Defense Against Demagogues

When gasoline sold at record prices, Sen. Bernie Sanders, I-Vt., said, "I think it's time to say to these people, 'Stop ripping off the American people.'" When the average price of regular gas was close to $4 a gallon, Sen. Chuck Schumer, D-N.Y., called for Congress to look into breaking up giant oil companies. The claim was that "Wall Street greed (was) fueling high gas prices."

Today in some places, gasoline is selling for less than $2 a gallon, less than half of its peak price in 2008. The idiotic explanation that attributed high oil prices to greed might now be adjusted to argue that big oil executives have been morally rejuvenated. They are no longer greedy and no longer want to rip off the American people. My guess is that everyone in the oil business would like to charge higher prices. Plus, there's no legal prohibition against big and powerful Exxon Mobil's selling its regular gas today for $4 a gallon. Exxon stations don't do so because the market wouldn't bear that price.

The attempt to explain human behavior by greed is foolhardy. If we define greed as people wanting much more than what they have, then everyone is greedy. Show me someone who doesn't want more of something, be it cars, houses, clothing, food, peace, admiration, love or war. The fact that people want more is responsible for most of the good things that get done. You'll see Texas cattle ranchers this winter making the personal sacrifice of going out in blizzards to care for their herds. As a result of their sacrifice, New Yorkers will have beef on their grocery shelves. Which do you think best explains cattlemen's behavior, concern about New Yorkers or their wanting more for themselves?

This year's congressional efforts to reduce corporate income tax will create great opportunities for demagogues. The United States has the highest corporate income tax rate among the 34 industrialized nations of the Organisation for Economic Co-operation and Development. The effect of high corporate taxes gives corporations incentives to lower their effective tax rates by engaging in activities that lower their competitiveness and to shift profits to foreign subsidiaries.

Demagogues will claim that corporations should pay their fair share of taxes. The fact of the matter, which even MIT economists understand but might not publicly admit, is corporations do not pay taxes. An important subject area in economics, called tax incidence, says the entity upon whom a tax is levied does not necessarily bear the full burden of the tax. Some of the tax burden is shifted to another party. If a tax is levied on a corporation — and if the corporation is to survive — it will have one of three responses or some combination thereof. It will raise the price of its product, lower dividends or lay off workers. The important point is that only people, not some legal fiction called a corporation, bear the burden of any tax. Corporations are merely government tax collectors.

Here's a tax-related question: Which worker receives the higher pay, a worker on a road construction project moving dirt with a shovel or a worker moving dirt atop a giant earthmover? If you said the guy on the earthmover, go to the head of the class. But why? It's not because he's unionized or that employers just love earthmover operators. It's because he is more productive; he has more physical capital with which to work.

It's not rocket science to conclude that whatever lowers the cost of capital formation will enable companies to buy more capital, such as earthmovers. The result is that workers will be more productive and earn higher wages. Policies that raise the cost of capital formation — such as capital gains taxes, low depreciation allowances and high corporate income taxes — reduce capital formation and do not serve the interests of workers, investors or consumers.

The greatest tool in the arsenal of demagogues is economic ignorance, which my colleagues in George Mason University's economics department battle against tooth and nail.

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