

Forbes

Socialism Marches On In America

By: Mike Patton – March 28, 2013

If redistribution and Socialism occupy one end of the continuum, a free-market economy and capitalism occupy the other. The first is propelled by government and the second by the private sector. The first is a system where if you need a hand, the government is in your corner (at least that's the idea). The second is more survival of the fittest. But in this case it's not a physical endeavor. Rather, it is a combination of natural and acquired skills as well as the network of friends and associates developed over a period of years. But I digress. At issue is the direction of America. You see, what was once proudly hailed as "Made in America" is now more of an import from distant lands. More specifically, we are heading down a European style path. A path which consists of an expansive government and a heavy dose of wealth redistribution. But does the size of government have anything to do with economic growth? The answer appears to be, "Yes it does!"

What's the Proper Size of Government?

When a government is small, its financial needs are easily met (i.e.; taxes can be low) and the effect on the private sector is negligible. Since economic growth stems from the private sector it must be allowed to breath in order to produce. If the regulatory shackles are applied too tightly, if the tax burden is too great, production is stymied and overall wealth is reduced. What size government is the right size if the goal is to maximize economic growth? Here is an excerpt from a paper published by the [Cato](#) Institute.

"Studies of the relationship between government size and economic growth have come up with a wide range of estimates of the optimal or growth-maximizing size of government, ranging anywhere between 15 and 30 percent of gross domestic product (GDP)."

The article further suggests that 25% is the optimal percentage. How does America stack up? The U.S. is about 36% of GDP and Europe is in the mid 70's. If government is too small, it cannot adequately provide essential services nor protect its citizens. If it's too large, the amount of capital it must extract from the private sector acts like a vacuum in a small airtight room. Eventually, the oxygen is used up. Moreover, there aren't enough rich folks to foot the bill. Hence, as government expands, the collection plate must be passed down to where the bulk of the taxpayers reside; in the middle class. However, as the middle class is taxed more and more, the economy begins to dry up like a pond in a parched land. This is because it takes capital to stimulate economic growth. The Great Recession taught us what happens to an economy when the capital and the credit markets dry up. Also, the larger the government, the more progressive the tax code will become as the ruling party tries not to upset its middle-class voting base by over taxing it. Finally, as taxes are increased on the wealthy, it creates a disincentive to

entrepreneurialism which leads to a contraction in the labor market. In other words, there are fewer available jobs because less people are taking the risk to start a business.

Underneath the Income Tax

The most recent presidential election seems to have been a referendum on the European model. It would seem as though the bulk of voters voted for a larger, more involved government. And true to form, the rich have been in the crosshairs of Washington. Although the rich are often criticized for not paying their fair share, the following chart will provide the facts, so we can settle the issue once and for all.

Income Percentile	Income Taxes Paid <i>(\$ Millions)</i>	Share of Income Taxes	Income Tax Rate
Top 1%	\$354,810	37.4%	23.4%
Top 5%	\$560,649	59.1%	20.6%
Top 10%	\$670,319	70.6%	18.5%
Top 25%	\$826,796	87.1%	15.2%
Top 50%	\$926,782	97.6%	13.1%
Bottom 50%	\$22,363	2.4%	2.4%

**Data for 2010*

The information in the table, provided by the Tax Foundation, illustrates that the top half of all income earners pay 97.6% of all federal income taxes collected. The top 25% pay 87.1% and the top 10% pay 70.6%. Clearly, the top 50% are supporting the bottom 50%. Should we attack those who are supporting the rest of the country? Remember the story about the goose that laid the golden egg? Moral: DON'T KILL THE GOOSE! However, if "fairness" is the goal, if the idea is to provide a more level income for all, since government is the tool, redistribution will become more and more prevalent. Moreover, the greater the role redistribution plays in society, the more it discourages excellence and innovation, leaving a huddled mass of entitlement-driven subjects. Redistribution is fundamental to the Socialist movement. The capitalist would suggest that the path to prosperity is laid by those who work hard and apply themselves. However, in this day and time, there seems to be a shortfall of elbow grease and determination. Perhaps this is because there are too many handouts. Many business

owners would echo that sentiment and agree that finding good workers is one of their greatest challenges.

Conclusion

This debate will certainly continue and “We the people” are tasked with sifting through the flood of media misinformation, digging beneath the superficial sound bites to uncover the facts so we can reach rational conclusions. At some point, however, the economic effects of an expansive government will be felt, but by that time, changing course will be a problem. Just ask the European citizens who are being forced to accept reductions in government services!