

The “Real Tax” is All About Labor

Sound Marxist? Karl Marx predominantly associated the quantity of labor with the value ⁽¹⁾ or price of goods and services. David Ricardo ⁽¹⁾ and Adam Smith ⁽¹⁾ both associated quantity of labor with value ⁽¹⁾ of products in some of their prose. We know today that the quantity or skill level of labor should not determine value or market price; the **market** should determine both! To understand the “Real Tax ⁽²⁾” let’s focus upon “Real Wealth ⁽³⁾” and labor. Real Wealth ⁽³⁾ can ONLY be created by labor with the exception of Natural Resources, which were established prior to human existence.

So, What is the “Real Tax”??

Politicians would like you to believe the Real Tax is revenue collected by government, and allowing the “Bush tax cuts to expire” would be a tax increase. Those beliefs could not be further from the truth. So, what is the Real Tax ⁽²⁾? My favorite economic “cocktail-party” question is: If government “**cut**” all taxes to “**0**” and collected no taxes or fees whatsoever, but **continued paying** for all government functions and transfers that exist today, then **WOULD WE BE TAXED?** Mr. Webster and the politicians would say no, you’ve cut taxes to “0”. All others would recognize the truth and acknowledge...of course we would be taxed somehow! Clearly, then, the “Real Tax” is **not** simply revenue collected!

In my “cocktail-party” question: “...would **we** be taxed?” implies “**we**” is the citizenry of a sovereign country. This is quite different than a taxpaying individual (or business) parting with some of his hard earned stash for a government purpose, which is the traditional context of the term tax. The fundamental basis of my logic is that the **only** way for government to consume or transfer wealth is to somehow acquire it in the first place. Regardless of its source and whether they will repay some of it via increased taxes for bond redemptions later on or not, those receiving it will consume it, and it will **never** be recovered. Hence, the ultimate “Real Tax” that is transferred or consumed is the final manifestation of the labor and natural resources allocated to a government purpose. The “Real Tax” is a very high correlation to **government spending!**

It is important to recognize that an intertemporal promise by government to satisfy a bond redemption demand from a private investor, who sacrificed to purchase it initially, may never happen. A tax collected later to redeem the bond investors is **not** the “Real Tax”! Government could default or repay in a currency diluted in value (a technical partial default). In this case the citizenry was taxed when the bonds were issued and sold, and proceeds were utilized to extract and consume or transfer “Real Wealth” to satisfy a government purpose. Let’s define terms.

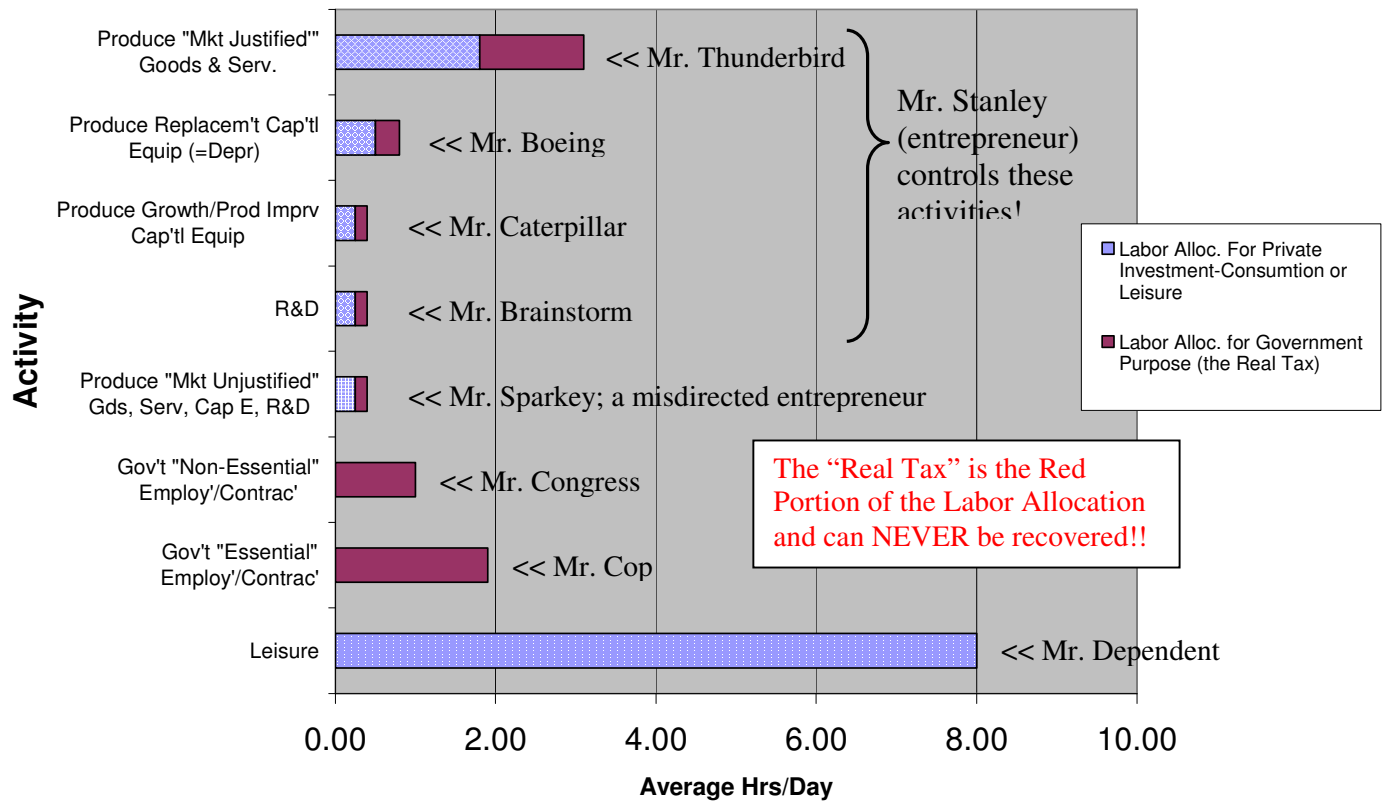
Definitions:

- Real Wealth ⁽³⁾ Goods, Services, Capital Stock, Human Capital (skill sets), and Natural Resources; it’s what we all ultimately desire in an economic context.
- Real Tax ⁽²⁾ The actual level of direct or indirect resource (labor and natural resources) utilization authorized by government whether those resources are government employees, contractors of government work, suppliers of food, medicine, capital goods, or etc. to fulfill a government purpose.

Human Activity Modeled on an Island (Chart Illustrating the “Real Tax”)

There are eight categories of human activity, which account for every waking minute of every human who has ever lived on earth. They are listed in the chart below. If you added up all the waking hours of anyone who has ever lived on earth and divided that total by the number of days each person has lived, then you would arrive at a **daily** activity profile similar to that shown in the chart. The bars on the chart total an assumed 16 “waking hours” per day per person, and illustrate the proportion each activity consumes of our available time in aggregate.

Labor Resource Distribution



Who Are These People and Their Activities?

The people listed on the chart represent time from a person that was spent performing any of the noted activities. For example, Mr. Thunderbird represents time a person has allocated to produce a "Market Justified" good or service (e.g. assembling cars for Ford Motor Co. or flipping hamburgers at McDonalds). The activities are as follows:

- | | |
|-----------------|--|
| Mr. Stanley | The successful, long-term oriented entrepreneur |
| Mr. Thunderbird | The producer of "market justified" goods and services; "market justified" means the producing enterprise is profitable within an environment of natural market interest rates (i.e. not manipulated by a central authority). |
| Mr. Boeing | The producer of Replacement Capital Equipment |
| Mr. Caterpillar | The producer of New or Improved Capital Equipment |
| Mr. Brainstorm | The producer of Research and Development for Process Improvements and New Products |
| Mr. Sparky | The producer of "market unjustified" goods, services, capital equipment, and R&D |
| Mr. Congress | A "non-essential" government employee |
| Mr. Cop | An "essential" government employee |
| Mr. Dependent | A person dependent upon the produce of others to survive. |

How is the “Real Tax” Levied?

Let’s assume the team noted above is living isolated on an island. Stanley, the entrepreneur, is in charge of Thunderbird, Boeing, Caterpillar, and Brainstorm. This group is producing nearly all of the Real Wealth that is consumed by all on the island. The remaining Real Wealth production is a Pet Rock business run by Sparky. Sparky is the entrepreneur “want-to-be” and works all day producing “pet rocks” that no one is willing to buy. Congress and Cop provide government services; hence produce nothing for private investment or consumption. Mr. Dependent is unable or unwilling to work. The charismatic and popular Mr. Congress orders Stanley, Thunderbird, Boeing, Caterpillar, and Brainstorm to transfer or supply Real Wealth to himself, Sparky, Cop, and Dependent for their survival. Those who produce goods and services may be forced (via Mr. Cop) to accept a fiat currency printed by Mr. Congress in exchange. Stanley, Thunderbird, Boeing, Caterpillar, and Brainstorm *work* to produce the Real Wealth that is transferred or supplied. The noted *work* is the “**REAL TAX**” (represented by the red portion of the bars in the chart) along with any natural resources that were utilized in the process!!

1. Only *work* can produce Real Wealth that is transferred or supplied.
2. The noted *work* can NEVER be recovered; once labor is expended, it can never be reversed. This fact makes it important that those directing and performing work are not squandering their time and resources, and are producing goods and services that the market most desires. Entrepreneurs within a free market and sound monetary system perform this much better than government.
3. The noted *work* is occurring in Real Time every minute of every day. There is not a batching or accumulation of the Real Tax. Labor cannot be batched or accumulated. Any goods inventory that may be accumulated for a transfer distribution to Sparky, Congress, Cop, or Dependent later is NOT the Real Tax. This transfer is a subsequent result of the Real Tax (labor and natural resources that produced the goods). However, the tallying of all goods and services transferred to Sparky, Congress, Cop, and Dependent is a very close correlation to government spending. Hence, **government spending IS the Real Tax** on the sovereign’s citizenry for practical purposes!!
4. The “Real Tax” cannot be transferred to our “children and grandchildren”! (See # 3 above); only an attempt by government to increase future taxes greater than what otherwise would have been to compensate Treasury bondholders is possible. The massive tax burden shift via Treasury debt to our “children and grandchildren” will likely not happen at all. The government’s attempt to increase taxes on future generations will be an extremely unpopular exercise in futility. As inflation (or government default) becomes inevitable, the value of the debt securities will fall dramatically. Hence, **those holding** financial assets will experience heavy losses in the next few years; *not* the children or grandchildren. Our federal debt is pure bubble⁽⁴⁾.

What If Something Goes Wrong?

Let’s say Thunderbird has a brain fart and can no longer work. The entire island population would starve and die unless Thunderbird has a very quick recovery or others step up and replace the activities Thunderbird was performing. If Congress directed Thunderbird to finally build that community park they’ve always wanted, all on the island would starve. Clearly any greater allocation of labor from Stanley, Thunderbird, Boeing, Caterpillar, and Brainstorm to a government purpose (a real increase in taxes) would reduce the consumable goods and services, and investments available for all on the island to enjoy.

Is Tax collected to Repay Government Debt a “Real Tax”?

No. The Real Tax has already been expended. Tax or work performed later to compensate Treasury Security holders may never be collected in case of a government default or may be

much less than promised by a government technical default via inflation. It is fraudulent for government to lead taxpayers to believe there is no tax when selling Treasury bonds.

What Inspires Stanley and His Team to Work Harder and Smarter?

Self interest! What harms their output? Compromised rule of law and property rights, higher tax rates (read government spending!), restrictive regulations, costly litigation, “easy money” policies, encroachment of freedom, uncertainty, and fear.

Productivity is Output per Hour of Labor

A rational goal of any economy is to increase the consumable and durable goods and services available per capita. This is accomplished exclusively by productivity improvement; there is no other way... One cannot “will” Real Wealth into existence. Government intervention that hampers or disincentivizes the entrepreneur’s ability to improve productivity will detract from society’s standard of living. Higher Real Taxes harm productivity.

Conclusion

Only labor creates Real Wealth⁽³⁾ by utilizing natural resources in existence. Labor and natural resources allocated to a government purpose is the Real Tax⁽²⁾. The magnitude of goods and services, which are produced and transferred by the noted labor expenditure, is a very high correlation to the Real Tax⁽²⁾, which is also a very high correlation to government spending. Hence, **government spending is the Real Tax⁽²⁾** for practical purposes. It occurs every minute of every day and can never be recovered. The common perception that allowing the “Bush tax cuts to expire” would increase taxes is folly. If government-spending levels do not change, then “real” taxes do not change.

References:

- 1) Value; See Labor Theories of Value in Wikipedia here: http://en.wikipedia.org/wiki/Labor_theory_of_value referencing Marx, Ricardo, and Adams 2010.
- 2) Real Tax; details on the definition of “Real Tax” can be found in the article “What is the Real Tax?” by Russell Randall written 8-21-2009 found here: <http://austrianenginomics.com/WhatistheRealTax.pdf>
- 3) Real Wealth; Further definition of Real Wealth and its components can be found in the article “Debt Relative to GDP; The Austrian Enginomic Debt Axioms” by Russell Randall; 7-26-2010 found here: <http://austrianenginomics.com/DebtRelativetoGDPTheAustrianEnginomicDebtAxioms.pdf>
- 4) Our Federal Debt is Pure Bubble. <http://austrianenginomics.com/id7.html#1> An Economic Education Contest offered by Russell Randall written 12-15-2006 explains the context of Federal Debt within the Real Economy, which characterizes it as an illusion of wealth.