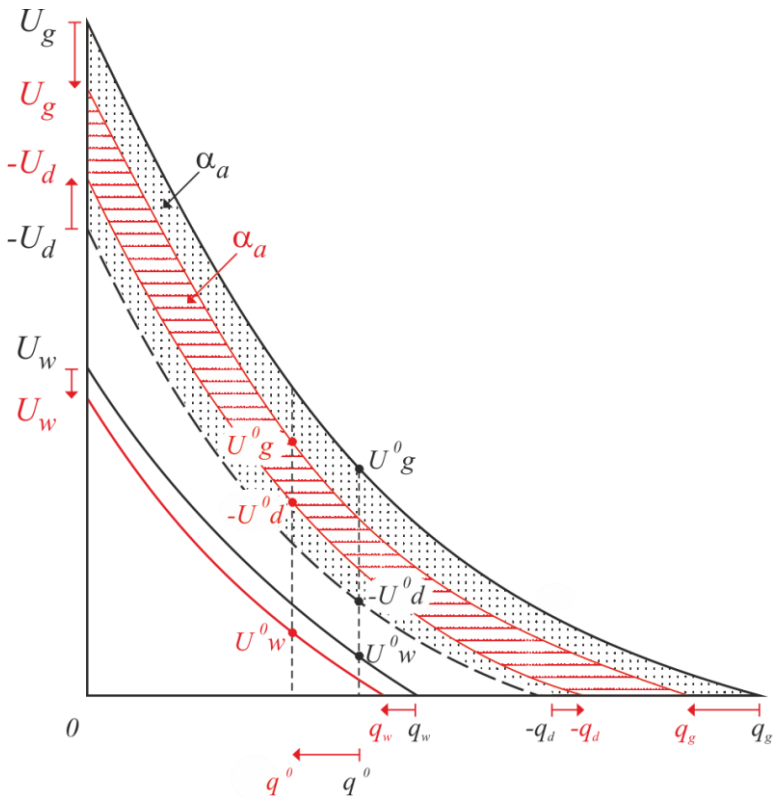
SSET 19 – **Capitalism Fiscally Affected**

In this paper we will show how fiscal policies affect capitalism, [1] as **fiscal policy** consists of: *detracting from the human beings that generate it, to be destroyed by another sector that does not do it, or does so in minor quantity*. [2] We will work with two fiscal sources that tax **flow** and **stock** of wealth. [3]

Fiscal affectation (**flow**)

According to our economic analysis based on utility, we graph in red the state of affected capitalism, in relation to the black color of capitalism, considering that fiscal policies imply a double affectation to capitalism: **detraction** and **destruction** of wealth: [4]

Capitalism fiscally affected (flow)



The following fiscal consequences are appreciated:

- Fall of the marginal utility curve of wealth generation ($\downarrow U_g$). [5]

[1] Task that we will do from our previous work: ***Subjective-Currency-Accountable Economic Calculation*** and ***Capitalism***.
[2] Which includes: to those that only destroy, to those that destroy more than they generate, and to subsidized.
[3] Those that tax sales can be considered as a percentage detracted on wealth generated.
[4] Duplicate taxation of the wealth generated detracted in as much it is the value of the destroyed one.
[5] The generated by the combined contest of the factors work (***w***) and capital (***k***).

- Upload on the marginal utility curve of the destruction of wealth ($\uparrow -U_d$).
- Fall in the marginal utility curve of wealth generated by work ($\downarrow U_w$).
- Fall in the accumulated utility of net wealth generated or saved ($\alpha_a < \alpha_a$).

It is also important to analyze the behavior of the variables in the ***Evolutionary Medium Point*** (in U^0_g and U^0_g, as well as in q_0 and q_0), since the consequences of the presence of the marginal utility law can be seen in a simple and complete:

$$q^0 < q^0 \leftrightarrow \alpha^0 < \alpha^0$$

$$q_a < q_a \leftrightarrow U^0_a > U^0_a$$

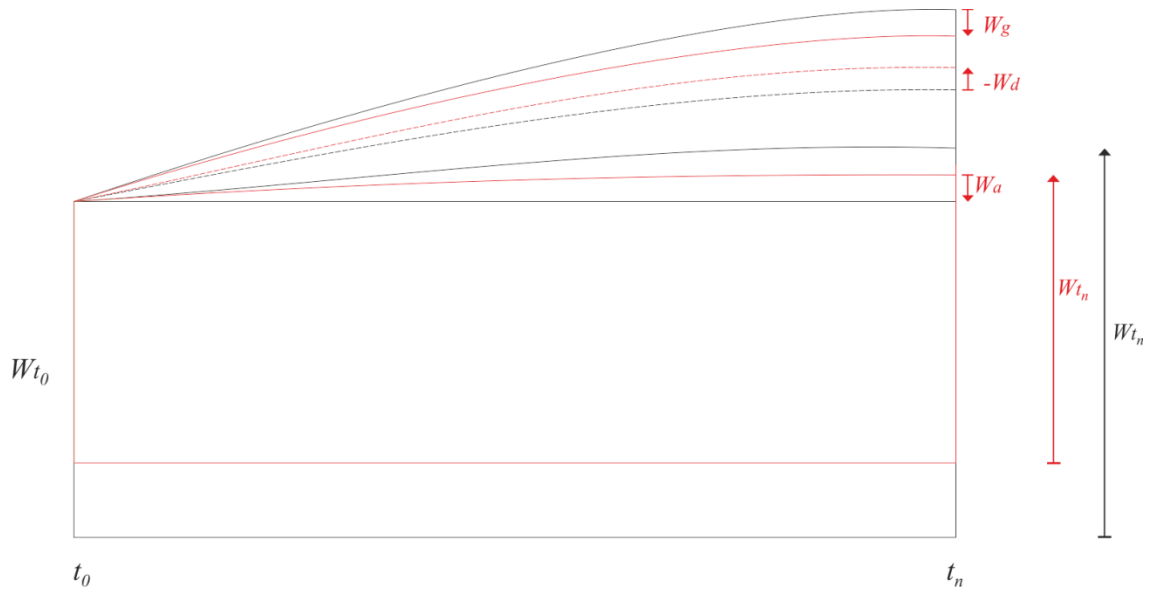
$$-q_d > -q_d \leftrightarrow -U^0_d > -U^0_a$$

$$q_w < q_w \leftrightarrow U^0_w > U^0_w$$

Fiscal affectation (**stock**)

The previous thing, we can reflect it in comparative statics considering the variables of stock of wealth, that we represent thus —we suppose a tax to the stock of wealth ($W_{to} < W_{to}$): [6]

Capitalism fiscally affected (stock)



Thus, from our analysis of the fiscal affectation (flow and stock) to the capitalism arises:

[6] According to our graph of the *Subjective-Currency-Accounting Economic Calculation*, where the previous decreasing marginal curves are converted into concave curves (increasing in a decreasing direction), above the initial wealth stock (W_{to}).

- Fall of the generated utility ($\downarrow W_g$).
- Upload the destroyed utility ($\uparrow$-W_d).
- Fall of the net utility generated or saved ($\downarrow W_a$).

Measuring the fiscal affectation

As usual now we are going to express algebraically what we have shown geometrically. For this we use the structure and terminology (economic-accounting) of the preceding graph and calculate the ***flow fiscal effect*** [7] (with coefficient f^n), which we add to the ***stock fiscal effect*** (with coefficient f^w): [8]

Initial wealth ***fiscally affected*** $W_{F(t0)}$: it is as stock

$$W_{F(t0)} = W_{t0}\,(1 - 2f^w)$$

Wealth generated ***fiscally affected*** $W_{F(n)}$: it is like flow and stock

$$W_{F(n)} = W_n\,(1 - 2f^n - 2f^w)$$

Final wealth ***fiscally affected*** $W_{F(tn)}$:

$$W_{F(tn)} = W_{F(to)} + W_{F(n)}$$

$$W_{F(tn)} = W_{t0}\,(1 - 2f^w) + W_n\,(1 - 2f^n - 2f^w)$$

If we express W_n as a coefficient of W_{to} we have the rate of profit of the period n on the initial wealth (g):

$$g = (W_{tn} - W_{t0}) / W_{to}$$

Then we can express the final wealth base on the initial wealth and the rate of profit:

$$W_{tn} = W_{to}\,(1 + g)$$

$$W_n = gW_{to}$$

Thus we obtain capitalism fiscally affected at the end of the period [$W_{F(tn)}$] according to the initial wealth without taxation (W_{to}), and its "*profitability*" (g):

Capitalism fiscally affected

$$W_{F(tn)} = W_{t0}\,[(1 - 2f^w) + g(1 - 2f^n - 2f^w)]$$

Versus capitalism without fiscal affectation:

Capitalism

[7] We replace the supra and subscript ***a,*** with the most general referred to a period ***n***.
[8] The coefficients f^n and f^w are doubled ($2f$) due to their simultaneous effects of *detraction* and *destruction*.

$$W_{(tn)} = W_{t0}\,(1 + g)$$

Then, to the fiscal affectation [$F_{(tn)}$] we can express it as a differential between capitalism and fiscally affected capitalism, according to the initial wealth (W_{t0}):

$$F_{(tn)} = W_{(tn)} - W_{F(tn)}$$

Fiscal affectation to capitalism

$$F_{(tn)} = 2W_{t0}\,[f^{w} + g(f^{n} + f^{w})]$$

Conclusion on fiscal policy

> **Any tax on wealth implies inefficient and inequitable distribution of it, especially when it is progressive**. [9]

We have shown that, *although fiscal policies affect capitalism, they do not so in the same way as currency policies*:

> **While currency policies alter all capitalism, *preserving creative destruction*, fiscal policies do not do**.

The *"fiscal solidarity"* must have a very high rational component its lack implies economic involution of very serious consequences. [10]

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[9] This is an antithesis of the redistribution theory of Pigou (taking the rich out to give to the poor, because in these the wealth has greater marginal utility), based on the idea of J.S. Mill, where wealth is first generated and then distributed, origin of the so-called "Theory of welfare", and Keynesian policies of stimulation to consumption (distribution of wealth).
[10] Road traveled by Argentina in its passage from developed to underdeveloped country.