IDEAS ON LIBERTY
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They Take More than Half

by Daniel B. Klein and Allan Raish

If a college teacher living in California who earns $75,000 per year publishes an article in *Ideas on Liberty*, and FEE pays him $100, how much do the federal and state governments take? How much does he get to keep?

Here is the pertinent information about the direct takings of such earnings:

2002 Federal Tax Brackets and Rates*			
Single Person Income and Rates		Married Couple Income and Rates	
Up to $6,000	10%	Up to $12,000	10%
to $27,950	15%	to $46,700	15%
to $67,700	27%	to $112,850	27%
to $141,250	30%	to $171,950	30%
to $307,050	35%	to $307,050	35%
above that	38.6%	above that	38.6%

Federal "Payroll" Taxes—Social Security & Medicare

If you have an employer you pay 7.65 percent and your employer pays 7.65 percent of the first $84,900 of earnings. (And your wages reflect that burden.) Each pays 1.45 percent of everything over $84,900.

If you are self-employed, you pay 15.3 percent of the first $84,900 of earnings and 2.9 percent of everything over $84,900.

2001 California Tax Brackets and Rates*,**			
Single Person Income and Rates		Married Couple Income and Rates	
Up to $5,700	1%	Up to $11,500	1%
to $13,600	2%	To $27,300	2%
to $21,500	4%	to $43,000	4%
to $29,900	6%	to $59,700	6%
to $37,700	8%	to $75,500	8%
above that	9.3%	above that	9.3%

(2002 brackets and rates were not available at time of publication.)

The Tax Bite at the Margin

The payment from FEE would be counted as "self-employed" earnings, so the college teacher would have to pay 15.3 percent in levies supposedly for Social Security and Medicare. After deductions and exemptions, his taxable income is in the range of $55,000.

If he's married, here's what happens to the $100 payment: Governments take $48.30 and he keeps $51.70.

If he is single, governments take $51.60, and he keeps $48.40.

Furthermore, out of the retained portion he pays sales taxes (about 9 percent in Santa Clara County, California), property taxes (on the condominium he owns), and excise taxes (on the alcohol, gasoline, and tele-

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*Rates are incremental and apply to taxable income (income after deductions and exemptions).

**California taxes may be deductible on next year's federal tax calculation.

phone services he buys, for example).

Of the additional $100 he receives from FEE, all told, governments will take over 55 percent.

" . . . The land of the *free*, and the home . . . of the . . . *brave*."

Though FEE usually pays its authors, we instructed it not to pay us for this article. We care for FEE not as much as we care for ourselves, but a lot more than we care for the federal and California governments. Better that FEE have the money than the governments, even if it means fewer dollars for us. □

Mises on Taxation

This metamorphosis of taxes into weapons of destruction is the mark of present-day public finance. We do not deal with the quite arbitrary value judgments concerning the problems of whether heavy taxation is a curse or a benefit and whether the expenditures financed by the tax yield are or are not wise and beneficial. What matters is that the heavier taxation becomes, the less compatible it is with the preservation of the market economy. There is no need to raise the question of whether or not it is true that "no country was ever yet ruined by large expenditures of money by the public and for the public." It cannot be denied that the market economy can be ruined by large public expenditures and that it is the intention of many people to ruin it in this way.

Businessmen complain about the oppressiveness of heavy taxes. Statesmen are alarmed about the danger of "eating the seedcorn." Yet, the true crux of the taxation issue is to be seen in the paradox that the more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Thus the fact becomes manifest that ultimately the preservation of private property and confiscatory measures are incompatible.

—LUDWIG VON MISES, *Human Action*, "Interference by Taxation"

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Opportunity Knocks—Late

by Larry Schweikart

Perhaps it is the emphasis on youth in marketing and advertising—aside from a few prescription-drug commercials these days—that creates the impression that the rich are all young or have their career paths set by age 30. In fact, however, America's business landscape blooms with people who didn't hit their stride until they reached 50. Opportunity sometimes knocks later rather than sooner, but as the following examples show, what is important is whether or not you are ready to open the door.

John K. Hanson (born 1913), who was a furniture dealer after World War II in Forest City, Iowa, came up with the concept often associated with older people, the Winnebago motor home. He once accepted livestock in payment for couches and tables, even drawing the attention of *Time* magazine in 1947. Concerned his little town might be shriveling with the decline of family farming, Hanson pondered ways to save the town. Rather than run to the government for aid, Hanson noticed (ironically, also in *Time*) an article about the camping and trailer boom in California. After researching the project in person, he convinced more than 200 local townspeople to invest $50,000 in a corporation to manufacture travel trailers for a California company.

That venture failed, however, not long after the first trailer came off the assembly line. Hanson, convinced that the outdoors movement was a trend, bought out some investors and encouraged others to stay in and give the project another try. At Winnebago Industries he copied Alfred Sloan's model at General Motors: have plenty of variety in cost, luxury, and accessories. After ten years the company had 20 models of campers and mobile homes, all making use of Hanson's innovative foam-rubber cushions and mattresses that made the units more comfortable and thus more profitable. He also introduced the "unbalanced panel," in which plywood and aluminum sandwiched a layer of Styrofoam insulation, which proved lighter and cheaper than existing "balanced" panels.

By 1965 Winnebago reached $2.8 million in sales, offered stock to the public, and soon became the first exclusively recreational vehicle firm listed on the New York Stock Exchange. After retiring, Hanson watched Winnebago stock slide from over $80 to a low of $1.75 in 1979. Coming out of retirement at age 65, Hanson brought the company back to profitability, although it was difficult. He had to fire more than 3,200 employees: "I came in like Wyatt Earp. I just lined 'em up and shot 'em down."[1] But he saved the company, and for the second time, saved the town. Reflecting back on whether he could have started Winnebago at an earlier age, he concluded there was no way. He did not have the experience or knowledge.

A more colorful and bombastic figure,

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