

Emmanuel I.S. Ajuzie, Ph.D.
Associate Professor
Economist/State Marketing Specialist
Lincoln University
Jefferson City, MO 65109

Financial Cliff: Correction of Existing Societal Imbalance or Socialism

On December 5, 2012, Martin Crutsinger, Associated Press Economics Writer, quoted Secretary Geithner as saying, "There is no prospect in an agreement that doesn't involve those rates going up on the top 2 percent of the wealthiest Americans." He also quoted a response from Senator Orrin Hatch, which states, "This is one of the most irresponsible statements I've heard in some time. Going over the fiscal cliff will put our economy, jobs, people's paycheck, and retirement at risk, but that is what the White House wants, according to Secretary Geithner, if they don't get their way."

The same day, Crutsinger commented in another article that the Fed Chairman, Dr. Bernanke, cautioned that the fiscal cliff is already having some effect on the economy and hopes that Congress and the Obama Administration will do the right thing to resolve the issue quickly.

Some people have referred to Secretary Geithner's comments, which are the views of the White House, as socialism. If we narrowly define socialism as economic and political processes that uphold the collective or governmental ownership and administration of the means of production and distribution of goods, in short a redistribution of wealth by the government without individual property ownership, we should ask ourselves whether the Geithner recommendation qualifies as socialism.

In a previous piece, I had stated that the mixed economic system (a mixture of capitalism and some form of command and control) we practice in the U.S. is the best economic system in terms of producing and distributing wealth. It has produced unprecedented economic growth and social development.

With every good thing, there is always a negative aspect. The freedom to create and accumulate wealth has steadily been mismanaged, detracting from the intended social commendable values. The earlier 2 percent of the wealthiest Americans managed to create a substantial amount of the wealth we are enjoying today. If not for the government, most of the job opportunities they created would have been lost, all to our detriment as a society. The Fords and other automobile companies that employ millions of worker today were built by these individuals. They have lots of endowments that are used to continue to uphold the national heritage of the country and also employ workers. As time has progressed, we have allowed what has been referred to as loopholes in the system to allow a lot of those funds, which created jobs and wealth internally, to start moving outside in unbelievable fashion. Most is to avoid paying taxes in the U.S. Unfortunately, it also reduces the ability of these individuals to invest internally to create jobs. Even though we have been talking about loopholes, no one has made any effort to close them. Maybe, it would require extraordinary legislation to attempt it.

The question one should ask is as the income goes outside and is not taxed, where does the money to continue the growth of the economy come from? We depend mostly on the middle class Americans and the poor who cannot find ways to stop paying taxes because they come right out of their paychecks. This becomes clearer if we borrow opinion from one of America's wealthiest philanthropists, Warren Buffet, when he told us that he pays less tax than his office secretary. This was supported by Governor Romney during the presidential election of 2012 campaign.

From the very limited definition of socialism and from the behavior of some of the 2 percent of the population who are blessed with enormous wealth, can we really say that anyone is pursuing socialism or wants to introduce it into our system? We have uninhibited property right ownership and unhindered freedom to pursue private economic gains. There can never be socialism in such a system unless it is being used to deceive and manipulate the very system and persons we are working very hard to protect and advance.

If we examine the case made above, we must believe that knowingly or unknowingly, we have introduced imbalance in the system with the passage of time. It seems that we have to correct the imbalance instead of labeling the attempt at correction what it is not, socialism. As I stated in another place, the imbalance was created when it became possible for our progressive tax system to stop, as our income gets to be very large, and change to a regressive system. It is good to either practice a progressive income tax scheme for everyone or make it regressive. If we should convert from progressive to regressive system in one tax scheme, it would be good to give a cut off point where the change will occur. When that happens, people can even work harder to reach that level where they will legitimately begin to enjoy regressive tax payment. They can invest in this country without being afraid of paying all their incomes in taxes. It will reduce the incentive to take funds overseas.

So, what do we do to eliminate the risk of a financial cliff? Allow the tax rate for the 2 percent of our countrymen, whose creativity we admire, to rise to what it was before it was lowered. I think that it is also a misnomer to call it tax increase. I would look at it as tax normalization. We have checked it out for the past twelve years or so and seen that it has not produced the results we expected, hence the action to eliminate it. I was told that many of these our countrymen have agreed to let it go. If so, those who are still fighting it may be doing so under what economists refer to as rent seeking behavior. They are doing it to reap the benefit themselves if they are at the income bracket where the tax kicks in. If the people grasp that that is the hidden intension, it may not bode well for anyone in the group who would depend on future graces of the people.