

# An Antidote to Populism

Richard Barron Parker

**Abstract** Economic inequality exacerbates pre-existing racism, misogyny, and nativism and is the root cause of the current surge in American populism. The shocking growth of economic inequality in America over the past 50 years has left the bottom 50% of the population owning less than 1% of the nation's wealth. Personal income for the lower 80% of the population, adjusted for inflation, has been stagnant since the 1970s. All this has produced economic insecurity sufficient to endanger American democracy. A possible partial solution is a massive expansion of the current Social Security system to give all Americans the basic dependable income enjoyed by current retirees. The last part of the paper outlines a politically plausible New Plan for such an expansion.

## 1 Introduction

The chief values shared by almost all Americans are freedom, equality, and opportunity. Political differences among Americans are usually over different conceptions of these values (see Parker 2014). Over the past 50 years, there have been significant gains in freedom, equality, and opportunity for minorities and women. These gains have been compromised by a decades-long increase in economic inequality in the United States, which has exacerbated pre-existing racism, misogyny, and nativism and is the root cause of the current surge in American populism. The economic facts are grim.

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## 2 Inequality in Personal Wealth in the United States

In the period from 1963 to 2012, the portion of the nation's wealth owned by the bottom 90% of the population fell from 35% to less than 20%. Of that 90%, the bottom 50% of the population owns less than 1% of the nation's wealth (Wikipedia 2018a). The percentage of wealth owned by the top one-tenth of one percent of the nation's households (roughly 328,000 people) climbed from a one-hundred year low of 8% in the year 1978 to 22% by 2012, a level not seen since the 1920s (Zucman 2016). The rest of the top 10% ("the top 9.9%" or roughly 32,400,000 people) has maintained its grip on about 60% of the nation's wealth (Matthew 2018a, b). A striking graph from the United States Census Bureau published in 2014 showed median household net worth by quintile in 2011. For the lowest (1st) quintile or 20% of American households, the 2011 median household net worth was minus \$6029, that is, a negative net worth (23,600,000 households). For the second quintile (20%), the total median net household worth was a positive \$7263. For the middle quintile, the literal middle class, the median household net worth was \$68,839. For the next 20%, the 4th quintile, the median household worth was \$205,985. Finally, for the 5th quintile, the top 20% of households, the median household net worth was \$630,754 (United States Census 2014).

In 2011, a notable paper published by Lusardi, Schneider, and Tufano (Lusardi 2011) featured surveys showing widespread financial weakness in US households. The surveys asked the question, "How confident are you that you could come up with \$2000 if an unexpected need arose within the next month?" In addition to cash and personal assets, other means such as using a credit card or borrowing from friends or relatives were allowed to count. In the U.S., 24.9% of respondents reported being certainly able, 25.1% probably able, 22.2% probably unable and 27.9% certainly unable. In sum, roughly 50% of all Americans were probably unable or certainly unable to come up with a necessary \$2000. The bottom 50% of the population (164,000,000 people) can all be characterized as "financially fragile."

## 3 How Are Americans Reacting to the Growing Inequality in Wealth?

Americans have always been remarkably tolerant of striking inequalities in wealth, in part because they overestimate the chances of upward mobility in American society, but mainly because they simply have not realized how great these inequalities have become (see the Youtube video by "Politizane" 2012).

The Occupy Wall Street movement in 2011 and the candidacy of Mitt Romney in 2012 put the spotlight on economic inequality. The Internet and social media brought people increasingly greater and more vivid information about how other people live. People are now more able to comprehend both the scale of American economic inequalities and the effect these inequalities have on their lives

(O’Callaghan 2020). In addition, in the past few years, Americans have felt increasingly apprehensive about the coming Digital Revolution when computers and artificial intelligence will take over tens of millions of jobs now done by human beings. These changes are very likely to worsen the inequality that now exists (Drum 2018).

Economic insecurity on a massive scale makes any democracy susceptible to demagogues. Demagogues exploit a perennial weakness of democracies: the greater numbers, and hence votes, of the lower classes and less-educated people—the people most prone to be whipped up into a fury and led to catastrophic action by an orator skilled at fanning that kind of flame. Democracies are instituted to ensure freedom for all and popular control over government authority. Demagogues turn power deriving from popular support into a force that undermines the very freedoms and rule of law that democracies are made to protect. The Greek historian Polybius thought that democracies are inevitably undone by demagogues. He said that every democracy eventually decays into “a government of violence and the strong hand,” leading to “tumultuous assemblies, massacres, banishments” (Wikipedia 2018b). The Framers of the Constitution were well aware of the dangers of demagogues. They employed Polybius’s theory of “mixed government” to build non-democratic features into the Constitution such as judges appointed for life in the hope that they would check the influence of demagogues (see Parker 1999).

Current economic inequality and the consequent economic insecurity make America immediately more susceptible to demagogues. Is there any politically plausible solution to immediately lessen American economic inequalities?

#### **4 A Politically Plausible Possible Partial Solution**

The current total GDP (gross domestic product) of the United States is about 20 trillion dollars. The successful and popular Social Security System currently redistributes about one trillion dollars or 5% of the nation’s GDP every year. I suggest that, at the very least, an additional 5%, or roughly one trillion dollars of our national economy, needs to be redistributed each year. Is the redistribution of an additional 5% of our national economy a sufficient condition for preserving democracy in the United States? Perhaps not, but such an additional distribution is probably a necessary condition.

An additional 5% distribution of the total GDP cannot be accomplished by enlarging the benefits of federal social programs that deliver goods and services such as food stamps and subsidized housing. Many of these current federal programs are socially divisive and politically controversial. The current total cost of these federal welfare programs is now about \$360 billion. To even begin to preserve democracy in the United States, we need to redistribute at least triple that amount. A massive increase in these traditional federal programs is not politically possible. What shall we do?

## 5 Social Security

There is one successful and politically popular federal government program now in place that redistributes about one trillion dollars or about 5% of the national income every year. That program is Social Security. The popularity of Social Security is due to the fact that it respects the American values of freedom and equality. By simply handing out cash with no control over how the money is spent, Social Security respects the freedom of recipients to live as they choose. By applying the same set of rules to everyone, Social Security expresses the value of equality. Social Security is not seen as welfare or as favoring one or another group of Americans.

Social Security is essential for the welfare of the elderly in contemporary America. For 61% of elderly beneficiaries, Social Security provides more than one-half of their cash income. For 33% of elderly beneficiaries, it provides 90% or more of their cash income (Center for Budget and Policy Priorities 2017). Millions of people would be homeless and starving without Social Security, yet people do not consider it welfare. Indeed, public opinion strongly supports Social Security.

Large majorities of Americans say they don't mind paying Social Security taxes because of the security and stability the benefits provide to millions of retired Americans, disabled individuals, and children and widowed spouses of deceased workers. These findings hold true across party lines (those agreeing include 87% of Democrats, 81% of Independents, and 72% of Republicans). Americans are also willing to pay for Social Security because they value it for themselves (73%) and their families (73%) (National Academy of Social Insurance 2013).

Nearly nine in ten Americans (85%) say Social Security is more important than ever to ensure that retirees have a dependable income. These views cut across age and income lines: those agreeing include 81% of Americans in Generation X and 92% of those in the Early Boomers or prior generations, as well as 88% of people with family incomes under \$30,000, 89% of those earning between \$50,000 and \$75,000, and 78% of those earning over \$100,000 (National Academy of Social Insurance 2013).

What is needed to alleviate economic insecurity is an expansion of Social Security to provide everyone with the dependable basic income that retirees now enjoy. We made the mistake during World War II of tying health insurance to employment. We need now to separate a basic income from employment. Such a program would be expensive, but affordable. Americans can certainly afford to redistribute an additional 5% of the national income. The key question is whether such an expansion of Social Security is politically possible.

## 6 A New Plan for an Expanded Program of Social Security

What follows is my attempt to provide a rough outline of a program of taxation and redistribution that both meets the necessary threshold of a 5% additional redistribution and is politically feasible.

This New Plan for expanded Social Security benefits gives everyone the economic security that retirees now enjoy under the current Social Security system. The heart of the New Plan is Number 3 below which guarantees every man, woman, and child in the United States a basic income of \$800 a month after federal income tax. That basic income for everyone is made part of the current Social Security system. The current Social Security system is a politically acceptable major transfer of wealth. When planning an additional major transfer of wealth, it seems politically wiser to use the familiar brand of Social Security.

**The four major features of the New Plan are as follows:**

**Number 1** Eliminate the federal corporate income tax, which is mainly a tax on consumers and on pension funds (which own a large portion of the stocks on the New York Stock Exchange). For the wealthy, this step softens the blow of treating all capital gains from the sale of stock and all corporate dividends as ordinary earned income as set out in Number 2 below. The present corporate income tax raises about \$350 billion a year, about 10% of the total federal tax revenue of roughly \$3.4 trillion (Chantrill 2018). Here the Republicans are right. Eliminating the corporate income tax would pay for itself in economic growth. In this area alone, “voodoo economics” works.

Elimination of the corporate income tax would attract companies from all over the world which market in the United States to invest in factories and offices in the United States, even if other countries responded by cutting their corporate taxes. Certainly the untaxed overseas profits of American corporations currently stashed overseas would be repatriated. The distortions in the economy, the deals and decisions made primarily for tax reasons, would vanish. The corporate lobbyists in Washington who are there mainly to lower corporate taxes and keep corporate tax loopholes open would vanish. The tax accountants and tax lawyers employed to deal with corporate taxation would be forced to find more socially useful work.

**Number 2** Raise the personal income tax. Every man, woman, and child would be taxed separately. There would be no joint or head of household categories, no personal exemption, and no deductions of any sort. Everyone would pay income tax, even the poorest. The basic income tax would be a flat tax of 20% of the first \$200,000 of individual income, 30% of income from \$200,000 to \$300,000, 40% of income from \$300,000 to \$400,000, and 50% of all income over \$400,000. A person with an income of \$500,000 would pay \$160,000. A person with an income of \$1,000,000 would pay \$410,000. Each person would be taxed separately so that a household with two incomes of \$150,000 would be taxed at only the 20% rate since each earner would earn less than \$200,000.

All earned income would be taxed. In exchange for the elimination of the federal corporate income tax, all capital gains from the sale of corporate stock and all corporate dividends would be treated as earned income. Without these changes, raising the marginal tax rate to, for example, 70%, would not touch the very wealthy who may receive a low salary and sell stock at capital gains rates to finance their lifestyle. All Social Security income and all cash welfare payments of any sort would

also be taxed as earned income at the above rates. Making everyone pay tax on all their income of any kind satisfies the demand for equality. This is one important reason why Social Security is not seen as welfare. The current payroll tax applies to the first dollar of income.

A flat tax has long been a goal of the conservative right. Taxing (almost) everyone at the same rate satisfies the American value of equality. No one would be looked down upon as a welfare parasite. Everyone would pay their fair share. At the same time, really high incomes would be taxed much more heavily than they are at present. This would accord with the original purpose of the Income Tax when the 16th Amendment to the Constitution was passed in 1913.

The simplicity of the new income tax would mean that individuals in the 20% bracket would usually not have to file tax returns. Any time any employer paid money to any full time or part time employee, 20% would be withheld and sent to the federal government which would keep track of the amount received from each person. Only self-employed people or people in a higher tax bracket would need to file a return. This is the system currently in use in Japan where, in 18 years of being fully employed at a Japanese university, I was only twice required to file a Japanese tax return, and then only because I had received income from a non-Japanese source.

In addition to an increase in the income tax, a separate tax on the ultra-rich might also be employed to raise the revenue necessary for Number 3 below. Senator Elizabeth Warren of Massachusetts has recently suggested that all those with personal wealth in excess of fifty million dollars pay a wealth tax of 2% on all their wealth over fifty million dollars, and all those with personal wealth in excess of one billion dollars pay a wealth tax of 3% on all their wealth over one billion dollars. The tax on wealth over fifty million dollars would affect only about 75,000 households and the tax on wealth over one billion dollars would affect fewer than 1000 households (see Kleine 2019 for a sophisticated discussion of Warren's wealth tax).

**Number 3** Provide minimum Social Security payments for every man, woman, and child. Every citizen and legal resident of the US would receive a guaranteed Social Security payment of \$1000 per month. (The actual amount received would be \$800 per month because 20% would be withheld to pay the new 20% income tax.) The current Social Security system and payroll tax would continue as it is. The new amounts would provide only a floor for Social Security payments. Thus if someone were receiving current Social Security payments of more than \$1000, their payments would not be increased.

Can we afford the suggested new minimum Social Security payments? The current population of the United States is about 328,000,000 people. Multiply that by the \$12,000 (\$1000 per month) guaranteed to every person and the total cost of the new payments is \$3.9 trillion. The 20% tax on all income reduces that to about \$3.1 trillion. People in higher tax brackets who would return more than 20% of the guaranteed payments are about 1.5% percent of the population. Their extra return of the guaranteed payments would reduce the cost another \$.1 trillion (\$100 billion) down to \$3.0 trillion.

In order to be politically feasible, the New Plan presents what is essentially a universal basic income as an addition to the current Social Security system which has strong majority support across the political spectrum. The New Plan requires that the present Social Security system be kept in place, so that people continue to enjoy the benefits they have been promised. The payroll tax is also kept in place, or raised slightly to ensure the solvency of the current Social Security system. (The payroll tax might be collected on all earned income as further insurance of the solvency of the current Social Security system. This would mean a potential combined income and payroll tax for individuals in the highest tax bracket of 65.3%.)

Almost everyone who is currently on Social Security already receives at least \$1000 per month from Social Security and can be subtracted from the number receiving the new guaranteed payments. Roughly 20% of the population currently receives Social Security benefits. Thus the cost of the new guaranteed payment is reduced by 20%, taking the total cost of the new Social Security payments down to \$2.4 trillion.

The current federal personal income tax collects about \$1.5 trillion, about 45% of total federal tax revenue. (The current payroll tax collects about \$1.1 trillion dollars.) The New Plan's federal income tax would collect considerably more, much of it from wealthier Americans, but also a great deal from poorer Americans, many of whom now pay no income tax at all. The current total national income of all Americans is about \$18.7 trillion. Twenty percent of that amount is \$3.7 trillion. The new income tax would collect \$2.2 trillion more than the current income tax, almost enough to cover the \$2.4 trillion cost of the new Social Security payments. The extra \$.2 trillion (\$200 billion) might be collected from the richer people paying more than the 20% lowest bracket tax. In addition the Warren wealth tax described above would raise about \$270 billion a year. And see Number 4 below. If all federal welfare programs are eliminated, \$360 billion dollars would be saved.

The New Plan will not make a big difference in the amounts many people receive because the new guaranteed Social Security payments would be offset by the 20% tax on all of their other income. The major advantage would be that \$9600 per year (\$12,000–\$2400 tax) of their income would be assured, no matter whether they were employed or not. And they would be seen by themselves and others as contributing citizens rather than as welfare parasites. Also the New Plan would solve the difficulties presented when poor people with various welfare benefits cannot take a low paying job without lowering their actual total income.

Imagine a single person earning \$10 an hour for 40 hours a week for 50 weeks a year for a total of \$20,000. This person would receive new guaranteed Social Security payments of \$12,000 for a total of \$32,000. That total would be taxed at 20% or \$6400 for a total of \$25,600. That person's actual income would increase by 25%.

If that person earning \$20,000 a year were a single mother or a single father with two children, then the total would be \$20,000 plus new Social Security payments of \$36,000 for a total of \$52,000. This total would be taxed at 20% or \$10,400 leaving a total of \$41,600, double that parent's previous income. One major advantage of the New Plan is that much of the new money distributed would go to households with children.

A single person earning \$50,000 would receive \$12,000 in new Social Security payments for a total of \$62,000, minus an income tax of 20% of \$12,400 for a total of \$49,600, with federal income tax paid. If the person earning \$50,000 were a single mother or a single father with two children, then the calculations would be \$50,000 plus \$36,000 for a total of \$86,000. This amount would be taxed at 20% or \$17,200 for a total of \$68,000, with federal income tax paid.

One can also imagine four artists, each of whom wants to work full-time on their art, but none of whom is selling any art. They could live together in a small artist's colony with a guaranteed household income after federal tax of \$3200 a month. Other ways of life requiring little cash could flourish. Small farms or students living together could all benefit.

The only person who might be disadvantaged under the New Plan is someone who is currently on Social Security with payments of over \$1000 per month and thus not eligible for payments under the New Plan. Under the New Plan, all that person's income would be taxed at 20%. There would have to be an adjustment so that no one would be worse off under the New Plan. One of many possibilities might be to allow persons receiving old system Social Security payments to opt out of the New Plan completely and continue on until they die paying the old rates of taxation on their income and Social Security payments. They could continue as they are with no benefits from the New Plan. Under this option, almost everyone would chose to drop out of the New Plan when they were old enough to receive Social Security since the guaranteed income of \$12,000 under the New Plan would be offset by the New Plan 20% tax on all their income. For most people, there would be two tiers, conventional Social Security and the old tax rates for those old enough for conventional Social Security, and the New Plan for almost everyone when they are younger, with a guaranteed \$12,000 (\$9600 after taxes) a year and a 20% tax on all other income. Most people would have the New Plan from birth to their sixties and then choose the current Social Security system and the old tax rates when they went on Social Security. This feature of leaving older people on Social Security completely untouched by the New Plan might be helpful politically in getting the New Plan through Congress.

**Number 4** All federal welfare programs would be eliminated. The elimination of politically divisive federal welfare programs such as food stamps and housing subsidies might not save much money, only about \$360 billion, but they make the New Plan more appealing to conservatives. People are given money rather than food, housing, and services. The increase in personal freedom is considerable. The bureaucracy required to determine who is eligible for various federal benefits is eliminated. The elimination of the corporate income tax, and the social stability the new Social Security payments would provide, would encourage conservatives to support the New Plan.

Liberals will ask why tax the poor at all and why give anything to the wealthy. The answer to the first question is that by giving a large subsidy to everyone and then taxing it back, one can give large percentage income increases to the very poor and significant percentage increases to the near poor, and especially aid households with



children. The reason to give the same payments to every person no matter how wealthy they are is that the current Social Security system works politically because it is universal and not seen as welfare. These new payments under the New Plan would be seen in the same way. Also, some of the money given to the wealthy is taxed back for those in higher brackets, and the number of really wealthy people who would receive the new guaranteed payments is relatively very small.

## 7 Addendum

When I have presented the New Plan to my fellow members of the Democratic Party, they have said that the New Plan was unsatisfactory because the benefits for the poor were too little and the increase in taxes was too great. This is of course a self-contradictory position. It is an example of the liberalism which wills the end but refuses to will the means.

Democrats have also objected to the features that make the New Plan attractive to conservatives such as the elimination of the corporate income tax and the elimination of current federal welfare programs, even though the net gains to the poor and near poor are substantial, and the freedom of the poor and near poor is respected by giving them money rather than goods and services, one of the key reasons why Social Security is popular. Any suggested plan should be politically plausible which means that it must appeal to a supermajority of the American people. That means that everybody, no matter where they are on the political spectrum, will be somewhat displeased by any politically plausible plan.

Democratic Party members also ask, "What about health care?" The New Plan does not address health care, or the homeless, or the hungry. However, all these problems become easier to solve if every person is assured a payment of \$800 a month after federal taxes. All the New Plan does is give everyone the income security now enjoyed by retirees under Social Security.

Finally, in a country as large as ours with so many different regional, racial, and ethnic sub-cultures, the social programs that are not simply a matter of transferring money should be returned to the laboratories of the fifty States. Some States will do a lot to supplement the New Plan and some States will not do much. That is democracy. We often forget that in 1958, the population of the United States was less than half of what it is now, and the core culture then was White, Anglo-Saxon, and Protestant. We are now a truly multi-cultural country that cannot be easily governed from a central capital without suffering a major "democratic deficit." The Federal Government can still play a substantial role in decreasing economic insecurity by doing what it is good at—the redistribution of very large sums of money.

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