

Political and Economic Perspectives on Taxes' Excess Burdens

by Casey B. Mulligan

An Old Idea...

- Brennan, H. Geoffrey and James M. Buchanan. *The Power to Tax: Analytical Foundations of a Fiscal Constitution*.
- Barro, Robert J. “Retroactivity-Bungled Larceny.” *Wall Street Journal*. August 17, 1993:
 - “The general lesson for those who like large government is that the way to pay for most of it is through a roughly uniform tax on the broad middle class. Expenditure taxes work as well as income taxes ... [explains the similarity between flat tax and VAT]. Since I view large government as a bad idea ...*I believe that the implementation of a VAT in the U.S. would be a terrible idea.* [italics added]”
- Friedman, Milton. quoted by Barro, Robert J. *Getting It Right*. p. 126.
 - “The only good tax is a bad tax.”

... not entirely attributable to “right wing wackos” ...

- Fischer, Stanley and Lawrence H. Summers. “Should Governments Learn to Live with Inflation?” *American Economic Review*. 79(2), May 1989, p. 387.
 - “A better tax system may lead to more wasteful spending....”
- Hall, Robert E. and Alvin Rabushka. *The Flat Tax*. Hoover Institution Press, 1995, p. 48.
 - “[a flat tax] makes it much easier for advocates of spending programs to be successful.”

... but Inconsistently Applied

- “The Flat-Tax: 'Nutty' It's Not.” *Wall Street Journal*. February 22, 1996.
 - Merton Miller: “Actually the flat tax notion ... is thoroughly orthodox and has been discussed by academic public finance specialists for at least 60 years.”
 - Robert Barro: “A *flat tax is sound*. ...A movement to a flat rate tax – *with no change in government spending* – would stimulate economic growth... the benefits would be enormous.” [italics added]
 - other proponents contributing to the article
 - Milton Friedman, Gary Becker, James Buchanan
- ignored in the various chapters of *Toward...*
 - except Gale and Slemrod, who briefly describe tax reform as a necessity for expanding government
 - of all the administrative details, nothing proposed for capping spending

The Excess Burden

- economics
 - a dollar collected by the Treasury costs taxpayers more than a dollar
 - estimates range from \$1.40 to \$3
 - why? because taxpayers change their *personal* and *business* behavior in order to reduce their tax liability
- politics
 - taxpayers change their *political* behavior in order to reduce their tax liability
 - incentive to resist public spending increases with the marginal dwc

Two Distinct Questions

- Does Taxpayer resistance limit spending?
 - nothing technological stops the U.S. from having European size budgets: somebody is resisting
 - payroll tax growth
 - rise of VATs
- Are there less costly ways of limiting spending?

Less Costly Ways?

- Constitutions
 - increase the power of the president? (N liv)
 - cap voting age at 65?
 - supermajority (Y)
 - explicit caps (N)
- Theories feature voting, but data seem to show that democracy doesn't matter
- Cross-state empirics
 - supermajority rules negatively correlated with spending
 - line item veto and explicit caps are not, but these raise the obvious question of reverse causality
- But the support and defense of these must come from taxpayers
- let's get creative?