



Real Federal Tax Burden Is Double If 'Collateral Damage' Is Included

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The assumption here and in the other liberal democracies of the West is that our huge, expensive governments are for the purpose of making us citizens better off - and that governments have largely succeeded in that task.

But other than providing for the common defense and an orderly civil society with a sound currency and banking system, it is hard to explain how our government in Washington is making us better off. It taxes, spends and regulates, but it creates no wealth. Free-market capitalism pays the bills - and our liberties are our own; they are our unalienable rights, not owed to any president or king.

Paying federal taxes does not make us better off. We are poorer by the amount of tax we pay. And because taxes damage the economy, impeding its growth, our pretax incomes are also smaller.

The "collateral damage" to us has been authenticated by a Nobel laureate and quantified by distinguished scholars. They say that the ratio of lost income to tax collected is nearly one-to-one. Thus the real federal tax burden in America is each year about double what the government tells us.

In 2007, it is an astonishing \$5 trillion, broken down as follows: The first \$2.5 trillion is the amount of tax the government collects from us - money we originally had that the government now has and will spend.

The next \$2.5 trillion is money that the private economy would have produced but (because of the damage done by the tax) does not. We won't have that additional \$2.5 trillion to spend, but neither will the government. It is gone. That is why economists call the damage done to us by taxes a deadweight loss. With us \$5 trillion in the hole and the government having only \$2.5 trillion to spend, it can't compensate us for the damage done in 2007 - much less make us better off than we were to start with.

Even setting aside the exorbitant cost of taxes - and pretending that \$2.5 trillion of taxes in 2007 costs us only \$2.5 trillion - it is hard to see how we the people ever get a full dollar of benefit from a dollar of federal spending.

In the federal budget, 58% is for "transfer payments." Money is taken out of one of our pockets, run through the federal accounts with lots of bureaucratic paperwork and expense, and what is left is transferred into another pocket - or perhaps into the same pocket from which it was taken.

This includes Social Security (an intergenerational transfer) as well as Medicare and a considerable list of other middle-class entitlements and subsidies - such as the large cash gratuities regularly given to farm owners.

Money is also shifted around by "pass-throughs" from the federal bureaucracy to state and local bureaucracies - at considerable expense on both ends.

The rest of the budget is for upward of 900 federal programs, some of which are engaged primarily in rerouting money previously taken out of the economy.

Others are more "operational" in nature. Many - such as the Food and Drug Administration, the FBI and the Defense Department - are basic to the broad public interest. Many others are expensive optional equipment targeted at narrow interests.

Also, a study by the Office of Management and Budget shows that more than half of federal discretionary spending programs are not even "moderately effective." On average they fall 50% short of providing the intended services to their client groups.

When measured in the vital human terms of lower incomes, fewer jobs and reduced standards of living, the high cost of taxes is simply beyond all reason compared to the low level of benefit from government spending - once the basics have been provided and the needy cared for.

Thus the argument for a small and efficient government is not a mere matter of preference or even philosophy. It is a matter of self-preservation in an effort to achieve the most good for the most people - which is what government is supposed to be all about.

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