The Evil of Taxing the Rich

The moral case against taxing the rich is that if they earned the money with their labor, it is morally wrong to take away their earnings by force.

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Welfare-state liberals, fiscally aggressive progressives, and taxaholic Democrats seek higher taxes on the rich and on big corporations. They think that the rich have more money than they need, so why not tax it and share the wealth. They say poor folks need the money more than the rich. Some economists and utilitarian philosophers buttress the "tax the rich" argument with the academic doctrine that the marginal utility of money, i.e. the value of extra amounts, is less when one is rich than when one is poor. So, they say, we increase social welfare by forcibly transferring money from the rich to the poor.

For example, the fiscal program of Democratic presidential candidate Barack Obama states, "Reverse Bush Tax Cuts for the Wealthy: Obama will protect tax cuts for poor and middle class families, but he will reverse most of the Bush tax cuts for the wealthiest taxpayers." Hillary Clinton's web site states that the "Wealthy should go back to paying pre-Bush tax rates" and that we should "take things away from rich for common good."

There is a political campaign by the The Huffington Post to "tax the rich." There is an organization called Tax the Rich. The Nation magazine had an article, Tax the Rich, End the War by Nicholas von Hoffman.

According to IRS data, the top 50 percent of wage earners pay over 96 percent of income taxes, the top 25 percent pay 82 percent of income taxes, the top 10 percent pay 65 percent, the top 5 percent pay 53 percent, and the top 1 percent pay 34 percent of income taxes (the numbers are rounded to the nearest percent). The wealthy already pay almost all the estate tax and most of the corporate and individual income tax.

What's wrong with taxing the rich more? The dimensions of the problem are economic, ethical, and governmental. The economic case against taxing the rich is familiar to any student taking a first course in economics. Higher taxes on goods or labor raise their costs, and therefore reduce their quantities. This reduction in output, income, and investment is called the "deadweight loss" or "excess burden" of taxation, and has been estimated to be over $1.5 trillion per year. Since this waste of resources goes on every year, slowing down economic growth, the cumulative deadweight loss becomes greater than the whole economy.

The effect of taxes on decisions comes from the marginal tax rate, the tax rate on extra income or spending. Moreover, the deadweight loss increases by much more than the increase in tax, so higher marginal tax rates on the rich result in much less investment, entrepreneurship, and production, and that ends up hurting all society, including the poor. Critics say that there was investment and economic growth even when tax rates were higher, but that does not contradict the even higher growth and output that would take place with a lower deadweight loss. The economy could grow at six percent rather than only three percent. Indeed, the tax cuts of the Kennedy and Reagan administrations did result in higher growth than before.

The moral case against taxing the rich is that if they earned the money with their labor, it is morally wrong to take away their earnings by force. To the creator belongs the creation. If we don't own our own wages, we don't own our labor, and we don't own ourselves. We become slaves if others can force us to labor for them. This, of course, is an moral condemnation of all taxation of wages, produced goods, and transactions, regardless of how rich one is.

The governmental dimension is that taxing the rich corrupts the state. Tax codes enable the rich to set up tax shelters, to shift income to lower-taxes places, and to take advantage of tax credits, deductions, and exemptions. Much of the financing of political campaigns comes from the wealthy, so in the end, politicians must cater to them with tax loopholes and with subsidies. What they take with one hand, they give back with the other, and even more. Rich farmers pay high taxes but also get big subsidies, so they can get more than their money back. Corporate welfare pays back a big chunk of the tax paid. Big executives still get their fat stock options, back-dated, future-dated, and blank-dated.

The biggest subsidy of all is not in the form of cash, but is so invisible and implicit that few folks notice it, and even economists are not conscious of it. It is the gigantic land-value subsidy of government spending. Public works and civic services pump up and rent and land value, and landowners pay only a tiny portion of the bill in property taxes on land. Land rent being about 20 percent of national income, there is in the $14 trillion US economy about $3trillion in annual land rent, which about equal to the total US budget. The US budget is dishonest, because it tells us how much taxes the rich pay, but not how much subsidy they get, so we don’t see the net loss or gain.

Here’s the kicker that even your econ book won’t tell you. Most taxes come out of land rent! When taxes make business less profitable, they bid less for the use of land. What a firm would have paid in rent, it pays in tax. The form of the tax is on profits, but the substance is rent. The company is not really paying the tax. The landlord is paying, by getting less rent.

But by taxing the corporations and the wealthy executives, income and sales taxes also fall on labor and consumption, and that creates the excess burden or deadweight loss. Since taxes come from rent anyway, the government could directly tax the rent, which would eliminate the deadweight loss. The greater and tax-free output would create a quantum leap of higher rent, which would provide all the tax revenue government now takes for spending on goods.

The advocacy of one policy implies a rejection of other policies. When politicians call for higher taxes on the rich, they reject the better alternatives of taxing pollution and land. Why don’t they advocate taxing pollution and land instead? Because they exploit the ignorance of the public, because it sounds good to “share the wealth.” Almost all these welfare-state liberals want to give back much of the taxes paid by the rich in the form of hidden land-value subsidies. So in the end, “tax the rich” is not only destructive, but dishonest. “Tax the rich” is an evil political lie.

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FRED E. FOLDVARY, Ph.D., (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for Progress.org

Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.