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Dangerous Delusions

By Richard W. Rahn
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Have you ever wondered why so many people see higher taxes and more government as the solution to every problem, despite the empirical evidence that more government reduces economic efficiency and growth and diminishes our liberties?

As will be shown, the arguments from the big government advocates are usually based on a combination of economic and historical ignorance, including an inability to think beyond Stage 1, envy, and just plain delusional thinking.

The New York Times editorial page has long been a bastion of this delusional thinking. On April 24, the paper produced one of its classic inane editorials in favor of higher taxes on labor and capital, which contained this gem of a sentence: "Memo to McCain: 401(k) savers get no benefit from a low capital-gains [tax] rate."

Everyone who has ever taken basic economics should know a lower tax rate on an investment (i.e., the capital-gains tax) will lead a higher rate of return, and hence the investment will be worth more. Other things being equal, lower capital gains tax rates will lead to higher stock prices, and all who hold stocks will benefit, whether or not they pay a particular tax on that stock. Though this concept is not difficult for most people to understand, it seems beyond the knowledge and reasoning ability of those who write editorials for the New York Times.

Unfortunately, the Times has plenty of global company when it comes to economic ignorance, envy and delusional thinking. We find it among many politicians in almost every government. International organizations, such as the United Nations, and even the Organization for Economic Cooperation and Development and their dependent allies, are filled with those who advocate higher taxes on capital and labor, all in the name of "tax harmonization."

The following are only some examples of what those who advocate higher taxes on capital and labor either do not understand or willfully choose to ignore:

• Many studies by leading economists, including those from even the International Monetary Fund and World Bank, have shown most countries tax and spend at a level higher than that which would maximize their economic growth and social welfare.

• Financial capital (productive savings and investment) is the "seed corn" of modern economies, and when it is taxed there are fewer funds available for businesspeople to create new jobs and invest in new productivity, including life enhancing and lifesaving innovations.

• When labor is taxed at high rates, it discourages people from working (at least in the legal economy) and increases the cost of hiring by employers, which reduces their demand for workers.

• Most government programs do not live up to their billing in that they cost far more than projected and produce less than promised. Recent U.S. government studies have shown that about 50 percent of all taxpayer dollars do not achieve the promised results. There is little reason to believe most other governments perform any better. There is no evidence that governments spending more money use it any more efficiently than those spending less, and the contrary is more often the case.

• There are few examples of governments balancing their budgets or improving their fiscal situations by increasing tax rates, but there are many examples of governments balancing their budgets through spending restraints and, at times, reducing tax rates. The federal surpluses during the last Clinton administration in the late 1990s only occurred after the newly elected Republican Congress imposed strict spending limitations and the capital gains tax rate was cut by Congress and signed into law by President Clinton.

• Most people can make better decisions about how to spend their money to aid their families than can politicians and government bureaucrats. When taxes rise, people's ability to take care of themselves is reduced and they more become dependent on government.

• Higher tax rates reduce individual liberty by denying people the fruits of their own labor.

• Some of those who claim tax rates must be increased use the argument that the cost of government pension (Social Security) and medical aid programs are growing faster than the economy. Yet these same people ignore (or arrogantly dismiss) many of the cost-saving and privatization proposals from reputable public policy organizations and scholars, which would not only to lower costs but improve results. The fact is, unless the rate of cost increases is brought down, no tax rate increase can possibly solve the problem.

• Finally, there are some tax increase advocates who still have the long discredited socialist mentality that even when a tax increase hurts everyone, it is justified in the name of "fairness." When Sen. Barack Obama was informed that his proposal to nearly double the capital-gains tax rate would most likely result in less revenue for government, he said it was still justified in the name of "fairness."

The logical consequence of this notion of "fairness" would be a much lower standard of living for everyone, which I doubt is what the good senator desires. Despite their delusional rhetoric, I even doubt the editors of the New York Times really want to see their own incomes fall to that of the average person, let alone to the level that would result from their economic policy proposals.

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