COMMENTARY | The pitfalls of higher taxes

GOVERNMENT'S EFFECTS ON ECONOMIC PROBLEMS

CALLOM B. JONES V

GUEST COLUMNIST

If you have a government at all, there will be government spending. Because zero spending is not an option, the questions become matters of how much, for what purposes, and at what costs to the economy and society. What follows describes how government spending affects an economy.

▮ Concept 1: Government revenues (taxes) have to come from private (or government) earnings. Earnings include salaries, wages and profits. In all cases, taxation lowers the ability of taxpayers to demand (purchase) from the economy what their pretax earnings would otherwise allow.

Let's look at a couple of simple examples of how taxation affects taxpayers:

Let's say that a family of four needs $100,000 a year to fulfill its self-defined needs. If the government taxes their income at 25 percent, then the family needs to make 33 percent more before taxes to fulfill those needs after taxes. Obviously, higher taxation makes the situation worse.

Taxpaying companies are in a similar situation to the family above. However, instead of simply making more revenue, a company must clear more profits to pay the taxes. Simplistically, that can be accomplished by selling more, charging more or a combination of these.

Often, reality demands that the prices charged for the products or services are raised, making the products or services more expensive. In effect, the taxes are not levied on the company but on the consumers instead. Thus the origin of the saying: "Companies don't pay taxes. People do." It's true. When politicians say otherwise, they are lying, whether they know it or not.

▮ Concept 2: Government spending shifts demand. What would have been demanded by earners is shifted to what the government demands. Total demand cannot increase, except temporarily through the issuance of debt instruments, although it can be diminished

SEE COMMENTARY | C11

COMMENTARY: Tax increases hurt economy

FROM C10

because of the additional costs associated with operating the government itself and its inefficiency costs. Eventually, government costs must be paid through taxation, even if the form of that taxation is inflation.

The above discussion doesn't even deal with the morality of the demand shift out of the hands of the rightful earners into government hands. This is especially egregious regarding purchases that some taxpayers may not support for a variety of reasons but have no choice in the matter, as the government controls the spending.

▮ Concept 3: Fiat money is not necessarily capital or wealth. It should not be treated as such. Simplistically, capital is the concept of savings ("excess" goods held for future consumption) being redirected toward creating "goods of a higher order" (productive equipment and supplies plus support items) to be engaged in the productive process of consumer or other productive goods. Wealth, which overlaps somewhat with capital, consists of items of economic (saleable) value, which may or may not produce income or consumable goods.

What capital and wealth have in common is that they are created by both effort and by placing savings at risk. Fiat money does not, whether it involves making a computer entry somewhere, printing otherwise worthless pieces of paper, or both. All the money created by the Federal Reserve adds not one iota of capital or wealth to the society. Adding money to the money supply merely adds counting units to the existing supply of capital and wealth, devaluing the value of the money. This has huge ramifications beyond the scope of this discussion, not the least of which is robbing demand power from "savers."

Perhaps the most frightening thing about all this is that higher levels of government spending exacerbate all the problems described above.

Remember, you have some control over the level of government spending — your vote.

Callom B. Jones V owns Trend Capital Management LLC, a registered investment adviser in Overland Park.