THE JEFFERSON SCHOOL FALL 1988 SEMINAR
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Everyone's Stake In Capitalism

1. The general benefit from private property in the form of capital

a. to the buyers of products

b. to wage earners

2. The special case of inheritance

a. the usual view: only the heirs gain; the non-heirs gain by a policy of confiscation and redistribution

b. *fact:* the institution of inheritance promotes capital accumulation, from which *all* gain, non-heirs as well as heirs

c. inheritance taxes destroy the incentive to accumulate capital insofar as the motive of accumulation is to leave wealth to heirs; the collection of inheritance taxes diverts capital into consumption: if estates did not have to be sold to pay taxes, the buyers would have used their funds to purchase capital goods that would have existed in addition to the estates; with the inheritance taxes, their funds are diverted to the purchase of existing capital goods, and from there to the Treasury

3. The taxation of profits, interest, and capital

a. as far as taxes of any kind come out of capital or potential additions to capital, they reduce or hold down the demand for labor and thus wage rates; even worse, they reduce the demand for capital goods relative to the demand for consumers' goods, which reduces the proportion of output in the form of capital goods and thus causes a cumulative loss in the productivity of labor; in both ways, such taxes cause lower real wages

b. These the effects not just of inheritance taxes, but of the corporate income tax, the progressive personal income tax, the capital gains tax, and social security taxes

c. In addition to reducing the capital available for implementing innovations, the income and capital gains taxes also reduce the incentives for innovation and are especially destructive for new firms, which are prevented from growing as rapidly as otherwise and thus from offering greater competition to the already established firms

These factors hold down the efficiency with which capital goods are employed and is a further cause of a cumulative undermining of the productivity of labor

4. Need to reduce or abolish these taxes *and government deficits* to restore economic progress; need to *cut government spending*

Deficits to make possible reductions in taxes that fall on savings are contrary to purpose, because they reduce the available supply of savings by more than the tax reductions can increase it, or else are financed by inflation, which is also highly destructive of capital formation.

5. Self-interest of *everyone* lies with ability of business to save and invest and innovate: interests of non-owners hurt by whatever keeps down the demand for labor and supply of products—which stops a *growing* supply of products

6. The reduction of taxes that fall mainly on savings and on the incentives to innovate is more urgent than the reduction of taxes that fall on the average wage earner—*from the point of view of the real self-interest of the average wage earner*

a. the immediate gain in the demand for labor

b. the continuing rise in the productivity of labor

c. a one-time increase versus a continuing increase in real wages that soon surpasses the one-time increase

Figure 1

The Relative Production of Capital Goods in a Stationary Economy

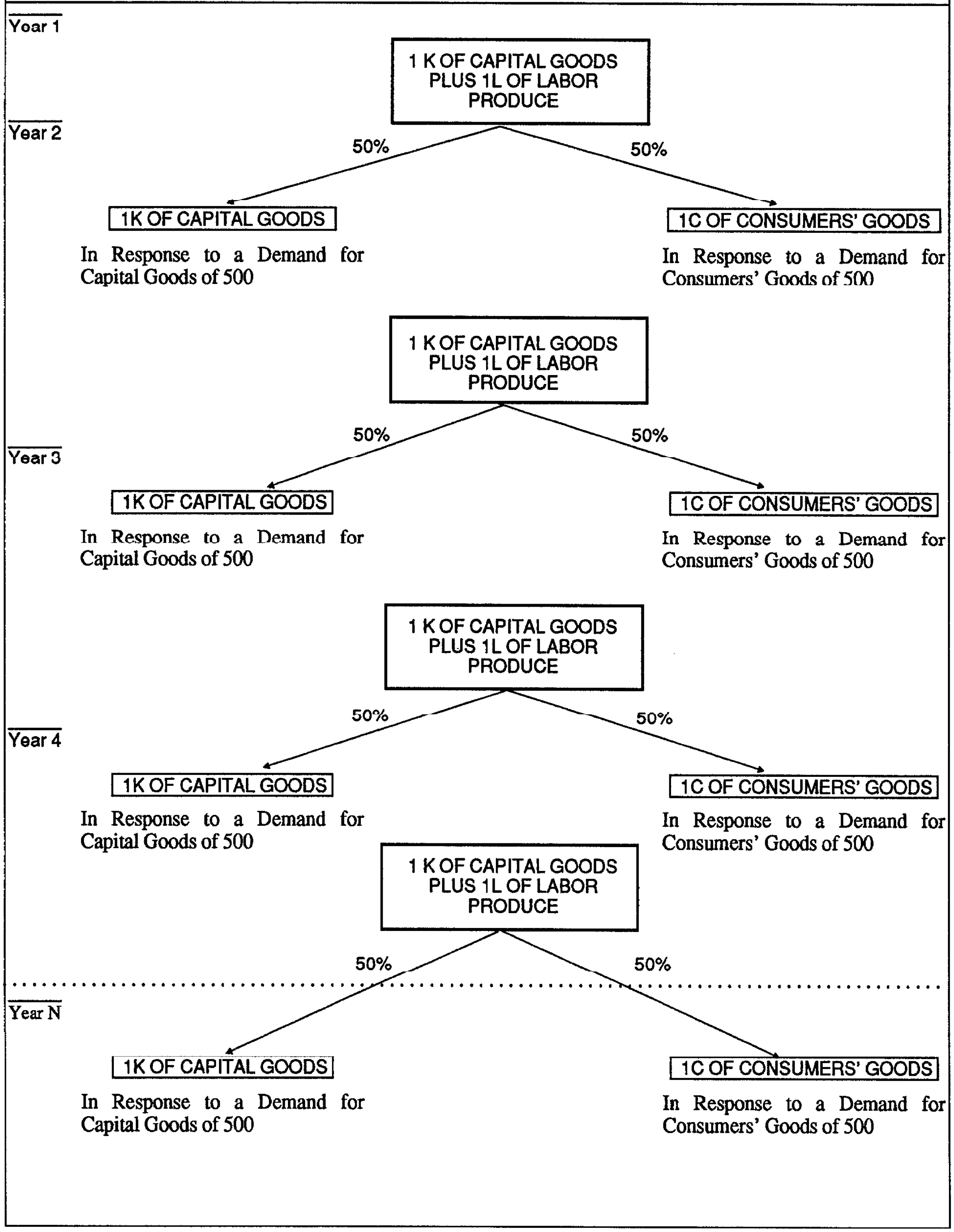

Figure 2

The Relative Production of Capital Goods in a Progressing Economy