Tax Policies for Future Democracies

The Present

Western democracies are currently buffeted by both extreme pessimists, whose fear-mongering is tinged with palpable Schadenfreude, and by extreme optimists, who hope that, with a bit more excessive leveraging, this time by national governments, we can restore 15% annual returns on capital and then indefinitely maintain them without further financial chicanery.

What is often ignored in this debate are the early warning signs that fast economic growth will be nearly impossible to maintain if population growth slows and the rest of us keep aging. The canary in the coal mine is Japan's sideways economy of the last two decades. That has had many causes, but a significant (and outside Japan significantly underreported) one is demographic change.

It is a given that one needs more juice to keep growth rolling along if other forces diminish. But our ever-increasing reliance on leverage to pretend we are still getting rich quick will hit its next brick wall rather sooner than later. We can't solve such macroeconomic problems by indefinitely postponing them. And we probably can't solve them by incentivizing another baby boom either.

We can, however, start thinking ahead about the implications of the low or no growth, or even contracting, economies of the second half of the 21st Century. They could either be economically disastrous or provide rich and even enviable life styles for a vast majority. But one thing is clear: we won't get all that much further using smoke and mirrors. Superior incentive systems have improved our aggregate economic lives considerably. And if we are quite clever, and really learn the lessons of what worked and what didn't in the 20th Century, we can improve on those incentive systems in ways which, although certainly not changing human nature, will definitely increase our long-term economic health.

If, for example, the human population actually does level off at 9 to 10 billion around 2050, as some predict and many hope, then the most pressing issue for human society will be to develop economic policies which don't rely on growth to work. Since businesses and governments all currently rely on growth to hide the deleterious effects of some of their intentional (and some of their unintentional) incentives, it would be wise to plan ahead a bit. Almost all of us would like to live more comfortable, richer and more interesting lives, and the poorest among us the most, but the incentives need to change to make that happen, to ease our transition away from an immature reliance on highly leveraged growth.

It is far easier, of course, to overshoot, and join history's crowded economic dustbin. But some quite uncomplicated improvements in the rules of the economic game are all that are required to create a good chance of avoiding that crowd. One of the most important of those improvements concerns how we tax ourselves in modern democracies.

The Past

In the 17th Century, the French Finance Minister Jean-Baptist Colbert famously concluded that "the art of taxation consists in so plucking the goose as to get the most feathers with the least hissing." It should not be surprising that, in order to provoke maximum submission to an authoritarian government, deception is seen as required. But, at least in theory, in order to provoke maximum cooperation with a democratic government, it should also not be surprising to contemplate using honesty as the best policy.

It hasn't quite caught up with us yet, probably because democracy is still supported more by lip-service than by fundamental emotional preference, that the 21st Century version of such a Colbert report on tax policy should be praising transparency and efficiency. We at least want to believe that we can't be fooled so easily any more. But the methods current democratic governments use to raise funds, and to redistribute them, would certainly still be admired by King Louis XIV's Finance Minister.

The Future: Simplification through Elimination

The Corporate Income Tax. Many of the inefficiencies in current tax policies ignore the principle that money is fungible, and therefore that how much it costs to collect each tax dollar does make a significant difference. The most egregious example of ignoring this principle is also the most politically popular: the corporate income tax. The outcome of a quick internet vote on whether we should tax Big Corporations "More", "Less" or "Not at All" is easy to predict. It is almost irresistibly politically popular to attack corporate evasion of taxes. But the corporate income tax is just an indirect sales tax. The costs incurred are almost inevitably passed along to the consumers of the corporations' products or services through higher prices. In the meantime, the process of collecting that hidden sales tax, plus the time and energy spent lowering or avoiding paying that tax, profoundly distort our economy. Millions of otherwise uneconomic decisions are approved by corporate boards because, given the existence of the corporate income tax, they do make financial sense. In addition, hundreds of thousands of intelligent tax lawyers, accountants and consultants exercise all their creativity on helping corporations avoid this regressive tax, which is a tremendous misallocation of valuable resources.

Eliminating the corporate income tax would free corporations from these distortions, free up lots of talent to engage in more economically productive work, encourage the repatriation of profits earned abroad, and provide a significant trading advantage to the corporations of any country whose politicians are brave enough, and persuasive enough, to present this principle accurately to their citizens.

The Death Tax. Estate and gift tax policies are slightly more nuanced. One of the most salient policies supporting such taxes is to curb the political and financial influence of the richest families. This was a reasonable concept when the decisions of one rich family could still have a major economic impact on a capitalist democracy. It is also an emotional hangover from more distant royalist times, when one family and its supporters often dominated the decisions of entire countries. But the growth of the population in general, and middle class wealth in particular, make this a receding issue. So the distortion of the economic decisions of millions of successful middle class families does not seem worth the effort. And the cost of the process, plus (once again) the misallocation of intelligent resources (their advisors), do not seem wise, especially when we can generally rely on the third or fourth generation of the vast majority of very rich families to unintentionally redistribute their wealth to yacht clubs, vineyards, lawyers, accountants and hedge funds.

On balance, the simplification of family financial decisions which would result from the elimination of the estate and gift taxes would be beneficial, partly because it would end the last vestiges of the historical reliance on taxation of assets, and partly because it would help generate support among the rich for relying solely on the taxation of income.

The Social Security Tax. The social security tax is another very popular regressive tax. Probably a majority of Americans pay more to the U.S. federal government in social security taxes than through any other method of being plucked. It is nice to believe that these taxes are all being set aside, and safely invested, to ensure our future pensions. It is also nice to believe that our politicians will, over many decades to come, keep that pension system solvent. Unfortunately, it was nice to believe that Fannie Mae and Freddie Mac would never shift from their Enron-like off-balance sheet status to a direct federal obligation. And although some believe that 2008's slow motion market crash would never have occurred if social security had been privatized in 2005 (as was seriously proposed), the more likely result is that the stock market indexes would have shot up even higher with the influx of new money before falling back to the same earth.

It is simply safer to be realistic. In the long run, demographics and generally accepted political principles (which include the use of inflation by government debtors to fool some of the people some of the time) almost guarantee that the value of the social security system's retirement subsidies will decrease significantly in purchasing power value in the coming decades. Fortunately, the safety net social security was designed to provide could be supplied far more effectively, and far more reliably over long periods of time, using a cleverer, and endlessly sustainable, method of taxation and redistribution.

A Flat, Yet Progressive, Income Tax

Here's a one paragraph constitutional amendment to replace the current U.S. tax code:

The Congress shall annually set a Break Even Point for the taxation of each individual's income for the following calendar year. Each individual whose annual income is the same as the Break Even Point shall pay no tax and shall receive no subsidy. Each individual whose annual income exceeds the Break Even Point shall pay a tax equal to 40% of that excess. Each individual whose annual income is less than the Break Even Point shall receive a subsidy equal to 40% of the discrepancy between his or her annual income and the Break Even Point. The federal government is prohibited from using any other form of taxation or "revenue enhancement" to supplement the revenues generated by this individual income tax.

Of course, regulations would be required to define “individual” and “income”, and to implement the processes involved, but the result would be just as simple as the code: every individual would have 60 cents more of disposable income for every dollar he or she earned, whether it was his first dollar or her millionth. Even so, the effective tax rate would be a smooth, progressive curve. Those earning twice the Break Even Point would effectively pay a 20% tax, while only those earning at least 40 times the Break Even Point would pay an effective tax rate of over 39%. In addition, there would be no disincentivizing anomalies for those who receive subsidies.

Some Advantages

Although this idea is similar to Milton Friedman’s negative income tax idea, it is significantly different than guaranteeing a minimum income, with its moral hazard of entitlement (which Mr. Friedman reasonably considered less destructive than the disincentives of the welfare system). Because the minimum income is set at 40% of the Break Even Point, and is annually adjusted, it can (and must in dire economies) go down, so there is no guarantee. There are still the hazards of all other forms of subsidization and redistribution, but in this plan there are consequences. If living on the dole becomes too popular, the dole shrinks, and becomes less and less attractive. Theoretically things could even deteriorate so badly that the Break Even Point would have to be set at zero.

Although some ardent individualists complain in principle about any redistribution policy, most of us appreciate the socially beneficial advantages of having a safety net, and the relative stability (and lack of interest in communal or populist schemes) that has resulted. In addressing each adult citizen as an individual, this approach to redistribution would, in time, expand the current “Socially Acceptable Recipients” category beyond the elderly, the incapacitated and the temporarily unemployed. I trust almost everyone would get used to direct subsidies, rather than the current indirect ones, for stay-at-home parents and college students. Maybe even young struggling artists, musicians, inventors, actors and writers would be granted a few years of socially acceptable testing to see whether their imagined contributions to culture can be realized.

But since this plan doesn’t use a means test to determine eligibility for subsidies, or any test at all, other than being an adult citizen whose annual income is less than the Break Even Point, often the reaction is “no way, not for lazy bums too.” But what are the current costs to society of the elaborate bureaucracy and paperwork used for qualifying individuals to receive subsidies? Now add to that the costs of specific programs to deal with the homeless and the drug-addicted. If the charities who try to deal with these intractable problems could count on a specific subsidy for each individual, more effective programs could be created. And those who are self-incapacitated would also have a permanent lifeline available if they ever decide they can take care of themselves better than those who have volunteered to do so do.

Close to full employment would also become the norm. Since low-wage labor would be supplemented by subsidies, the minimum wage could be eliminated and the acceptable low end pay for work could again fluctuate with supply and demand. This would minimize one of the biggest economic problems for the next few generations in the developed economies — how to value their unskilled labor.

As the world economy continues to convert to a superior set of economic incentives over the next century, the current problems unskilled workers face in the already economically developed countries will probably only get worse. But by taking the distortions out of the economy caused by the minimum wage and welfare payments, a value — admittedly a lower value — would again be established for unskilled labor, allowing them to compete with the lower wages of unskilled workers in developing countries.

Could that drop to $1 an hour? Perhaps, but that decision would remain with the workers, and whatever the lowest acceptable wage becomes, for every dollar earned, 60 cents more of disposable income would be gained (since this plan's subsidies shrink proportionately).

Employers would also regain their incentive to hire relatively unproductive labor and have tasks performed that are currently uneconomic and therefore are left undone. A low value is still better than no value. And the overall humanitarian effect of employing others, giving them something productive to do with their time, is hard to overstate.

It is also important for everyone to feel his or her own importance to society. And some importance is still better than no importance. Besides, when close to full employment becomes common, upward pressure on the lowest acceptable wage would kick in. While certainly not eliminating this transition problem, this approach could ameliorate it significantly.

Some Disadvantages

The minimization of using the tax code for social engineering would be frustrating for those who either love to recreate society in their own image or simply love to create complicated mischief. In addition, by eliminating most hooks for campaign contributions, the lack of interest this plan could generate among businessmen for what's going down among politicians in Washington could prove shocking. It may be hard to find a disadvantage here — unless you are a politician. And that is the rub. Politicians would have to approve this plan, and would have almost no incentive to do so, and every incentive not to do so.

If the tax code were changed in spite of this formidable hurdle, another disadvantage would quickly arise. It would not be as entertaining to watch our government in action. There would not be enough tension. It would be like the difference between switching from American football to golf. Of course, different games attract different sportsmen, so if the switch were made, perhaps different characters would eventually be attracted to government service (which should prove to be an advantage in the long term — except when measured in entertainment value).

Another high hurdle to enactment is that only a severe crisis could inspire as large a change in the rules of the game as this. Because endorsement by a significant majority is required, any such plan of economic reorganization would have to have significant advantages for each interest group, and any disadvantages would have to be far outweighed. A reorganization like this one, which eliminates distorting disincentives and provides perceptibly fairer rules to the game, just might qualify. But we are getting along quite well in the U.S., even hobbled by all the inefficiencies and special rules and strange disincentives which occasionally cause major cracks in our system. And well enough should probably be left alone. There are, though, plenty of ineffective economies where this could be tried, with a Break Even Point of only $1,000 or so. Unfortunately, the computer infrastructure which would help make this possible is usually not yet available in those countries.

Another disadvantage might affect those who currently rely solely on social security. It is hard to tell in advance if the new subsidy payment would be less than what is currently being redistributed under social security, but it certainly could be. Since this plan would have a clearer basis for how such redistributive payments should be decreased, it might be slightly more acceptable than other proposals. But the anger politicians can reasonably expect as a result of millions of dashed expectations (which their predecessors previously inflated) is sufficiently predictable to assume those politicians will rely on Finance Minister Colbert's deceptive methods rather than on any semblance of a clear explanation.

Which reminds me of another disadvantage — it is also highly likely that some individuals will attempt to defraud this system too. No doubt some people will continue to collect social security numbers (let's keep calling them that just to confuse everyone two centuries from now) in order to collect more than one subsidy. But theft from a perceptibly fairer system will clearly be less socially acceptable. And given the universal expectation of some annual income no matter what, there should be less desperation. So this inherent disadvantage of any social program would at least be minimized under this plan.

Another disadvantage is the natural fear many have of guaranteeing everyone a minimum income. Too high an incentive for individuals to do nothing is obviously economically hazardous. But the minimum income in this plan would change annually, with the change in the Break Even Point. The idea is closer to the percentages each sailor on a ship had in the outcome of its voyage. In this case, the poorest citizens would have a percentage interest in the profits of the ship of state — which raises a slightly different disadvantage. If prior to the voyage the captain of a ship was able to borrow against the expected profits from the trip, and to distribute to each sailor his share of those profits prior to launch, a lot of sailors would jump ship. Because everyone has the same interest — to set the annual Break Even Point as high as possible — there would be a similarly powerful incentive to cheat by borrowing from the future. So the ability of the federal government to borrow would have to be severely constrained. Not eliminated, perhaps, because that would have its own disadvantages, but nearly eliminated.

Still, it can be safely assumed that some people would happily settle into a lifetime of low-income laziness, perhaps with at least a vague awareness that if too many people followed suit, their income would keep going lower. Theoretically, this plan could even make it possible for a majority of a country's citizens to descend into drug-addled subsistence living. But so many examples already abound of that undesirable form of nirvana that clear disincentives are obvious to anyone with his or her eyes open.

Perhaps I value everyone's exercise of his or her free will in the pursuit of happiness too highly, and instead should be worrying that the majority actually do have their eyes closed. But right now that appears only to approach being true on weekend nights.

Futuristic Tax Policies

This simple plan for collecting and redistributing federal taxes is based upon, and supports, the following tax policies:

Democratic Choice Not Autocratic Dictation. In a democracy, the idea of how much society should spend should be democratically decided. Practically speaking, that can't be done every time a society decides to expend collective funds. But an agreed-upon budget, as a percentage of national income, comes close. The current systems in use are still basically autocratic, appealing to those who like to determine the direction of society, and especially like to spend other people's money. Those few get to decide how the resources of the community (past, present and future) are expended, and the usual result often remains as it was prior to our democratic era — the personal aggrandizement of the deciders. At least we can all be happy that pyramids have finally gone out of style (the Mitterrand exception proving the rule).

Society is a Partnership. This plan should make it much clearer that society is a partnership among differing personalities with different skill sets. It would also provide a dramatic demonstration that the poorest benefit when the wealthiest are doing well. And because the only annual change in this income tax is a resetting of the Break Even Point, this plan directly unifies the self-interests of every citizen, from the richest to the poorest, because everyone wants the same thing — a higher Break Even Point.

Sharing the decreases will be much trickier, but the rational method in place (to lower the Break Even Point) means that haggling over how to deal with a decreasing economy, and who is going to pay what to solve that problem, will be minimized.

That said, the actual payment for the cost of operating the federal government (including all redistributions) would come from the more financially successful half of society (as has almost always been the case). Using this transparent, efficient and generous format to do that, though, should lower the animosity naturally felt by those whose financial dreams have not been as fully realized.

Avoid Encouraging Greed. That would also assist in lowering that natural animosity. Anyway, it needs no encouraging. It is a folly to attempt to eliminate it, but an even greater folly to tempt it. This will be especially true in low or no growth economies, where bubbles will do even more disproportionate damage than in growing economies.

Maximize Harnessing the Power of Free Will. The energy generated in the individual pursuit of happiness (and the avoidance of pain) powers all economies: capitalist or communist, democratic or authoritarian, centralized or decentralized. Submissive individuals, other than those rare individuals who are energized by indoctrination, are not nearly as economically productive as individuals given at least some freedom to pursue their own desires.

Minimize Social Engineering. If a society treats each of its adult citizens as an individual, whose economic value will be maximized by his or her pursuit of individual goals, with an economic safety net in place to avoid any unnecessary long-term loss of that individual's productive power due to temporary setbacks otherwise overwhelming him or her, that society's minimization of social engineering will maximize the economic productivity of its citizens. For example, this plan would eliminate all tax incentives favoring owning versus renting real estate (three years ago this would have to have been explained in detail — no longer), getting married versus staying single (which could take the government out of the marriage business altogether, thereby dodging another socially divisive debate), or having children versus remaining childless. There would, however, be a new form of social engineering — since each dollar used for its discretionary spending would decrease the amount available for redistribution, and therefore require a lower Break Even Point, and since everyone will prefer the highest Break Even Point possible, there would be tremendous pressure on the federal government to minimize its discretionary spending.

Additional Thoughts

Defining Individual. The "individual" for purposes of this tax and redistribution plan should be defined as an adult citizen of the country, so that taxes and subsidies would both begin upon reaching adulthood (at whatever age is chosen for that to officially begin). It would not be wise to give subsidies to all citizens, unless the intention is to outdo the post-World War II baby boom. Rest assured, though, that there will still be plenty of children created even if there are no tax incentives to inspire the necessary conduct.

Defining Income. As a required refinement of the basic idea, regulations would be needed to make clear the distinction between benefits derived from a corporation for personal use (which would be taxable as personal income) and the benefits a corporation derives from a person's efforts that create value in excess of that person's total compensation, such as responsible management, implemented visions and intellectual property rights created by employees for the benefit of the institution (none of which would be taxed due to the elimination of the corporate income tax). Although there is no bright line here, the principle can be stated clearly: corporate income and assets (whether a business corporation's or a charitable foundation's) which are used for personal purposes should be taxed as personal income, and corporate income and assets which serve institutional purposes should not be.

There are, of course, many hard-to-value personal benefits which any employee of an institution derives from working there. There is the value to the employee's general social reputation from her position at a reputable institution, there is the value of working in lavishly decorated or prestigiously located offices, and there are the indispensable bragging rights that accrue from flights on corporate jets. I won't try to predict precisely where the regulatory lines would be drawn through these and other gray areas, but it would be important work. These three benefits, at least, I would assume would not be taxable, but, for example, the use of corporate jets to fly the CEO to the Virgin Islands to keep her happy, and therefore productive, should be taxed as personal income.

Where those lines are drawn would probably be in need of annual modification as the Marie Antoinettes on all scales of the income spectrum attempt to have their cake and eat it too. But if these regulations are very cleverly drafted, almost everyone will want to take all their benefits from the institutions they work for in the form of cash. The regulators should keep an eye on any increase in alternative forms of compensation as a means of determining where their drafting has been inadequate.

Effective Institutions. Let's make the assumption that social stability is generally useful, and so having hundreds of thousands of stable or growing institutions would be extremely valuable to the long-term economic health of any society. By not taxing those institutions at all, an added incentive is created to store value in them, to make business corporations and charitable foundations (which would no longer be treated differently from a tax perspective) the bases into which wealth would be created and stored, or stored and redistributed.

The economic advantages of creating such powerful incentives to delay personal gratification by building up institutional wealth should be obvious. It would also enhance one of democracy's greatest strengths — the balance of power that results from limiting the role of government and decentralizing decision-making by allowing independent business and charitable institutions to grow and prosper.

Besides the economic advantages this reliance on the corporate structure has produced, there are other important reasons capitalism has been so effective in the creation of wealth. There are so many varieties of personality that having a variety of institutions available to provide frameworks to pursue their desires is very productive (rather than having just a few institutions designed to serve a dictator's desires). And, if truly restricted to its twin roles of being an impartial economic umpire and a protective parent from other aggressive societies, the ideal capitalistic government can provide a level playing field on which the best institutional players will thrive and lots of others can play productively as well.

The fact that no government has ever come close to accepting the limitations of those two roles is not surprising. Even with strong constitutional restraints, government service is still quite attractive to those who harbor imperialistic urges. Capitalism's profound genius is that it allows a democratic society to be more closely approximated by distracting those dominating urges and redirecting them towards running corporations (rather than the government). The advantage is that, in spite of their mostly aggressive (and mostly male) leaders, corporations are rarely run violently, since that undercuts the profit motive (and so makes that leader a loser in his competition with others).

The extreme value of this successful redirection is hard to overstate. The process of governing almost all corporations is either monarchical or oligarchical. In fact, the vast majority of our institutions (including local PTAs) function as autocratic, centralized power structures. And almost everyone wants them to remain that way.

Since this desire to dominate is not likely to fade in the future, it is wise to keep it harnessed to economic productivity, rather than to political destructivity. It will also help if we continue to move democratic governments ever closer to the restricted ideal, as that will make government service look ever less attractive to those dominated by the desire to dominate.

Continuing Regulation. In addition to the regulations required to distinguish between personal income and corporate benefit, the creation of a level playing field does require regulations that minimize monopolistic behavior, free-riding (as in pollution control), systemic dangers (securities and banking laws) and other similar attempts to re-tilt that playing field. Better than regulations, of course, would be the recognition by many more players that cheating in any competition is a public admission that one feels uncompetitive, because then cheating would become undesirable due to its being too personally revealing. But even that would not be likely to overcome either the powerful habits which underlie dishonest behavior or the ever-satisfying search for evidence of personal superiority (even in its illusory form), so it is safe to assume (as in any sport) that umpires will remain necessary.

Better than a Consumption Tax. Since under this plan wealthy families, and most individual savers too, would use untaxed institutions to store their personal wealth, causing their personal, taxable incomes to be fairly similar to the amount spent by them as consumers, this plan would approximate the benefits of a consumption tax, but without the disadvantages of a detailed collections process, since the tax would be collected on the income of millions of individuals, not on trillions of transactions.

Illegal Immigration. The main reason illegal immigration is such a traumatic social issue is that many immigrants are willing to work for less than the minimum wage, and therefore upset the economic distortions of that direct method of increasing the value of unskilled labor (and that indirect method of increasing the value of skilled, manufacturing labor). By proportionately subsidizing low wages, this plan eliminates those distortions. But since non-citizens would not qualify for subsidies, citizens working the same jobs for the same pay as an immigrant would retain an economic advantage — until the immigrant qualified as a citizen. This solution should provide advantages to all the workers, immigrants and employers who are affected by this problem.

Economic Treason. Distorting the economic incentives of a society to serve petty individual interests should be considered grand theft and even treason. It’s the society-wide equivalent of impoverished children stripping the copper and aluminum out of a construction site to sell it for scrap. In each case the perpetrator either has a callous indifference to the substantial harm being caused, or is so lacking in knowledge or confidence that he or she can’t imagine how else to make ends meet.

This is, of course, an old story. Many businessmen have enjoyed stripping a thriving institution of its core value, while making long-term promises that sound convincing due to that institution’s previously developed reputation. But those in the know are well aware their promises won’t be kept. There is no pretty end to this story, just the bitter disappointment of those who were dependent on the gutted institution. This irresponsible attitude becomes even more serious when government officials adopt similarly self-destructive behavior, unwittingly or not.

Generational Theft. It starts with much smaller amounts, and often for good, deeply profound reasons. And then slowly evolves into a game — a game which when played even in a large business can only be sustained for a decade at most. At the national government level the game can be played much longer, especially if other governments are playing similar games. That way, as long as the U.S. plays it with slightly smaller numbers, the confidence in our currency can remain relatively strong.

This usually inflationary game is partially played because it hurts to admit we, perhaps the richest human societies ever, can't afford to solve some problem. But it is simply not humane to attempt to solve a (probably intractable) problem for one generation at the expense of economic collapse for the next. This is doubly true because that next generation's desires will soon conform to the new illusions, both in quantity and quality, that we convinced ourselves we were entitled to.

This difference between the aspirational and the sustainable can be bridged if the aspirational is seen clearly, in its broadest, most humanitarian context, because then the sustainable would always be its strongest component. When we don't see that, our good intentions simply mean that the price will be paid in some unintended (and probably more expensive) way by that next generation.

Unintended Consequences. Sometimes we don't even have to wait that long. 2010 will probably eventually hold a special place in U.S. tax policy history. It might have been more entertaining if it had been some bureaucratic prankster's ironic, post-modern performance art, but I suspect the creation of the current tax incentives to kill off your rich relatives before the end of 2010 were unintentional. No one who originally supported the proposal to make the estate tax disappear in 2010, and then to reappear again in 2011, probably had anything in mind other than to create the illusion that the elimination of the estate tax would not contribute as significantly to future deficits as was actually expected. And they probably expected future politicians would fix any unintended consequences way before January 2010 rolled around. Wrong.

The result of that budgetary deception is that for the rest of this year the U.S. government has provided a powerful incentive, worth millions of dollars each to thousands of beneficiaries, either to persuade or to assist their aging rich relatives to accept a timely death. Now that's a tax policy to die for.

Reverse Marshall Plan. The international equivalent of such an irresponsible incentive is our incitement of other governments to leverage their way out of the worldwide recession. We are leading the way on this one, with the expected addition of over $5 trillion in deficit spending. Since currently only about $3 trillion of U.S. treasuries are held by other countries as reserves, this provides an opportunity for a significant expansion of their investment in the perceived safety of our debt. Given that perception, our attempt to borrow our way out of an already over-leveraged economy will probably suck resources out of those countries which would otherwise have been used for their own recoveries. I suppose we could consider this a Reverse Marshall

Plan, an overdue payback of our previous generosity, but the more likely long-term effect of our federal government's adoption of the advertising methods of Wall Street (or was it the reverse?) is more likely to resemble blowback than payback.

What is the Economic Goal? Part of our problem is that our economic goal is too simply expressed: we want an ever higher GDP. That is a quick shorthand for our economic well-being, just as an IQ test is for intelligence, but the actual goals we are after — more physical comfort, better housing, better food, more knowledge, more adventure — are only weakly approximated by GDP numbers, as intelligence is only weakly approximated by IQ numbers. And our excessive reliance on the pursuit of GDP has helped lead us to overleverage our economy in order to sustain "growth" in those numbers, without regard to the reality that this form of illusion is undercutting our real economic goals.

Fortunately, we have recently recognized (once again) that overemphasizing leveraging occasionally has consequences other than increasing the rate of return on capital (like the disappearance of all capital). This tax plan would be neutral about leveraging, and therefore not encourage it any more than is already natural. But the illusion provided by overleveraging is probably irresistible, given that it is usually more inspiring than the duller sheen reality gives off. Still, it would be wise to remember, during our pursuit of GDP, that those numbers serve other, more important goals, and that the individual freedom to pursue personal interests, whatever they may be, remains the crucial component of economic success.

The Best Rate. Why 40%? That is a good question. Perhaps a very wealthy society in the future might conclude that the incentives to be unproductive are too high at 40%. At that time 30% might prove more beneficial in preventing inertia in excess of the natural tendency. But 40% is the rate that appears to be the most consistent with current redistribution schemes, and a 40% or lower federal rate should keep the total tax burden (including state and local taxes) on even the wealthiest individuals under the psychologically important 50% barrier.

The Break Even Point. If this plan were put in place, what would the first Break Even Point be? That is very difficult to predict without precise information, but generally, given the current amounts collected and redistributed in the U.S., it would probably be in the $35,000 to $45,000 range, yielding a per citizen subsidy, for those with no income, of $14,000 to $18,000.

Conclusion

It is very tricky to try to organize society in a way that at least semi-satisfies all the different personalities at play. Capitalism certainly appeals to the entrepreneurial segment of society, but socialism appeals to the even greater number who prefer security above the chance to get rich. There are many others who are still harder to satisfy, but it should be clear by now that an item by item approach to the multitude of desires that clamor to be fulfilled is not only the road to extreme complexity, but also to ultimate failure.

History's economic dustbin reveals that, when an economic system's incentives are not in line with normal human desire, the distortions of desire to get around that system often cause damages far in excess of the advantages the system offers. Sometimes an idea's incentives are so distorting, and so psychologically fundamental, that (as Moses might testify) it can take millennia to undo the damage.

But we are not helpless. This simplification of the tax code yields so many advantages because it dismantles the dead hand of previous imperialistic urges. Think about it for just a minute. Think about how many different economic decisions would become more rational overnight. What we live with now is the equivalent, on a much larger and more complicated scale, of the otherwise totally unnecessary daily struggles imposed on tens of thousands of New Yorkers because there is no triangular train system connecting JFK, LaGuardia and Newark airports with Manhattan.

That unnecessary transportation nightmare is a reminder that the economic success of any modern democratic society is actually more likely to be based on the availability of inexpensive energy than on the cleverness of its financial incentives. Still, getting those incentives right will always be important, and in the anticipated non-growth economies of the future (which will probably use expensive energy) it might prove critical.

In any case, we are certainly not going to eliminate dire poverty, and the waste of human potential that entails, by smoke and mirrors. But by instituting more intelligent, more perceptibly fair and substantively transparent rules to the economic game, and by redirecting so much personal energy as a consequence, we just might minimize that enduring problem.

The goal of this plan, though, is not to eliminate poverty by legislating it away. The goal is to determine how best to strengthen the overall economy and to satisfy the largest percentage of various personality types, while at the same time avoiding the waste of human resources which extreme desperation causes.

That said, the results of enacting such a rational approach to taxation might not prove as productive as predicted. Why? Because the mean human personality (that's the statistical "mean" I mean) might actually find the economic roller coaster ride more inspiring, more motivating, and therefore more productive of actual work.

It will be wise for any future democracy which enacts these policies to keep that in mind, with at least one eye always fixed firmly on reality.