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Time to Fire America's Management

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Corporate income tax cripples the economy

Assume you own stock in a company whose market share has fallen from approximately one-third of the industry 15 years ago to only one-quarter today, the company was racking up record losses and debt, and the management has proposed increasing the prices of its products while many competitors are cutting their prices. Would you vote to fire the management? Rather than a company, the entity I have just described is the United States. The U.S. has been losing market share as a percentage of global gross domestic product, in part, because many competitors, particularly in Asia, have been leading with pro-growth economic policies while the U.S. is piling more taxes and regulations on the productive sectors of its economy.

Most economists understand that the corporate income tax is one of the most destructive forms of taxation because it is an additional tax on the factors of production, capital and labor. There have been many studies of the evils of the corporate income tax, yet the politicians in Washington have saddled the U.S. with the highest effective corporate tax in the world - even higher than in France, Germany or any other country in the European Union. Now, a new, very comprehensive peer-reviewed study of the effects of the corporate income tax, using data from 85 countries, has been published in the July issue of the American Economic Journal.

The authors (Simeon Djankov, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer) conclude that "effective corporate tax rates have a large and significant adverse effect on corporate investment and entrepreneurship." They go on to say: "Higher effective corporate income taxes are also associated with lower investment in manufacturing but not in services, a larger unofficial economy, and greater reliance on debt as opposed to equity finance. In these new data, corporate taxes matter a lot, and in ways consistent with basic economic theory." (If you tax something, you get less of it.)

Many of the members of Congress who consistently wail about the loss of U.S. manufacturing jobs are the same ones who, time and time again, vote to crush U.S. companies with more taxes and regulations. Congress already has voted for one increase in the capital gains tax this year (in the health care legislation bill) and is poised to let the George W. Bush capital gains rate cut expire at the end of this year, making the U.S. even more uncompetitive. There have been a series of recent studies showing that an increase in the capital gains tax will cost the government revenue and lead to less employment and lower economic growth - but Congress seems hellbent on heading in the wrong direction. One does not have to be a rocket scientist to figure out that when an organization is confronted with a choice about where to locate a new business whose products will be sold globally, the U.S. is likely to be far down on the list.

This same Congress that is destroying the ability of U.S.-based businesses to compete internationally is also making it nearly impossible for foreign banks to invest their clients' money in the U.S. In a misguided attempt to keep U.S. citizens and green-card holders (but not illegal immigrants) from investing in the U.S. through foreign financial entities, Congress has passed a new set of regulations. Those regulations make it extremely costly and almost impossible for financial institutions to comply, and, in some cases, they require the violation of foreign laws. The unintended result is likely to be that the U.S. will lose perhaps trillions of dollars of needed foreign investment over time.

The death tax rate this year will be zero as a result of the Bush-era phaseout of this destructive tax, but it is set to jump to 55 percent as of Jan. 1. There have been many articles about the likelihood of individuals attempting to time their deaths before the end of the year to save their heirs many millions of dollars in "death taxes." When incentive is given to cause a premature death by an interested party in order to gain a great deal of money, the probability is that it will happen in some cases. Members of Congress normally are exempt from civil prosecution for actions and statements made in Congress, but it would not be beyond possibility to see some enterprising lawyer charge those irresponsible members of Congress with abetting murder (which is not protected by congressional immunity) because of their lack of action to "fix" the death tax. How just!

If those managing a company had acted as recklessly and irresponsibly as has Congress with the U.S. economy, they rightly would be fired. Congress by its actions is driving away foreign capital, new and existing companies and jobs; burdening the people with excessive debt - and even providing an incentive for murder. Voters, who act as the shareholders of the U.S. economy, have the responsibility to fire the "managers" (i.e., Congress) for their dereliction of duty. For the sake of the country, let's hope they do so in November.

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