Journal of Business and Economics, ISSN 2155-7950, USA
February 2013, Volume 4, No. 2, pp. 146-156

http://www.academicstar.us

The United States: Economic and Educational Problems and a Suggestion

Robert W. Service, David Loudon
(Brock School of Business, Samford University, 800 Lakeshore Drive, Birmingham, AL 35229, USA)

Abstract: The recent U.S. Presidential campaign resulted in much press coverage about the American income tax system and the state of the American economy. During this time, late August through December of 2012, the first author worked in London and read the press there and talked to many Brits, Germans, and other nationalities about taxes, economies, and governments. Admittedly, there was no randomness to the sample of inputs. Nevertheless, most evidenced their near total lack of understanding of their own systems. The British admitted to knowing little about their system but had opinions on the American system, and the Germans were most informed but many of them were economists! The only thing the Brits or Germans knew less about than their own systems was the American income tax system; nonetheless, they had strong opinions, based not on facts but from misinformed foreign or domestic political pundits, particularly the written press. Anecdotally, an understanding of basic economics seems to be a bit better among the Brits and much better among the Germans than Americans. Yes sadly, when one converses with citizens in America—even (if not especially) the highly educated—one finds a basic lack of understanding of the American income tax system and related economic principles. This "difficulty" might seem to be understandable because of the complexity of the system. Reading any U.S. income tax manual will point out the difficulty. However, because something is difficult does not mean it is impossible or unnecessary (Wooden and Jamison, 2005). In fact, vast numbers of Americans have opinions on the U.S. income tax system, yet know very little about it. When expressing an opinion, far too many say, "I don't know much about it but . . ." and then continue on with their prescripts based on little that is factual or true and little apparent knowledge of how things currently work or have worked in the past. An understanding of economics, economies, and tax systems seems to elude far too many citizens. Thus, we keep making the same changes over and over expecting different results. This article is intended to act as a guide for thinking by presenting a rather simplified version of the American national income tax system via real examples and generic-related economic principles. Then, some alternatives will be presented designed to provoke thought and possibly guide much needed revolutionary change. The purpose of this paper is not to lean to the "left" or the "right" but to try to get the facts as straight as possible and tell why some alternatives could be better than others and a bit about why they might be better. Do not take this paper as a political statement; it is not one.

Key words: U.S. Federal Income tax; debt and deficits; taxes and economies; free markets
JEL code: A19

Robert W. Service, Ph.D., Samford University; research areas: leadership, management and economic development. E-mail: rwservic@samford.edu.
David Loudon, Ph.D., Samford University; research areas: management and marketing. E-mail: dlloudon@samford.edu.

1. Introduction

Discussions relating to U.S. federal income taxes all too often feature words such as “fairness” and “equity.” These two terms are simply too broad for consideration when one contemplates taxation of income. Income tax fairness and equity arguments must be viewed in light of free markets and their alternatives, and what happens with the consideration of income redistribution. If markets are not free then who decides and what do they decide to favor or exclude? Further, income can be distributed by contribution or some other formula, and taxes can be simple and rule-free or contain layers of rules upon rules that are designed to direct behavior. Let us discuss those alternatives and build a case for thinking anew about the current income-based U.S. federal tax system which is used to collect revenue from individuals and corporations. The dialogue here posits an answer in the form of a straw man proposal that can be used as a basis for moving toward much needed federal income tax reform. Almost no one would say we do not need reform, but few agree on the what’s and the why’s, and no one currently agrees on that all-elusive how! Consider that it is better to discuss an issue and not decide than to not discuss and let a decision be taken by inaction (Service, 2005). Let us start by presenting some preliminary economic principles, and related concepts.

Why listen to us about the problem? Of one thing we are certain; that is, we might be wrong. We ask that you read this considering that perhaps we might be right! The authors’ life experiences and education make them qualified to say that they are way too educated to know much of anything, but that does not stop them from thinking they know it all. So here goes!

Many Americans misunderstand economic workings and consequences. The reasons for this include: (1) lack of truth-misled by the press and elected leaders who have little interest in telling us it’s our fault and responsibility; (2) laziness-too distracted and lazy to search for truth and understanding: labeling is easier than understanding; (3) unintended consequences abound-economies are tangled webs of overlapping feedback loops and political undertakings not competing against real-world alternatives; (4) lack of ownership-those with no skin in the game participate and vote differently; (5) not understandable-complexity of laws, taxes and economics; and (6) a prevalent “what’s in it for me” attitude and actions—all of us focus on this (Baumohl, 2005; Gwartney and Stroup, 1993; McGowan, 2010; McKinnon, 2012; Porter, 1990; and Sanford, 2011).

> “Our working assumption is that whatever people do, they have excellent reasons for doing. If we as economists can’t see their reasons, then it is we who have a new riddle to solve (Landsburg, 1993, p. 19).”

This lack of understanding extends to all media. Even such an esteemed publication as The *Wall Street Journal* is not beyond criticism. Economist and author Steven Landsburg said, “Economists have the same feelings about “*Abreast of the Market* [a *Wall Street Journal* Column]” that many people have about horoscope columns. They find it entertaining, and they tell themselves that it is intended only for amusement. But deep down, they wonder how many readers take it seriously, and they shudder (1993, p. 196).” He cites study after study that says of stock prices, “that all new information about an asset is fully incorporated into the price within 30 seconds of its arrival (p. 196).” If a single column cannot provide much (yet alone most) of the information needed even for the slightest understanding of most financial issues, then this is exponentially true for the U.S. income tax system. This system takes years of study to understand that you don’t understand it.

The challenge is for all citizens to be leery of a lot of what they see and hear and struggle a bit more to grasp the complexity of the impact taxes and taxation have on individual and group behavior. As Landsburg notes:

"human beings respond to policy changes, and that simple observation renders traditional policy analysis completely invalid (p. 214). . . An economist who relies on nothing but statistical extrapolation has no chance at all (p. 215)." Moreover, Adam Smith said:

> [Every system] is in reality subversive of the great purpose which it is means to promote (p. 63). . . . Countries make themselves better off if they do not try to remain self-sufficient or raise trade barriers against others (p. 57). . . . Governments, he notes, have a tendency to spend even more than they can drain out of the pockets of the people. So he ends The Wealth of Nations with the parting warning that a large national debt is particularly harmful (Butler, 2007, p. 71).

Free Markets. No one has ever implied that markets were perfect. However, history has shown that relatively free markets always beat the alternatives over any significant period of time. This is so because in all other alternatives someone—government, dictator, or group—must decide; and who decides based on what criteria is the "rub". This is a reason that outsourcing is the right thing over the long term. If you do not allow it, you do not have free markets; and then who decides what, how, when and why? When you save a $17 an hour manufacturing job in America by doing something that can be done for $.75 an hour, you stay mired in the past and continue to do things that are no longer viable. Value added manufacturing uses little labor and requires education or training: get it or lose out (Will, 2009). Failing to outsource when economics indicates it is more effective, results in poor quality, less functionality, or in prices that are net-net higher than any tax that can be collected from employees whose jobs are temporarily saved (Conrad, 2012; McGowan, 2010; and McKinnon, 2012). Adam Smith provides a great example of why protecting an industry does not work as intended:

> By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good wine can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, meagerly to encourage the making of claret and burgundy in Scotland (p. 105)? . . . It is the highest impertinence and presumption . . . in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense . . . They are themselves always, and without any exception the greatest spendthrifts in the society (Butler, 2009, p. 108)."

Charity. Historically, charity has taken few people out of poverty. Permanently moving large groups out of poverty takes a rising standard of living which occurs through innovation that reduces costs and improves "affordability indexes." Charity may have done more economic harm than good. In the end, expanding commerce has been and will continue to be the salvation of the poor.

Ashton's (1969) classic review of *The Industrial Revolution 1760-1830* was first published in 1948 and reprinted several times with revisions up until this last publication date. It shows clearly that freedoms and the writings of such great thinkers as Adam Smith begin to take hold as intellectuals from various fields applied their brain power to speeding up, improving quality, eliminating the need for some skilled labor, and adding additional functionality and products to the commerce possibilities. Improvements in building, medicine, and education accompanied these rapid improvements in commerce and banking-it is hard to tell what caused or preceded what! Alston's fine Oxford University Press book tells the following things that can be of use to us currently.

> Under the influence of a rationalist philosophy, scholars turned from the humanities to physical science and some from physical science to technology. Lawyers, soldiers, public servants, and men of humbler station than these found in manufacture possibilities of advancement far greater than those offered in their original callings (pp. 13-14). . . . It was not in industries like iron-smelting, where large-scale capital and well-to-do employers ruled, but in the poorly developed domestic trades, that the conditions of labor were at their worst (p. 38). . . . It was not the least of the achievements of the industrial revolution that it drew into the economic system part of that legion of the lost, and that it turned many of the irregulars into efficient if over-regimented, members of an industrial army (p. 40). . . . It was the growth of savings, and of a readiness to put

> these at the disposal of industry, that made it possible for Britain to reap the harvest of her ingenuity (p. 66). . . The statement, sometimes made that the industrial revolution was destructive of skill is not only untrue, but the exact reverse of the truth (1969, p. 84).

Banerjee and Duflo (2011) in *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* use classic economics and related empirical research to open honest discussions on the causes and possible cures for global poverty. The theme is that good intentions needed to be subject to the same effectiveness evaluation as any other ideas. Yes, it is good to give money to charity, but what is as important is how effectively the resulting monies are used. Recent history has shown that in many cases enough money has been allocated but the results are simply not encouraging for far too small numbers of people are being lifted out of poverty. The overriding conclusion is that those that are poor simply do not think like most that are not. When the non-poor conclude that something will work to move people out of poverty, they should test their solutions rigorously and try to determine when we might have faulty thinking. Most of the conclusions in this book are what many might call common sense when one accepts that others do not necessarily value what you value and when they do, they do not always value it in the same way. Additionally, we see a lack of understanding probability and statistics and the over and underestimate effects or values of many "things" (Corbin and Strauss, 2008; Dorner, 1996; Levitt and Dubner, 2005 and 2009; Gladwell, 2002 and 2008; and Isaacson, 2007). And, yes statistics are misused and or misunderstood by most everyone: sometimes on purpose and others out of ignorance or shallow analysis. The truth, according to Banerjee and Duffo is that

> . . . we are largely incapable of predicting where growth will happen, and we don't understand very well why things suddenly fire up.
>
> [W]e do know a number of things about how to improve the lives of the poor. . . . the poor often lack critical pieces of information and believe things that are not true (p. 268). . . . But many of these failures have less to do with grand conspiracy of the elites to maintain their hold on the economy and more to do with some avoidable flaw in the detailed design of the policies, and the ubiquitous three I's ignorance, ideology and inertia. . . The fad of the moment is turned into a policy without attention to the reality within which it is support to function (pp. 270-271). . . [W]e are very far from knowing everything we can and need to know (p. 272). . . . We also have no lever guaranteed to eradicate poverty (Banerjee and Duflo, 2011, p. 273).

Innovation. Innovation is driven by investment, and investment is driven by the amount of money that the "rich" keep (Landsburg, 1993 and Shlaes, 2012). Innovativeness occurs because risk takers expect returns (Porter, 1990 and Service, 2006). The vast majority of all populations spend all of their income on consumption (Banerjee and Duflo, 2011). Consumption spending does not lift an economy (Gwartney and Stroup, 1995; and Stanford, 2011): it simply maintains it. The consequences and payoffs of investment are mostly realized by a middle class through the ability to buy more value, more functionality, more quality (fitness of use) or more productivity with less. The risk takers at the top who earn billions get a small return compared to the return of productivity and value for all others in society. Think about: Steve Jobs, FaceBook, the Internet, Trump, Exxon, BP, Buffet, Motion Industries, Toyota, the Wright Brothers, the Vanderbilts, GM, Ross Perot, IBM, and the list goes on. If the goal is to improve a country, then more people must invest and prepare for high-paying jobs. Conard's book (2012), *Unintended Consequences: Why Everything You've Been Told About The Economy is Wrong* offers excellent logic to understand and believe, as we do, that any and all "tax increases have a large negative effect on investment" (p. 236). Further realize that

> Bill Gates and Mark Zuckerberg might get rich, but they capture only a fraction of the value created by their innovations (p. 256). . . . Income redistribution leaves the middle class significantly worse off. They give up sixty cents from investment to gain forty cents of redistributed income (p. 259). . . Taxing the rich and redistributing their income comes at the expense of

> the middle class (p. 260). . . . Hidden cost and mistaken logic (p. 262). . . .We must only look to history to see that a rising standard of living is the only thing that has truly helped the poor. . . . Charity may even hurt the poor more than it helps them. The long-term results of aid to Africa are so poor that experts . . . [conclude] that the evidence overwhelmingly demonstrates that aid in Africa has made the poor poorer, and growth slower (p. 269). . . . Rather than lamenting the disparity of U.S. wages, we should cherish our good fortune (p. 277).

Multiplier effects. Some say there is a multiplier effect to government payments that go toward consumption and that's true, but when you consider that the money paid has to be taken out of the economy, you see a negative multiplier effect (Landsburg, 1993 and Levitt and Dubner, 2005 and 2009 make these points in fun innovative ways). "Net" multiplier effects over the long term occur only through innovation improving affordability, value and productivity. Governments reallocate value and do not create it—it is much harder to create than reallocate (the CBO reports for any given year prove these points, though not intentionally).

Unintended consequences. Nothing really works as projected when it is thrown into a mix of many complicated events and rules such as income taxes (review the CBO reports that are several years apart and Master tax guides and you'll come to this conclusion) Americans pay more for homes in part because you cannot take someone's resources when they walk away from a home. Yes, many people are walking away from their homes owing for a vacation, wedding, or so on that was financed with their home! Behavioral modification through taxes has consequences that are deeper than direct calculations show: they have a "moral hazard." Americans buy with and leverage debt; other faster growing economies save more and use cash.

We should not be disparaging the rich for the gap in U.S. wealth and wages, instead we need to celebrate our freedoms and the good fortunes of the hardest working among us. It is an attribution error to mention that the middle class or poor are getting less because of the rich getting more. The only way to help the less fortunate is to persuade more of our vast supply of unrealized talent that they too have a moral obligation to work hard, get rich, and invest their money for innovation that will shape America's future. When anyone mentions the growing gap between the most wealthy Americans and the least wealthy Americans, remember that the vast majority of the time they are comparing a group of people's best year to another group's worst year. If you do not understand or know that most wealthy or poor people in America simply do not stay wealthy or poor for very long, then you need to do some research of your own. No amount of statistics will convince you until you develop your own understanding versus someone else's rhetorical labeling.

2. Economics

> "If we open a quarrel between past and present, we shall find that we have lost the future (Winston Churchill)."

All economic systems answer the following five basic questions (included in parenthesis are free market answers): (1) what to produce? (what the markets want), (2) how to produce it? (most effective and efficient way available), (3) who should produce it? (the most effective and efficient), (4) to whom should it be provided? (those that can afford it), and (5) who should reap the rewards? (allocated by contributions). If you don't like those answers; then who will decide based on what criteria (Gwartney and Stroup (1993) give the basics and Stanford (2011) gives the parenthetical answers)?

Any tax system should not hinder or alter the answers to these five basic questions. However, the U.S. income tax system has through the years attempted to manipulate behavior: i.e., you should buy a home, give to charity, have more children, invest, or use this organization or product over another (e.g., solar versus oil) and so on. The results have had hugely negative unintended consequences. These attempts to use tax law to sway or favor have basically altered the answers to the basic questions shown above. The new induced answers have led to many of the economic difficulties of our current fiscal dilemmas, both individually and governmentally. We simply cannot keep trying to promote something no matter its apparent desirability, attractiveness, or "goodness" through tax code or law. It is just too complicated to understand what will happen when we add a new "good wish it were" or "favorite cause or product" to our tax code.

3. The specific Issue: U.S. Federal Individual Income Tax

Let us start with the issue that is repeatedly put forward, viz., "The rich are not paying their fair share of U.S. federal income tax." Maybe, but the top 17% (yes, less than 2/10ths of one percent) paid 20% of the taxes and made 9.5% of the income; those that made below $50K made 22.5% of the income and paid 7% of the taxes; and the bottom 20% of all tax payers paid -5.4%. The calculations are obtained from the IRS website (see Table 1). Thus, does Mitt Romney pay a lower percent than his "secretary"? (see Saunders (2012) and the tables below).

Study the following tables and understand the basic numbers and verify them if you doubt them.

Table 1 1040 Booklet for Married-2 Children, Joint-Standard Deductions (from IRS 2011)

AGI[1]	Tax	Per 1040 %	Actual average %
$25,000	-$4,426	-17.7%	see other tables
$50,000	$2,694	5.4%	3.5% < $50K
$100,000	$10,656	10.7%	7.5% < $100K
$150,000	$23,150	15.4%	
$250,000	$51,243	20.5%	15.4% < $1 ml.
$400,000	$100,743	25.2%	
> $1,000,000	$310,632	31%	24.4%
Who-what if	AGI	Tax	Tax rate
Avg for Sec.	$40,000	$96	0.24% (1/4 of 1%)
Low-income	$39,200	-$153	< 0%
Romney	$21,646,507	$3,009,766[2]	13.9%
On Avg income of	$54,280	$3,331	6.1%
On Avg tax rate	$105,500	$12,031	11.4%

Table 2 Making U.S Government Income, Spending & Borrowing Meaningful

Total Income	Total Spending[3]	Total debt	New total debt	Interest @3%
$2.163 trillion Below shows	$3.456 trillion what it would be	$13.5 trillion if an individual	$14.8 trillion[4] acted like our	$44.4 billion U.S. Government
Makes $21,630. If makes $50 K	Spends $34,560. Spends $79,900.	Owes $135,000. Owes $312,067.	New $148,293. New $330,429.	$4,449. spending $9,362. spending

[1] Income is AGI-Adjusted Gross Income. AGI is essentially most income realized before taxes or deductions.
[2] Gave $3,000,000 to charity-saved $543,766! He also paid state and local taxes of about $1,500,000.
[3] Income & spending-from-2011, 1040, p. 97: interest = $207 Billion. Debt & Home Land Security spending ($39b) in CBO report.
[4] Note there is not any plan at all to ever pay anything on the total debt so it will grow to infinity!!

Table 3 Individual Income Tax Numbers[5]

# Returns/ Income level	% of total	Income[6] billions	% of all income	Tax paid billions	% of all tax paid	Average tax rate
140,494,127	100%	$7,626	100%	$866	100%	11.4%
92,888,973 < $50,000.	66.1%	$1,721	22.6%	$60.9	7.%	3.5%
30,158,618 $50K–100,000	21.5%	$2,139	28%	$158.5	18.3%	7.4%
17,209,554 $100K–1 mil	12.2%	$3,039	39.9%	$469.1	54%	15.4%
236,883 > $1,000,000	0.17%	$727	9.5%	$177.5	20.5%	24.4%

3.1 Different Views of the Same Facts

Let us try stating some U.S. federal income tax facts in other ways. The top 20% pay 94% of the taxes and the bottom 40% pay less than 0%. The middle 20% pay close to zero. The bottom 87% of all wage earners made 50.6% of all income and pay 25.3% of all taxes—an average rate of 6%. The gap between rich and poor is a farce because the turnover among people in all brackets is huge (see any of the annual reports from any of the Federal Reserve banks which show incomes in quartiles) and for the top 1% most people in that bracket are there for only a year out of a decade: e.g., in the senior author’s experience, a cousin who finished 10 years of additional study beyond medical school with specialties in internal medicine, pulmonary medicine and emergency medicine moved into this 1% at the age of 42; hundreds of personal acquaintances (and the author) moved into this group for one year when Ross Perot sold EDS to GM; and the list goes on—we would bet you know many who have had these one-year in a lifetime payments. If you look you will see that America has the most progressive federal income tax of any developed country.

3.2 Toward an Answer

Until we totally discard the current federal income tax system we will just keep digging a deeper hole of unintended consequences and false hopes. And, until we understand the realities of the current system we will continue to have class envy. Basically no one that has looked into this area believes that behavioral change and social engineering via the tax code have worked as intended. So why do we think it will work in the future?

3.3 What Has Worked and Related Issues?

As we discussed previously, innovation is the answer and that is driven by investment and investment is driven by money that the “rich” keep. Innovativeness occurs because risk takers expect returns. If we want to improve a country, get more people to invest and prepare for high paying jobs. When one majors in the classics, history, charity, etc., or does not get an advanced education, all pay an “economic” price for reduced utilization of intellect (Ashton, 1969). And, yes, level of education is also the single most powerful predictor of living a long and healthy life as well—education would even save health care costs! In most industrialized countries, especially America and England, many are lamenting the fact that not enough people are getting STEM degrees because they are hard to get. STEM is science, technology, engineering and math. Those with STEM degrees improve economies thus allowing others to get their classics degrees!

The current U.S. recession’s creeping recovery (recession ended June of 2009!) is the worst recovery in the developed world over the last 40 years, and it stems mostly from a permanent dial-back of investments; that is,

5 For 2009—most recent year with data found at U.S. IRS official site: http://www.irs.gov/pub/irs-soi/09in12ms.xls.
6 Income is AGI.

reduced risk taking of the upper class. We all adjust behavior based on expected futures: rational expectations. Governments reallocate value and do not create it: again it's harder to create than reallocate. These statements have much support in the popular press, but the point here is not to just cite and recite but to ask the reader to think and prove otherwise if they can!

4. A Framework that RESCUES the Tax System

There are some fundamental parameters that must be met by the tax system in the U.S. Above all, we believe that there must be truth in taxation. Without this fundamental element, citizens can have no faith in the approach taken. "Smoke and mirrors" does not foster faith, but rather obfuscation and lack of confidence. Any viable tax system must exhibit a level of understandability that allows citizens the ability to handle their own affairs. This is a prerequisite for "good" self-governance. Think of the following analogy. In the 1500s Martin Luther said that the Bible has to be in a language people can read and understand; and people should not have to hire a negotiator to represent them to God. This is our current federal income tax system. The plan we propose promotes economic expansion versus merely dividing "it" up differently. Finally, it allows individuals and markets to decide and do versus attempting to guide them into doing X.

We have developed an acronym (RESCUES) to capture the hope of our arguments. Seven ideas express the hallmarks of our proposals for the system we envision.

<u>R</u>ewards by contribution—responsibility and rights allowed versus manipulated.

<u>E</u>qual ownership—all contribute to the system, all benefit

<u>S</u>imple—It is a convenient part of doing business and has no undue hardship associated with it.

<u>C</u>ertainty—That the codes are fixed and they won't change after one does X based on tax code or law.

<u>U</u>nderstandable—Clear enough that those paying the taxes have no need to hire someone to "do taxes" for any taxpayer.

<u>E</u>liminates "loopholes" that favor the rich, homeowners, charities, having more children, using solar, buying a hybrid, or any attempt to encourage or manipulate behavior.

<u>S</u>ufficiency—Enough to meet the needs defined by assumptions and objectives.

While these seven generic criteria are supported by the authors' extensive research and experience the reader may feel the need to gain further insight into this topic. To obtain a relatively quick understanding of the views stated here start your study with Adam Smith's class *Wealth of Nations* (2009 version: originally published in 1776), and continue with Conard's (2012, a bit unorthodox but logical) treatment of unintended consequences of taxation and governmental interference. Then look at Kennedy's (1987) rise and fall of great powers that shows what happens to nations that extend themselves too much and follow this with Landsburg's (1993) fun classic guide to understanding economics in everyday life. Then McKinnon (2012) and Saunders (2012) give us some real current examples while Shlaes (2012) gives us more points to ponder (2012). Stanford (2011) reviews economics and taxation in light of Christianity showing us why contribution needs to be at the center of economic redistribution; and, finally, if you really want to understand how complicated the U.S. income tax system is and why it must change then read closely the *U.S. Master Tax Guide* (2011 is the version read [yes, read-though not closely!] for this article. Rand's 1957 classic 750K word work of fiction really clarifies some of the issues of seeking to mandate equality and fairness.

Again we say *The Answer Is?* Junk the entire system and rewrite it; and we are not talking about a flat tax.

All systems outgrow their original assumptions and purposes. Only a foolish people allow outdated systems to continue to exist long after they have proven to be convoluted messes. "[M]uch analysis is called for. But, eventually, there is no substitute for the daring experiment (Landsburg, 1993)."

5. A Modest Proposal

A simple solution for all income tax, *both personal and business,* would likely be opposed by about 3-5% of the population. Two groups could oppose: (1) those that buy votes with tax law and policy, and (2) those that make a living advising and doing taxes. The ones that make a living on taxes need to be redeployed toward improvement and innovation, rather than transferring wealth from citizens to them. Those that use it to buy votes are simply not worth mentioning.

5.1 Federal Corporate Income Tax

We propose that all organizations (for-profit and not-for-profit) pay a corporate income tax rate of 2 percent of revenue. We include "non-profits" because many are not that at all. This approach would produce more revenue than we now collect. And, if any company or charity can't operate knowing they will have to pay 2% of revenue they can't be much of an organization! According to the 2012 CBO report, over the past 40 years under the current system we have averaged 2% of GDP from corporations. The "revenues" of all "organizations" exceeds GDP. Yes, this is simply a national sales tax, but people will feel that the corporations, companies and organizations of all types are paying their "fair" share: ugh! Yes, so called non-profits get the national benefits: i.e., military, SS, departments of education, agriculture, National parks, and so on; so they do need to pay for these directly versus through others. Of late corporate investments have been way down due a lot to uncertainty; putting certainty in the system will open the flood gates as nothing else will.

5.2 Federal Individual Income Tax

(1) Put all taxes and benefits on every check: i.e. the total for SS, Medicare Taxes, health insurance and other so-called employee paid benefits. This would add 7.8% to everyone's check (a total of 15.3%) because of the SS and Medicare taxes. Today it is the smoke and mirrors approach of an employer paying half of SS: they do not pay these amounts "for" an employee they pay it "instead" of paying an employee: understand this difference. The direct cost of all benefits is about 25-30% of average income.

(2) No one should pay income taxes on taxes so the 15.3% is not taxed, because it is gone and will be taxed when individuals receive the SS benefits.

(3) Have 3%, 6%, 12%, 18% and 24% rates. Treat all income the same with no deductions: again the "payroll tax" of 15.3% mention in #1 is not taxed, because the tax payer does not get it.

(4) Start at 3% on first $50K (again amount over the 15.3% SS tax), 6% on next $50K ($50,001-$100K), 12% on next $50K, 18% on next $50K, and then 24% on all above (> $200K). The percentages would be for all to pay—that is we'd all pay 3% on our first $50K, 6% on the next $50K and so on. This is highly progressive; i.e., Romney makes 1,000 times more than a $20,000 Wallmart employee, and would pay 8,000 times more taxes under this system.

A behavioral economist George Lowenstein explains the psychology behind the current financial meltdown and how we might overcome our "dark side". Lowenstein starts by saying that when we want to believe something we are amazingly good at making ourselves believe it. He cites the fact that during the stock market bubble of the 1990s we simply said that the old rules of stock evaluation did not apply because we did not want them to apply: this is a failure to generalize and results in the herd mentality that finds safety in numbers. "When the stakes are high the brain tends to narrow the focus (p. 32). . . . We think that the reason is a phenomenon called loss aversion. In a lot of competitive situations, people look at others whom they perceive to be at a higher level, which forms their reference. They feel themselves to be in the domain of losses, and they are desperate to get out. Much cheating occurs. . . . People are very shortsighted; they have what behavioral economists call 'present bias preference'. . . . [And it does seem true that] Small incentives can have a large impact on behavior if they are immediate, because they play on present bias preferences. . . Or take what is called the default effect: People tend to be lazy decision makers, taking the path of least resistance. . You can use laziness to help people (McGowan, 2010, p. 33)."

6. Conclusions

The current federal income tax system is filled with unintended consequences and is open to huge attribution errors. We remain convinced, as do most who have studied federal income tax facts and issues, that until we add truth, understandability and ownership into our income tax system we will not recover. When a family of four making $26K nets $3,230, have we eliminated welfare and how do you think they will vote? We favor appropriately "helping the poor" but it should not be done with a tax system; instead, do it with open, honest welfare payments. Further thought needs to go into such issues, but do not start with "well let's include or exclude or so on." Remember that "the unlikelihood of any negotiation reaching an agreement grows by the square of the number of parties involved (Will, 2009, p. D4)." As Brooks said in his 2011 book, *The Social Animal*, "We may not possess free will, but we possess free won't (p. 291)." Don't exercise this freedom; do the opposite and then we will have something to analyze and correct versus just wondering and complaining about it. Just do it!

References

Ashton T. S. (1969). *The Industrial Revolution 1760–1830*, Oxford: Oxford University Press.

Banerjee A. V. and Duflo E. (2011). *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, New York: Public Affairs.

Baumohl B. (2005). *The Secrets of Economic Indicators*, Upper Saddle River, NJ: Wharton School Publishing.

Brooks D. (2011). *The Social Animal: The Hidden Sources of Love, Character, and Achievement*, New York: Random House.

Butler E. (2007). *Adam Smith—A Primer*, London: The Institute of Economic Affairs.

CBO Report (2012). "The budget and economic outlook: Fiscal years 2012 to 2022", a report from Congress of the United States Congressional Budget Office, available online at http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-31-2012_Outlook.pdf.

Conard E. (2012). *Unintended Consequences: Why Everything You've Been Told about the Economy is Wrong*, New York: Penguin.

Corbin J. and Strauss A. (2008). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (3rd ed.), Thousand Oaks, CA: Sage.

Dorner D. (1996 translation). *The Logic of Failure: Why Things Go Wrong and What We Can Do to Make Them Right*, New York: Henry Holt and Company, Translated from 1989 German Version.

Elmer D. (2002). *Cross-Cultural Connections: Stepping out and Fitting in Around the World*, Downers Grove, IL: IVP Academics.

Friedman T. L. (2005). *The World is Flat: A Brief History of the Twenty-First Century*. New York: Farrar, Straus and Giroux.

Gladwell M. (2002). *The Tipping Point*, New York: Black Bay Books.

Gladwell, M. (2008). *Outliers: The Story of Success*, New York: Little, Brown and Company.

Gwartney J. D. and Stroup R. L. (1993). *What Everyone Should Know about Economics and Prosperity*, Tallahassee, FL: The James Madison Institute.

Hall S. S. (2010). *Wisdom: From Philosophy to Neuroscience*, New York: Alfred A. Knopf.

Isaacson W. (2007). *Einstein: His Life and Universe*, New York: Simon & Schuster.

Kennedy P. (1987). *The Rise and Fall of the Great Powers*, New York: Random House.

Landsburg S. E. (1993). *The Armchair Economist, Economics and Everyday Life*, New York: The Free Press.

Levitt S. D. and Dubner S. J. (2005). *Freaknomics*, New York: William Morrow.

Levitt S. D. and Dubner S. J. (2009). *Super Freakonomics*, New York: William Morrow.

McGowan K. (2010). Interview with: Economist George Lowenstein. *Discover*, Special Edition. The Year in Science: 100 Top Stories of 2009, pp. 32-33.

McKinnon J. D. (2012). "Tax breaks exceed $1 trillion: Report", *The Wall Street Journal*, March 24-25, p. A2.

Mendenhall M. E., Osland J. S., Bird A., Oddou G. R. and Maznevski M. L. (2008). *Global Leadership: Research, Practice and Development*, New York: Routledge.

Porter M. E. (1990). *The Competitive Advantage of Nations*, New York: Macmillan.

Rand A. (1957). *Atlas Shrugged*, New York: Random House.

SalaryWizard (2012). Available online at http://www1.salary.com/secretary-I-salary.html/.

Saunders L. (2012). "What you can learn from Mitt's tax return", *The Wall Street Journal*, January 28-29, pp. B7 and B10.

Service R. W. (2005). "SQ versus IQ: Successful intelligence matters", *The International Journal of Business Disciplines*, Vol. 16, No. 1, pp. 81-96.

Service R. W. (2006). "The development of strategic intelligence: A managerial perspective", *International Journal of Management*, Vol. 23, No. 1, pp. 61-77.

Shlaes A. (2012). "The policy is about competition, not fairness", *The Wall Street Journal*, April 10, p. A17.

Shinn S. (2011). "The customizable curriculum", *BizEd*, Septemer/October, pp. 32-37.

Smith A. (2009). *An Inquiry into the Nature and Causes of the Wealth of Nations*, Electronic version from Digireads.com Publishing: First published in 1776.

Stanford R. A. (2011). *Economy and Christianity in the Postmodern Era*, available online at: http://www.dickstanfordecon.com.

Thornton W. P. (2012). "Why can't they hear you? Orality based teaching for cross-cultural trainers", an 87 pages report from Dr. W. Philip Thornton with *Global Impact Missions*, for information see http://www.philandjanthornton.info or contact philthornton@windstream.net.

U.S. Master Tax Guide® pwc for (2011). Chicago, IL: CCH-A Wolters Kluwer business publication. ©2010 CCH.

Von Bertalanffy L. (1968). *General Systems Theory: Foundations, Development, Application*, New York: Braziller.

Will, G. (2009). "Now comes a summit on entitlements", *The Birmingham News*, Birmingham, AL: January 25, p. 4D.

Wooden J. and Jamison S. (2005). *Wooden on Leadership*, New York: McGraw-Hill.

Yukl G. (2013). *Leading in Organizations* (8th ed.), Boston: Pearson Education.