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Tax Reform Imperative: Alleviating Financial Burden and Fostering Middle-Class Prosperity in the U.S. Economy

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Abstract
The paper critically examines the existing U.S. tax system, highlighting its detrimental effects on disposable income and savings behavior. The current tax structure, characterized by high individual tax rates, has resulted in negative savings rates and increased borrowing among individuals, contributing to escalating personal debt levels. Moreover, low taxation on businesses has exacerbated budget deficits and national debt, creating a significant burden on the economy. Individuals essentially borrow against their uncertain future wealth, amplifying financial risks with high debt levels and low incomes. Consequently, increased interest rates on loans, particularly on credit cards, further strain household finances. To address these challenges, the paper proposes several policy recommendations. It suggests reconsidering corporate tax rates to generate additional revenue and implementing measures to lower government expenditures, particularly in areas such as military spending. Reforming the tax system is imperative to foster social welfare, fairness, and justice within society. The burden placed on the middle class undermines their ability to accumulate wealth and maintain a satisfactory standard of living, posing a significant threat to the socio-economic fabric of the nation. Historically, the strength of societies has been closely linked to the health of the middle class. Its decline can lead to detrimental consequences for the overall economy and societal well-being. Proactive measures are needed to address the challenges facing the middle class, including tax system reform and policies that promote economic growth and opportunity. By prioritizing the interests of the middle class, leaders can help ensure greater prosperity and a more equitable society for all citizens. This paper highlights the urgent need for tax reform and fiscal policy adjustments to alleviate the financial strain on households and address broader economic challenges posed by the current tax system and fiscal imbalance.
Keywords: Tax System, Savings Behavior, Disposable Income, Middle Class, Fiscal Policy
JEL Codes: H20, H24, H31

1. INTRODUCTION

The intricacies of governing a nation amidst a myriad of obligations to both allies and citizens have led to a substantial surge in government spending. This increase in expenditures, aimed at fulfilling diverse commitments ranging from defense alliances to social welfare programs, necessitates a corresponding boost in government revenue, primarily derived from taxes levied on individuals and businesses (Guellec et al., 2003). In recent years, there has been a remarkable escalation in consumption levels, surpassing historical benchmarks and reflecting a culture of heightened spending among the populace. Individuals, buoyed by economic optimism and access to credit, have been inclined to allocate a significant portion of their life income and accumulated wealth towards immediate consumption, often at the expense of long-term financial planning. This trend is further accentuated by a prevailing reliance on borrowing, with many individuals leveraging their future income potential to fund present-day expenditures (Adkins et al., 2021). In essence, the concept of "saving" has undergone a notable transformation, fading from prominence in the American lexicon as consumers prioritize instant gratification over prudent financial management. The implications of this shift extend beyond individual households, permeating into broader economic dynamics and societal norms. As consumption patterns evolve and borrowing becomes increasingly prevalent, the stability and sustainability of the economy come under scrutiny. Moreover, the erosion of saving habits poses challenges for future financial security and resilience, both at the individual and national levels. Banks, driven by profit motives and unencumbered by stringent regulations or oversight, engaged in a reckless lending spree, offering individuals and households unfettered access to loans without adequate scrutiny or restrictions. This indiscriminate lending was often facilitated by the imposition of high-risk premiums on borrowers with significant debt, effectively incentivizing banks to overlook prudent lending practices in pursuit of short-term gains (Green, 2021).

Consequently, many individuals and households found themselves burdened with loans that far exceeded their capacity to repay, leading to a precarious situation where interest payments became the predominant component of their total expenses. This unsustainable debt burden placed immense strain on borrowers, eroding their financial stability and jeopardizing their long-term prosperity. In this scenario, banks emerged as the primary beneficiaries, capitalizing on exorbitant risk premiums, leveraging collateralized assets, and ultimately relying on government bailouts to mitigate their losses. Meanwhile, borrowers

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were left grappling with the consequences of their indebtedness, trapped in a cycle of escalating financial obligations with limited avenues for relief (Guérin et al., 2021). Furthermore, this pattern of reckless lending was not confined to individual banks but extended to nations and their inefficient treasuries. As governments pursued deficit spending and accumulated staggering levels of debt, the prospect of repayment became increasingly remote, even with the imposition of draconian measures such as exorbitant taxes, salary and pension reductions, or mass privatizations of public assets. Ultimately, the unchecked proliferation of debt, both at the individual and national levels, poses profound challenges to economic stability and social welfare. Addressing these challenges requires concerted efforts to implement prudent lending practices, enhance regulatory oversight, and foster a culture of fiscal responsibility among financial institutions and governments alike. Failure to do so risks perpetuating a cycle of debt-fueled instability and economic hardship for generations to come (Canova, 2009). The prevailing dynamics of the socio-economic landscape paint a troubling picture of imbalance and inequity, with banks emerging as disproportionately powerful entities at the expense of individuals and nations. Despite the reckless lending practices and exploitative behavior exhibited by many banks, the lion's share of benefits has accrued to these institutions, bolstering their revenues and consolidating their control over vulnerable borrowers. During periods of economic turmoil, such as the global financial crisis spanning from 2007 to 2014, governments have often intervened to bail out failing banks, effectively transferring the burden of their mismanagement and malfeasance onto taxpayers (Claessens et al 2014). This pattern of behavior underscores the asymmetric power dynamics at play, wherein banks wield significant influence over both individuals and governments, leveraging threats of foreclosure, sell-offs, and confiscations to extract concessions and bailouts. The result is a socio-economic system teetering on the edge of a precipice, with the free market ethos proving insufficient to safeguard against rampant exploitation and systemic instability. This crisis of governance and accountability extends beyond banks to encompass regulatory failures, institutional corruption, and societal apathy. Ultimately, the current crisis is not merely a product of happenstance but rather a culmination of systemic failures and wilful negligence on the part of governments, institutions, and individuals alike (Bashore, 2016). The absence of effective regulation, coupled with complacency and short-sightedness, has paved the way for the unchecked dominance of banks and the perpetuation of a socio-economic paradigm rife with inequality and injustice.

To address these systemic challenges and restore faith in the socio-economic system, concerted efforts are needed to hold accountable those responsible for regulatory lapses and corporate malfeasance. Additionally, fostering a culture of civic engagement and responsible governance is paramount in empowering individuals to demand accountability and effect meaningful change. Only through collective action and vigilance can we hope to overcome the entrenched forces of exploitation and usher in a more just and equitable future (Akhavan, 2001). The U.S. economy has long grappled with international imbalances in its current and capital accounts, a trend underscored by significant current account surpluses amassed by countries like Japan in the 1980s and China in subsequent decades. These surplus funds were often channeled back into the U.S. economy through the purchase of U.S. government and private sector securities, effectively financing America's twin deficits - its current account deficit and budget deficit, or national debt. This phenomenon of surplus recycling played a crucial role in sustaining the U.S. economy, allowing it to maintain its high levels of consumption and investment despite persistent deficits. Notably, the influx of funds from surplus countries helped to suppress inflation in the U.S. by keeping the prices of Chinese products low (Feldstein, 2008). However, this came at the cost of elevated unemployment, as competition from cheap imports led to job losses in certain sectors of the economy. Moreover, the combination of low inflation and perceived low risk, compounded by quantitative easing measures implemented by the Federal Reserve, contributed to keeping U.S. interest rates at historically low levels. This deliberate effort to keep interest rates low aimed to stimulate economic activity and bolster the financial markets in the wake of the global financial crisis.

In essence, the interconnectedness of global financial markets and the dynamics of international trade have played a significant role in shaping the trajectory of the U.S. economy. While surplus recycling has provided a lifeline for America's deficits, it has also raised complex challenges related to trade imbalances, inflation management, and unemployment dynamics, underscoring the intricate interplay between domestic and global economic forces. The era of low cost of capital ushered in by prevailing low interest rates incentivized consumers to finance their consumption and investment through increased indebtedness (Tan, 2021). This phenomenon not only fueled spending but also contributed to the inflation of asset bubbles across various sectors, including financial and real estate markets. However, when these bubbles inevitably burst, the repercussions were severe, leading to widespread losses, economic recessions, and soaring unemployment rates in the United States. The culmination of these financial instabilities culminated in the onset of the global financial crisis in 2007, which sent shockwaves reverberating across the Eurozone economies. The Eurozone, grappling with its own set of challenges including massive debts and underlying socio-political issues, found itself ill-equipped to weather the storm. Compounded by governmental corruption, the Eurozone's reliance on a common currency and centralized control from Brussels further exacerbated its vulnerabilities.

The failure of European governments to effectively address these systemic weaknesses and implement preventative measures ultimately laid the groundwork for the devastating impact of the financial crisis on the Eurozone economies. With economic turmoil spreading like wildfire, the Eurozone found itself plunged into a maelstrom of economic downturns, fiscal crises, and social unrest, further compounded by the limitations of a common currency regime (Hausmann and Velasco, 2004). In essence, the global financial crisis of 2007 served as a stark reminder of the interconnectedness of global financial systems and the dire consequences of lax regulatory oversight, unsustainable debt levels, and systemic vulnerabilities. The fallout from the crisis underscored the imperative for governments and institutions worldwide to enact prudent financial policies, foster transparency and accountability, and prioritize long-term economic stability over short-term gains. The accumulation of staggering levels of debt by countries has become a pressing concern, exacerbated by limited government revenues stemming from a combination of factors. One significant challenge lies in the realm of taxation, where low tax rates, exemptions, and deductions afforded to businesses under the Internal Revenue Code have constrained revenue generation. Moreover, the proliferation of unethical practices such as tax avoidance, evasion, and inversion further diminishes government coffers, depriving them of crucial funds needed to service debt obligations and fund essential public services. Compounding these issues is the growing disparity in tax burdens between different segments of society. Wealthy individuals, leveraging loopholes and favorable tax policies, often pay a disproportionately smaller share of taxes compared to the middle class (Roberts et al 2018). This shifting tax burden has placed an increasingly heavier load on middle-income earners, exacerbating income inequality and straining household finances. As countries grapple with mounting debt obligations, a significant portion of government expenditures is allocated towards servicing interest payments on these loans. This diversion of funds towards debt servicing further constrains governments' ability to invest in critical areas such as infrastructure, education, and healthcare, stifling economic growth and exacerbating social inequalities. The interplay of inadequate revenue streams, unethical tax practices, and unequal tax burdens has contributed to the unsustainable accumulation of government debt (Stapenhurst and Kpundeh, 2018). Addressing these systemic challenges requires comprehensive reforms aimed at enhancing tax transparency, closing loopholes, and promoting progressive tax policies that ensure a fair and equitable distribution of tax burdens. Only through concerted efforts to strengthen fiscal accountability and promote responsible governance can countries effectively mitigate the adverse consequences of burgeoning debt burdens and pave the way for sustainable economic prosperity. The magnitude of the U.S. debt has reached staggering levels, surpassing $17.904 trillion, with significant portions allocated towards servicing interest payments. In the 12 months leading up to December 31, 2013, the U.S. government spent $415.7 billion on interest payments alone, underscoring the substantial financial burden associated with servicing the national debt.

However, despite the unprecedented scale of debt, the interest costs incurred by the U.S. government have been mitigated to some extent by the reduction in interest rates. The Federal Reserve's monetary policy measures, including quantitative easing, have succeeded in driving down borrowing costs, thereby alleviating the burden of interest payments on both the government and individual borrowers through refinancing opportunities (Arestis, 2017). Nevertheless, the pervasive issue of tax avoidance remains a critical concern, posing a significant threat to the sustainability of the U.S. debt trajectory. Unless decisive action is taken to address tax evasion, loopholes, and offshore tax shelters, the U.S. risks perpetuating a cycle of escalating debt accumulation, further exacerbated by diminished revenue streams. To safeguard against the specter of unsustainable debt levels, the U.S. must prioritize comprehensive tax reforms aimed at enhancing tax compliance, closing loopholes, and promoting fairness and equity in the tax system. By fostering greater transparency and accountability, and cracking down on tax avoidance practices, the U.S. can bolster its fiscal resilience and ensure a more sustainable path forward (Lips,2020). Failure to address these systemic challenges risks undermining economic stability and jeopardizing the long-term prosperity of the nation.

The allocation of resources towards national defense represents a significant component of government expenditure, with the United States consistently investing substantial sums to safeguard its security interests. In 2004, the federal government devoted $456 billion to national defense, equating to over $1,500 per person. By 2010, this figure had risen to $683.7 billion, exceeding $2,220 per person, despite the absence of foreign aggression. Over the past century, there has been a notable expansion in government revenue as a percentage of total income in the U.S. economy (Cameron, 1978). In 1902, government collections amounted to 7% of total income, whereas recent years have seen this figure increase to approximately 30%. Furthermore, state and local governments account for a significant portion of tax revenue collection, collecting approximately 40% of all taxes paid. Despite the growth in government revenue, both at the federal and state/local levels, fiscal imbalances persist. In 2002, the receipts and spending of state and local governments resulted in a deficit of $50 billion. However, by 2010, this deficit had narrowed slightly to $41 billion, indicating a modest improvement in fiscal management. These trends underscore the ongoing challenges associated with balancing government expenditures and revenues, particularly in the context of national defense and other essential public goods (Maskus and Reichman, 2004). As governments grapple with competing priorities and fiscal constraints, ensuring prudent fiscal management and accountability remains paramount to fostering long-term economic stability and prosperity.

The escalation of U.S. debt to over 122% of GDP, coupled with persistent deficits averaging between 9% to 11% during the latest financial crisis, underscores the profound fiscal challenges facing the nation. These deficits were exacerbated by a confluence of factors, including industry rescue plans, stimulus packages, and economic stabilizers such as unemployment benefits, all necessitated by the severity of the crisis. A significant contributor to the chronic deficits lies in uniquely American characteristics, particularly the country's market-oriented economy. Policies implemented since the 1980s, notably tax reductions, particularly for upper-income groups and businesses, have played a pivotal role in exacerbating fiscal imbalances (Cornia et al 2014). While tax reductions have bolstered economic growth and incentivized investment, they have also contributed to a widening gap between government revenues and expenditures. The fiscal cliff deal enacted on January 1, 2013, marked a notable shift in fiscal policy, with taxes increasing for individuals across income brackets. Additionally, heightened spending on programs such as Medicare, particularly for prescription drugs, and prolonged military engagements in conflicts including Iraq, Afghanistan, Syria, Ukraine, and the Levant have further strained government finances. Addressing the burgeoning debt and chronic deficits demands a multifaceted approach encompassing prudent fiscal management, comprehensive tax reforms, and strategic budgetary allocations. Efforts to enhance revenue generation, rein in spending, and promote economic growth must be balanced against the imperative of addressing pressing social needs and national security priorities. Only through a concerted and pragmatic approach can the U.S. effectively navigate the complex fiscal landscape and chart a course towards long-term fiscal sustainability and economic prosperity.

The United States has managed to mitigate some of its challenges thus far, buoyed by relatively robust economic growth fueled by demographic factors and the preeminent status of the dollar as the international reserve currency since 1944 (Eichengreen, 2011). Demographic growth, propelled by massive immigration and relatively high fertility rates, has contributed to the expansion of the U.S. economy by bolstering the labor force, consumer demand, and overall productivity. This demographic advantage has served as a source of resilience, helping to offset some of the economic pressures stemming from fiscal imbalances and structural deficiencies. Moreover, the dollar's status as the world's primary reserve currency has conferred significant benefits on the United States, providing unparalleled access to global markets and facilitating international trade and finance. This privileged position allows the U.S. to finance its deficits by issuing government debt instruments, which are purchased by the Federal Reserve through the creation of dollars. This mechanism essentially involves the recycling of liabilities, wherein the Fed's liabilities are used to finance the nation's deficits, creating a delicate balance within the global financial system. However, this reliance on the recycling of liabilities presents inherent fragilities and vulnerabilities within the international monetary system (Corsetti et al., 2001). While the dollar's reserve currency status provides certain advantages, it also exposes the U.S. to risks associated with potential shifts in global economic dynamics, geopolitical tensions, and fluctuations in investor sentiment. Moving forward, the United States must remain vigilant in addressing its fiscal challenges, promoting sustainable economic growth, and safeguarding the stability of the dollar's role in the international financial system. By pursuing prudent fiscal and monetary policies, fostering innovation and productivity, and fostering cooperation with global partners, the U.S. can navigate the complexities of the modern economic landscape and sustain its position as a leading economic power.

The literature on optimal tax policy is indeed extensive, spanning decades and encompassing contributions from eminent economists. Ramsey 1927 seminal laid the foundation for discussions on optimal taxation, emphasizing the trade-offs between efficiency and equity in tax design. Building upon Ramsey 1927 framework, Mirrlees and Diamond (1971a) in their influential papers from 1971 delve into the complexities of optimal tax theory, considering factors such as income distribution, labor supply, and welfare implications. More recently, Mankiw, (2009) study sheds light on the interplay between tax theory and tax policy, offering insights into how theoretical concepts can inform practical policy decisions. By examining empirical evidence and theoretical models, their research provides valuable perspectives on the design and implementation of effective tax policies. In a contemporary context, Paul Krugman's advocacy for high taxes on the wealthy has sparked debates and discussions on income inequality and redistribution. Krugman's 2013 recommendation underscores the ongoing discourse surrounding the role of taxation in addressing socioeconomic disparities and promoting inclusive growth. The contributions of these scholars underscore the multifaceted nature of tax policy and its implications for economic efficiency, equity, and social welfare. By drawing on theoretical insights and empirical evidence, policymakers can strive to develop tax policies that strike a balance between promoting economic growth and ensuring fairness and social cohesion. In "Given (2013)," the author delineates four fundamental principles of optimal taxation, each geared towards facilitating prosperity within an economy. Firstly, the principle of efficiency underscores the imperative of crafting tax systems that minimize distortions and inefficiencies in resource allocation. By levying taxes in a manner that avoids disincentivizing productive economic activities, policymakers can bolster overall economic productivity and foster sustainable growth. Equity emerges as a pivotal consideration in the second principle, emphasizing the importance of fairness in distributing the tax burden. This principle advocates for progressive taxation, wherein the affluent contribute a larger proportion of their income, aligning with their greater ability to pay. Such equitable tax policies not only address income disparities but also bolster societal cohesion and promote social justice. Simplicity stands as the third principle, emphasizing the need for clear and transparent tax systems. Complex tax codes and administrative procedures impose unnecessary compliance burdens on taxpayers, hindering overall tax effectiveness. By streamlining tax laws and procedures, policymakers can enhance compliance, reduce administrative costs, and ensure the efficient functioning of tax policy.

Lastly, the principle of flexibility underscores the necessity of adaptable tax policies that can respond to evolving economic circumstances and societal needs. Tax systems must be dynamic and responsive, enabling policymakers to address emerging challenges and seize opportunities for reform. Periodic review and adjustment of tax policies are essential to maintaining their relevance and efficacy in achieving broader societal objectives.By adhering to these four principles, policymakers can lay the groundwork for optimal taxation that fosters prosperity, promotes social welfare, and contributes to the long-term sustainability of the economy. In their study, McGranahan and Nohel (2014) delve into the response of both corporations and individuals to minimize their tax burden following the enactment of the American Taxpayer Relief Act (ATRA) of 2012. The ATRA introduced significant changes to the tax landscape, prompting taxpayers to reassess their tax planning strategies and adjust their behavior accordingly. The authors scrutinize the various tactics employed by corporations and individuals to mitigate their tax liabilities in the wake of the ATRA. This may involve leveraging tax credits, deductions, and loopholes within the tax code to reduce taxable income or optimize tax outcomes. Additionally, corporations may engage in strategies such as income shifting, restructuring, or relocating operations to jurisdictions with more favorable tax regimes.

By examining the reactions of both corporate entities and individual taxpayers, McGranahan and Nohel (2014) shed light on the complexities of tax planning in response to legislative changes. Their analysis provides insights into how taxpayers navigate the intricacies of the tax code to minimize their tax burdens within the confines of legal frameworks. McGranahan and Nohel (2014) study contributes to a deeper understanding of the behavioral responses to tax policy changes and sheds light on the dynamics of tax planning in practice. Their findings have implications for policymakers and tax authorities seeking to anticipate and respond to taxpayer behavior in the aftermath of tax law amendments. In "Saving (2014)," the author highlights a concerning trend in the nation's fiscal landscape: while the deficit may have shown signs of improvement or decline, the overall debt trajectory continues to rise. This presents a troubling prospect, as the burden of servicing and repaying this debt ultimately falls on future generations. The distinction between the deficit and the debt is crucial. While the deficit refers to the annual shortfall between government spending and revenue, the debt represents the cumulative accumulation of deficits over time. Even if the deficit narrows or declines in a given year, as long as the government continues to borrow to finance its expenditures, the debt will continue to grow. The implications of this growing debt burden are significant, particularly for future generations who will be saddled with the responsibility of repaying it. High levels of debt can constrain economic growth, divert resources away from productive investments, and limit the government's ability to respond to unforeseen challenges or crises. Moreover, the intergenerational transfer of debt raises ethical questions about fairness and responsibility. By borrowing to fund current expenditures, policymakers effectively shift the burden of financing government programs and services onto future taxpayers, who may not have had a say in the decision-making process that led to the accumulation of debt.

In light of these concerns, addressing the long-term sustainability of the nation's fiscal position becomes paramount. This may require a combination of measures, including fiscal discipline, revenue enhancement through tax reform, prudent spending decisions, and structural reforms to entitlement programs. By grappling with the challenges posed by rising debt levels, policymakers can strive to ensure that future generations are not unduly burdened by the fiscal choices of the present. Through responsible fiscal stewardship and strategic policymaking, it is possible to mitigate the adverse effects of debt accumulation and safeguard the economic prospects of future generations. In Kallianiotis's study (2014a), the author argues that implementing policies focused on reducing taxes and increasing government spending are essential strategies for both the United States and the Eurozone to enhance their respective economies. These policies are proposed as means to stimulate economic activity, promote growth, and address prevailing economic challenges. The recommendation to reduce taxes is aimed at incentivizing investment, consumption, and entrepreneurial activity. By lowering tax rates, individuals and businesses may have more disposable income, which can spur spending, investment, and overall economic expansion. Additionally, reduced tax burdens can alleviate financial pressures on households and enterprises, potentially fostering a more favorable economic environment for growth and innovation. Conversely, the proposal to increase government spending suggests leveraging fiscal policy to inject additional funds into the economy. Increased government spending, particularly on infrastructure projects, education, healthcare, and social welfare programs, can generate demand, create jobs, and stimulate economic activity. Moreover, targeted government investments can address critical needs, enhance productivity, and lay the groundwork for long-term economic prosperity. By advocating for a combination of tax reduction and government spending expansion, Kallianiotis (2014a) emphasizes a proactive approach to economic policy aimed at revitalizing stagnant economies and mitigating economic downturns. These policy prescriptions are intended to counteract sluggish growth, high unemployment, and other macroeconomic challenges facing both the United States and the Eurozone.

However, it's worth noting that the efficacy of these policies may vary depending on specific economic conditions, institutional factors, and political considerations within each jurisdiction. Additionally, the potential trade-offs and long-term implications of such policy measures warrant careful consideration and analysis. Kallianiotis (2014b) research contributes to the ongoing discourse on economic policy by proposing actionable strategies for policymakers to navigate and address the complex challenges confronting contemporary economies. In their research, Heathcote, Storesletten, and Violante (2014) introduce a model aimed at analyzing the determinants of optimal tax progressivity. The model provides a framework for understanding how various parameters influence the optimal level of tax progressivity, which refers to the degree to which tax rates increase with income. The authors delve into the factors that shape the optimal design of progressive taxation, considering both economic efficiency and equity considerations. They examine how parameters such as income inequality, labor supply elasticity, and social preferences for redistribution interact to determine the optimal degree of tax progressivity. By developing their model, Heathcote, Storesletten, and Violante contribute to a deeper understanding of the complex trade-offs inherent in tax policy design. Their analysis sheds light on how policymakers can balance the goals of promoting economic efficiency and equity in designing progressive tax systems. Moreover, their research has implications for informing policy debates surrounding tax reform and redistribution. By elucidating the factors that influence optimal tax progressivity, policymakers can make more informed decisions about tax policy adjustments aimed at promoting both economic growth and social welfare.

Heathcote, Storesletten, and Violante's model represents a valuable contribution to the literature on optimal taxation, offering insights into the nuanced relationship between tax progressivity and key economic parameters. Their findings provide a basis for informed policy discussions and have the potential to inform the development of more effective and equitable tax policies in practice. Arize et al. (2014) posit that in the long run, persistent deficits could exert adverse effects on the U.S. economy, while also exacerbating redistribution effects between generations. Their study underscores the potential consequences of sustained fiscal imbalances and the intergenerational implications of deficit financing. The authors suggest that over time, continuous deficits may contribute to economic instability and hinder long-term growth prospects. Persistent deficits can lead to increased government borrowing, crowding out private investment, and potentially resulting in higher interest rates. This could impede capital formation, dampen productivity growth, and constrain overall economic expansion. Furthermore, Arize et al. (2014) highlight the redistributive effects of deficits between different generations. Accumulating debt today means that future generations will bear the burden of servicing and repaying this debt through higher taxes, reduced government spending on public goods and services, or both. This could lead to intergenerational inequities, with younger cohorts inheriting a heavier fiscal burden and potentially experiencing diminished economic opportunities and well-being compared to previous generations. By drawing attention to these long-term implications, Arize et al. (2014) underscore the importance of fiscal sustainability and responsible fiscal management. Their findings underscore the need for policymakers to prioritize fiscal discipline, enact measures to address structural deficits, and implement policies aimed at ensuring intergenerational equity and economic stability. The study by Arize et al. (2014) serves as a timely reminder of the potential risks associated with prolonged deficits and the importance of addressing fiscal challenges to safeguard the economic well-being of current and future generations.

2. EMPIRICAL OUTCOMES

Testing the equations using data from the U.S. economy provides empirical validation and insights into the relationships proposed by Arize et al. (2014). By applying the provided dataset spanning from January 1959 to December 2013, researchers can analyze how various economic variables interact and influence each other over time. Key variables such as consumption (USPCE), income (USPI), money supply (M2), stock market performance (USDJIA), wealth (USW), wages and salaries (USWS), corporate profits (USCYP), taxes (USPCTR, USTPI), government spending (USGCE), budget deficit (USBD), national debt (USND), unemployment rate (USU), interest rates (USFFR, USPR, Baa, LIBOR3M, STT3M), and other relevant indicators can be analyzed to assess their impact on economic outcomes. Through statistical techniques such as regression analysis, researchers can estimate the parameters of the proposed equations and evaluate the significance and direction of the relationships between variables. This empirical testing allows for a deeper understanding of the dynamics of fiscal policy, economic performance, and intergenerational redistribution effects within the U.S. economy. Moreover, examining the data over a long time horizon enables researchers to capture trends, cyclical patterns, and structural changes that may influence the relationships under investigation. By conducting robust empirical analysis, researchers can provide valuable insights for policymakers, economists, and stakeholders seeking to formulate effective fiscal and economic policies. Applying the provided dataset to test the equations proposed by Arize et al. (2014) offers an opportunity to assess the validity of their theoretical framework and gain empirical insights into the complex dynamics of fiscal policy and its implications for economic outcomes and intergenerational redistribution effects.

First, the correlation coefficients and a Granger causality test between these variables are presented in Tables 1 and 2. We see a very high positive correlation between the personal consumption expenditures and personal income, taxes, money supply, price of our stocks (DJIA), wealth (money + market value of stocks), risk, and borrowing (CCO); a negative correlation between USPCE and interest rates. Consumption expenditures are highly positively correlated with personal income (+0.998), loans (+0.995), money supply (+0.991), taxes (+0.964), wealth (+0.913), stock market-DJIA (+0.742), uncertainty-price of gold (+0.741), unemployment (+0.414), and risk-TED (+0.225). Also, consumption is negatively correlated with 3-month T-bill rate (-0.660), corporate bond rate-Baa (-0.628), and LIBOR 3-month rate (-0.600). Further, consumption expenditures are caused by personal income ($+29.477^{***}$), by DJIA ($+16.850^{***}$), wealth ($+16.420^{***}$), taxes ($+15.868^{***}$), corporate bond rate-Baa (-11.957^{***}), 3-month T-bill rate (-11.104^{***}), risk-TED ($+8.118^{***}$), money supply ($+7.109^{***}$), and by loans ($+2.405^{*}$).

Also, a high positive correlation between loans (CCO) and personal consumption expenditures, wealth, money supply, stock market index, personal income, taxes, and price of gold (uncertainty); high negative correlation of loans with respect the interest rates (Baa corporate bond rate, LIBOR 3-month rate, and 3-month T-Bill rate). The wealth, money supply, stock prices, personal income, taxes, interest rates, and uncertainty cause the personal consumption expenditures. The personal consumption expenditures cause unemployment, personal income, loans, taxes, interest rates, and the gold price. The personal consumption expenditures, personal income, the unemployment, and taxes cause the borrowing (CCO). Borrowing (loans) are very high and positively correlated with personal consumption expenditures (+0.995), personal income (+0.993), money supply (+0.986), taxes (+0.952), wealth (+0.912), DJIA (+0.745), price of gold-uncertainty (+0.701), unemployment (+0.394), risk-TED (+0.211). Also, negatively with 3-month T-bill rate (-0.686), LIBOR (-0.628), corporate bond rate (-0.615). Further, borrowing (loans) are caused by taxes ($+7.794^{***}$), unemployment ($+5.971^{***}$), personal income ($+4.499^{**}$), and consumption ($+3.845^{**}$).

Then, Table 3[25] shows the estimates of consumption by using eqs. (1) and (2). Personal income has a significant effect on consumption; stock prices, money supply (liquidity), and wealth have all significant positive effect on consumption, too. Table 4[25] gives the estimation of eq. (9). Loans (consumer credit outstanding) are affected positively by income and consumption; negatively by unemployment, taxes, and risk. Table 5[25] presents the estimate of consumption of eq. (10).

Consumption is affected positively by income, prices, and loans; it is affected negatively by unemployment, wealth, interest rate, taxes, and risk.

Table 6[25] shows a very high correlation between taxes (tax receipts) and wages & salaries, corporate profit, taxes on middle class, taxes on corporations, tariffs, government subsidies, government spending, and national debt; but, a negative correlation between taxes and budget deficit. Table 7[25] reveals that tax revenue is caused by corporate profit, taxes on middle class, tariffs, government spending, budget deficit, and national debt. Taxes are very high positively correlated with wages and salaries (+0.999), taxes to middle class (+0.999), taxes on corporations (+0.998), government spending (+0.998), national debt (+0.983), corporate profit (+0.980), tariffs (+0.988), subsidies (+0.984), personal income (+0.972), consumption (+0.964), borrowing (+0.952), wealth (+0.942), money supply (+0.928), DJIA (+0.825), uncertainty-gold (+0.682), risk-TED (+0.345), unemployment (+0.223). Taxes are negatively correlated with corporate bond rate-Baa (-0.586), 3-month T-bill rate (-0.461), budget deficit (-0.441), and LIBOR (-0.385). Also, taxes are caused by money supply (+15.408***), unemployment (+12.495***), consumption expenditures (+11.611***), risk-TED (+7.814***), wealth (+5.330***), borrowing (+4.412**), DJIA (+3.561**), LIBOR (-2.489*), 3-month T-bill (-2.430*), corporate profit (+9.609***), taxes on middle class (+9.277***), tariffs (+5.864***), government spending (+7.453***), budget deficit (-7.453***), and national debt (+3.840**).

Further, taxes on middle class are highly correlated with taxes on corporations (+0.995), government spending (+0.995), tariffs (+0.987), subsidies (+0.982), national debt (+0.977), taxes (government receipts) (+0.999), wages and salaries (+0.997), corporate profit (+0.974). Taxes on middle class are negatively correlated with budget deficit (-0.419). Also, taxes on middle class are caused by government taxes (+28.731***), corporate profit (+9.609***), wages and salaries (+9.351***), government spending (+7.675***), and tariffs (+3.429**).

Lastly, Table 8[25] gives the results from eq. (11). Wages & salaries (income of middle class), corporate profit, personal taxes (on middle class), tariffs on imports, government subsidies, government spending, and national debt have a significant positive effect on government revenue (taxes). Corporate taxes have a negative effect on government revenue.

Consequently, tax revenue can grow with an increase in money supply (inflationary finance), an increase in corporate profit, an imposition of tariffs, an increase in the market value of financial assets (DJIA), and a reduction in interest rate. There is no need to raise taxes on individuals because the social welfare is falling. Also, the government spending has to be moderate, efficient, and at the level that satisfies domestic public services, public goods, and public capital investment.

3. SOCIAL IMPLICATIONS OF HIGH DEBT, CURRENT TAXES, AND OPTIMAL TAXES

The cycle you described highlights the intricate relationship between fiscal policy, debt accumulation, and economic outcomes. High levels of debt, exacerbated by a flawed tax system, excessive spending, and inefficiencies, can indeed lead to a host of negative consequences for both individuals and nations. As debts mount, interest payments increase, adding to the financial burden and exacerbating risk. This elevated risk profile prompts lenders to demand higher risk premiums, further driving up borrowing costs and contributing to a vicious cycle of debt accumulation. To address mounting deficits and reduce debts, governments often resort to raising taxes, which can have detrimental effects on the economy. Higher taxes diminish disposable income, curtail consumption and saving, and dampen aggregate demand. This, in turn, adversely affects production, economic growth, employment levels, and overall social welfare. While high debts may benefit businesses in the short term due to tax deductions on interest payments, this practice ultimately shifts the burden onto taxpayers and citizens. Subsidizing businesses' interest payments through tax deductions perpetuates an unfair and unethical system, wherein individuals shoulder the costs while corporations reap the benefits. The escalation of debt levels poses significant risks and challenges for both individuals and nations. Addressing these challenges requires comprehensive fiscal reforms, including prudent spending measures, tax reforms aimed at promoting fairness and efficiency, and strategies to enhance economic growth and sustainability. By addressing the root causes of debt accumulation and promoting responsible fiscal management, policymakers can work towards mitigating the adverse effects of debt on individuals, businesses, and society as a whole.

High government debt can have cascading effects on the economy, leading to increased interest expenses, heightened risk perceptions, elevated risk premiums, and an augmented probability of default. In response, governments may find themselves compelled to raise taxes to service and reduce this burgeoning debt burden. However, there is a delicate balance to be struck, particularly during economic downturns. While high debt levels may necessitate fiscal consolidation measures such as tax hikes, implementing such measures during periods of economic weakness can exacerbate the downturn, further dampening economic activity and exacerbating the fiscal challenges. One strategy to mitigate the negative effects of high debt levels during economic downturns is countercyclical fiscal policy. By borrowing during downturns to finance stimulus measures aimed at boosting aggregate demand and supporting economic recovery, governments can help offset the adverse impacts of the downturn and smooth out the economic cycle. This approach allows governments to provide timely support to the economy when it is most needed, without exacerbating the downturn through premature fiscal tightening. By borrowing during downturns and repaying debt during periods of economic expansion, governments can help stabilize the economy and promote sustainable long-term growth. However, it's essential to exercise caution and prudence in implementing countercyclical fiscal policy. Excessive borrowing during economic expansions can lead to unsustainable debt levels, undermining fiscal sustainability and potentially exacerbating economic vulnerabilities in the long run. While high government debt poses challenges, judicious use of countercyclical fiscal policy can help mitigate the negative effects of economic downturns and promote economic stability and resilience in the face of fiscal challenges.

However, by reallocating spending away from areas such as national defense towards essential social programs like Social Security, Medicare, Medicaid, healthcare, education, and infrastructure investment, governments can address pressing societal needs while reducing deficits. Redirecting funds from defense spending to these areas can have significant positive impacts on society, promoting social welfare, enhancing public health and education, and stimulating economic growth through infrastructure development. Moreover, prioritizing spending on social programs can contribute to long-term economic stability and prosperity by investing in human capital and infrastructure, which are essential drivers of economic productivity and growth. Lowering taxes on individuals to increase disposable income and encourage consumption and saving is another crucial aspect of fiscal policy. By allowing individuals to retain more of their earnings, governments can stimulate economic activity and support household financial stability. Meanwhile, increasing taxes on businesses can help ensure that the corporate sector contributes its fair share to public revenues, promoting fiscal sustainability and equity. Ultimately, fiscal policy should be designed to serve the interests of the people and promote their future well-being. This entails striking a balance between addressing immediate needs and investing in long-term economic development and social progress. By aligning fiscal policy with the priorities and aspirations of society, governments can foster inclusive growth, enhance societal well-being, and build a brighter future for all citizens.

Under the current system, businesses may benefit from lower costs of capital due to the tax deductibility of interest on debt. However, this can also lead to higher levels of debt and increased financial risk, potentially resulting in financial distress and an elevated probability of bankruptcy. Moreover, the social costs associated with business failures, particularly in terms of unemployment and economic dislocation, can be substantial. When businesses default or declare bankruptcy, it can lead to job losses, reduced consumer spending, and broader economic repercussions, contributing to social instability and hardship.

Addressing these challenges requires a multifaceted approach that includes regulatory measures to mitigate financial risk, discourage excessive debt accumulation, and promote responsible corporate behavior. Additionally, policies aimed at incentivizing businesses to prioritize long-term sustainability and social responsibility can help align their interests with the broader social good. Furthermore, discouraging outsourcing and promoting domestic investment can help bolster domestic employment, support local communities, and enhance the overall social welfare of the nation. By incentivizing businesses to invest in local economies and prioritize the well-being of workers and communities, governments can help foster inclusive growth and mitigate the negative social impacts of economic globalization and corporate outsourcing. Excessive debt burdens can pose significant risks and challenges for individuals, with high interest payments consuming a large portion of their income and limiting their ability to consume and save. High levels of debt can lead to elevated monthly payments, leaving individuals with less disposable income to spend on goods and services. This reduction in consumer spending can dampen overall demand, leading to lower production, output, and economic growth. As businesses face reduced demand, they may scale back production and investment, contributing to higher unemployment rates and lower social welfare for the country as a whole. Moreover, the cycle of high debt and reduced consumption can perpetuate economic stagnation, exacerbating income inequality and hindering long-term economic prosperity. Individuals burdened by debt may also face increased financial stress and insecurity, impacting their overall well-being and quality of life. Addressing the challenges associated with high levels of individual debt requires a comprehensive approach that includes measures to promote financial literacy, responsible borrowing, and debt management. Additionally, policies aimed at supporting economic growth, job creation, and income redistribution can help mitigate the negative effects of high debt levels on households and the broader economy.

Furthermore, regulatory measures to curb predatory lending practices and ensure access to affordable credit can help prevent individuals from falling into unsustainable debt traps. By fostering a more resilient and inclusive financial system, governments can work to promote financial stability and economic prosperity for all citizens. The risk of default among borrowers can lead to an increase in non-performing loans, potentially resulting in significant financial losses for banks. This, in turn, may necessitate recapitalization efforts to shore up banks' financial health and resilience. Moreover, the prospect of widespread defaults can contribute to a climate of uncertainty and instability, increasing the likelihood of bank runs and even bankruptcy. Indeed, the social responsibility of governments to safeguard the well-being of their citizens is paramount in a democratic society. However, as you rightly pointed out, the influence of powerful interests such as businesses and lobbyists can sometimes overshadow the broader public interest. This can lead to policy decisions that prioritize narrow interests over the common good, potentially exacerbating economic inequalities and social injustices. In the Eurozone context, the dynamics of political and economic power among member states can further complicate matters. Dominance by certain influential member states, such as Germany, can influence the policy direction of the entire bloc, potentially marginalizing the interests of smaller or less powerful nations. Addressing these challenges requires a concerted effort to promote transparency, accountability, and democratic governance. By fostering an environment where the voices of all citizens are heard and respected, governments can work to ensure that policy decisions are made in the best interests of society as a whole, rather than serving the interests of a select few.

Moreover, robust regulatory frameworks and supervisory mechanisms can help mitigate systemic risks within the financial sector, ensuring the stability and integrity of the banking system. By promoting responsible lending practices and effective risk management, governments can help safeguard both lenders and borrowers against the adverse consequences of excessive debt levels. A commitment to democratic principles, social responsibility, and good governance is essential for addressing the multifaceted challenges posed by high levels of debt and ensuring the long-term prosperity and well-being of society.

4. CONCLUSIONS

A critical aspect of fiscal and financial stability is the risk of fiscal crises when debt levels become unsustainable relative to the size of the economy. When governments accumulate excessive debt, they may struggle to attract buyers for their debt securities in the financial markets. This can lead to higher borrowing costs, further exacerbating debt levels and potentially triggering a fiscal crisis. Similarly, businesses face risks when their debt levels become too high relative to their revenue and assets. Excessive business debt can constrain financial flexibility, limit investment opportunities, and increase the risk of default or bankruptcy. Like governments, businesses may encounter challenges in accessing credit markets or face higher borrowing costs during economic downturns. While tax deductibility can incentivize businesses to finance operations through debt, it can also distort capital allocation decisions and contribute to excessive leverage. Revisiting the tax treatment of business debt could help mitigate these distortions and promote a more balanced approach to financing. Encouraging businesses to diversify their sources of capital and prioritize equity financing over debt can improve financial resilience and reduce systemic risks. Moreover, promoting sound financial management practices and regulatory oversight can help mitigate the adverse effects of excessive debt accumulation and contribute to economic stability. Regarding the fairness and ethics of the current tax system and government spending practices, especially in relation to individuals and businesses. Firstly, the notion that individuals, particularly those with lower incomes, should not bear the burden of financing businesses' interest payments is a valid concern. The current tax system, which allows for tax deductions on interest payments, effectively subsidizes businesses' debt financing at the expense of taxpayers. Addressing this issue may involve reconsidering the tax treatment of business debt to ensure a fairer distribution of tax burdens. Moreover, the practice of outsourcing by multinational corporations (MNCs) can indeed have detrimental effects on local economies and workers, contributing to job losses and economic dislocation in home countries. This raises ethical questions about the responsibility of businesses to prioritize the well-being of local communities and workers over short-term profit maximization. Governments may need to consider regulatory measures to incentivize businesses to invest in domestic employment and promote fair labor practices both at home and abroad. Furthermore, improving government efficiency and reducing wasteful spending can help alleviate the need for high taxes and deficits. By streamlining operations, eliminating inefficiencies, and prioritizing spending on essential services and investments, governments can optimize resource allocation and reduce the burden on taxpayers. This requires a commitment to transparency, accountability, and effective governance to ensure that taxpayer dollars are used responsibly and effectively. Lastly, it's crucial for governments to adopt fiscally responsible policies that safeguard the interests of future generations. Excessive deficits and debt accumulation can impose significant economic burdens on future taxpayers and limit opportunities for economic growth and prosperity. Therefore, governments must exercise prudence in fiscal management, balancing the need for social programs and investments with the imperative of long-term fiscal sustainability. Households relying excessively on future income or accumulating high levels of debt can face significant risks, especially in the event of economic downturns or personal financial setbacks. During periods of recession and high unemployment, individuals may struggle to meet their financial obligations, leading to bankruptcy and the loss of assets such as homes. This not only undermines individual financial security but can also have devastating impacts on families and communities. Regulation of banks, financial markets, and businesses is crucial to mitigate these risks and protect the interests of individuals and the broader economy. Effective regulation can help ensure responsible lending practices, prevent predatory behavior, and safeguard against systemic risks that could destabilize financial markets and harm households. Moreover, governments have a fundamental responsibility to prioritize the welfare and interests of their citizens. This includes implementing policies and programs that promote economic stability, social cohesion, and equitable access to opportunities. By prioritizing the well-being of individuals and businesses, governments can foster a more resilient and inclusive society. In conclusion, fostering a regulatory environment that safeguards households, businesses, and financial markets is essential for promoting economic stability and social welfare. By prioritizing the interests of citizens and implementing prudent policies, governments can mitigate risks, protect vulnerable populations, and foster sustainable prosperity for all.

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