



Politicians Exploit Economic Ignorance

One of President Obama's campaign promises was not to raise taxes on middle-class Americans. So here's my question: If there's a corporate tax increase either in the form of "cap and trade" or income tax, does it turn out to be a middle-class tax increase? Most people would say no but let's look at it.

There's a whole subject area in economics known as tax incidence — namely, who bears the burden of a tax? The first thing that should be recognized is that the burden of a tax is not necessarily borne by the party upon whom it is levied. That is, for example, if a sales tax is levied on gasoline retailers, they don't bear the full burden of the tax. Part of it is shifted to customers in the form of higher gasoline prices.



Suppose your local politician tells you, as a homeowner, "I'm not going to raise taxes on you! I'm going to raise taxes on your land." You'd probably tell him that he's an idiot because land does not pay taxes; only people pay taxes. That means a tax on your land is a tax on you. You say, "Williams, that's pretty elementary, isn't it?" Not quite.

What about the politician who tells us that he's not going to raise taxes on the middle class; instead, he's going to raise corporate income taxes as means to get rich corporations to pay their rightful share of government? If a tax is levied on a corporation, and if it is to survive, it will have one of three responses, or some combination thereof. One response is to raise the price of its product, so who bears the burden? Another response is to lower dividends; again, who bears the burden? Yet another response is to lay off workers. In each case, it is people, not some legal fiction called a corporation, who bear the burden of the tax.

Because corporations have these responses to the imposition of a tax, they are merely government tax collectors. They collect money from people and send it to Washington. Therefore, you should tell that politician, who promises to tax corporations instead of you, that he's an idiot because corporations, like land, do not pay taxes. Only people pay taxes.

Here's another tax question, even though it doesn't sound like it. Which workers receive higher pay: those on a road construction project moving dirt with shovels and wheelbarrows or those moving dirt atop a giant earthmover? If you said the worker atop the earthmover, go to the head of the class. But why? It's not because he's unionized or that construction contractors have a fondness for earthmover operators. It's because the worker atop the earthmover is working with more capital, thereby making him more productive. Higher productivity means higher wages.

It's not rocket science to conclude that whatever lowers the cost of capital formation, such as lowering the cost of investing in earthmovers, enables contractors to purchase more of them. Workers will have



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more capital to work with and as a result enjoy higher wages. Policies that raise the cost of capital formation such as capital gains taxes, low depreciation allowances and corporate taxes, thereby reduce capital formation, and serve neither the interests of workers, investors nor consumers. It does serve the interests of politicians who get more resources to be able to buy votes.

You might wonder how congressmen can get away with taxes and other measures that reduce our prosperity potential. Part of the answer is ignorance and the anti-business climate promoted in academia and the news media. The more important reason is that prosperity foregone is invisible. In other words, we can never tell how much richer we would have been without today's level of congressional interference in our lives and therefore don't fight it as much as we should.

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