A toll on the common man

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Cutting taxes …

- … can be difficult
- German government wants to push corporate taxes below 30%
- Parliamentary leader of the Green party opposes because “they’re reaching into the wallets of the little people go give corporations tax relief”
- Politicians much prefer to tax impersonal firms, which cannot vote

Who pays the taxes?

- Shareholders pay corporate taxes
- Some of the shareholders are rich, but many are ordinary people
- And many far-from-rich own lots of shares through their pension funds
- Tax burden may be shifted to consumer through higher prices or to workers through lower wages

Analysis

- Arnold Harberger (1962): If neither capital nor goods can cross national borders, the burden of corporate taxation falls on the owners of capital, including farmers and homeowners
- It is now recognized that workers do pay some of the tax formally levied on companies

Workers pay tax too

- Corporate-income taxes make saving and investment less attractive
- A smaller capital stock lowers wage rate
- Globalization sharpens the effect because capital can now move easily from high-tax to low-tax countries

Empirical study

- Hassett and Mathur: a 1% increase in the corporate tax rate is associated with a 0.8% drop in wages over the next five years
- If Germany cut its corporate-tax burden by 25%, wages ought eventually to rise by a fifth
- Staggering, but seems overstated
- Still, high taxes on companies hurt the “little people” they are supposed to please