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More Tax Oppression

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And it's unnecessary for revenue-raising

Why did a bare majority (219-212) of the members of the U.S. Congress vote for the largest tax increase in American history this past Friday, under the claim it was a vote to save the climate?

Before you answer the question, consider the following facts. The proponents claim this tax bill will reduce U.S. carbon dioxide emissions, which are purported to cause global warming. First, despite the claims of President Obama, House Speaker Nancy Pelosi and many in the media, there is no consensus in the scientific community about how much climate change, other than the normal cycles, is taking place, nor how severe it will be, and how much man-made CO2 is responsible. None of the climate models predicted the unexpected global cooling of the last decade.

It is known that the legislation will have a negligible effect on global CO2 emissions, particularly since the big polluters, such as China and India, are not playing ball. It is also known that the "cap and trade" system that the legislation calls for has been a failure in Europe, where it has been in operation for the last few years, in that it has proven to be far more costly than envisioned, has not met the CO2 reduction targets, and has been highly susceptible to corruption and abuse.

In addition, because the legislation requires Americans to use more inefficient energy (wind and solar) sources, it cannot help but raise costs for American businesses and citizens, and hence will kill jobs rather than create them (as contrasted to what Mr. Obama and Mrs. Pelosi have incorrectly claimed).

In sum, serious people understand the legislation will hurt the U.S. economy, reduce the standard of living and yet not accomplish its claimed intent; therefore, why were so many members of Congress willing to vote for it?

Are they idiots, or do they have another agenda? Yes, a few are not that bright, but many more see this as an opportunity to extract wealth from one group of Americans, give it to other groups of Americans they favor, and to their political cronies who will reward them in campaign contributions and in other ways - both seen and unseen. They are willing to engage in more tax oppression in exchange for more political power to themselves.

The tendency for political leaders - even those fairly elected - to look out more for their own personal interests rather than the greater good is not confined to America. The Organization for Cooperation and Development (OECD), whose 30 members are the major industrialized democratic countries, was formed half a century ago to promote policies to increase economic growth and free trade.

Unfortunately, political leaders in high-tax states (notably France and Germany) have captured part of the OECD and are using it as an instrument - by creating "black" and "gray" lists - to squash tax competition from low-tax-rate countries and financial freedom and privacy (which are important for global economic growth).

A European economic policy organization, Institut Constant de Rebecque, has just published an important study, "Tax burden and individual rights in the OECD: an international comparison." As part of the study, the author, Pierre Bessard, created a Tax Oppression Index by using OECD and World Bank data to measure the overall tax burden, public governance, and taxpayer rights. Italy and Turkey were judged to have the most tax oppression, while Austria, Luxembourg and Switzerland were judged to have the least oppressive tax systems. A sample of the major countries in the index can be seen in the accompanying table.

TAX OPPRESSION INDEX (Ranked from the most to least oppressive in the OECD)		
Country	**Tax Oppression Score**	**Per Capita Income (USD)**
Italy	6.0	30,581
Germany	5.9	35,442
France	5.6	34,208
United Kingdom	5.3	36,523
United States	5.3	46,859
Japan	5.0	34,100
Ireland	4.6	42,539
Austria	4.2	39,634
Switzerland	2.0	42,783
Per capita income figures are on a Purchasing Power Parity (PPP) basis as calculated by the IMF for 2008.		

Those who advocate bigger governments and more repressive tax systems claim that the additional tax revenue is needed to promote the common good. In 2007, the government spending in Switzerland was equal to 35.7 percent of GDP (very close to the government share of GDP in the United States of 37.4 percent) while the Italians had a government sector equal to 48.5 percent of GDP.

The Italians and the Swiss share a long peaceful border, but Italy is far richer in natural resources and access to the sea than land locked Switzerland. Yet the Swiss are far more prosperous and do a much better job in delivering government services than do the Italians (or French with 52.4 percent of government spending) while, at the same time, engage in far less tax repression. The Austrian government spends 48.2 of its GDP, which is almost equal the size of the Italian government spending, but manages to raise the necessary tax money in a far less oppressive way.

The United States is in about the middle of the pack, but could have a lower score if it improved its public governance by reducing the corruption and inefficiency in Washington, and did a much better job in protecting taxpayer rights. (The U.S. Constitution explicitly gives citizens the presumption of innocence, but the Internal Revenue Service chooses to ignore the Constitution in this and many other matters.)

The world would be richer and more just if the low-tax-rate countries that protect taxpayer rights and privacy could penalize the states that engage in high levels of tax oppression, rather than vice versa, which is now the case.

The empirical evidence from the new Institut Constant study clearly shows (as have many other studies) that it is not necessary to have high tax rates or deny taxpayers basic rights and financial privacy for the government to obtain all of the revenue it legitimately needs. But as the vote on the "climate" (tax) bill in the Congress clearly showed last week, for all too many politicians, tax policy is not about revenue but political power and control.

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