<u>As It Must, “Trickle-down” Works</u>

By Roy Minet (Rev. 02/01/18)

“Trickle-down economics” is scorned by many. However, anyone who claims that trickle-down does not work is either ignorant of economics or deliberately trying to mislead.

Although not really a great label, “Trickle-down” does sort of describe one aspect of a free market: A free market is made up of millions of economic entities (individuals, businesses, etc.) which are all connected and interrelated through a complex web of billions upon billions of constantly occurring transactions (voluntary exchanges of wealth). The effect of a good (or bad) thing happening in one part of the market ripples through everything and affects everyone to a greater or lesser degree.

Normally, so-called trickle-down happens invisibly – billions of small effects which are too small to attract notice. This enables the “business bashers” and enemies of free market freedoms to get away with claiming that trickle-down doesn’t work.

Oops! We are now witnessing an extraordinary and dramatic demonstration that, of course, trickle-down does work. The 2017 federal tax cut has very significantly reduced business taxes. This is a large enough “good thing” happening to businesses that you can clearly see it rippling through to everyone.

The direct result of business tax reductions is to increase profits. The primary objective of any business is to maximize profits. Profits are always good for everybody.

A business’s total cost of operation is a measure of the wealth it consumes, while its sales measure the wealth its operation has produced. Profits (the sales minus the cost) are therefore a measure of how much additional wealth the business has produced and contributed to the economy, increasing everyone’s standard of living. Businesses which lose money (negative profits) are automatically forced to go out of business, which is crucially important as they are subtracting wealth from the economy.

Profits directly benefit the owners of a business in two ways. Owners may receive a share of the profits (e.g., dividends); or the value of the business may increase, which benefits them when they sell.

The owners of businesses are people, individuals. Some own a whole business or a large percentage of one. Many more millions of people hold small percentages of businesses through stock ownership, often held in a retirement account. If you are jealous of some highly profitable businesses, buy a piece for yourself and share in the wealth; or start your own business.

But wait! Hundreds of businesses have announced bonuses of one to several thousand dollars for millions of employees; and/or they have increased wages. It’s more like gush-down than trickle-down. Why would businesses voluntarily hand out chunks of the profit they are trying to maximize?

Businesses are run by real, sentient people, so generosity might play some small role, but the primary reason is again just the normal operation of the free market. Good employees are crucial to business success. Businesses value their employees highly and certainly want them to be happy. Losing a competent, trained and experienced worker is exceptionally costly. Increasing profits inevitably increases competition for the best employees and drives up wages and benefits.

The final – still largely invisible – way that business tax cuts ripple through to everyone is by lower prices for the goods and services businesses offer. Yep, the free market again: Higher profits increase competition and drive prices downward.

It should be clear that 100% of every single dollar in tax savings must flow through to the benefit of people: some to owners, some to employees and some to customers.

Politicians love to tax businesses as one way to hide from taxpayers how much they are actually paying. Businesses can't pay taxes; only individuals pay taxes. In addition to the income, sales and property taxes you pay directly, you also pay taxes every time you buy something, and when your wages are less than they otherwise might have been, and when your stock dividend (or price) is less than it could have been. Sneaky.

Finally, it needs to be emphasized that we are looking at this process entirely backward. Tax reductions for businesses and individuals are not wonderful benefits bestowed upon us by government. More correctly, they are reductions of a bad thing (taxation) that is harmful to the economy and all of us.

Of course, government has no wealth to "bestow" that has not first been confiscated (or borrowed) from others. Some of government's revenue goes to bureaucratic overhead, and the customary waste, fraud and abuse. It can be argued that only about 15 cents of each taxpayer dollar is left to benefit anyone, but that's a whole other column.

Taxation has aptly been likened to draining blood from a body. You can suck a little blood once in a while without doing any damage. Draining too much too fast will weaken the body and can kill it.

Following years of sickly growth, our economy is responding favorably to the tax (and regulation) reductions. This strongly suggests that the government has been bleeding us to the point of doing serious harm.

Here's a thought to bear in mind every time you enter a polling place: You are voting for the people who will decide how much blood is to be forcibly drained from your body.