

Do Two Wrong Taxes Make a Right?

Written by Donald Boudreaux.

In Chapter 5 of Frédéric Bastiat's indispensable collection entitled *Economic Sophisms* makes the following argument regarding protectionism and taxation:

You argue that, since France is overburdened with taxes, it is necessary to protect this or that industry. But we have to pay these taxes in any case, whether or not there is protection. If, then, the spokesman of a particular industry argues: "We share in the payment of taxes; they raise our costs of production, and we demand that a protective tariff be levied so as to raise correspondingly the selling price of our product," what does such a demand amount to but that the burden of the tax be shifted onto the rest of the community?

No matter how heavy or unfair is the tax burden imposed by a government on the producers in its country – no matter how heavy or unfair is the regulatory burden so imposed on these producers – and no matter how scant are the benefits that producers receive in return as a consequence of these high taxes and cumbersome regulations: these taxes and regulatory burdens do not justify imposition by that government of additional taxes, in the form of tariffs, on consumers in its country.

I could conclude this post simply by repeating the familiar but factual observation that two wrongs don't make a right. Stacking wrong upon wrong does not, indeed, result in a 'right' outcome. But I'll say a bit more.

The unjust cost doesn't disappear; it's merely shifted and the country as a whole made even poorer.

The problem is with the taxes and regulations, not with trade. Free trade here allows at least some people to minimize the harm they would otherwise suffer from those taxes and regulations. If foreign governments are wiser or less destructive than is Uncle Sam and – being wiser and less destructive – don't tax or regulate their producers as punitively as does Uncle Sam, I can find no reason in ethics or in economics to prevent American consumers from taking whatever steps they can – such as buying lower-priced imports – to avoid being harmed by Uncle Sam's unjust taxes and regulations. (And keep in mind, by the way, that most American imports are inputs used by American businesses – lower-

priced inputs that allow these American producers to operate at lower costs.)

Imposing tariffs in order to protect domestic producers who are unjustly harmed by taxes or regulations, as Bastiat noted, simply *shifts* the harm done by these taxes and regulations from producers to consumers. But why should consumers rather than producers suffer this harm? Some people must suffer it, and it'll be either the unjustly taxed and regulated producers (in the case of no protective tariff) or their consumers (in the case of a protective tariff). The unjust cost doesn't disappear; it's merely shifted and the country as a whole made even poorer. But even though we agree that Jones is being unjustly hurt by the government, why should Jones be allowed to shift that harm onto Smith?

Who Should Bear the Cost?

The above is an ethical argument, one that my philosopher friends will no doubt find to be flawed, or at least shallow. But in addition, there are also pretty strong economic arguments against imposing a tariff in order to give relief to domestic producers from unjust taxes or regulations. Here's one: because affected producers are smaller in number than their customers, if we avoid using tariffs to shift the harm onto consumers, producers will have a stronger incentive to lobby to get rid of (or reduce) the offending taxes and regulations. Consumers, being more dispersed and much less likely to politically organize than are producers, will not be as effective as producers in putting pressure on a government to force it to abandon its harmful policies.

So although it's unpleasant for producers, this unpleasantness is not exclusively a 'bug.' From the perspective of society as a whole it is, at least in part, a 'feature.' If the burden of the unjust interventions remains on producers (rather than being shifted with a tariff to consumers), the chances are greater that those interventions will be eliminated or reduced, or at least not further increased. Saying that the chances are higher, of course, is not to say that they are 100 percent, or even close to 100 percent. But the case is quite strong that the chances of reducing government interventions are indeed higher than they would be if the costs were shifted by a tariff onto consumers.

The Hidden Costs of Tariffs

A closely related point is one made by my colleague Walter Williams. Walter argues that tariffs designed to protect domestic producers from suffering the costs of unjust government interventions *hide* these costs. And costs that are hidden are worse than are costs that are out in the open, visible, and felt strongly. Walter's argument is correct. Domestic producers are quick to call for tariffs, but I have never once heard a domestic producer call on government to *subsidize* imports.

I realize that many producers in the U.S. disagree with the above. And I understand. It's

infuriating to have government act stupidly and unjustly and you, as a producer, have to suffer the ill consequences of such stupidity or injustice. But I believe that as a general rule the appropriate response is not to shift the cost from one group to another – a shift that masks the costs – but to attack the problem head-on and at its root: reduce the taxes and regulations.

Domestic producers are quick to call for tariffs – taxes on imports – to protect them from taxes and regulations that these producers insist are inordinately high in the domestic economy compared to the taxes and regulations imposed on these producers' competitors in foreign countries. But I have never once heard a domestic producer call on government to *subsidize* imports in cases in which the net tax and regulatory burden borne by foreign competitors is heavier than is the burden laid upon domestic producers. And surely there are many such cases.

This reality – this asymmetry of griping and complaining- is powerful evidence that the great majority of domestic producers who call for protective tariffs as a means of “leveling the playing field” in the case of high domestic taxes and heavy domestic regulations are motivated less by a well-thought-out sense of sense of justice and fairness and more by the simple desire to buoy their bottom lines with whatever means are available.

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