How Low Taxes Help the Less Fortunate: Part One

For the vast majority human history, the lot of the common people has been one of poverty, hunger, and a daily struggle to survive. Wealth and prestige were based upon which class a person was born into, and social mobility was a distant dream achieved by very few. So what changed the overwhelming trend of history and brought the common man out of poverty? Free enterprise. This idea spurred the Industrial Revolution that created the modern world and has released more people from the bonds poverty over the past 200 years than anything else in human history.

The United States provides a perfect example of how free markets alleviate poverty. In 1800, the total population of the United States was 5.3 million with an average life expectancy of 39 and gross domestic product (GDP) per capita was $1,343 (in 2010 dollars); in 2011, the United States had a population of 308 million, an average life expectancy of 78, and GDP per capita of $48,800. These momentous changes which increased the population by 5,811 percent, doubled life expectancy, and increased GDP per capita by 3,634 percent,[1] were driven by the American commitment to free trade and free markets. Other examples of countries adopting free market principles demonstrate their effectiveness in alleviating the burden of the impoverished. Since China began its free market economic reforms in 1978-under Chinese leader Deng Xiaoping's famous phrase "To get rich is glorious"[2]-the number of people living on $1 a day has decreased from 490 million to 90 million in China's rural areas, and the number of Chinese living in poverty decreased by 300 million from 1978 to 1984.[3] To put that in perspective, the total population of the United States is only about 315 million people in 2013.[4] Similarly, since pro-market reforms were instituted, Chile saw its poverty rate drop from 45.1 to 15.1 percent between 1987 and 2009.[5] The Czech Republic is a another example; since the former communist country adopted free market reforms in 1989, the Czech Republic has the lowest poverty rate in the European Union, 9.8 percent compared to the EU's 16.9 percent.[6] A common denominator in all of these free market reforms has been to keep taxes low and encourage economic growth.

When a society is prosperous, all individuals in that society-lower, middle, and upper class-benefit. In a review of 26 academic studies conducted since 1983, all but three showed an empirical link between tax policy and economic growth.[7] Data focusing on the United States shows that the nine states with no income taxes have seen higher growth than other states, as their average gross state product (GSP) grew 25.6 faster than the national average and 39.2 percent faster than the nine states with the highest income taxes from 2001-2010.[8] This GSP growth directly benefitted people at all income levels because higher GSP means more jobs, which means more income and a higher quality of life. In the nine no income tax states personal income grew 55 percent faster than in the high income tax states from 1971-2010.[9] In addition, individuals in these no income tax states were able to keep what they earned.

Lower income individuals also realize benefits from lower corporate income taxes. Corporate taxes hit businesses of all sizes, from international conglomerates to mom-and-pop shops, and negatively impact consumers at all income levels. Corporate income taxes raise the costs of doing business, which are passed to consumers, workers, and investors through higher prices, lower wages, and lower investment returns. Of these three groups, the average worker is hurt the most. One international study of corporate income taxes estimates that for every one percent increase in the tax rate, worker wage rates decrease by 0.8 percent.[10] A similar study of the United States found that for every $1 paid to state and local governments in corporate income tax, the average worker lost $2.50 in wages.[11] This situation directly impacts the working poor, decreasing their income. Corporate income taxes could also prevent employers-particularly small business owners-from hiring, and less jobs mean fewer economic opportunities for low-income or unskilled workers. It should come as no surprise then that the seven states with the lowest corporate taxes saw their non-farm employment rates outpace that of the high corporate tax states by an astonishing 523.3 percent.[12] Therefore, lower corporate taxes impact the poor in two ways: more available capital allows for more jobs to be created for the unemployed, and for those already employed to have higher wages, both of which increase the incomes of the working poor. On the consumer side, low corporate taxes allow for a reduction in prices, allowing the poor to buy more even with their limited means. When these two are taken together, higher wages in conjunction with lower prices would allow for individuals with lower incomes to drastically increase their quality of life, bringing them up from the ravages of poverty.

Low taxes allow the economy to grow unhindered by government, and the economic opportunity that comes with innovation and free enterprise benefits all members of society. The economic growth accompanying low taxes creates opportunities for those with low income, creating jobs that can increase and build their wealth over time. One 2003 study even found that if poor families with children had full-time employment throughout the year (with parents working at least 2,000 hours a year) the United States' child poverty rate would be cut by 72 percent.[13]

Apart from the personal and business related benefits the poor receive from low taxes, there is also the fact that charitable giving increases when taxes are low. When individuals have more income it increases their capacity-and thereby their willingness-to give to charitable organizations. Conversely, when individuals have to pay more taxes even when they give to charity, they will give less. A 2010 survey by the Center on Philanthropy at Indiana University found the second-highest driver behind high income individuals giving to charity is financial security. Similarly, 67 percent of those surveyed indicated they would somewhat or dramatically decrease their giving if charitable tax deductions ended, as that would increase their income tax burden.[14] Without income taxes, these individuals would have more income and financial security, allowing them to increase their philanthropic giving, expanding charities and benefitting those who receive help from those organizations.

Programs to help the poor are often used as justification for high taxes but, and while individuals should help those who are less fortunate than themselves, the best thing government could do to help the poor is create an environment where the economy is booming and jobs are plentiful so individuals can break the cycle of poverty. Low taxes are a key part of developing such an atmosphere.

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