Should There Be a Tax Hike? Part II

The big argument for an income tax increase now is one taken from Lord Keynes: during a boom the government should raise income taxes in order to "sop up excess purchasing power" and prevent inflation. There are many fallacies in this argument for a tax hike.

The first problem is in identifying the current economic scene as a boom. The point is, if we look at such key indicators as corporate profits and investments, we are *still* in a recession. Everybody expects an upturn soon, but the upturn hasn't occurred yet. And even if it does, the boom will still be so weak that a ten percent income tax increase may well be just enough to break the boom and precipitate a really severe recession because tax increases lower the incentive to save, invest, and produce.

But apart from this problem of timing and forecasting, there are more serious errors in the Keynesian call for a tax increase in a boom. The main problem is that price rises are brought about by inflation of the supply of money — and in our virtually nationalized banking system totally under the federal government's control, this means that the government has pumped more money into the economy. The effect is something like diluting a powerful chemical mixture: if you pump more dollars into the economy, then each dollar will be worth less in purchasing power. In short, prices will go up. The trick is this: *first* the government creates new money, spends it or has it loaned out to its favorite groups; *then*, when the new money inevitably results in higher prices, the government turns around and denounces all sorts of social groups for *spending* this new money. The blame for the "excess purchasing power" is thus cunningly taken from the shoulders of the real culprit — government — and placed onto the shoulders of various groups in the economy. In fact, different groups are encouraged to quarrel among themselves with, for example, labor unions blaming businessmen for the higher prices and businessmen attempting to blame the demands of trade unions. All this time the real culprit — government — takes on the mantle of the savior of society from all these greedy price-increasing groups. In its role of savior, government then comes up with the notion of a tax increase to "sop up" the purchasing power.

Look at what government is doing: *first* it burdens the citizens by inflating the money supply and thereby raising prices; *then* it imposes a double burden by turning around and taxing away much of the new money. The people are skewered twice.

The theory of the tax increase implies, furthermore, that taxes are no burden at all, certainly no burden in comparison with a higher price. If the price of a good or service goes up, however, while this may be unfortunate, *at least* we're still getting the useful good or service for our money. But if a *tax* goes up, to save us from the bad old price increase, what have we gotten in return for this burden? Nothing, since no one can pretend that the "benefit" we get from government increases proportionately to the tax. In fact we get a negative return from government, since the government will only use the new income to regulate, harass, and otherwise push us around.

Finally, not only is a higher tax worse than a higher price, but a government deficit, contrary to the Keynesians, is not necessarily inflationary. It is only inflationary if the deficit is financed by the banking system; if it is financed by selling bonds to the public, it will have other unfortunate effects, but it won't increase the money supply or raise prices. So don't let Keynesian sophists fool you. Higher taxes means higher robbery, and that benefits neither the public nor the state of the economy.