

Economics and Capitalism

[Paper No. 5 of the *Nehemiah Papers*]

[With an Introduction to Capitalism21]

I. M. Nehemiah © *August 2010*

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Economics relates to the production, distribution and consumption of goods and services, and their management. Its diverse scope includes pork belly futures, restaurant employee labor issues, and countless other connections relative to financial matters and the management of money. Through barter or trade of currency, items of value are produced, exchanged and consumed every day, everywhere, around the World. The guiding principles and the controlling mechanisms for those economic activities vary uniquely through practice: feudalism, mercantilism, capitalism, socialism, mixed economy, *etc.* In America, the principles and mechanisms are of capitalism. Unfortunately, the many variations of capitalism are frequently overlooked, and one variation often receives undeserved blame or credit owed to some other variation.

Capitalism18 (approximately 1750 to 1865)

True or pure capitalism was described in 1776 by Adam Smith in *The Wealth of Nations*. That was the 18th Century, so I refer to it as “Capitalism18.” In Capitalism18, free enterprise allows the best to be the most successful. Let the market run freely, and society will enjoy maximum benefits. During that time, societies were mainly agricultural, while also experiencing the beginnings of industrialization that grew with more factories, steamboats, railroads, stock markets and expansive banking.

A published definition of capitalism speaks of an economic and social system with activities in private hands for profit, operating in a market economy to trade capital goods, labor, land and money. (Social well-being is not mentioned.)

Capitalism sounds good in theory. But nowhere on Earth can you find true Capitalism18. People have long ago discovered that society needs to protect itself from the excesses of purist capitalism. Even Adam Smith wrote in other essays about the need for sympathy and morality (caring and fair play) to achieve socially beneficial results. Today’s defenders of unrestricted capitalism might do well to study better what Smith wrote. (Start with the online resource, Wikipedia.)

In fairness, also consider the true socialism of Karl Marx. Its utopian ideals based on labor and the needs of people were actually quite similar to some early Christian communities based on brotherly love. Neither was viable in the long term. Soviet communism (a form of one-party governance) was an attempt to implement socialism (an economic system). The result was anything but pure. Lenin in the 1920s was instituting financial incentives for farmers who produced more than their quotas. Communism became rife with favoritisms in housing, goods and services for those who pleased the government, making tangible benefits a variation of the monetary incentives known to capitalism. Some communist practices have been totally contrary to the principles of pure socialism.

Capitalism19 (approximately 1865 to 1945)

In the 19th Century after the American Civil War, the excessive power of industrial monopolies and banking tycoons caused a reaction that introduced limitations upon capitalism onward to the years before World War II. (Here called Capitalism19). Progressive American presidents McKinley, T. Roosevelt, and Taft (all Republicans) lead the Trust Busting efforts to prevent the largest of industries from disrupting the welfare of the American people. They created and we still have capitalist laws that give rights to laborers, whether unionized or not. Additionally, the 16th Constitutional Amendment to permit federal income taxes was ratified in 1913. The American people have spoken decisively, voting repeatedly to restrict the ravages of unbridled Capitalism18.

Even during the Roaring Twenties, the Republican presidencies introduced additional government regulations into capitalist business practices. Unfortunately, the regulations were not sufficient to avert a national economic calamity. With the Great Depression, F. D. Roosevelt (Democrat) brought further government controls onto enterprise, banking and income. Keynesian economics with financial management (such as strengthening the Federal Reserve System influence on interest rates and creating FDIC guarantees on bank deposits) is a hallmark of Capitalism19. Social Security was created, and Medicare came later.

For centuries across Europe, America, and elsewhere, societies have placed increasing limits on capitalism. In essence, neither capitalism nor socialism has existed in a pure form. There are many variations of each. Socialistic capitalism and capitalistic socialism are not so terribly far apart, especially in some European countries. In Capitalism19, America affirmed that it is a nation governed by democratically-decided laws that can control the excessive or unbridled aspects of capitalism.

Capitalism20 (approximately 1945 to 2010(?))

After World War II, America the super-power entered sixty years of massive economic growth coupled with continued battles to relax some of the restrictions on capitalism. The result is Capitalism20 in which deregulation removed many of the controls. Personal wealth accumulation has soared to deca-billionaire levels, and corporate wealth with multi-national activities has accumulated to extraordinary amounts almost beyond imagination. Today some large corporations have greater financial assets than do many nations. While our overall prosperity can be considered a great success, we are facing national challenges (including current economic crises and impending declines) that Capitalism20 appears unable to address in appropriate and sustainable ways.

Consider 1) the historical fluctuations of the USA “Top Marginal Tax Rate” (TMT% w/ averaging of minor changes) for a married couple filing jointly, in relation to 2) the threshold of “Taxable Income Greater Than X Thousands of Dollars” (TI>\$XK), above which that TMT% is applied. (Sources of data: <http://truthandpolitics.org/top-rates.php> and http://www.moneychimp.com/features/tax_brackets.htm Comments are from I.M.N.)

Figure 5-1: Table of Top Marginal Tax Rates from 1913 to 2010

Years	TMT%	TI>\$XK	Comments
1913-15	7	500K	Start of income tax in USA.
1916-17	15&67	2,000K	Two million dollars during WWI was extremely high income, so
1918-21	75	1,000K	only very wealthy people paid the highest rates.
1922-24	58&46	200-500K	Roaring 20s with great prosperity.
1925-31	25	100K	Low tax rates leading into the Great Depression.
1932-35	63	1,000K	Higher taxes to confront a national crisis.
1936-41	80	5,000K	Higher rates but very few would pay them.
1942-47	90	200K	Taxes for funding WWII, a time of national crisis.
1948-64	91	400K	Includes Truman, Eisenhower and Kennedy presidencies; 16 yrs.
1965-81	70	200K	Seventeen years without change.
1982-86	50	85K rising to 175K	Initial Reagan presidency and start of lowering tax rates.
1987	38	90K	Lower rates and lower threshold favor the wealthy.
1988-90	28	30K	Lowest tax rate since 1925-31 and the lowest threshold ever, so
1991-93	31-39	84K	more well-to-do people pay less tax than at any other time.
1994-02	39	250K rising to 307K	Most of Clinton presidency.
2003-10	35	311K rising to 374K	Fourth lowest rate since 1916.

Notes: 1. The Great Recession of 2008 to present (August 2010) follows approximately 28 years of great prosperity in a progressively deregulated economy with relatively low taxation of major wealth accumulation. The same period sees the national debt of 2.5 trillion dollars in 1980 double during the 1981-92 Reagan-Bush administrations, and double again to over ten trillion dollars during the 2001-2008 G.W. Bush administrations. Almost two years into the Obama administration, the national debt has risen over 2 trillion dollars to its current 13 trillion dollars.

2. Taxes on the wealthy rise during times of national crises.
3. If adjusted for inflation, the threshold of the TMT% is extremely low since 1987.
4. Analyses of the progressive brackets and percentages of households in each bracket in key tax years might reveal more (or less) favorable treatment of upper income households today.

The above data illustrate that the highest-income earners pay far less in taxes today than did the very wealthy of even a few decades ago. This aspect of Capitalism²⁰ represents a throw-back past Capitalism¹⁹ almost to Capitalism¹⁸. In other words, the concept of progressive taxation (where the higher income earners pay higher tax rates) has been capped at only 35% for taxable income above \$373,650. No wonder the high-income earners like it.

The next set of data illustrates our current rates of taxation as applied to a married couple filing jointly and having one of the following net (taxable) incomes after taking all deductions and utilizing any legal loopholes (of which there are many that favor high-income earners). Notice how much they get to keep (rounded to nearest hundred dollars). Remember, the maximum tax rate is applied only to the amount of taxable income above the threshold tied to each change of percentage. For instance, each couple keeps 90% of their first \$16,750 of taxable income.

Figure 5-2: Table of Maximum Tax Rates and Resultant After-tax Income in 2010.

Taxable Income Filing jointly (\$)	What they keep (\$)	Max. tax (%)	Comments (Only general statements and estimations)
Zero after deductions	zero	0%	Likely negative net worth.
2,000	1,800	10%	Paid \$200 as taxes.
5,000	4,500	10%	Many with zero savings and no health insurance.
10,000	9,000	10%	\$1K paid; incl. some w/ high income but massive deductions.
16,750	15,100	10%	Lower income class (minor savings; buying house).
32,000	28,000	15%	Much of the middle class, earning \$40K - \$75K gross income.
68,000	58,600	15%	Very strong middle-income class (home and 401k savings).
137,300	110,600	25%	High side of middle (perhaps \$100K to \$500K net worth).
209,250	162,400	28%	Low side of upper income class, with substantial assets.
373,650	272,600	33%	Much is discretionary or surplus income every year,
1,000,000	679,700	35%	accumulating in capital assets of land, stocks, <i>etc</i> ,
2,000,000	1,329,700	35%	with increases (or sometimes loses) in value at great growth
5,000,000	3,279,700	35%	rates but not taxed until final sale or estate taxes of up
10,000,000	6,529,700	35%	to 45%. Fortunes worth hundreds of millions or billions of dollars are created through ownership, not by hours of labor. Money makes more money for those who have it.

Also some with good incomes have many deductions and very low taxes.

The above data show how Capitalism20 “rewards” workers in America. Consider the case of a person with a NET (after deductions) taxable income of one million dollars or more. Upon earning an ADDITIONAL one million dollars, the tax payment increases by \$350,000. While the tax seems substantial, the person still keeps \$650,000. And usually, very little of that goes into job creation or other real benefits for the nation. Hiring another maid or spending on luxury goods does not build a society. Investment in some profit making businesses can be useful but is largely self-serving.

So, let the highest tax rate be raised to 75%. The nation receives an additional \$400,000, and the wealthy person still keeps \$250,000. Some old-form capitalists would cry that the person will not want to work so hard because of the taxes. Oh really? Will the sports star or the talk-show host or the entertainer (all of whom enjoy great fame) not be motivated by only \$250,000 extra money? Poor soul. Let him or her step aside for competent competitors who would take the stage for even less income. And the business executive not motivated by pocketing a quarter of any extra million dollars in gross income should probably instead re-purpose that million dollars to hire a small legion of highly qualified assistants.

Two notes: 1) Our society does not suffer a lack of “up and coming” new talent to replace current and former leaders, especially those whose performance declines because they are not getting paid enough.

2) Remember that taxable income (salaries, bonuses, dividends) are only part of the wealth-accumulation packages of the wealthy. Stock options, increased value of ownership, and many legal “perks” are not counted into annual net taxable incomes.

**** Yes, I feel no sympathy for the wealthy who cry about high taxes. But I will explain later my belief that the wealthy should have some influence on where and for what their

tax dollars are being used. The established “custodians of wealth” can truly assist our nation to avoid the coming decline, but they will need to want to do that. Otherwise, step aside.

America’s current tax structure shows no indication of Adam Smith’s “sympathy” by the wealthy for those in need and, likewise, for sustaining government functions. The most impressive aspect of these data is how the very wealthy are able to continue gaining wealth while the low end remains at the edge of or actually in poverty (with poor schools, unsafe neighborhoods, *etc.*), all within the wealthiest nation on Earth. America has been undergoing wealth redistribution for several decades, holding down the poor and middle class while benefiting the economically upper class.

Capitalism21 (not yet in place; proposed in 2010 and subject to modifications)

For the 21st Century, further modifications of capitalism now seem necessary. To avoid confusion among definitions, Capitalism21 is what I. M. Nehemiah is proposing in 2010, but it might eventually be quite different in its final implementations. Or, if nothing of significance is actually implemented, Capitalism20 will continue into the coming decades of the 21st Century with further polarization between the haves and the have-nots.

The purpose of the *Nehemiah Papers* is to help America regain strength and be prosperous in the near and distant future. I believe we need to further analyze and challenge our current capitalistic economic system (Capitalism20) and modify it as necessary (toward the proposed Capitalism21) for America’s well-being in the coming decades. Much of our discussion relates to the role of money in determining where and with whom the power of America truly resides.

I believe money is too powerful as the overwhelming indicator of success in America, especially among well-paid professionals and business management. The poor discuss money primarily in relation to survival and getting by. The traditional middle class have enough money for the basics of life, so they discuss money in relation to modest discretionary spending, as in an occasional vacation or up-grading the family car. Those at the upper end of the middle class have been doing very well, and some, if they spend rather than save, can imitate the wealthy lifestyle. But the truly wealthy have so much money that their income and net worth define their self-perceptions of success. With money they are by definition in the higher levels of society. Wealthy people can easily attain a yearly **increase in net worth** (after their substantial lifestyle expenses and their income tax payments) that is **more than the entire gross income** of middle or lower income families.

Taxes

To pay income taxes should be considered honorable because it demonstrates the acquisition of sufficient excess income to contribute toward the operational expenses of our great country. Adam Smith was an early advocate of progressive taxation. High taxable-incomes are currently spoken of as being over \$250,000 after all allowable deductions. (Personally, I would suggest \$150,000 as the start of the 33% tax rate, \$300,000 to start the 50% rate, and \$1,000,000 to start the 75% rate.) That tax revenue should never be seen as a “loss” because the government receives it (and I do propose actions against waste by government). Rather, the government (if mandated) can ensure that its revenues create jobs that improve the nation (such as those in renewable energy or education or health care or law enforcement in problem neighborhoods). I prefer this to the notion that wealthy people use their excesses from reduced

taxes to create jobs that may or may not relate to national needs (such as sales positions in another liquor store or another talk-show host).

Imagine a time when people proudly speak of how much they contributed to their great nation by way of their income tax. Contrast that to the current taxation system that allows legal tax avoidance wherein many wealthy persons take pride in how little in taxes they actually pay in comparison to their increase in net worth each year. Clearly, changes are appropriate.

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The writings in the *Nehemiah Papers* are not an attack on capitalism or money or wealthy people. Instead, I am presenting a different perspective on capitalism and capital to illustrate our need to make some adjustments. Additional aspects of Capitalism21 (including compulsory national service, “charter neighborhoods,” and benevolent international cooperation) are detailed in the other Papers.

I sometimes wonder about great nations of the past. During the decline of the Roman Empire and the eventual collapse of Rome, did the people have any perspective on what was happening? Or did they just slip a little, and then a little more, until ruin was upon them? Did anyone tell them that their excessive domestic personal and governmental spending, their over-reaching military empire, their enslavement of the conquered (their form of economic imperialism), and their rulers’ misconceptions of reality were all leading their once great nation to ruin? And, is any of that relevant to America and the World today?

If America can ignore these words, then it will ignore

I. M. Nehemiah
Challenger of the *status quo*