

On the surface, America's economy is in great shape. Unemployment and inflation are reportedly low. Corporate profitability is at record levels. The bull market in stocks and bonds seems endless.

But *beneath the surface* there are many warning signs: Debt is at record levels. Bankruptcies – both personal and business – are at the highest level since the Great Depression. Many people are working 60 or 70 hours a week, or more, to make ends meet. Taxes are at the highest level ever, taking over *half* of the average person's income.

The *Orange County Register* [10/7/95] puts it bluntly:

The old American middle class is vanishing. Stagnant incomes, growing gaps between rich and poor and corporate downsizing are changing how America lives. . . . Two-income families in 1995 earn less than the one-income family of the 1960s.

Here are some other warning signs:

“The wages of the average American worker, after inflation and taxes, have decreased 17% since 1973,” according to Martin Gross, author of *The Tax Racket*. At the same time, the price of food, housing, clothing, cars, and other necessities – have been rising at 5-8% a year – hidden inflation, ignored by official government statistics.

Many families are deeply in debt. Debt and fixed expenses (such as mortgage and car payments) now consume over 95% of the average family's disposable income. [Source: Federal Reserve]

Using credit cards to pay for necessities like food is becoming commonplace. Business debt is also at record levels.

Personal bankruptcies have tripled, during the last 15 years. [Source: Dun & Bradstreet.] And for every person who's declared bankruptcy, ten more are one or two paychecks away from bankruptcy, according to economic analyst James Davidson. An economic crisis – like a stock market crash – will push up to 30% of families into bankruptcy, according to Davidson.

A stock market crash will financially wipe out many families.

Previous generations kept most of their savings in cash, gold or some other liquid asset. No more.

Prior to 1980, just 10% of net wealth was invested in the stock market. Today that figure is 80%. Worried about their retirement, people have been pulling out their savings and taking second mortgages on their homes to invest in the stock market. Today the only significant wealth most families have is stocks and bonds. But what if the market suffers a severe recession?

By every historical measure stocks are even more overpriced than in 1929. *The Wall Street Underground* newsletter explains: “Historically, average price-to-earnings ratios for NASDAQ stocks have hovered around 5 to 1. Today, the ratio is 44 to 1. Netscape is trading at 270 times 1996 earnings . . . America OnLine at 114. . . . Buying stocks at these prices is like paying \$1 million for a hot dog stand that makes \$10,000 annually.”

A stock market crash would plunge America and the world into depression. Overnight, real estate prices could plummet. Pension funds – which are heavily invested in stocks – would become worthless. Many businesses and local governments would also fail. It could be worse than the Great Depression.

Three causes of our economic crisis.

1. America's credit addiction. For decades, high taxes have crippled savings, while the Federal Reserve's monetary inflation has fostered easy credit. Liberal bankruptcy laws have also contributed to the problem. Combined with a consumer culture of instant gratification, the result is that people have been living far beyond their means and are up to their eyeballs in debt and interest payments.

2. Skyrocketing taxes. In 1956, the average American paid less than 10% of his or her income in taxes. Today the average person pays at least 47% in federal, state and local taxes, including hidden taxes.

But direct taxes are just the beginning. Other costs of our tax system include compliance costs, such as the money people are forced to spend on tax accountants and lawyers . . . the economic and emotional costs of IRS audits . . . the cost of tax software and computers . . . higher prices we all pay as a result of businesses destroyed by the IRS . . . and the cost of welfare and jail cells for lives ruined by the IRS. Add in the cost of destructive

regulation, and you'll find that government now takes at least 70% of every penny you earn.

3. Destructive regulation. Laws prohibiting pollution and unsafe food make sense. But state and federal regulations have gone far beyond protecting health and safety. Government is now micro-managing business to the point of absurdity.

Government now regulates what crops a farmer can grow in his own fields, the size and shape of potato chips, and whether a rancher can fill in a muddy hole on his own property (it's called “wetlands” regulation).

- The Federal Code is now over 11 million pages of tiny print. It has become impossible to know the law, much less comply with it. Productive enterprise is being suffocated, particularly if you're poor. In Los Angeles it takes up to 70 permits to open a small business. In Washington, DC, it costs \$7,000 to get government licenses to operate a pushcart. In New York City, it costs over \$150,000 to buy a “medallion” to legally operate a taxicab. In Atlanta, it costs \$50 to get a begging license.

In some ways the US is now worse than Russia! In 1991, a group of Russian businessmen visiting the US toured Pentagon City, then a newly-completed luxury shopping mall outside of Washington, DC. They were so impressed, they told the developer they wanted him to build one exactly like it in Moscow.

The developer said “I'd be glad to build it, but do you realize that although it only took me 7 months to build the mall, it took me 8 years to obtain all necessary government permits and approvals.” The Russian businessmen, replied: “In Russia we can now get approval in 6 weeks.”

A nation of millionaires.

We need to cut debt, government spending, taxes, and regulations – and to do it NOW, before many middle-class Americans are bankrupt.

Radically cutting taxes and regulation would help restore financial security to America, and in fact make most of us wealthy.

Author Robert J. Genetski has calculated how much more money each of us would have if we got rid of destructive regulations and privatized Social Security and Medicare. The startling answer: At

least \$5,000 more a year would be added to the income of the lowest-paid worker.

By investing those funds in an annuity, the average American would be able to retire with \$1 million in the bank – hence the title of his book, *A Nation of Millionaires*. A nation of millionaires doesn't need massive government redistribution of wealth, welfare, or micro-regulation of business. Here's how we can quickly become that nation:

Step 1: Radically cut your personal debt. This is imperative for your financial survival. Eventually we will have another bear market and recession. The sooner you put your financial house in order, the better.

Cutting up your credit cards is a good start. Making do with a old car, rather than buying a new one, will also help. But however you do it, cut your expenses and debt, and make sure you have significant liquid savings *outside of the stock and bond markets*.

Step 2: Deregulate. Our alphabet soup of regulatory agencies – including FDA, EPA, OSHA, FCC, and FTC – do far more harm than good. Our Constitution and code of common law provide a simple remedy for those who pollute, sell defective products, or defraud you: Sue the bastards! In today's litigious society, it's easy to find an attorney who will work for a cut of the take, if your case has any merit.

US regulatory agencies have turned into a white-collar Gestapo, terrorizing businesses and crippling our economy. They should be abolished, and their tens of thousands of employees can go on to find, honest, productive jobs.

Step 3: Abolish the income tax. That would immediately *double* your wealth; and it's not nearly as difficult as you might imagine. Here are four spending cuts that would make possible the complete elimination of your income tax: (a) **End federal subsidies for corporations** (saving: \$84 billion a year), (b) **slash military spending by 60%** (savings \$167 billion a year), (c) **privatize welfare** and get rid of the enormous welfare bureaucracy (\$160 billion savings), and (d) **privatize social security** (savings \$350 billion a year). [For more information on abolishing taxes, see our issue paper "End Tax Slavery Now!"]

Prosper or perish.

Throughout history, high debt, taxes and regulation have brought down one "omnipotent" empire after another – from ancient Rome to the Soviet Union. America is not exempt.

America was once the most prosperous and dynamic society in the world – and we will be again once we radically cut debt, taxes and regulation. Only then will the middle class cease to be an endangered species.

Jarret B. Wollstein is a member of ISIL's Board of Directors and a founder of the original Society for Individual Liberty.

Statement of Principles

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ISIL and its members in over 80 countries pursue the goal of individual liberty through educational and networking activities. ISIL produces educational materials such as this pamphlet which is one of a series of which 4-million have been sold in the US. ISIL sponsors the translation and publishing of libertarian books and literature overseas and promotes net-working through its international newsletter, the *Freedom Network News*. Since 1982 ISIL has organized annual world conferences which have served as a catalyst for the development of the world libertarian movement.

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THE ENDANGERED MIDDLE CLASS

Why millions of Americans
are on the verge
of bankruptcy despite a
booming economy.



by Jarret B. Wollstein

— ISIL EDUCATIONAL PAMPHLET SERIES —