Another Look at Raising Taxes

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Politicians are not well versed in the difference between the concepts known as the incidence and the burden. A good example of these concepts is borne out by an experience of a few years ago when politicians wanted to "soak the rich" so they came up with the novel idea of introducing a "luxury" tax on the high-end boat industry. The following analysis was taken from an economics book entitled: "The Economics of Public Issues":

"Members of Congress were looking for additional revenues to reduce the federal budget deficit. What better way to raise the hoped-for revenues than with new taxes on the purchases of high-priced luxury items, such as big boats, expensive cars, furs, planes, and jewelry. After all, rich people don't really care how much they pay, right? So Congress passed a 10 percent luxury surcharge tax on boats priced over $100,000, cars over $30,000, aircraft over $250,000, and furs and jewelry over $10,000.

The federal government estimated that it would rake in $9 billion in extra revenues over the following five-year period. Yet just a few years later, the luxury tax was quietly eliminated. Why? Because the actual take for the federal government was almost nothing."

The evidence is overwhelming that the incidence (placing a tax on the wealthy) ended up creating numerous job losses in the boat building industry (the burden). In an article appearing in the Chicago Tribune, the author concluded that "The political need for share-the-pain, tax-the-rich symbolism in the budget package resulted in the loss of an estimated 19,000 jobs in the (boating) industry", according to Jeff Napier, president of the Chicago-based National Marine Manufacturers Association.

Some of the latest proposals to generate tax revenues are a lot more dangerous. The idea to tax wealth rather than income prompts the need to examine the incidence versus the burden. Supposedly the super-rich would end up paying a big tax bill. Examples provided by pundits on a national business channel included the tax calculations on Jeff Bezos, founder of Amazon, and Elon Musk, founder of Tesla, and many more wealthy individuals. The incidence of these taxes would amount to billions of dollars that would be due by year-end. To meet these obligations, these magnates would have to sell billions of dollars of stock between now and year-end. The impact on the stock market would be enormous, driving stock prices down precipitously. Retirees' savings accounts and other consumers with savings in the stock market would be pummeled. Speculators would be destroyed and their stock liquidations would further depress stock prices. In a collapsing economy those who favored taxing the rich would undermine the livelihood of the rest of us.

Why are these politicians bent on raising taxes when there is already underway a windfall in tax collections—a windfall that is likely to continue without raising taxes and penalizing both individuals and corporations? Let's hope that these propositions meet with sufficient resistance and allow the economy to fully recover from the pandemic.

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