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Who Pays Taxes?

Nobody questions the need for taxes because it is obvious to everyone (except anarchists) that government is necessary and, thus, must be maintained. Nevertheless, we certainly hear a lot of confusion as to the impact of one tax or another.

In the end, it is consumption that suffers from any tax. And the question “who pays taxes?” boils down to “whose consumption (whose standard of living) is affected by taxes?”

A general argument (although not specific, still strictly true) in support of this assertion is that since the only purpose of production is to satisfy consumption needs, the effect of any tax (as with all economic phenomena) will eventually be reflected in consumption.

When a tax is imposed on a product in the market, the seller has three choices: (1) raise the price; (2) stop offering that service or item to the public; or (3) absorb the loss.

In each case, consumption suffers. In the first and second, consumption by buyers declines immediately. In all cases, the seller’s income drops (though not necessarily his consumption): in the first two, his sales volume goes down; in the third, his net income is reduced. When the seller is poor, a decline in income will lower his consumption. However, if his total income is high enough, the loss of income won’t affect his consumption; instead, he sacrifices his capitalization.

In the last case, the impact of the tax appears less connected to consumption because it is indirect. However, it is taxation of private *capitalization* that most decreases the poor man’s purchasing power—whether it is hidden in the price of the product or a direct tax on net income.

The poor man’s consumption soaks up all his income. Meanwhile, his income depends on his productivity. And the main factor in the productivity of a worker is capital accumulation; that is, the tools he uses.

The capital of the capitalist consists of ownership of assets that are useful to society. It is precisely this usefulness that makes them valuable. They increase the productivity and comfort of those whose income is too low to save at the moment; in other words, to capitalize. When income that would otherwise be capitalized is taxed, the rich man’s capitalization is lowered: he ends up with fewer assets than he would have had otherwise. However, he doesn’t reduce his consumption. The ones who cut back on consumption are those who have had a pay cut or who don’t get a raise, due to the lower amount of capital invested per capita.

For example, it would be much more serious for the poor man to lower his productivity by 15% or more than to tax his direct consumption by 2%. Real life tells us that such proportions are not

overstated. Because the number of persons with “capitalizable” income is small, rates are generally high, while taxes on consumption tend to be low.

It turns out that taxes on capitalization have considerable impact on consumption by the poor, while generating no important tax revenue. Indeed, it’s just the opposite: if you lower the productivity of a country, you also lower tax revenue.

A lack of understanding of all of the above is undoubtedly the principal cause of the backwardness and poverty in most underdeveloped nations.

Epilogue

The differences in wealth inherent in the process of private capitalization lead some to suggest that the solution lies in capitalizing State property. However, when *private* property does not exist, there is no market for resources. And, when there is no market, there are no prices. With no prices, it is impossible to determine the economic use of scarce resources and, consequently, there can be no progress: poverty takes over. Less inequality is achieved through the spread and deepening of poverty.

The sad dilemma of anticapitalism is that it offers no solution, only destruction.

“Society lives and acts only in individuals. . . . Everyone carries a part of society on his shoulders; no one is relieved of his share of responsibility by others. And no one can find a safe way out for himself if society is sweeping towards destruction. Therefore everyone, in his own interests, must thrust himself vigorously into the intellectual battle. None can stand aside with unconcern; the interests of everyone hang on the result. Whether he chooses or not, every man is drawn into the great historical struggle, the decisive battle [between liberty and slavery] into which our epoch has plunged us.” **Ludwig von Mises.**

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