FIXING OUR BROKEN INSTITUTIONS

New Ideas in Economics, Sociology, Politics, & Religion

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Table of Contents

PREFACE .... **IX**

PROLOGUE .... **XV**

CHPT 1: THE FIRST MEETING **1**

GETTING SET UP 1
NAMING THE ORGANIZATION 2
FORMING A GENERAL STRATEGY 3
THE ACTION PLAN 5
THE RAP SESSION 6

CHPT 2: THE ECONOMIC COMMITTEE **13**

CAPITALISM VS. SOCIALISM 13
FOUR PERNICIOUS MEMES 17

CHPT 3: NEWCAPIA **25**

THE NEWCAPIAN ECONOMY 25
NEWCAPIA'S TWO CURRENCIES 26
Absence of Taxation *28*
Every Worker a Capitalist *29*
The Decline of the Financial Industry *30*
The Divestiture of Stock Held by Outsiders *31*
Employee Acquisition of Stock *32*
THE PRIVATE SECTOR 34
Money Flows *34*
The Wealth Tax *36*
Advantages of the Wealth Tax *37*

CHPT 4: QUESTIONS AND ANSWERS, PART 1 .... **41**

GENERAL QUESTIONS 41

Objections By The Wealthy 46

The Necessity For Two Currencies 51

CHPT 5: QUESTIONS AND ANSWERS, PART TWO 55

Newcapia's Worker-Owned Businesses 55

Doubts About Newcapian Businesses 58

Funding Business Investment 61

The Stability Of Newcapian Corporations 64

Monopolies 65

Combating Crime And Corruption 67

CHPT 6: THE SOCIOLOGY COMMITTEE 73

CHPT 7: TOM'S STORY 77

Tom's Neighborhood 77

Tom's Early Days 80

Food Coupons 80

Gang Activities 83

Tom's Adolescence 85

The Youth Stipend 85

Teenage Years 87

CHPT 8: SHIRLEY'S STORY 89

Help for A Destitute Family 89

Shelter Coupons 90

Newcapia's Healthcare System 93

Newcapia's Educational System 96

Shirley's First Day at School 96

Advantages Of Newcapia's Educational System 100

For the School's Administration 100

For the Individual Student 101

CHPT 9: HOWARD'S STORY 105

Rehabilitation Island 105

The Warden's Address 105

The Employment Director's Remarks 108

The Cannery 111

THE UCORPS PROGRAM 113

Ucorp Case Histories 118

The Successful Development of the Ucorp Program 120

CHPT 10: SOCIOLOGY Q&A 123

CHPT 11: THE POLITICAL COMMITTEE 133

BAD MEMES INFECTING GOVERNMENT 134

MARTIN AGONIZES OVER "DEMOCRACY" 138

LUNCH WITH ANGELA 141

CHPT 12: THE POLITICAL COMMITTEE (CONTINUED) 147

CHPT 13: GOVERNMENT AND THE BRAIN 153

FRUGALITY 155

FUNCTIONALITY 156

ORGANIZATION 158

MARTIN'S CONCLUDING REMARKS 160

CHPT 14: THE ADMINENT 163

THE ADMINENT COMMUNITIES 165

THE ADMINENT CULTURE 166

THE ADMINENT OPERATIONS 167

THE COMMUNITY COUNCIL 170

THE COMMUNITY ADJUTANT 172

CONCLUSION 172

CHPT 15: THE VOLITIONMENT 175

PLUGGING IN THE BRAIN 176

THE CREDENTIALS BOARD 177

THE COMMENTS BOARD 180

JUDICIARY BOARD 181

CHPT 16: LAW ENFORCEMENT 187

BAD MEMES 187

LAW ENFORCEMENT'S GENERAL ORGANIZATION 190

FOCUS ON THE POLICE DIVISION 192

Law Enforcement Meets Free Enterprise 194
Privatization's Benefits 196

CHPT 17: Q & A REGARDING GOVERNMENT 199

CHPT 18: THE RISE AND FALL OF THE ALLIANCE 211

Our Violent Ancestors 211
Moderating Our Behavior 212
A Change of Abode 213
The Formation Of The Alliance 214
The Decline of the Alliance 217

CHPT 19: STRENGTHENING RELIGION 219

Invitation to Atheists 219
Creating A New Religion 221
Naming the new religion 224
Ritual 224
Scripture 225
Declaring a State Religion 226

CHPT 20: THE ALLIANCE'S CIVIL COMPONENT 229

The Alliance Hits A Stumbling Block 229
The Necessity for Peace 230
Peace Proves Elusive 231
The Greywater Solution 232
The Proposition to India and Pakistan 233
Concluding Remarks 234

CHPT 21: THE COUNTER MILITANCY 237

The Insistent Greens 237
A New Species is Created 238
The CM Membership 239
CM Operations 241
The CM Leadership 242
Inter-Species Relationships 244

Silvia Bids Good-bye 245
AFTERWORD 247

CHPT 3: NEWCAPIA

13 January, 2016

Silvia S., our chairwoman, opened the meeting,

"I am very pleased to report that Sean, the head of our economic committee, has let me know that his group has completed their assignment on schedule and is prepared to describe their proposed new economic system tonight.

"Having followed the Economic Committee's progress over the last seven months, I am well aware of the dedication and hard work it took to prepare their report. Let's let them know how much we appreciate their effort. Sean, I understand your group came up with some interesting ideas. Let's hear them, please."

The applause that accompanied Sean's ascent to the podium ceased as he began his report.

The Newcapian Economy

> When the committee stepped back to get a feeling for the economy as a whole, we noted that, in terms of operation, it really consisted of two worlds: the commercial and the private. And when the committee began to think of each of these sectors separately, it became clear that the performance of the former roughly tracked a number of Nature's own patterns. For example, just like the juvenile stage of Nature's offspring, start-up companies struggled to survive their

formative period and, in fact, many failed in the attempt. Again mimicking Nature, those businesses fortunate enough to have outgrown their fledgling period, depended on growth to reach maturity in the face of continuing stiff competition. And when they passed their preordained limit, businesses, like their natural counterparts, often withered away to make room for newcomers to take root. From the first, then, the committee regarded commercial life cycles as virtuous participants in Nature's scheme of things.

Not so, the private sector. The committee searched in vain for a comparable natural organism devoted solely to consumption and totally dependent on outside support.. At the same time, the private sector's culture was so embedded in mankind's psyche, that the committee dared not recommend its removal.

The problem, obviously, was how to take advantage of the vitality of the productive commercial sector while keeping the parasitic private sector under control as best we could? To put it another way, how were we to incentivize the one sector without likewise incentivizing the other? How, in other words, to prevent the tide from raising all boats floating in the same body of water?

Newcapia's Two Currencies

Helpfully, Timur, one of the committee members, came up with a solution. It lay, he said, in overturning one of the bad memes the committee had discussed at its last meeting. The bad meme, he reminded us, upheld the indivisibility of money. Commerce, it dictated, required a dollar to have the same worth and fungibility in all places and in all circumstances. But, he contended, Nature, indifferent to the existence of man-made bad memes, ignored such limitations at will. As a familiar example, she saw to it that water could assume three states (gaseous, liquid, or solid) and exhibit different characteristics in each, all the while maintaining the same molecular structure. By the same token, the committee decided it could dictate that money assume multiple states as well. More particularly, that money perform one way in the commercial sector and differently in the private. Whereas, this approach might require some period of adjustment, it offered potential benefits that outweighed any inconvenience.

Pursuant to Timur's concept, Newcapia came then to use two currencies: the 'yen' in the commercial sector and the 'dollar' in the private sector. Bear in mind, the distinction was imposed only on currency transactions. Physical boundaries were unaffected. Any number of shops, for example, might be found in a residential neighborhood and individuals could circulate freely between an area dominated by yen-friendly office buildings to one devoted to dollar-oriented apartment blocks.

Simple rules determined which type of currency was to be used for any given transaction. Generally speaking consumer items were priced in dollars; business supplies and equipment and labor costs priced in yen. Thus a housewife might seldom or never encounter the yen world as she went about her routine shopping. Similarly her accountant husband would record his figures exclusively in yen. Items that could conceivably fall in either category were defined on official listings and consequently so coded on retail takeout registers. Dual-use exceptions were commonplace but were readily resolved with the help of their openly traded exchange bank. Firms selling directly to the public were obliged to stock their inventory shelves with goods purchased in yen obtained from the conversion of their sales dollars at their exchange bank. their inventory from manufacturers in yen. And at the individual level, let us say a particularly-avid home gardener lusted after a contractors' shovel priced in yen. In such case the seller would simply ring up the yen sale and present the buyer with a dollar-denominated charge slip detailing the exchange bank's conversion—the transaction done so automatically and expeditiously that the parties were hardly aware of their two-currency system.

Banking:

In the commercial sector, banks were privately owned and dealt in yen exclusively. They operated in much the same way as banks in traditional economies: handling customer accounts, lending money, facilitating merger-and-acquisitions, distributing corporate bond issues, and, in general allocating capital to where it could be most profitably employed. Personal loans were forbidden; however, at the banks' discretion, business loans could be made to corporations owned by a single individual.

Employers relied on the commercial banks to convert their yen payrolls into dollars for their workers' wages.

Absence of Taxation:

To maximize the commercial sector's ability to generate wealth, they allowed businesses to grow unfettered by taxation on profits, salaries, sales, bonuses, business properties, nor any other yen-denominated assets. In short, capitalism's inherent dynamics were left intact. And naturally, an economy composed of successful, growing companies promoted prosperity for the entire population

. Employee Ownership Of Companies

Every Worker a Capitalist:

Karl Marx would be pleased with at least one of the features the committee bestowed on the Newcapian economy. The committee decreed that all businesses, from single ownership to giant concerns, were to be exclusively employee-owned. Part of the rational for this policy was on moral grounds. The committee came to the conclusion there was no conceptual difference between the investor of today profiting from the labor of distant workforces and the nineteenth-century plantation owner living off the labors of his slaves. The same abolitionists' arguments against slavery could, with a little tweaking of language, apply with equal veracity now as before.

The committee's second argument against remote ownership was a practical one. It stood to reason that a company owned by its employees would enjoy better morale, more company loyalty, more worker innovation, and more customer attentiveness than one in which labor and ownership were at cross purposes.

Finally, the committee's most compelling argument against the status quo was that denying a labor force the profits it rightfully deserved created disparate and mutually hostile social classes with all the discord attendant thereto. Conflicts abound in the world each with its own idiosyncratic causes, but nearly all are fueled by a disparity of income between the combatants.

In the effort to achieve better social harmony, governments go through excruciating efforts at income distribution except the simplest, the most rational, and the most effective: take away the undeserving investors' stock certificates and put them in the hands of the deserving people who earned them.

The Decline of the Financial Industry:

With the abolition of a stock market, the appurtenances of capitalism we take for granted—Wall Street, the financial industry, publicly-traded common and preferred stocks, advisory services, and the like—had no role in Newcapia. Understandably, the committee was concerned that these radical changes might seriously impair Newcapia's economy. However, their fears were mitigated by the improvements their recommendations would achieve. Presently, the bulk of Wall Street's activities—promotion, sales, publc relations, and the like—are unproductive from an economic viewpoint. In effect, Wall Street operates a gambling casino in which the "house" is the chief beneficiary. Indeed, the industry's chief impact on our economy is its deprivation of the constructive services of thousands of talented people lured by the street's higher incomes. A yet further disservice performed by the street is its encouragement of highly leveraged operations that contribute to the harm inflicted on the economy by boom-and-bust cycles. In short, the committee's attitude regarding our financial industry could best be summed up in the immortal words of Gilbert and Sullivan—"they'd none of them be missed."

In defense of the financial industry, it does, of course, perform some useful functions such as allocating capital, helping start-ups get off the ground, and providing an evolutionary environment in which stronger companies persevere and weaker ones are weeded out. In the opinion of the committee, however, these same functions, in the absence of the financial industry, would be assumed by banks and specialized services without the industry's attendant disadvantages.

The Divestiture of Stock Held by Outsiders:

The committee gave some attention as to how the transition from outside to inside stock ownership might be handled. Presumably after an officially prescribed date, outside stockholders would have only one buyer of their certificates, the company that issued them. The committee did not arrive at a formula for determining the price at which such sales would occur, but it might be something like the stock's averaged market value over the previous three years. Also stipulated would be the percentage of shares that could be sold at a given period to prevent flooding the companies with more shares than they could afford to liquidate. Interest would be due on the balance of shares the owners retained until their entire holdings could be liquidated. And it should be noted that, just as the stockholders were forced to sell, the companies would be forced to buy. It's reasonable to predict that no one would be entirely satisfied with such arbitrary arrangements, but, hopefully, no party would suffer major injury under a fair, orderly procedure.

Employee Acquisition of Stock:

Eventually with all shares in the hands of outsiders recovered, corporations would issue two classes of stock. Employees would be rewarded with voting shares on the basis of tenure in accordance with a formula such as ten shares at the end of their first year, twenty shares at the end of their second, etc. up to a maximum accumulation of 550 shares at the end of their tenth year, Thereafter, the award would remain fixed at ten shares a year for as long as the worker remained employed. A twenty-year veteran's holdings would, by this reckoning, be 1,550 shares. In that one objective of the system would be to furnish retiring workers with the means to adequately support themselves for their remaining years. Thus voting shares were non-transferable and could not be pledged as collateral.

Employees would have a second means of acquiring shares by purchase them once a year during a designated week. Some workers, habituated to paying union dues in a previous unionized shop, might use the same payment to buy stock instead. Such shares could be cashed out at any time, but were non-voting. All shares voting and non-voting alike would be evaluated based on their book value. Every worker's account would be held separately and could be viewed at any time. Severance from the company, for any reason, would automatically close a worker's account and his survivors given its face value.

The Management of Employee-Owned Companies:

Sole proprietorships and other small businesses would be controlled by their founders just as they are under our present system, the only difference being that, for the sake of consistency, they are officially considered corporate. Whatever capital the founders invested in the company's start up would entitle them to their initial share holdings but, thereafter, they would enjoy no special privilege in enlarging their ownership position.

Somewhat larger firms would also be managed much as they would be under our present system—that is to say, the shareholders would elect a workers' council set up to act much like a board of directors appointing active management and keeping an eye on company policy. Council positions would be held no longer than two years and could not be renewed.

At a certain point in a company's development, it is probable that most workers would come to the realization that they did not have among them the management expertise needed to run their firms at optimum profitability in Newcapia's highly competitive environment. Therefore, the committee envisions that, as a rule, the workers would hire third-party, experienced, professional managers having no ties—financial or otherwise—with the company.

The initial selection of a management team might work this way. The council would invite a number of firms to submit proposals specifying their charges, past experience, and whatever claims they could make of superior competence. Needless to add, proposals that included promises of future gains or future commitments would be summarily rejected.

On such an important matter as the selection of outside management, a general election by the entire workforce would be mandatory. Typically, management teams would be awarded renewable, three-year contracts but, in the case of fraud or gross mismanagement, could be forced out at any time by worker initiative.

Unfortunately, whenever sums of money are involved so are the possibilities of corruption and, consequently, so would be the necessity for precautions. All but the smallest firms would be regularly audited by an established, independent CPA firm that periodically would be asked to compare the performance of their client with those of similar companies—in effect, a report card on the management. Like the management team, the auditors would serve at the pleasure of the workers.

No matter what internal measures were in place and how qualified its individual parts, the success of any company would be dependent on its relationship with its customers—satisfying the needs of existing customers and finding ways to appeal to new ones. To that end, every component of the company's structure would be dedicated.

The Private Sector

The dollar-using zone is made up residential and retail properties. A housewife, for example, would need to deal only in dollars to do all her shopping, maintain the family budget, and pay her utility bills.

Money Flows:

There is only one banking institution in the private sector—the multi-branch, publicly owned People's Bank. In it, individuals are limited to a single, lifelong account issued at birth. Associated with this account are his or her identity and credit cards. Each day the People's Bank sets the conversion rate, which is applied universally regardless of the amounts involved. Thanks to computerization, paperwork in such transactions is minimal.

Retail establishments transfer their dollar receipts to their commercial-sector bank where these receipts are automatically converted into yen deposits at the official rate. Manufacturers, wholesalers, mining companies, etc. that do not deal directly with the public conduct all their transactions in yen.

It can be seen, then, that there is a continuous cyclical flow of yen to dollars and dollars back to yen. Imbalances can occur, however, between the People's Bank and the commercial banks with either having too much of a particular currency. Internal trading between banks can absorb some of these imbalances but the government central bank stands ready to inject or withdraw currencies to keep the system running smoothly.

The chain of transactions that, at first reading may seem unnecessarily involved, are so automated they impose no added burden upon the participants. Individuals use dollars for all their purchases; businesses use yen. It's as simple as that. At the same time the dual-sector system provides tools for managing the economy that far outstrip the present over-simplistic system that relies solely on interest-rate adjustments.

A point in favor of Newcapia's system is that it more nearly resembles Nature's organic approach to controlling her creations in which controls are directly tied to particular targets.

The Wealth Tax:

The Newcapians' refusal to tax the commercial sector leaves the entire taxation burden on the private sector, which accomplishes its obligation through the use of a single tax known as the wealth tax. The Newcapians feel entirely justified in penalizing the acquisition of personal wealth which, by definition, flouts Nature's injunction against stasis of any kind.

The workings of the wealth tax are simplicity itself. Once a month, government totals its expenditures for the previous month and then divides that sum by the total personal wealth harbored in the People's Bank to arrives at an assessment ratio. The government then applies that ratio to every account thus retrieving the money it needs to pay its bills.

Avoiding the wealth tax on dollars is not only illegal; it is, for all practical purposes, impossible. To begin with, Newcapians cannot hide their cash under the mattress because cash is nonexistent. Transferring one's asset to a child's account, for example, is futile as well because the wealth tax takes the same share from wherever the dollars are transferred. Nor can one reduce his tax bill by buying some fixed asset such as real estate, fine art, or gold because ownership of fixed assets is forbidden. (Leases, however, are allowed but cannot be prepaid). Other ingenious tax-dodges, such as insurance schemes, have to pass muster under the government's meticulous scrutiny.

One method of tax evasion is both effective and entirely legal. Depending on their need for ready cash, workers have two options as to how their yen-denominated paycheck is handled. One choice is to have their entire pay converted to dollars and deposited in the People's Bank account where it is, of course, taxed. Those workers, who can afford it, leave a portion of their pay is in yen where it can buy their own company's stock or other firms' corporate bonds. Alternatively, donations in yen are welcomed by a variety of non-profits and charities.

It should be noted that yen accounts can always be drawn down and converted to dollars. However, the conversions are one-way; they cannot be reversed from dollars to yen.

Advantages of the Wealth Tax:

Financial incentives play a vital role in capitalist systems; however, in the opinion of the committee, presently society goes overboard in that respect; we over-incentivize. For example, from an incentive standpoint, little is gained by enabling an entrepreneur to buy an entire island lock, stock and barre, versus, say, offering a more modest reward such as an expensive sports car. Thus the wealth tax is designed to leave in place short term incentives such as indulgence in luxury goods and foreign travel without allowing the lasting accumulation of wealth of Midas-like proportions.

The obvious gain by this reasonable pruning of rewards is that it avoids the creation of a permanent class of wealthy individuals able to enjoy a lavish lifestyle without having done anything, personally, to earn it. The very existence of such a leisure class is, understandably enough, a constant provocation on the part of those denied such privileges. Thus long arguments regarding the theoretical advantages of capitalism, are likely to fall on deaf ears among the lower classes. The resentment of a worker barely able to make a living is bound to overwhelm whatever he's told about the county's general prosperity when his boss earns in one day more than the worker does in an entire year. And even more nettlesome to workers than their own plight, are the difficulties their children face in achieving successful careers compared with those advantaged by inherited wealth. What chance does a poor kid have against richer kids whose starting blocks in life's race are yards ahead thanks to a more intellectually rich childhood, private schooling, specialized skills, a solid bank account, a stable family life, and social connections? In short, the wealth tax's assault on long term savings reduces class envy for the overall benefit of rich and poor alike.

Finally, the wealth tax provides advantages to society in general. To begin with, from an economic standpoint, personal wealth is the only source that can be tapped without correspondingly weakening business activity. Secondly, it encourages better-off Newcapians to invest their capital in yen-denominated financial vehicles. Not only are such investments untaxed, but so is the income derived from them.. Unsurprisingly then, pools of yen serve as valuable back-up sources of liquidity in the commercial sector. And the same factors prompt Newcapians to donate their yen holdings to charities and other non-profits. Well-intentioned citizens question why they should allow government to dispose of their assets when they can maintain control thanks to the safeguards provided in the yen world? Another inducement to donate in a timely fashion is that undue procrastination can result in the taxman having final say because, in the event of death, unprotected yen holdings, are promptly converted to dollars.

Since a portion of their assets are bound to be taxed, the more philosophical Newcapians can at least take comfort in the efficiency with which their dollars are whisked away. There can be no taxing mechanism that wastes as little in its collection process. The wealth tax embodies no paperwork, no loopholes, no write-offs, no deductions, or no exclusions. And since the same percentage amount is applied to all transactions no matter what their size, it is as 'progressive' as any tax has a right to be.

"And on that positive note, the Economic Committee concludes its report on Newcapia," said Sean. "We hope you enjoyed it. Granted it was sort of a whirlwind tour but we had a lot of ground to cover if we were to convey an impression of the system as a whole. In so doing, we may very well have left you with a number of questions. We have, therefore, scheduled a special meeting one week from today at our regular time and place for those of you who would like to get a fuller picture of Newcapia. In conjunction with this informal get together, we would greatly appreciate your emailing us your comments in the next day or two so we can organize our responses. Thank you and good night."