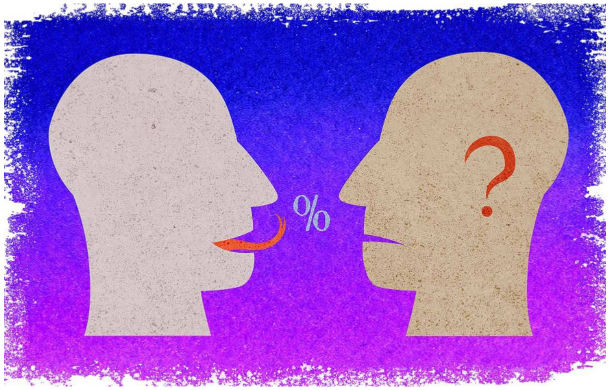

The Uncertainty Tax

by Richard W. Rahn

President Trump's tariff turmoil, U.K. Prime Minister Theresa May's bungled Brexit negotiations, French President Emmanuel Macron's tax fiasco, etc. are all causing a slowdown in productive global investment and economic growth. The recent decline in the stock markets can be largely attributed to policy uncertainty. Mr. Trump is not to blame for the European mess, but his erratic trade actions and other unpredictable comments have contributed to the drop. He was on solid ground when he took much of the credit for the stock market rise, but now he needs to take some of the blame for the fall.

Investors detest unnecessary uncertainty by government actors. All business investment decisions involve risk and uncertainty. Business students are taught, when making an investment decision, that what is important is the expected after-tax rate of return after adjusting for risk and uncertainty.

The probabilities of risks, such as those associated with hurricanes, tornadoes, earthquakes, floods, and droughts, etc., can be calculated with some precision and put into an investment model. Uncertainties, such as the erratic and incompetent actions of politicians and other policymakers, are much harder to quantify; so in an abundance of caution, many investors assume the worst — causing them to pull back.

Scaremongering about global warming causes some policymakers to propose and implement highly economically destructive "solutions" when cheaper and less destructive alternatives are available. Even assuming that some of the more extreme climate change projections are accurate, it is likely to be many decades before real problems emerge. In the short run, more carbon dioxide means cheaper food because carbon dioxide stimulates plant growth. Also, warmer temperatures up to a point mean better health for many people because cold is more dangerous to health than warmth. Given the rate of technological progress, it probably makes little sense to engage in costly programs to attempt to moderate global warming — at this time — when better and relatively less expensive solutions are likely to be available in the future.

Many of the current alleged solutions affect the poor to a much greater degree than the wealthy. Witness the French riots over the huge taxes on motor fuels, which are a major hit on the rural poor, and have little impact on the rich and the international bureaucrats who come up with such schemes.

Less investment means fewer high-paying jobs. The global tax, securities, and other regulatory lawyers and bureaucrats, and their political masters, are directly (and in a moral sense criminally responsible) for slow growth, due to the uncertainty tax they place on business people and investors throughout the world. They have made all too few attempts to truly measure the cost-effectiveness of their laws and regulations. The laws and regulations are often contradictory both within and between countries. Such contradictions have a stifling effect on the willingness of people to engage in productive investment and business activity.

Every day, business people are convicted for offenses in some jurisdiction other than their own for violations of regulations and laws that they would have no reasonable expectation to know even exist. It is legal in Oregon to sell "vaping" devices to help people give up smoking. Yet, it is illegal to let customers know the flavors (e.g. strawberry, peach, etc.) put into each of the vapor fluids being sold before they buy them. The regulation is not only stupid, but violates the U.S. Constitution's protection of free speech — and thus will probably be thrown out by the courts — but in the meantime serves as an uncertainty tax.

The safest course for a business person is to do nothing in order to avoid violating some nonsensical and destructive regulation or law. When the IRS and other U.S. government agencies go after companies and individuals who live and operate in other countries for violations of U.S. tax or securities laws that took place elsewhere, it understandably builds huge resentment toward the United States.

The Paris-based Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), at times, lobby for increased taxes on others and often at destructive rates. Yet, their employees and those of some other international organizations enjoy tax-free salaries. If a U.S. nonprofit organization that advocates lower taxes has an office in Paris, its employees would have to pay income taxes. Most people are totally unaware of this hypocritical situation, but if they knew about it, they would probably be outraged. Congress should stop funding these organizations until fundamental reforms are made. And any new U.S. ambassador to the OECD should be required to pledge to work for reform and budget reductions before being confirmed.

Most periods of slow economic growth or recessions or worse are caused by those in government doing the wrong thing. When members of the political class start talking about doing the wrong thing — most often increasing taxes or regulations — the mere fact of serious discussion about it results in an uncertainty tax — thereby reducing investment, growth and job creation. Some political actors are so mean-spirited that they try to hurt their opponents who may be in power by proposing things (uncertainty taxes) just to undermine the economy — even though that hurts most everyone.

Richard W. Rahn is chairman of the Institute for Global Economic Growth and Improbable Success Productions

https://www.washingtontimes.com/news/2018/dec/17/the-uncertainty-tax/