



Are Americans Overtaxed?

Yes. The return on our investment is too low, and the cost to the economy is too high.

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Are Americans overtaxed?

Yes we are, if the right measurement is used. It is solely a matter of comparing the cost of taxes to the benefits derived from government spending.

If the marginal benefit from an additional dollar of government spending is not at least equal to the marginal cost to the economy of providing the government with an additional dollar of tax, we are overtaxed.

Other measures, such as whether most Americans have the financial capacity to pay higher taxes or whether Americans are less overtaxed than people in some other countries, are irrelevant from the perspective of those of us who value a bigger economy more than a bigger government.

In France, for example, total taxes are nearly 45 percent of Gross Domestic Product (GDP), compared to 27 percent in the United States. Americans have the financial capacity to pay higher taxes too - but why would we want to be overtaxed as much as the people in France? Their per capita GDP growth rate is low (only about half as much as ours) and their unemployment rate is astronomical.

If Americans were not already overtaxed, our GDP growth rates and living standards would be much higher. The overtaxing of Americans starts with the fact that each additional \$1 of tax costs the private economy more than \$1, whereas the public benefit of an additional \$1 of public spending is only sometimes greater than \$1 - and is often less than \$1 or is negative.

Recent works by Gregory Mankiw and Martin Feldstein at Harvard lead ineluctably to the conclusion that the total cost to the economy of an additional \$1 of tax for the government to spend can be as high as \$5 and is almost always at least \$2. First, there is the \$1 in tax paid, and then there is an additional \$1 or

more in lost income and jobs that the economy would have produced but - because of the tax - does not.

The most costly per dollar of revenue raised is a tax concentrated solely on the income from capital. (In addition to the tax, the deadweight economic loss is about \$4.) The next most costly is an across-the-board rate increase on the income from both labor and capital. (In addition to the tax, the deadweight economic loss is about \$1.) But no matter whether the nominal tax is primarily on capital income or on labor income, and without regard to who files the tax return and pays the tax, the real burden of the resulting deadweight economic loss falls primarily on low and middle-income wage earners. Thus, not only is the real level of taxation in America about twice the amount reported in the budget, its overall impact tends to be flat or regressive.

There is no universal formula for measuring exactly the public benefit of each government activity and expenditure, but it defies credulity even to suggest that each \$1 of federal spending buys enough "good" for enough people to justify its \$2 to \$5 cost. According to Citizens Against Government Waste, obvious pork barrel spending was at least \$198 billion over the last decade. In 2006 alone, the basket of suspect spending earmarks was \$29 billion. And a new evaluation study at the Office of Management and Budget has concluded that 25 percent of all federal programs are "underperforming".

Sunshine is the key to controlling low-value spending and, therefore, to limiting overtaxation. If each one of the three trillion dollars in the federal budget were treated as the last dollar spent (and the true costs of paying for it were publicly acknowledged to be at least \$2), it is certain that a large amount of federal spending would be eliminated by popular demand. On the discretionary side of the budget, when \$1 of government spending costs \$2 or more, and when government typically spends \$3 to do a \$1 job, the price tag for pork and other low-value projects becomes ridiculous.

Entitlement spending includes vast amounts of high-cost, low-value subsidies for the middle class and wealthy. This portion of the budget is already on track to force future tax increases of such unprecedented magnitude that - on a two-for-one basis - the associated damage to the economy and living standards will be catastrophic.

Thus, not only are Americans already overtaxed, mostly in the form of highly predictable "collateral damage" to the economy, the amount of that overtaxing is soon going to be drastically increased.

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