

What is the “REAL TAX”?

When a politician promises he is going to “cut taxes” or “not increase taxes”, I don’t know whether to cry in dismay or simply vomit and move on. If we could universally agree that a tax is NOT as Webster⁽¹⁾ states: “...a charge usually of money imposed by authority on persons or property for public purposes.”, then the world could be a more honest and transparent place.

OK, if Webster’s script is wrong, then how will we understand the meaning of the “Real Tax”?

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 that exist today, then WOULD WE BE TAXED? Mr. Webster or 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!

To Find the Truth Start with “Real Wealth”...

Since money collected by governments is not the total “tax” story, it is my assertion that the truth lies in understanding and following human activities rather than “the money”. First, in this process of discovery, we must understand “Real Wealth” to grasp what is actually created, then transferred, or consumed by government that would then be recognized as the “Real Tax”. Since there seems to be no credible definition of “Real Wealth”, I have developed my own⁽²⁾:

“Real Wealth” includes:

- Goods
 - Capital Equipment
 - Buildings
 - Infrastructure (Utilities, Roads, & etc....)
 - Consumables, Durables
- Delivered Services
- Skill Sets (Human Capital)
- Natural Resources

Note: “Real Wealth” is NOT Fiat Currency, Treasury Bonds, other “paper assets”, etc.

What creates “Real Wealth”?

- **Work...** (Human activity purposefully exerting strength or faculties to do or perform something)

Note: Work Activity is NEVER recovered.

It is impossible to create “Real Wealth” without work (with the exception of Natural Resources)! The reciprocal is not necessarily true. If work is performed, “Real Wealth” has not necessarily been created. e.g. one may work to dig a hole and refill it.

How is “Real Wealth” Recorded?

RECORDING the magnitude of Real Wealth is challenging. I accept the recording methodology of the U.S. BEA⁽³⁾ such that a retail sale representing GDP⁽³⁾ is the point in time where a willing buyer and seller consummate a transaction. That point in time is the “Holy Grail” of importance. It is often the ONLY time the actual price is in alignment with value, which is subjective.

Following the purchase (or even before the purchase) value may vary all over the map. HOWEVER, the Real Wealth magnitude was already established and recorded at the transaction. Real Wealth decays or becomes obsolete over time. GDP is not perfect, but close enough for our context.

Real Wealth is FINITE!!

- Real Wealth will NOT increase in aggregate unless WORK is performed
- Real Wealth may be exchanged to enhance values to buyers and sellers (e.g. E-Bay and “White Elephant” Party). These examples are methods of enhancing utilization of **existing** wealth, which is wonderful. Further, we recognize there is a limit on how many times you can rearrange deck chairs to enjoy a greater experience.

Is This Logic Taken from Marxism’s “Labor Theory of Value”?

The very first thing most economists tell me is the logic appears to be Karl Marx’s Labor Theory of Value. It resembles Marxism on the surface, but it is fundamentally different. Marx associated the quantity and skill level of labor with value and price. e.g. If a painter labored four hours to paint a room, the value and price would be based upon the amount of labor spent. If the job took eight hours, then the value and price would double.

There is absolutely NO association between the quantity of labor and value or price in my logic. The **market** determines price in a free society. If I can paint a room in three seconds due to a miraculous productivity improvement, then wonderful!! Assuming I’m more productive than others, I can charge a lower price, get more business, make more profit, etc.... I focus upon the presence of labor (not the quantity) to acknowledge “Real Wealth” has been created. In fact, the less labor required producing any good or service, the better! One cannot “Will” Real Wealth into existence.

What is the “Real Tax”??

- The “Real” tax is 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.

So, the “Real Tax” becomes the output produced by the noted labor and natural resources, which is then transferred and/or consumed based upon government’s allocation. ***It is a very close correlation to Government SPENDING!*** Society experiences this “Real Tax” in real time every minute of every day, and, again, it can NEVER be recovered (unless time can be reversed)! It is equal to the aggregate individual & corporate Tax Burden, which can be transferred intertemporally, but very little of this burden is actually transferred over time!

What is a “Real Tax” Cut??

- A “Real Tax Cut” is a reduction in the labor or natural resources allocated to a government purpose. Again, a very close correlation to a **reduction** in government spending. See reference #4 below regarding the illusion of the Laffer⁽⁴⁾ Curve.
- It is NOT publicly claiming and implementing a “Tax Cut”, and at the same time INCREASING taxes through the “Back Door”...!

First, How Does Government Tax Through the “Front Door”?

- Publicly announce a Tax (or Fee) Increase to coincide with a Planned Spending Increase, which will rightfully align the financial monetary system with the “Real Economy” for a change. If government wanted to bail out a bank, fund a cash-for-clunker program, or fight a new war, the President must state: “...We will begin the increase in spending for these programs on Monday next week, and at the same time will RAISE YOUR TAXES. As a result your income or net pay on your paychecks will decrease effective Monday!
- Can the Tax Burden be transferred intertemporally (over time)? Of course, but the President must honestly state: “...any budget deficit funded by Treasuries will

guarantee a commensurate **tax increase** (plus interest) later, OR a reduction in services from what otherwise would have been. My fellow citizens, we are increasing your “Real Tax” immediately to fund these initiatives which can never be recovered, and transferring the **burden** to future taxpayers...”

Laughable? Then How Does Government Covertly Increase “Real Taxes” (via the “Back Doors”)?

We know a politician would be committing political suicide with honest statements noted above. So how will they really collect taxes? There are four primary means of this stealth operation:

- **Door #1:** Collect more \$’s on Earnings/Output increase. If one produces more, he will pay more taxes, even if the tax **rate** remains the same. (Note: The Colorado TABOR concept averts this)
- **Door #2:** Collect more \$’s via inflation pushing Earnings into Higher Tax Brackets
- **Door #3:** Dilute the value of all dollars & dollar-based Financial Assets via currency debasement (inflation).
- **Door #4:** Dilute the value of all Debt Securities via Treasury Security Issues.

An important point is that these “Back Door” actions are effective immediately!! When government debases our currency or dilutes the total credit market by issuing more Treasury debt, the discovery of these illusions of wealth usually happens within a few years. The concept of “...passing the debt burden on to our children and grandchildren...” is an optimistic dream. The losers are those holding the dollars and dollar based securities TODAY! It may take a few short years to discover the illusions, but it will not be a burden on the “grandchildren”!

Conclusion

“Real Taxes” can only be understood, if one experiences a paradigm metamorphosis, and becomes oriented to the world of “Real Wealth”, then learns how, why, and when it is created then transferred in the form of a tax. The “Real Tax” is the allocation of labor and natural resources to a government purpose and is tightly correlated with **government spending**. Hence, the “Real Tax” is government spending, and NOT simply the government revenue collected.

If a critical mass of people along with a few bold leaders grasp and propagate these concepts, it could become a catalyst for a return to the principles of sound money and responsible taxation.

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References:

- (1) Merriam Webster definition of tax (noun); 14th century
- (2) <http://austrianenginomics.com/IftheGovernmentCollectedNoTaxWouldWebeTaxed.pdf>
- (3) BEA (Bureau of Economic Analysis in U.S. Dept of Commerce); <http://www.bea.gov/national/index.htm#gdp>
- (4) What is a Tax Increase?; Pg 1-2; <http://austrianenginomics.com/WhatisaTaxIncreaseB.pdf>