

## **I Want to Cut Real Taxes and “Get Him Out of My \_ \_ \_ \_ing Cave”!**

Is “extending the Bush Tax Cuts” really a tax neutral approach (i.e. no increase or decrease in taxes)? Would allowing the “Bush Tax Cuts” to expire increase taxes? Does “raising taxes” mean an increase in tax rates? All of these questions are the equivalent of a family drifting aimlessly down the Niagara River on a raft with no paddles just minutes away from the falls, and fighting over who gets what sandwich in their picnic lunch. The tax revenue collected and tax rates bear little resemblance to the “Real Tax”<sup>(1)</sup>.

I have written extensively in an effort to clarify the concept of “Real Taxes”<sup>(1)</sup>. This article will offer another Caruso-Island vision of the “Real Tax”, indicate when it is actually experienced, and clarify who suffers the burden of the “Real Tax”.

### **Imagine we’re on an island...**

There are 21 of us and we’re totally isolated. There are no other humans on earth. We have learned to live together in a free society and enjoy free trade and property rights. We live by two laws that, as Richard Maybury<sup>(2)</sup> would say, make civilization possible:

1. **Do all you have agreed to do.** (the origin of contract law and tort mediation)
2. **Do not encroach on other persons or their property.** (the origin of property rights)

### **What Do We Do on This Island?**

All of us have to work in order to survive as we all need and desire “Real Wealth”<sup>(3)</sup>. The natural free market has driven us to the following vocations:

- 5 – Gather firewood to keep us warm and safe at night.
- 5 – Hunt and process wild animals for food and clothing.
- 10 – Fish for food
- 1 – President who does no work; 100% dependent upon charitable sustenance donations.

### **State of the island currently:**

- We all enjoy individual caves for our safety and shelter.
- We’re happy because we have learned to satisfy our primal needs of food, clothing, shelter, good health, and safety, and learned to enjoy higher-level wants such as play and socializing.
- We are experiencing an “evenly rotating economy” where the population, jobs, natural resource scarcity, and technology all remain the same.

### **Then Suddenly the Fish Swim Away...**

Suddenly and unexpectedly all the fish swim away; hence, the ten fisherman can no longer produce fish for their own food consumption or for its utility value in trading. They are temporarily unemployed. Since half of the island is unemployed they are experiencing an exogenous (no fish available) shock-caused depression. All of the island inhabitants are extremely anxious and fearful. The popular and charismatic president known as **Professor Sam** outlines two courses of action:

#### **Alternative A:** *Encourage the Hunters and Gatherers to train the ex-Fishermen in New Skills.*

With no other skills, the fishermen must seek interim charitable sustenance donations from those working or they would perish. The president would encourage the hunters and gatherers to take all of the unemployed fishermen into their caves, feed them, clothe them, and keep them warm by their fires. They will have to live on half of their normal food, clothing, and shelter space, but they are willing to do this because they’ve enjoyed consuming fish in the past from their free-trade practices and they don’t want to watch the fishermen die. The fishermen would be very

appreciative of the gesture and anxious to learn new skills, become fully productive, then soon move back into their own caves to support themselves at the same level as before the fish exodus, and no longer be a burden on their kind hosts. No taxes or government debt need exist. The only sacrifice and transfer of wealth would be from the **voluntary** donation of goods and services to the plighted fisherman for a brief interim period until they are back on their own feet.

***Alternative B: Force the Hunters and Gatherers to be Compassionate and Accommodating.***

The popular and charismatic president would deliver an impassioned speech to the hunters and gatherers insisting they share their wealth or be banished into permanent exile. The unemployment caused by the fish exit was clearly not the fault of the fishermen, so this wealth redistribution scheme is a new advanced progressive government program. The distribution would be conducted evenly and fairly, and administered by a totally unbiased **Professor Sam**. Most important, the innovative president would print some Island IOU's referred to as Territorial Prerequisites (TP paper for short) and distribute them to all of the hunters and gatherers, and promise that all of the goods and services they provide the unemployed fishermen would be fully repaid when the notes were eventually redeemed.

All of the island inhabitants were ecstatic about the president's innovative and progressive plan "B" which included the free TP IOU's. The avoidance of banishment into exile helped to solidify their allegiance and loyalty to the president. Imagine; no taxes would be levied with this plan, and workers would possess the new TP IOU's to boot! So, plan "B" was implemented with much fanfare. The fishermen loved it because there would be no undue pressure from the hunters and gatherers to get back onto their own two feet. Further, **Professor Sam** would steadily guide their new skill training and psychological recovery programs.

**Reality Begins...**

Soon a few of the hunters and gatherers asked the president how long they would be working at the same level as before the fish exodus and living on half of their produce. Further, they really didn't want to witness the unemployed fishermen eat half of their food, forage through their wardrobe of animal skins and wear their clothing out, occupy half of their warm cave space, and listen to them complain all day. One hunter told the president: "I risk my life each day to hunt wild game, then process it into food and clothing only to see my uninvited roommate consume half of it. He also smells like dead fish, and it's not pleasing to me when we sit in my small cave at night staying warm by my fire. I really want him out of my \_\_\_ing cave, Mr. President."

The president was taken aback from the harsh and insensitive posture the hunter spokesman had taken. He knew he must "fix" this problem by the carrot approach of disbursing more of the magical TP IOU's, or the "stick" approach of banishing the incorrigible hunter for life to set an example for any similar wayward notions that might surface from others. The president chose the carrot approach and printed an excess number of TP IOU's to placate the restless hunter.

Later, a gatherer began complaining about the same issues that the hunter experienced. The president was losing his patience and responded by banishing the salty gatherer into exile for life. Now the remaining nine hunters and gatherers would have to produce 10% more or live on 10% less of the 50% cut they are already experiencing to make up for the banished gatherer's produce.

**The Uprising...**

Finally a small group of hunters and gatherers demanded a meeting with the president. They wanted their freedom from supporting the unemployed fishermen and wanted to cash in some of their TP IOU's. They began to chant ..." We want them out of our \_\_\_ing caves!! We want them out of our \_\_\_ing caves!!! **Professor Sam** reminded them they were not being taxed

thanks to his financial innovation of issuing TP IOU's. Curiously, one of the hunters shouted: "Isn't the work we are performing to provide goods and services to the odorous fishermen the "Real Tax"?? Another shouted: "Will the goods and services ever be repaid without someone having to produce them?", and: "Who might those future producers be?", and "Do those future producers know they will be working to provide these incremental goods and services which are more than what otherwise would have been produced?"

**Professor Sam** was becoming worried. They were onto his little TP scheme. The island inhabitants were losing confidence in **Sam** and his TP IOU's. However, filled with empathy in an impassioned speech, **Sam** said the fishermen have not fully developed their new skills and he did not have goods and services available for redemption of the IOU's. Further, he said the only way he could make good on the TP IOU promises was to impose a tax on all those producing goods and services in the island greater than what otherwise would have been. The hunters and gatherers were all aghast. They had been duped!

There was a speedy trial. The islanders determined **Professor Sam** violated both of their sacred laws. Sam did not do what he agreed to do by providing something for nothing. Further, Sam was encroaching on the property earned by the working islanders in his attempt to transfer it to those he determined were in need. Sam pleaded in his own defense that he would hire a full time czar to better distribute wealth, train the embattled fishermen into new green job careers, and facilitate séances to diffuse the unrest. One of the hunters in the courtroom shouted: "Whose \_\_\_ \_ing cave is **HE** going to live in?"

The trial quickly convicted Sam. The working islanders publically lynched the mischievous, lying president. The crowd cheered.

Soon the island inhabitants pursued the original **Alternate A**, and lived happily ever after!

### **Conclusion:**

The concept of reducing real taxes has a poor correlation to varying the amount of fiat currency a government may collect from its taxpayers. The "Real Tax" is the allocation of labor to produce goods and services, which are subsequently transferred to a government purpose. That government purpose may be anything from space exploration to Medicare. It is a very high correlation to government spending. Importantly, it occurs in real-time every day and can NEVER be recovered; spent labor can never be recovered. If there is an attempt to transfer the tax burden intertemporally via selling Treasury bonds, then government is simply attempting to compensate those who sacrificed to purchase the Treasuries initially by coercing future taxpayers more than what otherwise would have been. An honest government would state the Real Tax is the spending, and never sell Treasury debt without mentioning the guarantee of a future tax burden increase to compensate those who sacrificed in purchasing Treasuries today. A balanced budget amendment and sound money system would help "keep them out of my \_\_\_ \_ing cave"!

by Russell M. Randall 11-5-2010

### References:

- (1) The "Real Tax" is defined in the following articles: "What is the Real Tax?" by Russell Randall, 8-21-2009, found here: <http://austrianenginomics.com/WhatistheRealTax.pdf> and "The Real Tax is All About Labor" by Russell Randall, 2010, found here: <http://austrianenginomics.com/TheRealTaxisAllAboutLabor.pdf>
- (2) Richard Maybury authored at least ten books in his "Uncle Eric's Model of How the World Works" series. Many of his books cited the two laws including *The Thousand Year War in the Mideast*, Bluestocking Press, 1999, pg. 41.
- (3) "Real Wealth" is defined in the following article: "Debt Relative to GDP; The Austrian Enginomic Debt Axioms" found here on page #2: <http://austrianenginomics.com/DebtRelativetoGDPTTheAustrianEnginomicDebtAxioms.pdf>; 7-26-2010 by Russell Randall.