bailout package is only a minuscule drop of water, compared to a potential flood of CDS pay outs.

Problem 5: One reason for the bailout was to get financial institutions to lend again. Unfortunately, the banks are hoarding the bailout money.

Problem 6: Inflation could become a problem. The U.S. government and Federal Reserve System are injecting large sums

of money into the banking system. If the banks begin loaning this money, it will lead to higher inflation.

Problem 7: Government programs require the homeowners are in default before they get help. This encourages more people to deliberately default on their mortgages, so they can be bailed out too.

Problem 8: The U.S. government is gaining ownership in the financial industry. In general, bureaucrats make terrible decisions, and tend to be slow, bureaucratic, and perpetuate complex rules. Moreover, if U.S. economy enters a decade-long recession like Japan, then U.S. government could accumulate large losses from holding these financial assets that lose their value over time.

Problem 9: The bailout could cause further weakening of the U.S. dollar. The bailout packages are adding trillions to the U.S. government debt. Some international investors are worried about the government's ability to pay its debt.

One bright spot emerged through the stormy clouds of the 2007 Great Recession. The recession is bringing families together. Kids are moving back in with their parents or parents are moving in with their kids. Furthermore, some couples are postponing divorce, because they cannot sell the house and divide the marital assets. Finally, economic hard times like the Great Depression produced great leaders. Maybe the 2007 Great Recession will produce strong leaders who will lead the United States into the next century as a world power.

References

- [1] DiLorenzo, Thomas J. September 6, 2007. "The Government-Created Subprime Mortgage Meltdown." *LewRockwell*. Available at <http://www.lewrockwell.com/dilorenzo/dilorenzo125.html> (access date 02/25/09).
- [2] Lotterman, Edward. November 3, 2008. "Lotterman: Blame meltdown on Fannie, Freddie, federal policies." *Idaho Statesman*. Available at <http://www.idahostatesman.com/business/story/556667.html?ref=patrick.net> (access date 03/03/09).
- [3] Schulzke, Kurt. September 26, 2008. "Hidden Clinton "Success Story": Fannie Mae subprime loans for minorities." *Contraries*. <http://iperceive.net/hidden-clinton-success-storyfannie-mae-subprime-loans-for-minorities/> (access date 02/25/09).

- [4] Charles, Deborah. April 22, 2009. "Freddie Mac CFO in apparent suicide: police source." *Reuters*.
- [5] Liu, Betty and Matthew Leising. December 31, 2009. "U.S. to Lose \$400 Billion on Fannie, Freddie, Wallison Says." *Business Week*. Available at <http://www.businessweek.com/news/2009-12-31/u-s-to-lose-400-billion-on-fannie-freddie-wallison-says.html?source=patrick.net> (access date 01/04/2010).
- [6] Swann, Christopher and Pimm Fox. September 7, 2008. "U.S. Losses on Fannie, Freddie May Be \$300 Billion, Poole Says." *Bloomberg*. Available at http://www.bloomberg.com/apps/news?pid=20601087&refer=patrick.net&id=aCGy_UswSS0 (access date 02/26/09).
- [7] Rosen, Richard J. November 2007. "The role of securitization in mortgage lending." *Chicago Fed Letter*. Available at http://www.chicagofed.org/publications/fedletter/cflnovember2007_244.pdf (access date 02/22/09).
- [8] Rozeff, Michael S. December 26, 2008. "Rating the Rating Agencies and Securitization." *LewRockwell*. Available at <http://www.lewrockwell.com/rozeff/rozeff250.html?ref=patrick.net> (access date 303/09).
- [9] Hamilton, David T., Praveen Varma, Sharon Ou, and Richard Cantor. January 2004. "Default & Recovery Rates of Corporate Bond Issuers." Moody's Investors Services.
- [10] Bajaj, Vikas. November 4, 2008. "Surprises in a Closer Look at Credit-Default Swaps." *The York Times*. Available at http://www.nytimes.com/2008/11/05/business/05swap.html?_r=1&ref=patrick.net (access date 3/3/09).
- [11] Morrissey, Janet. March 17, 2008. "Credit Default Swaps: The Next Crisis?" *Time*. Available at <http://www.time.com/time/business/article/0,8599,1723152,00.html> (access date 03/04/09).
- [12] Karnitschnig, Matthew, Deborah Solomon, Liam Plevin, and Jon E. Hilsenrath. September 16, 2008. "U.S. to Take Over AIG in \$85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up." *The Wall Street Journal*. Available at <http://online.wsj.com/article/SB122156561931242905.html> (access date 03/03/09).
- [13] *Dow Jones Newswires*. March 3, 2009. "THE FED: Bernanke Feels Heat From AIG Bailout." Dow Jones & Company. Available at http://money.cnn.com/news/newsfeeds/articles/djf500/200903031154DOWJONESDJONLINE000537_FORTUNE5.htm (access date 03/03/09).
- [14] Bawden, Tom and Suzy Jagger. October 11, 2008. "Lehman Brothers demise triggers huge default." *The Times*. Available at http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article4922981.ece?ref=patrick.net (access date 02/26/08).

- [15] *BBC News*. September 20, 2008. "Judge approves \$1.3bn Lehman deal." Available at <http://news.bbc.co.uk/2/hi/business/7626624.stm> (access date: 01/04/2010).
- [16] Merced, Michael J. de la, Vikas Bajaj and Andrew Ross Sorkin. September 21, 2008. "As Goldman and Morgan Shift, a Wall St. Era Ends." *The New York Times*. Available at <http://dealbook.blogs.nytimes.com/2008/09/21/goldman-morgan-to-become-bankholding-companies/?hp&ref=patrick.net> (access date 02/26/09).
- [17] Ivry, Bob. September 29, 2008. "Wachovia's 'Great Success' Became \$122 Billion Burden." *Bloomberg*. Available at <http://www.bloomberg.com/apps/news?pid=20601109&sid=aebs.K1QUWT0&refer=patrick.net> (access date 2/26/09).
- [18] Kiel, Paul. February 5, 2009. "Report: Treasury Collects \$271 Million in Dividends on Bailout." *ProPublica*. Available at <http://www.propublica.org/article/report-treasury-collects-271-million-in-dividends-on-bailout> (access date 03/05/09).
- [19] Special Inspector General. February 6, 2009. "Office of the Special Inspector General for the Troubled Asset Relief Program." *Initial Report to Congress*. Available at http://s3.amazonaws.com/propublica/assets/docs/sigtarp_090205.pdf (access date 03/05/09).
- [20] Weiss, Tara. December 16, 2008. "Bank Of America Is Doing Layoffs All Wrong." *Forbes*. Available at http://www.forbes.com/2008/12/16/bank-america-layoff-leadershipgovernance-cx_tw_1215bofa.html (access date 03/05/09).
- [21] Mildenberg, David. March 3, 2009. "Bank of America Downgraded by Standard & Poor's." *Bloomberg*. Available at <http://www.bloomberg.com/apps/news?pid=20601087&sid=aWu38qrgIbjQ&refer=home> (access date 03/05/09).
- [22] *The New York Times*. December 17, 2009. "Bank of America Corporation." Available at http://topics.nytimes.com/top/news/business/companies/bank_of_america_corporation/index.html (access date: 01/05/2010).
- [23] Ellis, David and Aaron Smith. November 14, 2008. "Citigroup to lay off another 10,000 – report." *CNN Money*. Available at http://money.cnn.com/2008/11/14/news/companies/citigroup_layoffs/index.htm?postversion=2008111415 (access date 03/04/09).
- [24] Ellis, David. December 14, 2009. "Citigroup strikes deal to repay TARP." *CNN Money*. Available at http://money.cnn.com/2009/12/14/news/companies/citigroup_tarp/ (access date: 01/05/2010).
- [25] Investor Relations. February 5, 2009. "Deutsche Bank reports net loss of EUR 3.9 billion for the year 2008." *Deutsche Bank*. Available at http://www.db.com/ir/en/content/ir_releases_2009_7249.htm (access date 02/26/09).

- [26] Isidore, Chis. June 2, 2009. "GM bankruptcy: End of an era." *CNN Money*. Available at http://money.cnn.com/2009/06/01/news/companies/gm_bankruptcy/index.htm (access date: 01/04/2010).
- [27] Irwin, Neil and David Cho. May 22, 2009. "As GMAC Gets More Aid, Bailout Becomes One of Nation's Biggest." *The Washington Post*. Available at <http://www.washingtonpost.com/wp-dyn/content/article/2009/05/21/AR2009052101742.html> (access date 01/04/2010).
- [28] *SF Examiner*. December 9, 2008. "Daily Outrage: Mortgage giant paid \$11.7 million to lobby Congress." Available at http://www.sfexaminer.com/opinion/Daily_Outrage_Mortgage_giant_paid_117_million_to_lobby_Congress.html?ref=patrick.net (access date 03/03/08).

11. A Grim Future

“I think we have more machinery of government than is necessary, too many parasites living on the labor of the industrious.”

-Sir Francis Bacon

The current U.S. legal system is not healthy and does not promote free enterprise. The government at all levels has invaded the lives of families and private business, and regulates all aspects of our lives. Here is where the problem lies. The U.S. has created a complex legal system that is to the point of being too complicated for the people and the experts. Even the experts hire other experts to help them understand the law.

Then the federal, state, and local governments have created a multitude of regulatory agencies in order to enforce these complex rules. Unfortunately, the enforcers and regulators are petty and puritanical. They will incarcerate people and seize property for the smallest infraction of the law, even if the violation is silly.

We, the people, have a government that is out of control. This creates a severe problem, because government should be consolidating government programs, reducing bureaucracies, and controlling government spending. However, government at all levels continues to do the opposite. Government keeps expanding bureaucracies, raising taxes, and increasing the complexity of our laws.

An overly overbearing monstrous government is detrimental to society. This simple premise is easy to prove. Look at the 2007 Great Recession, the U.S. economy is still sputtering in 2012, and no end of the recession is in sight.

Then look at the last three recessions. The 1991 recession was the Jobless recovery. The U.S. economy recovered, but jobs were not created when our society left that recession. The 2001 recession was the Job-Loss recovery. The U.S. economy recovered, but companies and corporations continued to shed jobs and lay people off. Now, we have 2007 Great Recession, and a recovery is nonexistent.

If we went back in time to 1961, we had a recession that lasted for a year. The recession was only a bump in the road, and subsequently, the U.S. economy recovered and moved ahead at full steam. Each recession since then, the recovery was weaker and weaker. What trends have been occurring since 1961? Technological change, bigger government, and the decline of ethics and morality. Which entity would you blame for our continued stagnation?

Perpetual Bear Financial Markets

The first line of defense against an intrusive, cash-hungry government is people, and businesses will use more cash transactions. Cash transactions do not create third party records. For instance, if a business uses a check to pay for its bill, then that business's bank is a third party to this transaction, and has a record of it. Subsequently, government can use bank records to piece together a person's income and wealth. Consequently, government cannot verify a person's or business's income, if they use cash transactions.

Cash transactions can protect people against lawyers, because lawyers do background searches on people before initiating a lawsuit. Why sue a person if he appears to have no money? Thus, more businesses and people will avoid paying their taxes, or protect themselves from lawsuits using cash transactions.

Some states and European countries are outlawing cash transactions. For example, the State of Louisiana banned cash transactions for second-hand sales, while Spain prohibits all cash transactions above 2,500 euros. The government wants its tax revenue, even if government increases taxes to unreasonable levels. Finally, many states require workers receiving unemployment benefits, or other state aid to use debit cards, which creates third party records.

Holding large amounts of cash is dangerous. The second line of defense is people, and businesses will move more of their wealth to offshore accounts. An offshore account is a bank account located in a country that has strict confidentiality laws, little regulations, and low tax rates. The common places are Bahamas, Cayman Islands, Lichtenstein, and Switzerland.

The problem of offshore accounts is the ability of people and businesses to hide income. For example, a person can work for a company in the U.S., and all the paperwork indicates this person is earning \$30,000 per year in taxable income. The company could be paying its worker \$60,000 by using offshore accounts to hide some of his income. The company could be making secret bank transfers from its offshore account to that person's offshore account. All the paper work is outside the United States, and beyond the reach of the tax agents, scum-bag lawyers, and bureaucrats.

The U.S. government is worried about tax evasion, and is becoming more insidious about tracking down foreign bank accounts. The IRS can scrutinize anyone's credit card information, like VISA and MasterCard, and check, if people are traveling to countries that have offshore banking. The IRS views these people as potential tax evaders that require closer scrutiny. Furthermore, the U.S. government can put pressure on these countries in order to get these countries to reveal bank records, but it only takes seconds for a person to transfer electronically his funds to another bank in another country. Recently, the IRS and U.S. government prosecutors threatened to incarcerate the top executives of USB, a Swiss Bank, to reveal accounts held by Americans in Switzerland, or face potentially long prison sentences.

A cash economy and offshore accounts put a strain on a country's financial markets. People are not investing the cash into bank accounts, stocks, bonds, and pension funds within the United States. Financial markets are important for wealthy countries, because they link the savers to the borrowers. People deposit their money into financial institutions. In turn, the financial institutions lend the funds to borrowers. The borrowers could be a business that uses the loan to invest in machines and equipment, or a family that uses the loan to buy a house, car, or appliance. Thus, the loans feed the money back into the economy, and help perpetuate a society's wealth.

If people lose faith in the financial markets, and start hoarding their cash or hide this cash in foreign bank accounts, then this money is not invested into the U.S. financial markets. This was a problem during the Great Depression. People hid money in mattresses, or buried it in back yards. This money does not get re-invested back into the U.S. economy.

The U.S. federal government panicked during the 2008 Financial Crisis, and offered a bailout package worth \$700 billion. The purpose of the bailout was to prevent the financial markets from going under. A faltering financial system is the path to a third-world country. Third-world countries do not develop and become affluent.

The bailout has several problems.

Problem 1: Everyone considers this free money, and many institutions are getting into line for the handout, such as banks, insurance companies, automobile industry, school districts, and state governments. Even the porn industry, Larry Flint of Hustler and Joe Francis of “Girls Gone Wild,” is asking for a handout [1].

Problem 2: The U.S. government is not providing oversight on the funding. This is unusual because the federal government always likes to impose its authority and control.

Problem 3: The public is outraged over the bailout. Taxpayers believe the government is bailing out companies that made bad investment decisions.

Problem 4: Adding fuel to the fire, some of the companies are inappropriately spending the bailout money. Some companies used the bailout money to buy other banks, to pay bonuses to high-ranking executives, or to hoard the money. Remember, the bailout money was to get banks to start lending again; not hold onto the money!

One demographic that many financial analysts do not talk about is the retiring baby boomers. For stock prices to keep increasing, people have to invest more funds into the stock market over time. However, when the baby boomers start retiring, they will begin to cash in their stock portfolios. Hence, the U.S. stock markets may not be a good investment, because the baby boomers retire and withdraw their savings from financial markets. Then this problem is compounded from people hiding their money from the government, lawyers, and bureaucrats.

Fleeing Businesses

Businesses are fleeing the United States and relocating to Asia and Mexico. Many experts cite the cheaper labor in China and Mexico. However, the United States has a punitive legal

environment from a variety of excessive regulations, frivolous lawsuits, and high taxes. All these items increase the cost of doing business in the United States. Then couple these high costs with high-wage rates, the U.S. has a very crushing business environment. A business operating in the United States has to pay:

Income Taxes: A business may have to pay federal, state, county, and/or city income taxes. Income taxes vary by state and locality. A business with several branches in different states requires a department to keep track of the different rules, regulations, and taxes.

Property Taxes: In some localities, property taxes can be quite high, especially for capital-intensive industries, such as companies that produce computer chips and automobiles. Many people may not realize this. Many localities assess taxes on machines and equipment. Thus, these tax bills may be quite high for the manufacturing industry, which the U.S. has been losing for over 30 years.

Social Security and Medicare Taxes: The federal government collects these taxes from the employer and employee. Workers pay approximately 6% of their wages to social security and 1% to Medicare. The employer matches the dollar amount of the taxes that the employees pay.

Workers' Disability Insurance: The state governments dictate the insurance rates. This insurance is not voluntary. Therefore, it should be viewed as a tax, because it is a transfer of money between a private business and government. Furthermore, many young people are inflicted with a disability and are not working. Unfortunately, it is very difficult to assess whether the person is actually disabled, or pretending to be disabled to get a monthly check.

Unemployment insurance: Again, state governments set the rates for unemployment insurance. This insurance is not voluntary, because employers are required to pay this insurance. Unlike workers' disability, this aid is temporary at least in theory. For the 2007 Great Recession, some laid-off people successfully collected unemployment for 99 weeks (almost two years). They are known as the 99 Club, because Congress kept extending the time for states that were hit hard by the recession.

Medical insurance and pension plans: Employers are required to pay full-time workers medical insurance and contribute to employees' pension funds. The key word is full time, which is why some employers in the services industry rely on part-time workers.

Unfunded mandates: Federal, state, and local government impose numerous mandates on businesses. Government dictates a rule or regulation, but does not pay for it.

Lawsuits: Attorneys attack some industries such as the medical and pharmaceutical industries. Lawsuits can add millions to a company's loss.

Governments in Asian countries do not subject their businesses to all these insurance programs and taxes. Furthermore, lawsuits are rare, and regulations are lax. The Chinese workers earn a meager \$10 per day for 12 hours of work, and the Chinese companies ship the products to the United States.

The decline of manufacturing in the U.S. is so devastating, scrap metal dealers load barges with scrap metal and ships it to China. Then Chinese factories produce finished products that are return to the United States.

How is the United States government rewarding businesses, and helping them to thrive and grow? The U.S. government passed universal health care, and a permit system for greenhouse-gas emissions. The healthcare plan created massive uncertainty, and employers are not hiring workers, creating a very bad job market in 2012. Then the permit system requires firms that emit greenhouse gases to buy permits. Thus, these two recent changes will hurl more hardship and costs onto our businesses. Consequently, more U.S. businesses are encouraged to flee, and export their products to the United States.

Fleeing businesses cause a severe problem. If businesses leave the United States, who will hire the workers? With tax revenues decreasing and governments at all levels having severe budget deficits, then government will have to stop hiring. Therefore, the U.S. unemployment rate will gradually increase over time. Margaret Thatcher summed this up best by saying, "First we produce, then we consume." The Asian countries know this secret well, and are still growing, even after the 2008 Financial Crisis. In

2012, China's economy continues to grow at the phenomenal 10% growth rate.

Fleeing businesses also lead to under investment in our society. High taxes, fees, fines, regulations, and lawsuits create a punitive legal environment that does not encourage new investments. Consequently, businesses try to extract every penny they can from their capital, and refuse to update their machines, equipment, and infrastructure. For example, a natural-gas line ruptured and exploded in California, killing four people, and several oil platforms in the Gulf of Mexico erupted into flames, including the infamous British Petroleum's oil well that spewed almost a million gallons of crude oil into the Gulf of Mexico.

Government is not investing into the economy. It is more worried about locking up people than replacing old, outdated, and dilapidated bridges, roads, and other infrastructure. For instance, a bridge collapsed in Minnesota, and several dams were on the verge of collapsing during torrential rain storms in the Midwest. Consequently, government is under investing into our society.

Unfortunately, most of our infrastructure was constructed in the 1940s and 1950s. Over time, more accidents will occur as our infrastructure continues to age and crumble, and businesses and government refuse to invest in our society.

Excessive Enforcement of the Laws

A large intrusive government requires funding that comes from the taxpayers. With a punitive legal system, people will hide their money and income from government. Businesses could bankrupt, relocate to a foreign country, violate the law, or evade taxes. All these activities cause a loss of tax revenue for government. An eroding tax base hurts government finance. The costs are:

Cost 1: As tax revenues continually decline, a government has to contract. How can government pay for the army of bureaucrats, jails, prisons, and government buildings, if the government has no money? Government does finance good institution, such as libraries, schools, universities, and parks. All these institutions will experience severe budget problems, and our leaders will reduce these programs. Usually, the good institutions are last on the funding list.

Cost 2: An eroding tax base may cause our government to rapidly increasing the number of laws with the sole purpose to create more violators. Then the state and courts depend on the police and regulators to write tickets and citations, bringing money into the government coffers. For example, code enforcement officers may comb through middle-class neighborhoods, and measure the height of grass, citing any offenders for too-tall grass. However, these same officers avoid the poor neighborhoods, because those citizens may not pay the fines, and may even attack the officers. Thus, the legal system becomes more arbitrary, as it seeks revenue.

Cost 3: If government actually contracts, this could create a power vacuum and unfortunately, criminal groups like the mafia will fill this void. The mafia will supply products, which could be legal or illegal. As the mafia accumulates money and wealth, it can pay off the police, judges, and bureaucrats. If the police and prosecutors are not corrupt, then they still are impeded by a lack of resources.

Police officers must follow orders from government, or the government leaders will fire them. In order for police to do their jobs, they took an “us versus them” mentality. Each time a police officer clocks in; he is going to battle with the public. That is why they call every person of interest a criminal. The military uses the same mentality to train soldiers by defining the enemy as subhuman, making it easier for the soldiers to handle the intense emotions of war. Some long-run consequences of excessive enforcement of the laws are:

Consequence 1: Government relies on violators to pay their tickets and citations. As police write more citations and enforce stupid laws, more people will become scofflaws and not pay them. Government will increase court and police power to seize assets and turn decent citizens into criminals. For example, a person refused to pay for his ticket for a violation he did not do. A court could suspend his driver’s license, or other licenses. The legal right to drive a car in our society is essential, so he may start driving illegally, not insuring his vehicle legally, and stop paying for car inspections and state car tags. Further, this person may even drive more junky cars on the road, if he knows the police will seize his

vehicle, when caught. Overzealous enforcement of laws could create more criminals and scofflaws.

Consequence 2: More people will avoid the police. Would you call the police or open the door for the police, if you know they are there to write tickets and citations? Remember, the police are the first contact with a government that is hungry for cash. Government switched the role of police from public safety to revenue thugs with guns. Even in Arkansas, citizens flash their car headlights twice to warn approaching traffic that police are further down the road.

Consequence 3: The police and court rely on the public for information. If many people hold their government in low regards, and do not trust it, then people may not help it. For example, if a citizen discovered that someone is vandalizing police cars, the citizen may not report it.

Consequence 4: The police may have no credibility during jury trials. Many people are learning that the police will lie, even for minor things like traffic citations, and a police officer's job is to write citations and arrest people. That is why the federal and state governments are moving away from jury trials.

Consequence 5: Court abuse will become greater and bolder. The economy is in a recession; tax collections are down, and many states and local governments are going broke. Thus, courts will try to collect as much money as they can. All defendants must be found guilty!

Stupid laws and excessive enforcement of laws will fuel ill will and bitterness between the people and their government. Consequently, more people will attack their government. It can be as simple as vandalizing state property, or physically harming the police or bureaucrats. For example, an arsonist set the Texas Governor's Mansion on fire, causing severe damage [2]. This book does not advocate that people should start attacking their government. The author merely presents long-term consequences, when government fosters an acrimonious relationship between the government and its citizens.

The Growth of Crime and Black Markets

Black markets flourish in highly regulated and over taxed societies. A black market is where people engage in illegal activities, and it exists for the following reasons:

Reason 1: Government deems certain products and services illegal. Unfortunately, the more products government makes illegal; the more black markets form. If consumers have a demand for the illegal products and services, then somebody will always supply them. That is the flaw with the War on Drugs. The U.S. and state governments deemed marijuana use illegal. As government arrests more drug dealers, marijuana supplies dwindle, causing the market price to become higher. Then the high prices attract more people to this illegal market, and more people become drug dealers.

Reason 2: People and businesses use black markets to avoid laws and regulations. For example, some workers circumvent restrictions on retirement. Retired people receive social security and other benefits from government, but work “under the table” for extra income. If government knew about this income, they would reduce their benefits. Another example is foreign laborers who work illegally in this country, using fake names and social security numbers [3].

Reason 3: People use black markets to avoid high taxes. One method is barter, when two people trade goods or services with each other, and no money is exchanged. Thus, no value is placed on the transaction, and hence no taxes. Other ways to avoid high taxes is people and businesses under report income and assets, or over state debt. For example, taxpayers in the United States can claim children on U.S. federal taxes. More children mean lower taxes. Before the 1990s, some people claimed their pets as children, in order to reduce their taxes. People no longer get away with this practice, unless their pet has a social security number.

Regulations and taxes cause people to perceive that they are over burdened by the government, and choose to operate in the shadow economy. (Black markets, shadow economy, and hidden economy are the same thing). However, a growing shadow economy imposes the costs onto society:

Cost 1: A growing shadow economy leads to more corruption and bribery, because individuals engage in illegal activity try to bribe public officials, and thus, they can avoid regulations or avoid paying taxes.

Cost 2: A growing shadow economy erodes the tax base, which gives government fewer resources for public investment in infrastructure and education. Furthermore, an eroding tax base may cause a government to increase taxes, causing more firms and individuals to exit to the shadow economy, creating a vicious cycle. Many businesses and people who evade their taxes may be good for governments that incarcerate a large percentage of its population.

Cost 3: Government collects statistical data, and this data may not be accurate. For example, if a person works “under the table,” then he may not honestly tell the government that he is working. Consequently, the unemployment statistics would be higher than it should be. Some people working under the table receive money from disability or unemployment insurance.

Cost 4: A growing shadow economy leads to the growth of criminal groups, because they thrive in highly taxed and regulated economies. That is what criminals do; they commit crimes.

Cost 5: Government has to build a larger prison system to incarcerate violators and criminals.

Decline of Civic Loyalty and Political Corruption

The rapid rise in the State causes many people to give up on the political system. The government becomes bigger, and its bureaucrats make more decisions. Consequently, the only thing that grows in the economy is taxes, regulations, and salaries for bureaucrats. For instance, if we are the freest people in the world, why do at most half the eligible voters vote? Further, a 2002 survey showed 43% of people in the U.S. have no or little trust in the government with the highest distrust being the young and elderly [4]. The converse is 57% of the population trusts the government, but this seems low since we are considered a democracy.

Many people have a negative opinion of their government. These opinions are not coming from criminals and drug dealers.

Highly educated people, government employees, and former veterans of the armed forces are stating very harsh criticism of our government.

Harsh criticisms from veterans are particularly shocking, because veterans defended this country, putting their lives in jeopardy. They make the greatest sacrifice a person can give – their life. They could have as easily come back in a coffin from serving a mission in another country. When you hear veterans say harsh words about the government, then you know there is a problem.

Citizens develop opinions of their government through their daily dealings with it. If a citizen was burned from a new tax, violated a crazy regulation, or sued for a stupid reason, then citizens develop harsh views of their government. Moreover, excessive laws, and frivolous lawsuits destroy the market system. Incomes and wealth will fall, and the job-creation machine shuts off. As incomes fall, so does the tax revenue. If government perpetually has budget problems, then salaries for judges, police, and bureaucrats will decline. Once the salaries become too low, subsequently more judges will accept bribes to determine, who wins a court case. Police will accept cash fines; teachers will take bribes, and pass failing students. This is no joke! This is a severe problem in Russia.

Black markets became ingrained into the Russian's people psyche, and crime skyrocketed after the Soviet Union broke up in 1991. The mafia, called "new businessmen," spread to all parts of the post-Soviet economy like a cancer. The mafia created rackets, where they colluded together to sell products like cigarettes, sodas, and other products for high prices, and earned huge profits. Then the mafia would funnel some of the profits to government officials as bribes. Then the government officials would protect the mafia and their businesses.

Foreign companies had trouble entering the Russian markets. For example, a foreign company wants to enter the country, and open a new factory. However, the mafia does not want any competition, and they pay off the right people, so this foreign company could never get the licenses and permits to operate. In addition, the foreign companies have to follow all the rules, because they are afraid, the government will expel them for violations. Unfortunately, their local competition may not follow

all the rules, giving them a cost and price advantage. Hence, the post-Soviet economies became riddled with criminal groups and consumers ended up paying high prices for everything.

Once corruption takes root, it grows into a vicious weed that is hard to get rid of. Widespread corruption has two problems. First, government has more trouble stopping the corruption. If all the public officials are taking bribes and stealing, who is going to be the person to stand up and stop this, especially if this person is also stealing? This is one of the major problems cleaning up corruption in Louisiana. Almost all the political leaders are stealing, and nobody wants to draw attention to themselves. Second, people start to lose respect for their government institutions. Thus, taxpayers do not feel bad when they cheat, or lie on their tax returns. They believe government will waste their hard-earned money.

The Collapsing U.S. Dollar

The U.S. free trade policies are insidious, and are destroying our country. The correct definition of free trade is one country makes something, and sells it to another country. Then, the other country also makes something, and sells it back to the first country. Thus, both countries produce products and export the excess to other countries.

The United States does not do that. Instead, U.S. companies are encouraged to close down shop here in the United States and relocate to Asia. Then they specifically produce products that are shipped to the United States. No mutual exchange of goods exists between the countries. Thus, the manufacturing industry creates wealth and jobs outside the United States, although the final products are sold to American consumers. Consequently, the U.S. companies are able to escape the punitive U.S. legal structure, and still earn profits by selling to Americans.

One popular escape for U.S. companies is China. Consequently, China has a quarter of the world's industrial space, is growing at a phenomenal rate, and wealth is increasing. With all this new wealth, the Chinese government has been able to finance a space program and recently sent an astronaut into outer space.

This is great for the Chinese, but what about the plight of the U.S. workers? Our fellow Americans have been losing all these

good-paying factory jobs in the rust belt. The rust belt is states like Indiana, Ohio, Michigan, and Wisconsin that experienced massive factory closures. Many of the factory buildings still remain, but are abandoned and are gradually rusting away from the elements.

U.S. consumers subsidize the growth of Asian countries like China through trade deficits, which has plagued our country since the 1960s. A trade deficit is the U.S. consumers buy more foreign-made goods than what they sell to foreigners, causing U.S. dollars to flow out to foreign countries. As foreign governments and investors accumulate these dollars, they have three investment options.

Option 1: Foreign businesses and companies invest in their economies by purchasing machines and equipment from the United States. Investing in their own economy spurs future economic growth.

Option 2: Foreign governments and investors can hold onto the dollars. Usually, foreign central banks like holding strong currencies like the U.S. dollar. These foreign central banks can use these dollars to manipulate exchange rates. The Asian countries weaken their own currencies and strengthen the U.S. dollar. This method helps boost their exports, creating more jobs and wealth in Asia.

Option 3: Foreign investors can invest those U.S. dollars back in the U.S. economy. Asian and Middle Eastern countries are buying U.S. government securities, U.S. businesses, and real estate. However, foreigners expect to earn a profit, which means future dollars will flow out of the country again, when the foreigners cash in their investments.

With the 2008 Financial Crisis, international investors are rethinking about their investments into the U.S. economy. They are worried the U.S. federal government is issuing too much debt, and the 2007 Great Recession may transform into the Second Great Depression. If investors drop the U.S. dollar, then its value can quickly collapse.

A weak U.S. dollar has a dual effect. A weak U.S. dollar hurts U.S. consumers by making foreign products more expensive. However, the U.S. businesses benefit, because they make U.S. produced goods cheaper to foreigners, and subsequently, they buy more. A weak U.S. dollar probably will not jump-start the U.S.

manufacturing industry, because it is not enough for manufacturing companies to overcome all the problems associated with regulations, taxes, and lawsuits in the U.S.

A collapsing U.S. dollar spells trouble for the U.S. government. Foreign investors and savers, as a rule, hold strong currencies. Thus, their investments keep their value. If international investors stop holding the U.S. dollar, then the dollar may collapse in value. Consequently, international investors will stop investing in the United States and stop buying U.S. government securities, and the federal government could not rely on foreigners to finance its massive debt.

Once the foreigners stop buying U.S. government securities, the U.S. government has to reduce drastically its spending. If the U.S. refuses to rein in its spending, then expect a spurt of high inflation to strike the economy, as the U.S. government turns to printing money to cover its spending. This is the reason why the price of gold shot up to over \$1,900 per ounce in 2011. During an economic crisis, investors like holding precious metals to protect their wealth from high inflation or hyperinflation.

Which foreign currency could replace the U.S. dollar? The euro was strong, and gaining in value against the U.S. dollar until 2008. However, Europe is having severe financial troubles after the 2008 Financial Crisis, and the euro quickly lost its value. With China still growing, the viable alternative may be the Chinese Yuan. Unfortunately, if the U.S. currency collapse and no other currency takes its place, then expect international trade to grind to a halt. This happened during the Great Depression, when the United States government imposed high tariffs on imports, and all the trade partners reciprocated.

Hyperinflation

The last section was never supposed to be added to this book. Everyone with basic economic knowledge knows the source of hyperinflation. It is always caused by a government's central bank. When an inflation rate exceeds 10% per year, then the central bank caused it by injecting too much money into the banking system.

The common scenario is a government has a severe budget deficit, and investors do want to buy the government's debt.

Investors believe the government finances are unstable, and do not want to risk their money. Standard & Poor downgraded the U.S. government credit rating in 2011. Consequently, government either reigns in its spending, increases taxes, or uses the central bank to print money.

Although the Federal Reserve System is independent of the U.S. federal government, the federal government could force the Federal Reserve to buy its securities. As the Federal Reserve buys trillions in U.S. securities, it injects trillions of dollars into the banking system, creating inflation.

Hyperinflation has five problems:

Problem 1: Anyone with debt will see the value of his or her debt erased. As the value of money plummets during a hyperinflation, the value of debt also plummets. The U.S. government debt of \$14 trillion could be eliminated over a year. Unfortunately, any savers also see their savings reduced to nothing.

Problem 2: People who receive aid from government will experience decreases in their benefits, as the prices for food and necessities increase faster than their government aid.

Problem 3: The value of the U.S. dollar on the international markets will weaken and plunge. Most countries will choose another currency like the Yuan for international transactions. However, trade with the U.S. and the rest of the world will grind to a halt, as the U.S. dollar becomes worthless.

Problem 4: Banks, financial markets, and pension funds all go bankrupted. People stop accepting U.S. dollars for payments and use barter, foreign currencies, or valuable commodities for exchange.

Problem 5: The police and firemen may desert their posts, as their salaries are reduced to nothing. Consequently, violence and chaos could erupt in the cities.

Some experts believe the U.S. hyperinflation will be short lived, because the U.S. government will eliminate its large debt, and then start over, and redefine the U.S. dollar. However, during the interim, a large number of people will be pushed into the streets, become homeless and hungry with no prospects. The United States will become riddled with violent protests and riots.

Conclusion

The 2008 Financial Crisis and recession are helping the U.S. government to take over the economy. Their reason is capitalism failed, and government is coming to the rescue. For example, the federal government re-nationalized Fannie Mae and Freddie Mac in September 2008. They were originally government public corporations, but privatized in the 1990s. Furthermore, with the \$700 billion government bailout, the government may accept some of the “toxic mortgages” and corporate stock as collateral. Government becomes a stockholder and foolishly believes it can profit with the taxpayers coming out ahead. However, prices for assets took 20 years to recover during the Great Depression since the crash of the stock market in 1929.

These smart people in government do not realize one important thing. Their goal is to improve society through state management of the economy. Another leader, Vladimir Lenin, had this same vision. Lenin used communism to build the Soviet Union. Communism was a way to build a perfect, Utopian society. Communism would eliminate the social classes, and everyone would live in harmony. Of course, government had to control the entire society and help during this transition. The Soviet Union did some amazing things, which were:

- Russian was a backwards nation at the turn of the 20th century. The Soviet Union created a large education system and increased its citizens’ literacy rate to 99%.
- The Soviet Union officially did not have unemployment. The state created jobs for everyone. Of course, nobody actually worked, so customers shopped in stores with bare shelves.
- The Soviet Union started the space race by sending the first astronaut into outer space.
- Although the Soviet Union was an extremely sexist society, it allowed women to hold high offices. Women could become judges, professors, and scientists.

➤ Divorce rates were extremely low, because the Soviet Union had a shortage of housing. A divorced woman had two choices. She could live with her husband, or live with her parents.

➤ When the world entered the Great Depression during the 1930s, the Soviet economy was immune to the downturn. The Soviet Union grew fast as government added new cities to the empire until the 1970s.

The Soviet economy stagnated during the 1970s and 1980s. Furthermore, citizens of the Soviet Union had to pay high costs for these benefits; the costs were:

➤ Government set all prices and wages in society. Government probably set the wages and prices correctly during the 1960s, but severe shortages occurred during the 1980s.

➤ The Soviet factories produced only several brands and products. Everyone had the same furniture, appliances, and TVs. Some of these products had quality problems. Soviet managers had production quotas; quality was secondary.

➤ Government owned all property, including cars and houses. People were forced to live in dreary, small apartments.

➤ The Soviet Union created new social classes. Members of the Communist Party were at the top; scientists and academe came second, and everyone else was third. Communist Party members also had their own special stores. Their stores were stocked before all the other state stores.

➤ Government controlled TV stations, newspapers, and book publishing. The state was the source of information.

➤ Government created secret police, who arrested anyone who was viewed as a threat to the state. Furthermore, the government created a massive prison system, Gulag, to house all the prisoners.

- When Stalin seized power, he shuffled resources around to create the Soviet industrial economy. Thousands died from hunger as the state expropriated lands and livestock. Stalin also executed millions of people who were deemed a threat to the state.
- Government restricted mobility of its citizens. A person needed permission to leave a city. All cities had outposts on the outskirts, and the state regulated all traffic leaving and entering a city.
- Soviet citizens were not allowed to leave the country, nor socialize with foreigners.

Does this sound like a good place to live? Of course, it would be nice to get the Soviet benefits without the costs. However, when government controls society, we get the good, bad, and ugly of a government-controlled economy.

The real travesty in our growing government is the difficulty in dismantling public institutions and reforming the legal system. For instance, remnants of the Soviet legal system still exist today, although the Soviet Union broke up in 1991. The Soviet Union created a manual, document heavy bureaucracies. The bureaucrats tend to be corrupt, incompetent and enjoy forcing citizens to jump through hoops. Citizens and businessmen are expected to scurry around the city collecting documents from various agencies. Unfortunately, the post-Soviet governments want to scrutinize and examine every private transaction in society.

Although, the Soviet legal system may be beautiful in theory, it is quite a business killer. Unfortunately, many of the former Soviet countries are still plagued with these bureaucracies and this Soviet legal system. Then people do not understand why these countries are not growing. The real problem for us is U.S. politicians want a similar system and an all-controlling government. Thus, the U.S. economy will continue to be stagnant until people wake up and stop this insanity! However, we will fall into the same trap as Russia. Once these laws are created, and the bureaucracies come to life, they are very hard to get rid of, and extremely difficult to reform.

References

- [1] Hill, Catey. January 7, 2009. "Porn kings Larry Flint and Joe Francis go begging for a bailout." *Daily News*. Available at <http://www.nydailynews.com> (access date 01/08/09).
- [2] Robison, Clay and Janet Elliot. June 8, 2008. "Arson suspected at Governor's Mansion." *Houston Chronicle*.
- [3] Schneider, Friedrich and Dominik H. Enste. March 2000. "Shadow Economies: Size, Causes, and Consequences." *Journal of Economic Literature* 38(1): 77-114.
- [4] *Decision Analyst*. August 30, 2002. "As September 11th Anniversary Nears More Americans Trust U.S. government." Available at http://www.decisionanalyst.com/publ_data/2002/trust.dai (access date: 12/24/08).

About the Author

Ken Szulczyk is a U.S. citizen who earned his doctorate in May 2007 from Texas A&M University, specializing in environmental and natural resource economics. He extensively traveled across the world, and has lived in four foreign countries, which were Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, and Malaysia. He moves from place to place, teaching economics and searching for the perfect place to retire.

Ken Szulczyk has published five peer-reviewed articles in the areas of biofuels and bioenergy. He also wrote three non-academic books: *The Rise of the Insane State*, *The Big Adventure in Little Bosnia*, and *The Second American Revolution*. *The Rise of the Insane State* explains what is happening to the United States economy, while the other two books are novels.