A toll on the common man

The Economist

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• ... 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
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